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REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

No. 4

COMMERCIAL

FOR THE YEAR ENDED 31 MARCH 2010

GOVERNMENT OF HARYANA

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Preface

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

- Government companies,
- Statutory corporations, and
- Departmentally managed commercial undertakings.

2. This Report deals with the results of audit of Government companies and Statutory corporations 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 from time to time. The results of audit relating to departmentally managed commercial undertakings are included in the Report of the Comptroller and Auditor General of India (Civil)-Government of Haryana.

3. Audit of the accounts of Government companies is conducted by the Comptroller and Auditor General of India under the provisions of Section 619 of the Companies Act, 1956.

4. In respect of Haryana Warehousing Corporation, CAG has the right to conduct the audit of accounts in addition to the audit conducted by the Chartered Accountants appointed by the State Government in consultation with CAG. As per the State Financial Corporations (Amendment) Act, 2000, CAG has the right to conduct the audit of accounts of the Haryana Financial Corporation in addition to the audit conducted by Chartered Accountants appointed by the Corporation out of the panel of auditors approved by the Reserve Bank of India. In respect of Haryana Electricity Regulatory Commission, CAG is the sole auditor. The Audit Reports on the annual accounts of all these Corporations/Commission are forwarded separately to the State Government.

5. The cases mentioned in this Report are those which came to notice in the course of audit during the year 2009-10 as well as those which came to notice in earlier years, but were not dealt with in the previous Reports. Matters relating to the period subsequent to 2009-10 have also been included, wherever necessary.

6. Audits have been conducted in conformity with the Auditing Standards issued by the CAG.

Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2010, the State of Haryana had 21 working PSUs, (19 companies and two Statutory corporations) and seven non-working PSUs (all companies). The State working PSUs, which employed 0.35 lakh employees, had registered a turnover of ₹ 15,934.48 crore for 2009-10 as per their latest finalised accounts. This turnover was equal to 7.61 *per cent* of State GDP indicating an important role played by State PSUs in the economy. However, the working PSUs incurred a loss of ₹ 1,612.37 crore for 2009-10 while all the State PSUs had overall accumulated losses of ₹ 5,086.93 crore.

Investments in PSUs

As on 31 March 2010, the investment (capital and long term loans) in 28 PSUs was ₹ 24,307.45 crore. It grew by 146.84 *per cent* from ₹ 9,847.38 crore in 2004-05. Power Sector accounted for nearly 95 *per cent* of total investment in 2009-10. The Government contributed ₹ 3,840.38 crore towards equity, loans and grants/subsidies during 2009-10.

Performance of PSUs

During the year 2009-10, out of 21 working PSUs, 14 PSUs earned profit of ₹ 293.52 crore and seven PSUs incurred loss of ₹ 1,905.89 crore. The major contributors to profit were Haryana State Industrial and Infrastructure Development Corporation Limited (₹ 60.70 crore), Haryana Power Generation Corporation Limited (₹ 66.22 crore) and Haryana Vidyut Prasaran Nigam Limited (₹ 127.30 crore). The heavy losses were incurred by Uttar Haryana Bijli Vitran Nigam Limited (₹ 1,107.54 crore) and Dakshin Haryana Bijli Vitran Nigam Limited (₹ 779.01 crore).

The losses are mainly attributable to various deficiencies in the functioning of PSUs. A review of three years Audit Reports of CAG shows that the State PSUs losses of ₹ 821.66 crore and infructuous investments of ₹ 44.83 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Fifteen out of 17 accounts finalised during October 2009 to 30 September 2010 received qualified certificates. There were 31 instances of non-compliance with Accounting Standards in these accounts. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Sixteen working PSUs had arrears of 29 accounts as of September 2010. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were seven non-working companies. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.

2. Performance reviews relating to Government companies

Performance reviews relating to '**Working of Haryana Agro Industries Corporation Limited**' and '**Power Generation Activities of Haryana Power Generation Corporation Limited**' were conducted. Executive summary of Audit findings is given below:

Working of Haryana Agro Industries Corporation Limited

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

Finances and performance

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

Appraisal of activities

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

Procurement activity

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

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

Conclusion and Recommendations

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

(Chapter 2.1)

Power Generation Activities of Haryana Power Generation Corporation Limited

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

Planning and Project Management

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

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

Operational performance

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

Conclusion and Recommendations

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

(Chapter 2.2)

3. Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹5.91 crore in two cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 3.4 and 3.7)

Loss of ₹4.50 crore in three cases due to non-safeguarding the financial interests of organisation.

(Paragraphs 3.5, 3.9, and 3.13)

Loss of ₹3.46 crore in two cases and blockage of ₹ 0.65 crore in one case due to defective/deficient planning

(Paragraphs 3.1, 3.8 and 3.11)

Unfruitful expenditure of ₹12.38 crore in one case and loss of ₹0.14 crore in another case due to inadequate/deficient monitoring.

(Paragraphs 3.2 and 3.14)

Loss of ₹1.26 crore in three cases due to undue favour.

(Paragraphs 3.3, 3.6 and 3.10)

Gist of some of the important audit observations is given below:

Anti theft system meant to curb the distribution losses could not be installed despite incurring expenditure of ₹ 3.16 crore by **Dakshin Haryana Bijli Vitran Nigam Limited** due to deficient planning.

(Paragraph 3.1)

Due to non rectification of fault occurred in the Energy Audit System, expenditure of ₹ 12.38 crore incurred by **Dakshin Haryana Bijli Vitran Nigam Limited** on installation of System remained unfruitful.

(Paragraph 3.2)

Haryana State Roads and Bridges Development Corporation Limited suffered loss of ₹ 3.19 crore due to abnormal delay in initiating action for revision of toll rates

(Paragraph 3.9)

Haryana Warehousing Corporation suffered loss of revenue of ₹ 55.54 lakh due to inordinate delay in awarding of contract.

(Paragraph 3.13)

Chapter I

1. Overview of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Haryana, the State PSUs occupy an important place in the State economy. The working State PSUs registered a turnover of ₹ 15,934.48 crore for 2009-10 as per their latest finalised accounts as of 30 September 2010. This turnover was equal to 7.61 *per cent* of State Gross Domestic Product (GDP) for 2009-10. Major activities of Haryana State PSUs are concentrated in power sector. The working State PSUs incurred a loss of ₹ 1612.37 crore in the aggregate for 2009-10 as *per* their latest finalised accounts. They had employed 0.35 lakh♣ employees as of 31 March 2010. The State PSUs do not include five prominent Departmental Undertakings (DUs) which carry out commercial operations but are a part of Government Departments. Audit findings of these DUs are incorporated in the Civil Audit Report for the State.

1.2 As on 31 March 2010, there were 28 PSUs as *per* the details given below.

Type of PSUs	Working PSUs	Non-working PSUs Ψ	Total
Government Companies♦	19	7⊕	26
Statutory Corporations	2	-	2
Total	**21**	**7**	**28**

Audit Mandate

1.3 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the

♣ As per the details provided by 28 PSUs.

Ψ Non-working PSUs are those which have ceased to carry on their operations.

♦ Includes Yamuna Coal Company Private Limited registered under section 619 B of the Companies Act 1956.

⊕ During the year, one Company Haryana Minerals Limited (HML) has been transferred to the list of non-working PSUs.

paid up capital is held in any combination by Government(s), Government companies and corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act.

1.4 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956.

1.5 Audit of Statutory corporations is governed by their respective legislations. In respect of State Warehousing Corporation and State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in State PSUs

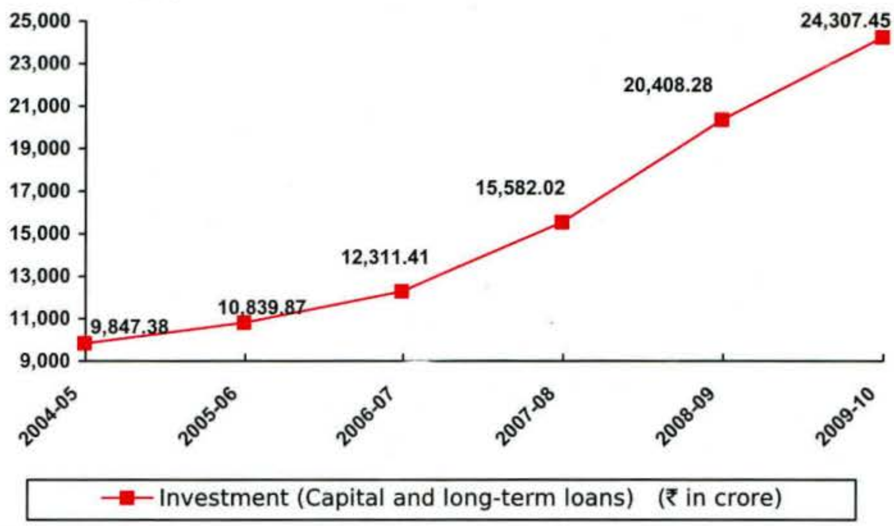
1.6 As on 31 March 2010, the investment (capital and long-term loans) in 28 PSUs (including one 619-B Company) was ₹ 24,307.45 crore as per details given below.

(Amount: ₹ in crore)

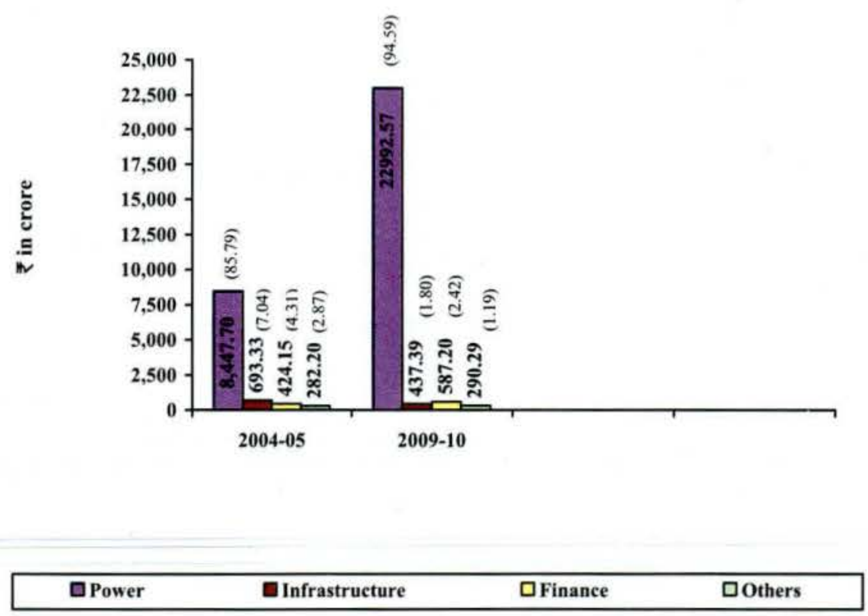
Type of PSUs	Government companies			Statutory corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	6650.91	16991.58	23642.49	192.84	241.67	434.51	24077.00
Non-working PSUs	24.19	206.26	230.45	-	-	-	230.45
Total	**6675.10**	**17197.84**	**23872.94**	**192.84**	**241.67**	**434.51**	**24307.45**

A summarised position of Government investment in State PSUs is detailed in ***Annexure* 1.**

1.7 As on 31 March 2010, of the total investment in State PSUs, 99.05 *per cent* was in working PSUs and the remaining 0.95 *per cent* in non-working PSUs. This total investment consisted of 28.25 *per cent* towards capital and 71.75 *per cent* in long-term loans. The investment has grown by 146.84 *per cent* from ₹ 9,847.38 crore in 2004-05 to ₹ 24,307.45 crore in 2009-10 as shown in the graph below.



1.8 The investment in various important sectors and percentage thereof at the end of 31 March 2005 and 31 March 2010 are indicated below in the bar chart.



(Figures in brackets show the percentage of total investment)

As may be seen from the above chart, major investment by the State Government in PSUs was in power sector which increased from ₹ 8,447.70 crore during 2004-05 to ₹ 22,992.57 crore during 2009-10.

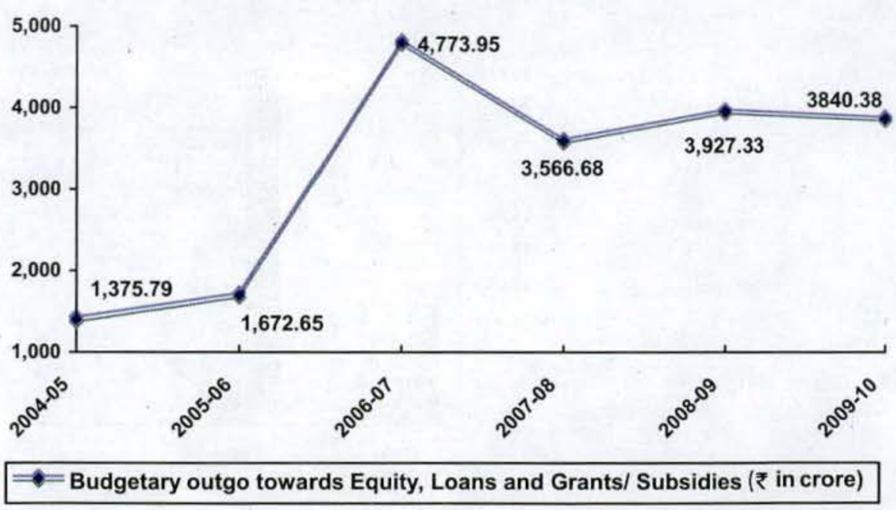
Budgetary outgo, grants/subsidies, guarantees and loans

1.9 The details regarding budgetary outgo by the State Government towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in ***Annexure 3***. The summarised details are given below for three years ended 2009-10.

(Amount: ₹ in crore)

Sl. No.	Particulars	2007-08		2008-09		2009-10	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	11	920.97	11	951.64	10	903.79
2.	Loans given from budget	2	2.51	-	-	1	123.54
3.	Grants/Subsidy received	11	2,643.20	13	2,975.69	12	2813.05
4.	Total Outgo (1+2+3)		3,566.68		3,927.33		3840.38
5.	Guarantees issued	4	187.10	4	524.51	2	881.59
6.	Guarantee Commitment	12	2,656.43	13	2,779.36	12	2714.40

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



Budgetary outgo towards equity, loan and grant/subsidy by the State Government increased by 179.14 *per cent* from ₹ 1,375.79 crore during 2004-05 to ₹ 3,840.38 crore during 2009-10.

1.11 The Guarantee received during 2009-10 was ₹ 881.59 crore and outstanding as on 31 March 2010 was ₹ 2,714.40 crore. The State Government levied guarantee fee at the rate of two *per cent* on all the borrowings of PSUs to be raised against State Government guarantee with effect from 1 August 2001. The guarantee fee paid/payable by the State PSUs during 2009-10 was ₹ 18.56 crore.

Reconciliation with Finance Accounts

1.12 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2010 is stated below.

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	5123.26	5699.36	576.10
Loans	430.50	464.22	33.72
Guarantees	2714.40	2714.40	-

1.13 We observed that the differences occurred in respect of 13 PSUs and some of the differences were pending reconciliation prior to 2004-05. Letters/reminders have been issued to State Government regarding reconciling the differences at an early date. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

1.14 The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in ***Annexures 2, 5*** and ***6*** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. The table below provides the details of working PSUs turnover and State GDP for the period 2004-05 to 2009-10.

(₹ in crore)

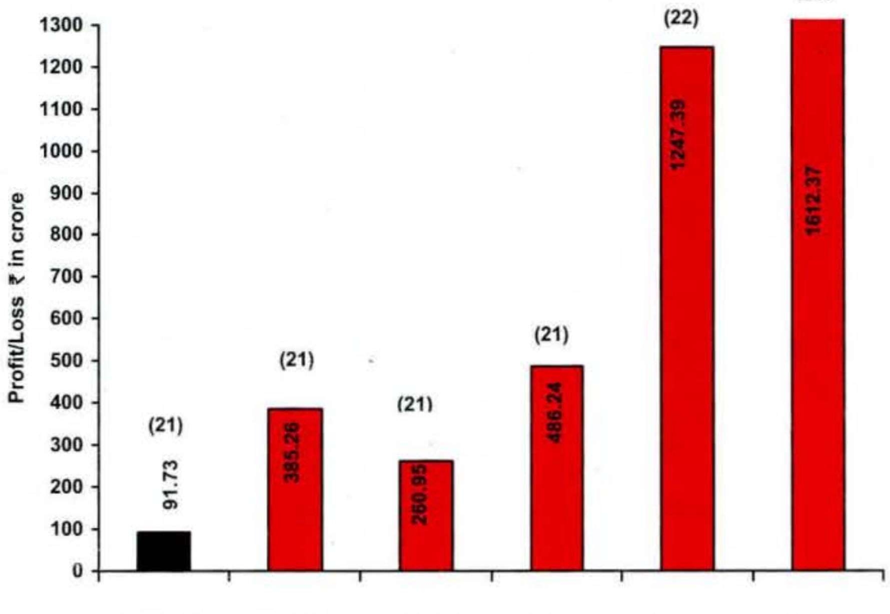
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Turnover[∝]	11,727.66	7,629.44	8,251.11	14,668.00	18,424.04	15934.48
State GDP[*]	93,804.00	1,06,732.00	1,30,033.00	1,53,087.00	1,80,494.00	209510.00
Percentage of Turnover to State GDP	12.50	7.15	6.35	9.58	10.21	7.61

The turnover of PSUs decreased from ₹ 11,727.66 crore in 2004-05 to ₹ 7,629.44 crore in 2005-06 mainly due to decrease in turnover of power sector. It increased gradually in subsequent years due to addition of generating capacity in power sector and reached at ₹ 18,424.04 crore. However, during 2009-10, turnover of PSUs again declined and stood at ₹ 15,934.48 crore.

∝ Turnover for 2004-05 to 2009-10 is as per latest accounts finalised as of 30 September 2010.

* Figures for 2006-07 to 2007-08 are provisional estimates, figures for 2008-09 are quick estimates and figures for 2009-10 are advance estimates.

1.15 Profit earned/losses incurred by State working PSUs during 2004-05 to 2009-10 are given below in a bar chart.



(Figures in blue represent profits and in red are losses and figures in brackets show the number of working PSUs in respective years)

During the year 2009-10, out of 21 working PSUs, 14 PSUs earned profit of ₹ 293.52 crore and seven PSUs incurred loss of ₹ 1,905.89 crore as per their latest finalised accounts. The major contributors to profit were Haryana State Industrial and Infrastructure Development Corporation Limited (₹ 60.70 crore), Haryana Power Generation Corporation Limited (₹ 66.22 crore) and Haryana Vidyut Prasaran Nigam Limited (₹ 127.30 crore). The heavy losses were incurred by Uttar Haryana Bijli Vitran Nigam Limited (₹ 1,107.54 crore) and Dakshin Haryana Bijli Vitran Nigam Limited (₹ 779.01 crore).

1.16 The losses of working PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the working State PSUs incurred losses to the tune of ₹ 821.66 crore and infructuous investments of ₹ 44.83 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	Total
Net Profit/loss (-) of working PSUs	(-)486.24	(-)1,247.39	(-)1,612.37	(-)3,346.00
Controllable losses as per CAG's Audit Report	203.02	105.61	513.03	821.66
Infructuous Investment	6.30	12.57	25.96	44.83

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

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

(₹ in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Return on Capital Employed (*Per cent*)	9.35	1.59	2.53	2.44	-	-
Debt	7,195.64	7,770.87	8,449.84	10,651.62	14,446.13	17,439.51
Turnover[Υ]	11,727.66	7,629.44	8,251.11	14,668.00	18,424.04	15,934.48
Debt/Turnover Ratio	0.61:1	1.02:1	1.02:1	0.73:1	0.78:1	1.09:1
Interest Payments	699.48	540.48	590.94	837.23	1,200.19	1,306.27
Accumulated Profits (losses)	(-)1,027.67	(-)1,583.67	(-)2,022.95	(-)2,678.33	(-)4,543.71	(-)5,086.93

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

1.19 The turnover of State working PSUs increased by 35.87 *per cent* from ₹. 11,727.66 crore during 2004-05 to ₹ 15,934.48 crore in 2009-10. During the corresponding period debts also increased by 142.36 *per cent* from ₹ 7,195.64 crore (2004-05) to ₹ 17,439.51 crore (2009-10) causing deterioration in the debt/turnover ratio over the periods. Rapid increase in the debts in comparison to the turnover has consequently caused pressure on the profitability of State PSUs due to increased liability towards interest.

1.20 The State Government had formulated (October 2003) a dividend policy under which all PSUs are required to pay a minimum return of four *per cent* on the paid up share capital contributed by the State Government. As per their latest finalised accounts, 14 PSUs earned an aggregate profit of ₹ 293.52 crore but only one PSU^ declared dividend of ₹ 0.88 crore.

Arrears in finalisation of accounts

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

Υ Turnover of working PSUs as per their latest finalised accounts (2004-05 to 2009-10) as on 30 September 2010.

^ Haryana Warehousing Corporation.

working PSUs in finalisation of accounts by 30 September 2010.

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Number of Working PSUs	21	21	21	22[ϒ]	21
2.	Number of accounts finalised during the year	27	22	22	23	17
3.	Number of accounts in arrears	31	30	29	27	29[ↄ]
4.	Average arrears per PSU (3/1)	1.48	1.43	1.38	1.23	1.38
5.	Number of Working PSUs with arrears in accounts	13	14	15	12	16
6.	Extent of arrears	1 to 7 years	1 to 6 years	1 to 5 years	1 to 5 years	1 to 6 years

1.22 From the above table it would be seen that number of accounts finalised during the year decreased from 23 to 17. The extent of arrears has also increased from 5 to 6 years indicating that no concrete steps were taken to clear the arrears completely. The main reasons as stated by the Companies for delay in finalisation of accounts are:

- lack of trained staff; and
- non computerisation in the accounts section.

1.23 In addition to above, there were arrears in finalisation of accounts by non-working PSUs. Out of seven non-working PSUs, two[#] had gone into liquidation process. The remaining five non-working PSUs had arrears of accounts for one to three years.

1.24 The State Government had invested ₹ 2,139.35 crore (Equity: ₹ 439.23 crore, grants: ₹ 51.19 crore and others: ₹ 1,648.93 crore) in 13 PSUs during the years for which accounts have not been finalised as detailed in ***Annexure 4***. Delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

1.25 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though we informed the concerned administrative departments and officials of the Government every quarter of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this we could not assess the net worth of these PSUs. We had also taken up (July 2010) the matter of arrears in accounts with the Chief Secretary to expedite the backlog of arrears in accounts in a time bound manner. A meeting with the management was held under the chairmanship of

ϒ Including one company (Yamuna Coal Company Limited) incorporated on 15 January 2009.

ↄ During 2009-10, one Company (Haryana Minerals Limited), which had two accounts in arrears (during 2008-09) was transferred to non-working PSUs.

\# Haryana State Housing Finance Corporation Limited and Haryana Concast Limited.

Finance Secretary in April 2010 and again with the statutory auditors of the companies and management in August 2010 for clearance of accounts.

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

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual Companies which would be monitored by the cell.**

- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

Winding up of non-working PSUs

1.27 There were seven non-working PSUs (all Companies) as on 31 March 2010. Of these, two PSUs* are under liquidation/winding up. The number of non-working Companies at the end of each year during past five years are given below.

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Number of non-working Companies	7	7	6	6	7

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2009-10, two non-working PSUs incurred an expenditure of ₹ 0.23 crore towards establishment. This expenditure was met through recoveries (₹ 0.22 crore) and interest received from banks (₹ 0.01 crore).

1.28 The stages of closure in respect of non-working PSUs (all companies) are given below.

Sl. No.	Particulars	Companies
1.	Total No. of non-working PSUs	7
2.	Of (1) above, the No. under	
(a)	liquidation by Court (liquidator appointed)	-
(b)	Voluntary winding up (liquidator appointed)	-
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	2

1.29 The process of voluntary winding up under the Companies Act is much faster and needs to be adopted /pursued vigorously. The Government may make a decision regarding winding up of five non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working. The Government may consider setting up a cell to expedite closing down the non-working companies.

* Haryana State Housing Finance Corporation Limited and Haryana Concast Limited.

Accounts Comments and Internal Audit

1.30 Fourteen working companies forwarded their fifteen audited accounts to Principal Accountant General (Audit), Haryana (PAG) during the year 2009-10. All of these were selected for supplementary audit. The audit reports of statutory auditors appointed by the Comptroller and Auditor General of India (CAG) and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount: ₹ in crore)

Sl. No.	Particulars	2007-08		2008-09		2009-10	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	8	91.85	7	133.25	7	582.21
2.	Increase in loss	5	781.46	3	441.69	3	97.34
3.	Non-disclosure of material facts	4	129.43	4	30.05	3	40.94
4.	Errors of classification	5	414.29	1	41.42	6	669.85
	Total		**1,417.03**		**646.41**		**1,390.34**

An analysis of the money value of the comments with the number of accounts audited revealed that the money value of comments per account finalised increased from ₹ 64.41 crore (2007-08) to ₹ 81.78 crore (2009-10).

1.31 During the year, the statutory auditors had given qualified certificates for fourteen accounts. The compliance of companies with the Accounting Standards (AS) remained poor as there were 31 instances of non-compliance with the AS in 13 accounts during the year.

1.32 Some of the important comments in respect of accounts of Companies are stated below.

Haryana Vidyut Prasaran Nigam Limited (2008-09)

- Non provision for diminution in the value of investment resulted in overstatement of profit by ₹ 453.08 crore.
- Wrong booking of income earned by way of liquidated damages, interest on advance, etc. against profits instead of adjusting against cost of works resulted in overstatement of profits by ₹ 29.78 crore.

Haryana Power Generation Corporation Limited (2008-09)

- Non provision of estimated value of the future payments to be made to the dependents of the deceased employees as per AS-15 read with AS-29 resulted in understatement of employees cost and overstatement of profit by ₹ 4.90 crore.

Dakshin Haryana Bijli Vitran Nigam Limited (2008-09)

- Losses were understated by ₹ 69.75 crore due to non provision of arrear of pay on account of revision of pay scales.

Uttar Haryana Bijli Vitran Nigam Limited (2008-09)

- The loss was understated by ₹ 18.80 crore due to wrong credit of income relating to execution of capital works (viz. liquidated damages and discount on early payments).

Haryana Roadways Engineering Corporation Limited (2007-08)

- Cash and bank balances do not include ₹ 16.95 crore kept in the personal name of Managing Director of the Company as on 31 March 2008. The bank transactions routed through this bank account were not accounted in books of accounts of the Company leaving the scope of misappropriation of cash.

Haryana State Industrial and Infrastructure Development Corporation Limited (2008-09)

- Profit was overstated by ₹ 1.56 crore due to non provision of pay arrears and Contributory Provident Fund.
- Non provision for doubtful investment of ₹ 3.60 crore resulted in overstatement of investment and profit to that extent.

Haryana State Roads and Bridges Development Corporation Limited (2007-08)

- The loss was understated by ₹ 1.16 crore due to non provision of doubtful debts shown as recoverable from a contractor who has expired.

Haryana Women Development Corporation Limited (2007-08)

- The loss was understated by ₹ 2.21 crore due to non provision of doubtful debts outstanding for more than four to 18 years.

Haryana State Handloom and Handicrafts Corporation Limited (2007-08)

- Net loss was understated by ₹ 2.28 crore due to non provision for doubtful debts (₹ 2.20 crore) and advances (₹ 0.08 crore).

1.33 Similarly, out of two working Statutory corporations, one corporation forwarded its accounts for the year 2008-09 and one for the year 2009-10 to PAG during 2009-10 and 2010-11 respectively and both were selected for supplementary audit. Comments of one Statutory Corporation viz. Haryana Warehousing Corporation for the year 2008-09 were finalised during 2009-10. The Audit Report of statutory auditors and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount: ₹ in crore)

Sl. No.	Particulars	2007-08		2008-09		2009-10	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	2	41.37	1	2.77	1	4.62
2.	Non-disclosure of material facts	2	70.36	1	2.60	1	147.23
	Total		**111.73**		**5.37**		**151.85**

1.34 During the year October 2009 to September 2010, the Statutory Auditors had given qualified certificate to the accounts of the Statutory corporation audited during 2009-10 and 2010-11. There were eight instances of non-compliance with AS in the said accounts.

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

Haryana Financial Corporation (2008-09)

- Material fact regarding investment of ₹ 145.00 crore made by the Corporation in unquoted shares of Haryana Power Generation Corporation Limited from funds provided by Government had not been disclosed in the accounts.

Haryana Warehousing Corporation (2008-09)

- Profit was overstated by ₹ 3.29 crore due to short provision (₹ 3.15 crore) towards depreciation and non provision against deferred revenue assets (₹ 0.14 crore).
- Profit was overstated by ₹ 0.70 crore due to non provision of estimated value of future payments in respect of deceased employees.

1.36 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of one Company[*] for the year 2005-06, one Company[ϒ] for the year 2006-07, two Companies[µ] for the year 2007-08, one Company[″] for the year 2008-09 and three companies[⊕] for the year 2009-10 are given below.

Sl. No.	Nature of comments made by Statutory Auditors	Number of Companies where recommendations were made	Reference to serial number of the Companies as per *Annexure* 2
1.	Non-fixation of minimum/ maximum limits of store and spares	2	A3, A11
2.	Absence of internal audit system commensurate with the nature and size of business of the Company	4	A4, A5, A7, A10
3.	Non maintenance of proper records showing full particulars including quantitative details, identity number, date of acquisition, depreciated value of fixed assets and their locations	3	A4, A5, A10
4.	Lack of internal control over purchase of material	1	A11
5.	Inadequate/non existence of Internal Audit System	5	A5, A7, A10, A11, A12
6.	Non use of Computer System(EDP)	3	A5, A7, A10

[*] Sr. No. A5 in ***Annexure*** – 2.

[ϒ] Sr. No. A4 in ***Annexure*** – 2.

[µ] Sr. No. A7 and A10 in ***Annexure*** – 2.

[″] Sr. No. A11 in ***Annexure***-2.

[⊕] Sr. No. A3, A4 and A12 in ***Annexure***-2.

Recoveries at the instance of audit

1.37 During the course of audit in 2009-10, recoveries of ₹ 2.37 crore were pointed out to the Management of various PSUs, which were admitted by PSUs and recovered during the year 2009-10.

Status of placement of Separate Audit Reports

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

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

Disinvestment, Privatisation and Restructuring of PSUs

1.39 The State Government did not undertake the exercise of disinvestment, privatisation and restructuring of any of its PSUs during 2009-10.

Reforms in Power Sector

1.40 The State has Haryana Electricity Regulatory Commission (HERC) formed on 17 August 1998 under the Haryana Electricity Reforms Act, 1997 with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2009-10, HERC issued 14 orders (eight on annual revenue requirements and six on others).

1.41 Memorandum of Understanding (MOU) was signed on 13 February 2001 between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below.

Sl. No.	Milestone	Targeted completion schedule	Status (As on 31 March 2010)
	Commitment made by State Government		
1.	Reduction in transmission and distribution losses to 15.50 *per cent* by 2007-08.	-	The T & D losses for the year 2009-10 were 29.18 *per cent.*
2.	100 *per cent* metering of all distribution feeders	31 March 2001	Metering of all distribution feeders completed in March 2001.
3.	100 *per cent* metering of all consumers	31 December 2001	Metering of all consumers has been completed.
4.	Haryana Electricity Regulatory Commission (HERC)		
(a)	Establishment of HERC	-	Already established in August 1998.
(b)	Implementation of tariff orders issued by HERC during 2005-06	-	Implemented.
	General		
5	Monitoring of MOU	Quarterly	Being monitored regularly.

Chapter II

2. Performance reviews relating to Government companies

Haryana Agro Industries Corporation Limited

2.1 Working of Haryana Agro Industries Corporation Limited

Executive Summary

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

Finances and performance

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

Appraisal of activities

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

Procurement activity

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

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

Conclusion and Recommendations

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

Introduction

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

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

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

Scope of Audit

2.1.2 The present performance review conducted during November 2009 to March 2010 covers the working of the Company, as per the audit objectives, for the last five years ending March 2010. Besides examining the records maintained at the head office of the Company, we test checked records of seven* out of 17 FSCs, three out of four warehouses and two out of six PPs under the control of selected FSCs. The selection was made by adopting simple random sampling without replacement method and covered 56.46 *per cent* of the total turnover.

Audit objectives

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

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

Audit criteria

2.1.4 The following audit criteria were adopted:

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

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

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

Audit methodology

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

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

Audit findings

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

Audit findings are discussed in succeeding paragraphs.

Financial position and working results

2.1.7 Financial position and working results of the Company during the last five years ended 31 March 2009* are given in ***Annexure 7***. The summarised position is stated below:

(₹ in crore)

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

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

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

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

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

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

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

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

Fund Management

Budgetary control

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

(₹ in lakh)

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

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

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

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

Guarantee fee

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

Wrong assessment of cash credit requirement

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

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

Delay in submission of claims

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

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

Non reconciliation of accounts

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

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

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

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

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

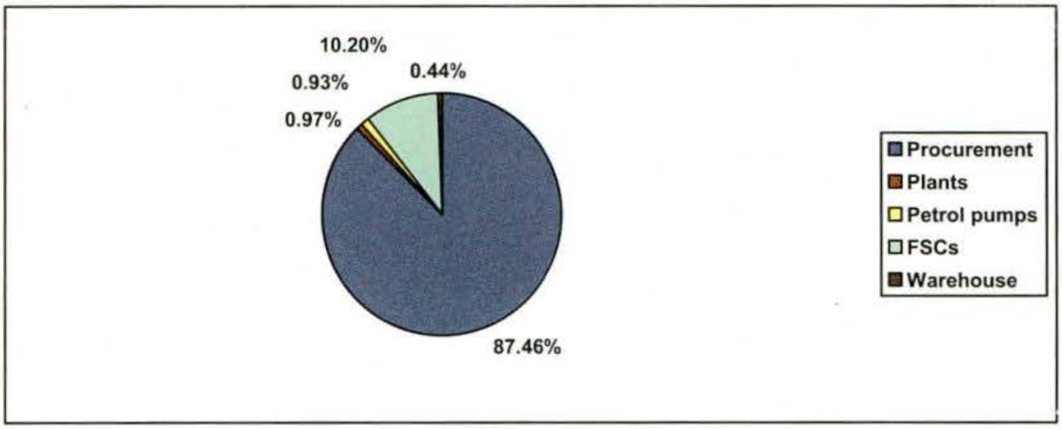
2.1.13 During Rabi 2009, the Company received 7,280 gunny bales from DGS&D Kolkata against the indent of 14,950 bales. On reconciliation among the procuring agencies, it was found that Haryana Warehousing Corporation (HWC) and Haryana State Co-operative Supply and Marketing Federation Limited (HAFED)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

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

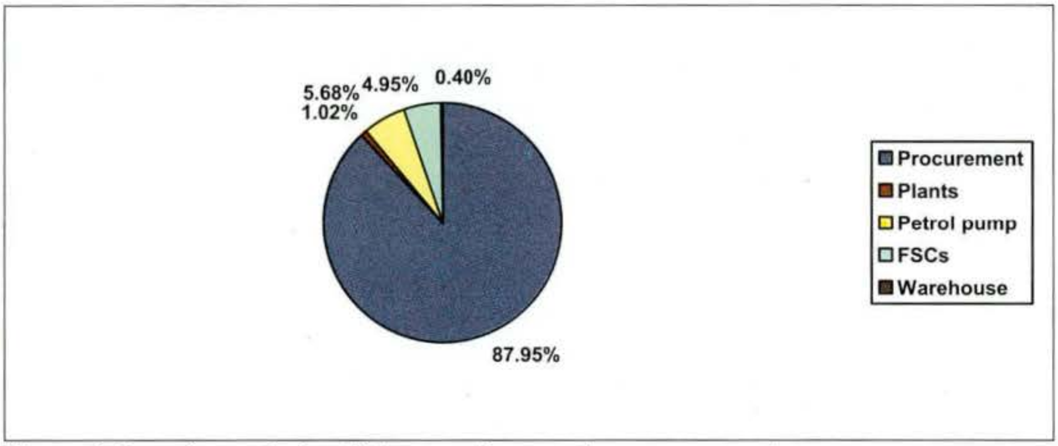
Appraisal of activities

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

2004-05



2008-09



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

Promotion and assistance to agro based industries

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

Manufacturing Plants

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

Performance of individual plants has been discussed below:

Cattle Feed Plant, Jind

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

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

Fertiliser and Chemical plant, Shahbad

2.1.19 The plant manufactures pesticides and insecticides on receipt of firm orders from Government agencies. The net losses of the plant during 2004-05 to 2008-09 ranged between ₹ 42.75 lakh and ₹ 60.93 lakh. The capacity utilisation of the plant during the same period was very low which ranged between 3.65 and 8.11 *per cent* and 0.01 and 2.69 *per cent* with regard to 'liquid formation' and 'powder manufacturing' respectively. The capacity utilisation of the plant was low due to poor marketing network. With a view to improve the sales, the Company appointed (January 2006) liaisoning agent for obtaining orders from the Government and other agencies. This showed positive results as the turnover of the plant for the year 2006-07 increased about three times in comparison to previous years. Services of the liaisoning agent could not be continued for 2007-08 due to his unwillingness to work on same terms and conditions. A new liaisoning agent was appointed for 2007-08 who did not perform well and the turnover reduced. No liaisoning agent was appointed thereafter and there was further decrease in sales in 2008-09. The Company also failed to strengthen its own marketing network in the absence of a liaisoning agent. Resultantly, the plant had been incurring losses continuously during all the five years from 2004-05 to 2008-09. The Management stated (July 2010) that liasioning agent had now been appointed in March 2010 to improve the turnover.

Agro Engineering Workshop (AEW) Nilokheri

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

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

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

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

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

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

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

Farmers Service Centres

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

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

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

Procurement of foodgrains for the central pool

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

Wheat

2.1.23 The table below gives the procurement targets and achievements of wheat during the last five years up to 2009-10.

(Quantity in lakh MT)

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

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

Some cases of irregularities noticed during audit are discussed below:

Loss due to non-adherence to delivery schedule

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

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

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

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

Improper pursuance and defective documentation for claims

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

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

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

• Position as on 15 July 2010.

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

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

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

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

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

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

Improper storage

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

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

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

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

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

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

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

Paddy

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

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

- joint physical verification of the paddy would be conducted by the Company and Miller on a fortnight basis;

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

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

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

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

Deficiencies noticed in this activity are discussed below:

Misappropriation of paddy

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

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

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

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

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

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

• As on 14 July 2010.

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

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

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

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

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

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

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

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

Bajra procurement

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

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

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

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

Non-reimbursement of interest charges

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

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

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

Petrol Pumps

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

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

Working results of PPs

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

(₹ in lakh)

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

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

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

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

Warehousing Activities

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

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

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

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

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

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

Loss due to indecisiveness

Non-disposal of Murthal Plant

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

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

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

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

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

Non realisation of investments

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

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

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

Receivables

Debtors

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

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

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

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

- In FSC Palwal, ₹ 10.44 lakh were shown outstanding against FCI for more than three years against transportation charges on account of shifting of Paddy beyond eight KMs. Similarly, the Company had reimbursed ₹ 54.28 lakh (₹ 25.08 lakh and ₹ 29.20 lakh for 2004-05 and 2005-06 respectively) to the Millers for transportation of paddy beyond 8 KMs at ten other FSCs. The same was not reimbursed by the FCI due to non pursuance at higher level.
- In FSC Palwal, the Company has shown ₹ 15.76 lakh outstanding against FCI for more than three years as transportation charges on account of shifting of bajra which was not recoverable in terms of policy of FCI and needs to be written off.

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

Advances

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

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

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

Manpower

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

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

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

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

Following further observations are made:

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

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

◊ Excess posts kept in diminishing cadre.