Report of the

Comptroller and Auditor General of India

On

Public Sector Undertakings
(Social, General and Economic Sectors)

for the year ended 31 March 2015

GOVERNMENT OF HARYANA
Report No. 2 of the year 2016

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Appendices

PREFACE

This report deals with the results of audit of Government companies and Statutory corporations for the year ended 31 March 2015.

The accounts of Government companies (including companies deemed to be government companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act 1956 and Sections 139 and 143 of the Companies Act 2013. The accounts certified by the statutory Auditors (Chartered Accountants) appointed by the Comptroller and Auditor General under the Companies Act are subject to supplementary audit by officers of the CAG and CAG gives his comments or supplements the reports of the Statutory auditors. In addition, these companies are also subject to test audit by the CAG.

Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by CAG for laying before State Legislature under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

The instances mentioned in this Report are those which came to notice in the course of test audit during the year 2014-15 as well as those which came to notice in earlier years but could not be reported in the previous Audit Reports; matters relating to the period subsequent to 2014-15 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Overview

This Report contains 15 paragraphs and two performance audits on 'Functioning of Deenbandhu Chhotu Ram Thermal Power Plant, Yamunanagar and Rajiv Gandhi Thermal Power Plant, Khedar, Hisar' and 'Custom Milled Rice' involving a financial effect of ₹4,739.28 crore relating to avoidable expenditure, non compliance of rules, directives and procedures; non safeguarding of the financial interests *etc.* Some of the major findings are mentioned below:

1 About the State Public Sector Undertakings

The State of Haryana had 25 working PSUs (23 companies and two Statutory corporations) and 5 non-working companies which employed 31,248 employees. As on 31 March 2015, the investment (capital and long-term loans) in 30 PSUs was ₹40,984.19 crore. Out of the total investment in State PSUs, 99.42 *per cent* was in working PSUs and the remaining 0.58 *per cent* in non-working PSUs. The total investment consisted of 21.27 *per cent* towards capital and 78.73 *per cent* in long-term loans. Power sector accounted for over 91.95 *per cent* of the total investment. The State Government contributed ₹5,579.23 crore towards equity, loans and grants/ subsidies in 13 PSUs during 2014-15.

(Paragraphs 1.6, 1.7 and 1.8)

Performance of Public Sector Undertakings

The overall losses for the 25 working PSUs as per their latest accounts received stood at ₹2,632.04 crore. Of the 25 working PSUs, 16 PSUs reported profit of ₹981.67 crore and seven PSUs reported losses of ₹3,613.71 crore. For two new PSUs, the first accounts were not due by 31 March 2015. Further, as per the dividend policy of the State Government, all PSUs are required to pay a minimum return of four *per cent* on the paid up share capital contributed by the State Government. Out of 16 PSUs earning an aggregate profit of ₹981.67 crore, only three PSUs declared dividend of ₹6.25 crore and 13 PSUs did not declare any dividend.

(Paragraphs 1.16 and 1.18)

Arrears in finalisation of accounts

19 working PSUs had arrears of 36 accounts as of September 2015. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus Government's investment in such PSUs remained outside the control of State Legislature.

(Paragraphs 1.10 and 1.11)

2 Performance audit of Government Companies and Statutory Corporation

Performance audit of 'Functioning of Deenbandhu Chhotu Ram Thermal Power Plant (DCRTPP), Yamunanagar and Rajiv Gandhi Thermal Power Plant (RGTPP), Khedar, Hisar' of Haryana Power Generation Corporation Limited and 'Custom Milling of Rice' in Haryana State Warehousing Corporation and Haryana Agro Industries Corporation Limited was conducted. The important audit findings are as under:

Functioning of Deenbandhu Chhotu Ram Thermal Power Plant, Yamunanagar and Rajiv Gandhi Thermal Power Plant, Khedar, Hisar

The operational performance of the DCRTPP and RGTPP was deficient with respect to norms fixed by Haryana Electricity Regulatory Commission (HERC). There was non recovery of fixed cost of ₹1,508.64 crore due to non-achievement of plant load factor and excess auxiliary power & secondary fuel oil consumption of ₹186.02 crore during 2010-15.

(Paragraphs 2.1.7.1, 2.1.7.2 and 2.1. 7.3)

The Company gave undue benefit of ₹229.32 crore to the contractor by not recovering cost of incomplete jobs and release of undue payment.

(Paragraph 2.1.8.1)

DCRTPP experienced 134 outages of 26824:46 hours resulting in generation loss of 6840.12 MUs during 2010-15 and premature overhauling resulting in avoidable expenditure of ₹11.05 crore.

(Paragraph 2.1.8.2)

The Engineering, Procurement and Construction (EPC) contractor at RGTPP was unduly favoured as the units were provisionally taken over before completion of the outstanding works.

(Paragraph 2.1.8.4)

The Company incurred extra expenditure of ₹567.13 crore on purchase of coal due to variation in Gross Calorific Value (GCV) at loading and unloading points.

(Paragraph 2.1.9.1)

The Company incurred avoidable expenditure of ₹48.49 crore on account of grade slippage, stone claims, under loading claims and penalty on short lifting.

(Paragraphs 2.1.9.2, 2.1.9.3, 2.1.9.4 and 2.1.9.8)

'Custom Milling of Rice' in Haryana State Warehousing Corporation (HSWC) and Haryana Agro Industries Corporation Limited (HAIC)

HAIC did not allot paddy to the millers as per norms in 75 and 47 *per cent* cases during 2013-14 and 2014-15 respectively. Similarly, HSWC also did not allot paddy as per norms in 29 and 14 *per cent* cases during 2013-14 and 2014-15 respectively.

(Paragraph 2.2.6)

During Kharif Marketing Season (KMS) 2012-13, 2013-14 and 2014-15, 19 millers, to whom 8.45 lakh quintal of paddy was allotted, did not deliver 1.64 lakh quintal of rice and ₹52.06 crore was recoverable from them as on 30 September 2015.

(Paragraph 2.2.7.1)

FCI did not reimburse the claims made of ₹8.24 crore for the period 2010-13 as the Procurement Agencies (PAs) could not submit the necessary certificate for the expenditure incurred on Custody and Maintenance charges.

(Paragraph 2.2.8.1)

The PAs suffered an interest loss of ₹0.93 crore due to delay in milling of paddy and ₹0.63 crore due to delay in submission of certificate to FCI stating the driage had actually been paid by PAs to millers.

(Paragraphs 2.2.7.3 and 2.2.8.7)

Internal control structure in PAs was inadequate and not commensurate with the size of their operations. The PAs did not have an accounts manual specifying duties/ responsibilities at each level of management. HAIC in violation of State Government instructions did not conduct mandatory physical verification of stocks of paddy and rice kept in joint custody with the millers.

(Paragraph 2.2.10.1)

3 Transaction audit observations

Transaction audit observations included in the Report highlight deficiencies in the management of State Government Companies and Statutory Corporation, which had serious financial implications. Important findings are as under:

Haryana Power Generation Corporation Limited

- The Company paid ₹4.71 crore towards railway freight, custom duty, stamp duty and port charges on 21,631.43 MT of imported coal, which was not received.

(Paragraph 3.2)

- The Company paid excess customs duty of ₹2.10 crore to a firm on imported coal which was below guaranteed specifications.

(Paragraph 3.3)

Uttar Haryana Bijli Vitran Nigam Limited

The Company was deprived of revenue of ₹2.70 crore due to supplying power under categories not conforming to tariff orders.

(Paragraph 3.5)

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

- **Haryana Power Purchase Centre** paid an extra ₹75.39 crore due to diminution in Gross Calorific Value (GCV) of imported coal at the time of consumption compared to the GCV at the time of unloading.

(Paragraph 3.6)

- DISCOMs suffered loss of ₹33.51 crore due to irregular termination of contract and overpayment to contractors.

(Paragraph 3.7)

Haryana State Industrial and Infrastructure Development Corporation Limited

- The Company granted undue favour of ₹1.89 crore to an allottee by not charging interest on extension fee.

(Paragraph 3.9)

- Provision of rejection of price quote which resulted in skewed bidding process led to extra expenditure of ₹1.27 crore.

(Paragraph 3.10)

Haryana Agro Industries Corporation Limited

The Company suffered loss of ₹7.89 crore due to unscientific and improper preservation of wheat stock.

(Paragraph 3.12)

Haryana State Roads and Bridges Development Corporation Limited

In violation of the provisions of Haryana Mechanical Vehicles (Levy of Tolls) Act, 1996, the Company continued to impose and collected toll of ₹29.31 crore on five State Highways which were declared as National Highways.

(Paragraph 3.13)

Haryana Tourism Corporation Limited

The Company started suffering operational losses in its core activities from the year 2012-13 and it suffered loss of ₹5.44 crore in 2014-15 due to high food and fuel cost, high manpower cost, lack of innovative marketing strategies and low quality of services at its complexes.

(Paragraph 3.14)

Chapter-1

Functioning of State Public Sector Undertakings

Chapter 1

Functioning of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. As on 31 March 2015, in Haryana there were 30 PSUs. Of these, one Corporation[1] was listed at Bombay Stock Exchange Limited (BSE). During the year 2014-15, two Government Companies[2] were incorporated whereas no PSU was closed down. The details of the State PSUs in Haryana as on 31 March 2015 are given below:

Table 1.1: Total number of PSUs as on 31 March 2015

Type of PSUs	Working PSUs	Non-working PSUs[3]	Total
Government Companies[4]	23	5	28
Statutory Corporations	2	Nil	2
Total	**25**	**5**	**30**

The working PSUs registered a turnover of ₹36,608.23 crore as per their latest finalised accounts as of September 2015. This turnover was equal to 8.41 *per cent* of State Gross Domestic Product (GDP) for 2014-15. The working PSUs incurred aggregate loss of ₹2,632.04 crore as per their latest finalised accounts as of September 2015. They had 31,248 employees as at the end of March 2015.

As on 31 March 2015, there were five[5] non-working PSUs. Out of these, four PSUs are existing from last five to 16 years and having investment of ₹236.81 crore. This is a critical area as the investment in non-working PSUs do not contribute to the economic growth of the State.

Accountability framework

1.2 The process of audit of Government Companies is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, Government company means any company in which not less than 51 *per cent* of the paid up share capital is held by Central Government, or by any State Government or Governments, or partly by Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company. Further, as per sub-Section 7 of Section 143 of the Act, the C&AG may, in case of any company covered under sub-Section (5)

[1] Haryana Financial Corporation.

[2] HARUP Coal Corporation Limited and Haryana Medical Services Corporation Limited.

[3] Non-working PSUs are those which have ceased to carry on their operations.

[4] Government PSUs includes other Companies referred to in Section 139 (5) and 139 (7) of the Companies Act 2013.

[5] One Company *i.e.* Haryana Coal Company Limited wound up its operations in March 2015.

or sub-Section (7) of Section 139, if considers necessary, by an order, cause test audit to be conducted of the accounts of such Company and provisions of Section 19 A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of Companies Act, 1956.

Statutory Audit

1.3 The financial statements of the Government companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 139 (5) or (7) of the Act, which shall submit a copy of the Audit Report to the C&AG which, among other things, including financial statements of the Company under Section 143(5) of the Act. These financial statements are subject to supplementary audit to be conducted by CAG within sixty days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act.

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

Role of Government and Legislature

1.4 The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government companies and Separate Audit Reports in case of Statutory corporations are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Haryana

1.5 The State Government has huge financial stake in these PSUs. This stake is of mainly three types:

- **Share Capital and Loans** - In addition to the Share Capital

Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.

- **Special Financial Support** - State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.

- **Guarantees** - State Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

Investment in State PSUs

1.6 As on 31 March 2015, the investment (capital and long-term loans) in 30 PSUs was ₹40,984.19 crore as per details given below:

Table 1.2: Total investment in PSUs

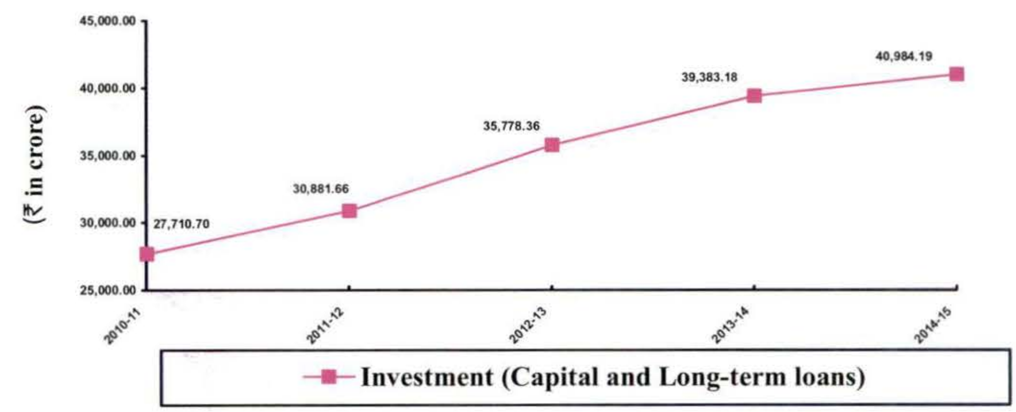
(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	8,487.70	32,020.41	40,508.11	213.50	25.76	239.26	40,747.37
Non-working PSUs	17.99	218.83	236.82	-	-	-	236.82
Total	**8,505.69**	**32,239.24**	**40,744.93**	**213.50**	**25.76**	**239.26**	**40,984.19**

Source: Information collected from PSUs

As on 31 March 2015 of the total investment in State PSUs, 99.42 *per cent* was in working PSUs and the remaining 0.58 *per cent* in non-working PSUs. This total investment consisted of 21.27 *per cent* towards capital and 78.73 *per cent* in long-term loans. The investment has grown by 47.90 *per cent* from ₹27,710.70 crore in 2010-11 to ₹40,984.19 crore in 2014-15 as shown in the graph below:

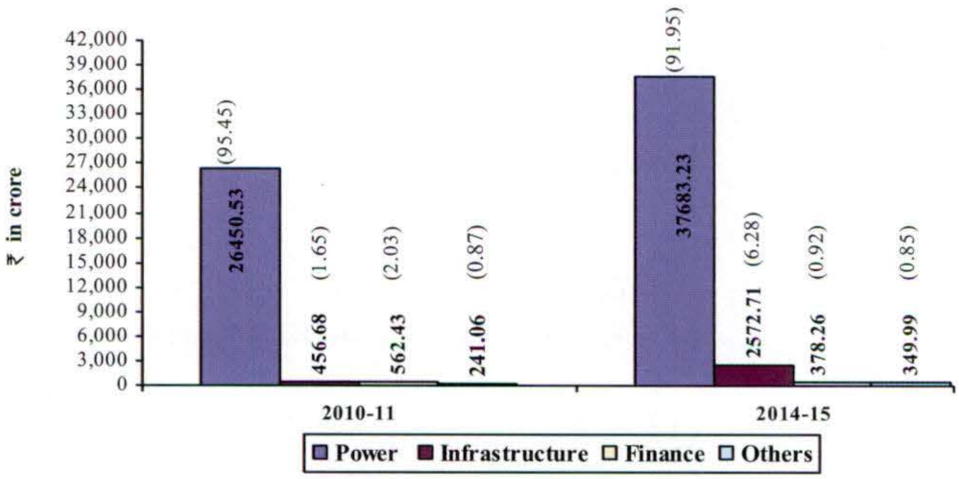
Chart 1.1: Total investment in PSUs



1.7 The investment in four significant sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are indicated below in the bar chart.

Chart 1.2: Sector wise investment in PSUs

(Figure in brackets show the percentage of sectoral investment to total investment)



Though the investment in power sector increased from ₹26,450.53 crore to ₹37,683.23 crore during 2010-11 to 2014-15 but its share in overall investment declined marginally in percentage terms from 95.45 *per cent* to 91.95 *per cent*. Investment in infrastructure and other sectors also increased from ₹456.68 crore to ₹2,572.71 crore and ₹241.06 crore to ₹349.99 crore during 2010-11 to 2014-15 respectively but investment in finance sector decreased from ₹562.43 crore to ₹378.26 crore during this period.

Special support and returns during the year

1.8 The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and interest waived in respect of State PSUs are given below for three years ended 2014-15.

Table 1.3: Details regarding budgetary support to PSUs

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	7	199.65	6	102.92	7	68.22
2.	Loans given from budget	Nil	Nil	1	6.48	2	153.25
3.	Grants/ Subsidy from budget	10	10,319.97	11	10,639.10	9	5,357.76
4.	**Total Outgo (1+2+3)**	**13**	**10,519.62**	**13**	**10,748.50**	**13**	**5,579.23**
5.	Waiver of loans and interest	-	-	-	-	1	81.24
6.	Guarantees issued	5	15,908.95	5	10,425.04	6	3,966.62
7.	Guarantee Commitment	9	17,111.18	9	25,074.45	8	28,746.85

Source: Information collected from PSUs

Budgetary outgo towards equity, loan and grants/ subsidy by the State

Government decreased by 18.52 *per cent* from ₹6,847.58 crore during 2010-11 to ₹5,579.23 crore during 2014-15.

In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, State Government gives guarantee subject to the limits prescribed by the Constitution of India, for which the guarantee fee is being charged. This fee varies from 0.125 *per cent* to two *per cent* as decided by the State Government depending upon the loanees. The guarantee commitment increased to ₹28,746.85 crore during 2014-15 from ₹17,111.18 crore in 2012-13. Further, four PSUs paid guarantee fee to the tune of ₹4.59 crore during 2014-15. There were three PSUs which did not pay guarantee fees during the year and accumulated[6]/outstanding guarantee fees thereagainst was ₹8.55 crore as on 31 March 2015.

Reconciliation with Finance Accounts

1.9 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 2015 is stated below:

Table 1.4: Equity, loans, guarantees outstanding as per finance accounts *vis-a-vis* records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	7,094.77	7,532.31	437.54
Loans	1,222.55	1,438.28	215.73
Guarantees	28,752.45	28,746.85	5.60

Audit observed that the differences occurred in respect of 14 PSUs and some of the differences were pending reconciliation since 2004-05. The differences in figures of equity and loans were due to mis-classification of figures by the Government in their accounts or by the Companies. The differences in the figures of outstanding guarantees were due to different figures sent by treasuries to O/o Accountant General (A&E) for preparation of Finance accounts and by the PSUs to the O/o Principal Accountant General (Audit). Letters/ reminders have been issued to State Government and PSUs concerned regarding reconciling the differences at an early date. Pr. Accountant General (Audit) had also taken up (October 2015) the issue with Chief Secretary, but things have not improved much. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

6 Haryana State Warehousing Corporation (₹5.23 crore), Haryana Agro Industries Corporation Limited (₹3.23 crore) and Haryana Backward Classes & Economically Weaker Section Kalyan Nigam Limited (₹0.09 crore).

Arrears in finalisation of accounts

1.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year *i.e.* by September end in accordance with the provisions of Section 96 (1) of the Act. Failure to do so may attract penal provisions under Section 99 of the Act. 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 status of accounts as of 30 September 2015.

Table 1.5: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Number of Working PSUs	22	22	24	24	25[7]
2.	Number of accounts finalised during the year	23	22	18	23	22
3.	Number of accounts in arrears	29	29	34	35	36
4.	Number of Working PSUs with arrears in accounts	17	17	19	19	19
5.	Extent of arrears (numbers in years)	1 to 5	1 to 4	1 to 4	1 to 4	1 to 5

It can be observed that the number of accounts in arrears has increased from 29 (2010-11) to 36 (2014-15) in which arrear accounts of two PSUs pertains to 2010-11, those of four PSUs pertains to 2011-12, five PSUs pertains to 2012-13, six PSUs pertains to 2013-14 and 19 PSUs pertains to 2014-15. The main reasons as stated by the Companies for delay in finalisation of accounts are lack of trained staff and frequent transfers of Management. 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 stipulated period. The Principal Accountant General (PAG) brought (April 2015) the position of arrears of accounts to the notice of Additional Chief Secretary, Finance Department. Due to accounts in arrears, the net worth of these PSUs as on 31 March 2015 could not be assessed in audit. PAG had also taken up (July and October 2015) the issue of arrear in accounts with the Principal Secretary, Finance Department, to expedite the clearance of backlog in a time bound manner, but the things did not improve.

1.11 The State Government had invested ₹5,509.04 crore in 11 PSUs {equity: ₹31.02 crore (seven PSUs), loan ₹37.48 crore (one PSU), grants: ₹159.99 crore (five PSUs) and subsidy ₹5,280.55 crore (five PSUs)} during the years for which accounts have not been finalised as detailed in ***Appendix* 1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the

[7] First Annual General Meeting of two PSUs - HARUP Coal Corporation Limited and Haryana Medical Services Corporation Limited are due on 31 December 2015 and their accounts are not included in arrears.

amount was invested was achieved or not and thus Government's investment in such PSUs remained outside the control of State Legislature.

1.12 In addition to above, as on 30 September 2015, there were arrears in finalisation of accounts by non-working PSUs. Out of five non-working PSUs, two were in the process of liquidation and the remaining three non-working PSUs[8] had arrear of accounts ranging from one to two years.

Table 1.6: Position relating to arrears of accounts in respect of non-working PSUs -year wise

No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
1	2013-14	1
3	2014-15	3

Placement of Separate Audit Reports

1.13 The position depicted below shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2015) on the accounts of Statutory Corporations in the Legislature.

Table 1.7: Status of placement of SARs in Legislature

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/Present Status
1.	Haryana Financial Corporation	2013-14	-	-
2.	Haryana State Warehousing Corporation	2012-13	2013-14	Under process

Impact of non-finalisation of accounts

1.14 As pointed out above (para 1.10 to 1.12), the 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 relevant statues. In view of the above state of arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2014-15 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

Performance of PSUs as per their latest finalised accounts

1.15 A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working

8 Haryana Minerals Limited, Haryana State Minor Irrigation and Tubewell Corporation Limited and Haryana Coal Company Limited.

PSUs turnover and State GDP for a period of five years ending 2014-15.

Table 1.8: Details of working PSUs turnover *vis-a-vis* State GDP

(₹ in crore)

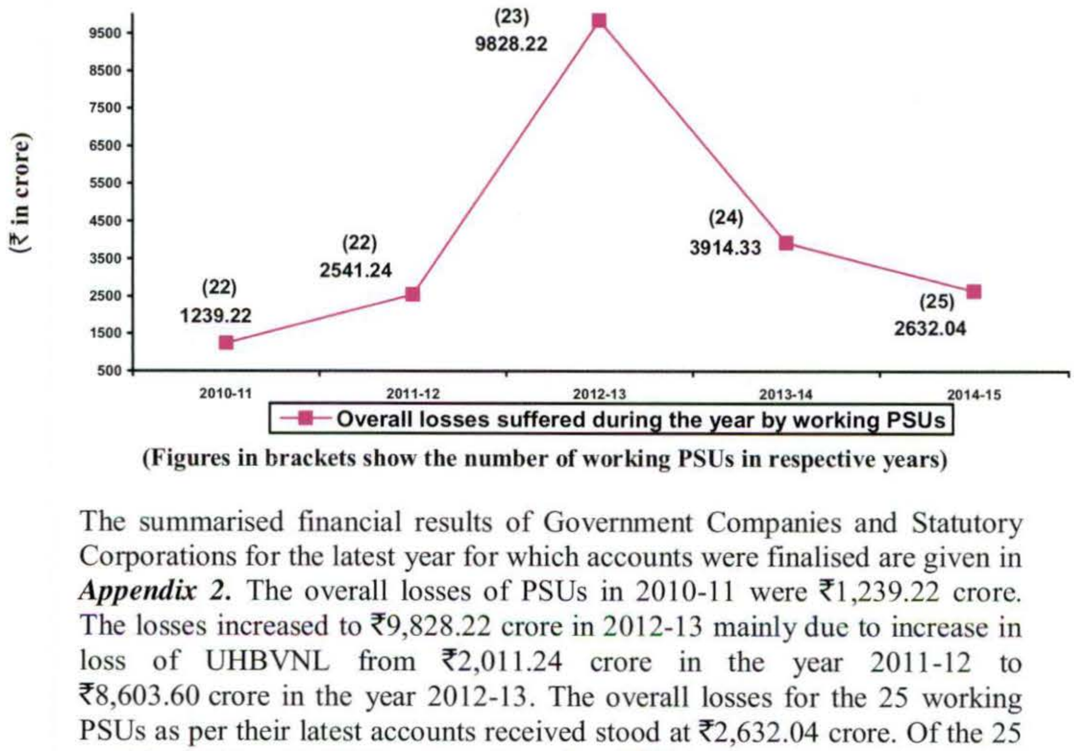
Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover[9]	18,756.18	21,465.56	22,384.88	25,262.69	36,608.23
State GDP	2,60,621.28	2,98,688.33	3,41,351.16	3,88,916.63[10]	4,35,310.05[11]
Percentage of Turnover to State GDP	7.20	7.19	6.56	6.50	8.41

Source: Information collected from PSUs and State GDP data

The turnover of PSUs increased from ₹18,756.18 crore in 2010-11 to ₹36,608.23 crore in 2014-15 due to increase mainly in the turnover of power sectors companies. The role of PSUs activities in comparison to State GDP also increased as its percentage increased from 7.20 *per cent* in 2010-11 to 8.41 *per cent* in 2014-15.

1.16 Overall losses incurred by State working PSUs during 2010-11 to 2014-15 are shown in the graph below:

Chart 1.3: Losses of working PSUs



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

The summarised financial results of Government Companies and Statutory Corporations for the latest year for which accounts were finalised are given in ***Appendix* 2.** The overall losses of PSUs in 2010-11 were ₹1,239.22 crore. The losses increased to ₹9,828.22 crore in 2012-13 mainly due to increase in loss of UHBVNL from ₹2,011.24 crore in the year 2011-12 to ₹8,603.60 crore in the year 2012-13. The overall losses for the 25 working PSUs as per their latest accounts received stood at ₹2,632.04 crore. Of the 25 working PSUs, 16 PSUs reported profit of ₹981.67 crore and seven PSUs reported loss of ₹3,613.71 crore. Two PSUs (HARUP Coal Company &

[9] Turnover as per the latest finalised accounts as of 30 September of subsequent year and 30 September 2015 for 2014-15.

[10] Quick Estimates.

[11] Advance Estimates.

Haryana Medical Services Corporation Limited) are yet to start commercial operations and had not prepared their first accounts. The major contributors to profit was Haryana State Industrial Infrastructure Development Corporation Limited (₹748.59 crore), Haryana Power Generation Corporation Limited (₹108.21 crore) and Haryana Financial Corporation (₹51.83 crore). The major losses were incurred by Dakshin Haryana Bijli Vitran Nigam Limited (₹2,088.65 crore) and Uttar Haryana Bijli Vitran Nigam Limited (₹1,465.01 crore).

1.17 Some other key parameters of PSUs are given below:

Table 1.9: Key Parameters of State PSUs

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Return on Capital Employed (*per cent*)	1.57	-	-	2.01	6.96
Debt	19,936.66	21,838.13	27,231.91	30,739.75	37,847.90
Turnover[12]	18,756.18	21,465.61	22,384.88	25,262.69	36,608.23
Debt/ Turnover Ratio	1.06:1	1.02:1	1.22:1	1.22:1	1.03:1
Interest Payments	1,667.56	2,445.50	3,526.20	4,361.24	4,411.32
Accumulated Profits/ (losses)	(-) 5,676.03	(-) 8,622.09	(-) 21,210.01	(-) 23,813.48	(-) 24,043.86

Source: Information collected from PSUs

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

The turnover of State working PSUs increased by 95.18 *per cent* from ₹18,756.18 crore during 2010-11 to ₹36,608.23 crore in 2014-15. During the corresponding period, debts also increased by 89.84 *per cent* from ₹19,936.66 crore to ₹37,847.90 crore.

1.18 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, 16 PSUs earned an aggregate profit of ₹981.67 crore but only three PSUs declared a dividend of ₹6.25 crore.

Winding up of non-working PSUs

1.19 The number of non-working companies at the end of each year during past five years are given below:

Table 1.10: Non working PSUs

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
No. of non-working companies	7	7	7	4	5

There were five non-working PSUs (Companies) as on 31 March 2015.

[12] Turnover of working PSUs as per the latest finalised accounts as of 30 September 2015.

Of these, two PSUs[13] have commenced liquidation process. The remaining three Companies were under closure, *i.e.* closing orders/ instructions had been issued but liquidation process had not yet started. During 2014-15, non-working PSUs incurred an expenditure of ₹1.44 crore towards establishment. This expenditure was managed through sale of assets/ investment, interest on FDR, miscellaneous receipts and refund of tax deducted at source.

1.20 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 three[14] non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working.

Accounts Comments

1.21 Eighteen working companies forwarded their 20 audited accounts to PAG during the year 2014-15. Of these, nine accounts of nine companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below:

Table 1.11: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	5	11.48	10	29.51	5	2.83
2.	Increase in loss	4	6,018.96	2	1,081.47	6	1,074.35
3.	Non-disclosure of material facts	4	234.35	6	254.86	4	3,805.09
4.	Errors of classification	4	68.15	3	667.14	5	5,979.35

During the year, the Statutory Auditors had given qualified certificates for 15 accounts and adverse certificate for one accounts. In addition to above, CAG gave adverse comments on one accounts (Uttar Haryana Bijli Vitran Nigam Limited on the accounts for the year 2013-14) during the supplementary audit. The compliance of companies with the Accounting Standards remained poor and there were 29 instances of non-compliance in nine accounts during the year.

1.22 Similarly, two working Statutory Corporations, HFC forwarded its two accounts for the year 2013-14 and 2014-15 and HSWC forwarded its one

[13] Haryana Concast Limited and Haryana State Housing Finance Corporation Limited.

[14] Haryana State Minor Irrigation and Tubewell Corporation Limited, Haryana Coal Company Limited and Haryana Minerals Limited.

accounts of 2013-14 during the year for supplementary audit to PAG during the year 2014-15. Comments were finalised for two accounts (2013-14 of HFC and HSWC) and comments on one accounts of Haryana Financial Corporation for 2014-15 are under finalisation. The Audit Reports of Statutory Auditors and the sole/ supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below:

Table 1.12: Impact of audit comments on Statutory Corporations

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	3.98	1	3.78	1	2.28
2.	Increase in loss	-	-	1	4.55	-	-
3.	Non-disclosure of material facts	1	29.76	1	40.81	-	-
4.	Errors of classification	-	-	-	-	2	4.39

Source: Information compiled from annual accounts of PSUs

During the year, three accounts of the two statutory corporations were received and all were assigned qualified certificate by statutory auditors.

Response of the Government to Audit

Performance Audits and Paragraphs

1.23 For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2015, two performance audits and 18 compliance audit paragraphs were issued to the Additional Chief Secretaries/ Principal Secretaries of the respective Departments with request to furnish replies within six weeks. However, replies in respect of three compliance audit paragraphs were awaited from the State Government (January 2016).

Follow up action on Audit Reports

Replies outstanding

1.24 The Report of the Comptroller and Auditor General (CAG) of India represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Haryana issued (July 1996) instructions to all Administrative Departments to submit replies/ explanatory notes to paragraphs/ reviews included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature.

Table No.1.13: Explanatory notes not received (as on 31 January 2016)

Year of the Audit Report (Commercial/ PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2012-13	25.03.2015	2	10	2	6
2013-14	04.09.2015	2	9	2	9
Total		**4**	**19**	**4**	**15**

From the above, it could be seen that out of 23 paragraphs/ performance audits, explanatory notes to 19 paragraphs/ performance audits in respect of three departments[15], which were commented upon, were awaited (January 2016).

Discussion of Audit Reports by COPU

1.25 The status as on 31 January 2016 of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) was as under.

Table No. 1.14: Reviews/ Paras appeared in Audit Reports vis-a-vis discussed as on 31 January 2016

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2012-13	2	10	-	1
2013-14	2	9	-	-
Total	**4**	**19**	**-**	**1**

Compliance to Reports of Committee on Public Undertakings (COPU)

1.26 Action Taken Notes (ATNs) to 25 paragraphs pertaining to six Reports of the COPU presented to the State Legislature between February 2009 and March 2015 had not been received (January 2016) as indicated below:

Table No.1.15: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2008-09	1	14	1(Para No. 14)
2010-11	1	10	1(Para No. 8)
2011-12	1	8	2(Para No. 3 & 5)
2012-13	1	16	3(Para No. 4, 5 &7)
2013-14	1	10	6(Para No.2 to 6 &10)
2014-15	1	12	12(Para No. 1 to 12)
Total	**6**	**70**	

These Reports of COPU contained recommendations in respect of paragraphs pertaining to nine departments[16], which appeared in the Reports of the CAG of India for the years 2003-04 to 2010-11.

It is recommended that the Government may ensure: (a) sending of replies to

[15] Departments of Power, Agriculture and Industries.

[16] Agriculture, Forest, Home, Industries, Power, PWD B&R, SC & BC Welfare, Transport and Tourism.

inspection reports/ draft paragraphs/ performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) recovery of loss/ outstanding advances/ overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

Disinvestment, Restructuring and Privatisation of PSUs

1.27 The State Government did not undertake the exercise of disinvestment, privatisation and restructuring of any of its PSUs during 2014-15.

Coverage of this Report

1.28 This Report contains 15 paragraphs and two Performance Audits on 'Functioning of Deenbandhu Chhotu Ram Thermal Power Plant, Yamunanagar and Rajiv Gandhi Thermal Power Plant, Khedar, Hisar' and 'Custom Milled Rice' involving financial effect of ₹4,739.28 crore. The Management of Dakshin Haryana Bijli Vitran Nigam Limited did not reply to one paragraph having financial effect of ₹24.14 crore. Similarly, Government of Haryana did not give reply to three paragraphs having financial effect of ₹61.34 crore.

Chapter-2

Performance Audit relating to Government Companies and Statutory Corporation

Chapter 2

2 Performance Audit relating to Government Companies and Statutory Corporation

Functioning of Deenbandhu Chhotu Ram Thermal Power Plant, Yamunanagar and Rajiv Gandhi Thermal Power Plant, Khedar, Hisar

2.1 Haryana Power Generation Corporation Limited

Haryana Power Generation Corporation Limited (Company) has three thermal power plants, *i.e.*, Panipat Thermal Power Station, Panipat (PTPS), Deenbandhu Chhotu Ram Thermal Power Plant, Yamunanagar (DCRTPP) and Rajiv Gandhi Thermal Power Plant, Khedar, Hisar (RGTPP) with total installed capacity of 3,167.80 MW. The two thermal power plants *viz.* DCRTPP and RGTPP, which have installed capacity of 1,800 MW, have been covered in performance audit. The important findings noticed during audit are as under:

Highlights

The operational performance of the DCRTPP and RGTPP was deficient with respect to norms fixed by Haryana Electricity Regulatory Commission (HERC). There was non recovery of fixed cost of ₹1,508.64 crore due to non-achievement of plant load factor and excess auxiliary power & secondary fuel oil consumption of ₹186.02 crore during 2010-15.

(Paragraphs 2.1.7.1, 2.1.7.2 and 2.1. 7.3)

The Company gave undue benefit of ₹229.32 crore to the contractor by not recovering cost of incomplete jobs and release of undue payment.

(Paragraph 2.1.8.1)

DCRTPP experienced 134 outages of 26824:46 hours resulting in generation loss of 6840.12 MUs during 2010-15 and premature overhauling resulting in avoidable expenditure of ₹11.05 crore.

(Paragraph 2.1.8.2)

The Engineering, Procurement and Construction (EPC) contractor at RGTPP was unduly favoured as the units were provisionally taken over before completion of the outstanding works.

(Paragraph 2.1.8.4)

The Company incurred extra expenditure of ₹567.13 crore on purchase of coal due to variation in Gross Calorific Value (GCV) at loading and unloading points.

(Paragraph 2.1.9.1)

The Company incurred avoidable expenditure of ₹48.49 crore on account of grade slippage, stone claims, under loading claims and penalty on short lifting.

(Paragraphs 2.1.9.2, 2.1.9.3, 2.1.9.4 and 2.1.9.8)

2.1.1 Introduction

The Company incorporated in March 1997 plans, commissions and operates power generation plants to cater to the requirement of power in Haryana. Two thermal Units of 300 MW each of DCRTPP were commissioned in 2008-09 and two Units of 600 MW each of RGTPP were commissioned in 2010-11. The Company got the construction work done at DCRTPP and RGTPP from Reliance Energy Limited (REL) now Reliance Infrastructure Limited (R-Infra) on EPC basis. In both the cases, the Original Equipment Manufacturer (OEM) was Shanghai Electric Corporation (SEC), China.

2.1.2 Organisational set up

The management of the Company is vested with a Board of Directors (BODs) comprising of Chairman, Managing Director (MD), three Whole Time Directors (WTDs) and two part time Directors appointed by the State Government as on 31 March 2015. For carrying out day-to-day operations, the MD is assisted by the three WTDs and Chief Engineers.

2.1.3 Audit objectives

The objectives of Performance Audit were to ascertain whether:

- Installed capacity of the generating units was optimally utilised and the cost of generation was recovered;
- Contractual obligations of the EPC contractor were adequate and were met satisfactorily;
- Procurement of inventories and transportation of fuel was done economically, efficiently and effectively;
- Environment protection measures were undertaken effectively; and
- Internal control system was commensurate with the size and activities of the plants.

2.1.4 Scope of audit and methodology

The audit was conducted between January and June 2015, analysed the functioning of DCRTPP and RGTPP during the five years period 2010-11 to 2014-15. The activities of construction and operation of DCRTPP were reported in the Audit Report of the Comptroller and Auditor General of India (Commercial), Government of Haryana, for the year 2008-09. The recommendations of Committee on Public Undertakings (COPU), Haryana, thereon contained in its 59th Report were presented to State Legislature on 11 March 2013. The decision of COPU on the action taken by the Company on its recommendations was still awaited (November 2015). The power generation activities of HPGCL (including construction activities of Rajiv Gandhi Thermal Power Plant) were reviewed and reported in CAG's Audit Report No. 4 – Government of Haryana for the year ended on 31 March 2010. The Report was discussed in the COPU, Haryana and the recommendations were contained in its 60^{th} Report presented (4 March 2014) to the State Legislature. Action taken by the Company on the recommendation of COPU on financial matters was awaited (November 2015).

We explained the audit objectives to the Company during an entry conference (February 2015). The audit findings were reported (August 2015) to the State Government and the Management. The replies of the Government and Management were received (October/ November 2015) and discussed in the exit conference (October 2015), which was attended by the Additional Chief Secretary to Government of Haryana, Power Department and Managing Director of the Company. The views of the Government and the Management have been considered while finalising this performance audit.

2.1.5 Audit criteria

The audit findings were evaluated against audit criteria which are sourced from the following:

- Guidelines/ norms for operational performance issued by Haryana Electricity Regulatory Commission (HERC);
- Terms and conditions of EPC contract;
- Compliance of the agreements executed with coal companies, railways, transport agency and other contractors/ agents; and
- Provisions of Energy Conservation Act, 2001 relating to Energy audit.

Audit Findings

2.1.6 Working Results

The working results of the two power plants during last five years ending March 2015 are given in the ***Appendix 3***. Cost of generation, revenue and profit/ loss incurred per Unit during the period are given below:

(Amount in ₹ per kWh)

Description	2010-11		2011-12		2012-13		2013-14		2014-15	
	DCRTP	RGTP	DCRTP	RGTP	DCRTP	RGTP	DCRTP	RGTP	DCRTP	RGTP
1. Cost per Unit (in ₹)	3.38	2.10	3.89	4.33	8.20	4.83	4.43	4.96	4.34	4.89
2. Revenue per Unit (in ₹)	3.29	1.72	3.64	3.50	4.06	4.24	4.36	5.02	4.32	4.90
3. Profit/ Loss per Unit (in ₹)	(-)0.09	(-)0.38	(-)0.25	(-)0.83	(-)4.14	(-)0.59	(-)0.07	0.06	(-)0.02	0.01

It could be seen from the above table and ***Appendix 3*** that neither DCRTPP nor RGTPP could recover their cost of generation during in any of the years 2010-11 to 2014-15 (except RGTPP during 2013-14 and 2014-15) and incurred deficit of ₹490.54 crore and ₹794.50 crore respectively.

2.1.7 *Operational performance*

The operational performance of the DCRTPP and RGTPP for the five years ending March 2015 is given in ***Appendix 4***. The operational performance of the plants, evaluated on various operational parameters are discussed below:

2.1.7.1 Plant load factor

Plant Load Factor (PLF) represents percentage of actual generation to generating capacity of the plant. The PLF is fixed by Haryana Electricity Regulatory Commission (HERC) considering all the factors affecting generation. The recovery of fixed cost[1] is related to the norms of PLF approved for respective plants *i.e.* full fixed cost is recovered on PLF approved by HERC and in case of lower PLF the fixed cost shall be recovered on *pro-rata* basis. During 2010-15, the PLF fixed by HERC *vis-a-vis* actually achieved for both the units was as under:

Year	DCRTPP			RGTPP		
	PLF fixed by HERC	Actual PLF[2]		PLF fixed by HERC	Actual PLF	
	Unit I & II	Unit I	Unit II	Unit I & II	Unit I	Unit II
2010-11	80	87.6	66.04	80	40.91	6.00
2011-12	85	93.36	32.18	85	56.32	51.49
2012-13	85	14.11	30.13	85	40.33	63.99
2013-14	85	95.49	59.57	70	78.23	43.10
2014-15	85	85.53	70.51	85	90.55	62.13

Due to non achievement of PLF by DCRTPP and RGTPP, there was prospective generation loss of 16,465.743 MUs of power. There was a non recovery of fixed cost of ₹1,508.54 crore during 2010-15. The power plants saw early overhauling, frequent boiler tube leakages and mechanical problems as discussed in subsequent paragraphs 2.1.8.2 and 2.1.8.5.

Further, in case of availability of cheaper power, the Distribution Companies (DISCOMs) issued backing down instructions to Company and plants were run on partial load. Resultantly, the Company lost opportunity to generate 1,613.40 MUs and 4,992.10 MUs of power at DCRTPP and RGTPP respectively during 2010-15. The Company had not effectively explored the possibility to sell power through energy exchange in open market.

The Government and Management in their reply stated that due to frequent outages and teething problems, the PLF could not be achieved. It was further stated that due to non availability of advance scheduling and clearance from the DISCOMs, the third party sale of surplus power was a major challenge. The reply of non availability of advance scheduling is not acceptable as the

[1] Fixed cost includes return on equity, Interest and Finance charges on loan capital, interest on working capital, Operation and maintenance expenditure and depreciation.

[2] Includes normative generation during backing down instructions from DISCOMs.

Company should have pursued the DISCOMs to provide advance scheduling to plan sale of surplus power. This is further substantiated by the fact that after becoming a client member of Indian Energy Exchange on 7 March 2014 the Company was able to earn a revenue of ₹10.55 crore by selling 26.68 MUs of surplus power during 2014-15 and 2015-16 (up to August 2015).

2.1.7.2 Excess consumption of auxiliary power

Auxiliary power consumption is power consumed by units themselves for running their equipments and common services. The norm fixed by HERC ranged from 8.5 to 9 *per cent* in case of DCRTPP and 6 to 7.5 *per cent* in case of RGTPP during 2010-15. The plant wise auxiliary power consumed is discussed below:

DCRTPP

The auxiliary power consumption of the Unit I and Unit II of DCRTPP ranged between 8.70 to 13.07 *per cent* and 8.97 to 11.04 *per cent* respectively. The reasons for excessive auxiliary power consumption were frequent outages and full/ partial backing down of the units. Due to excess auxiliary power consumption, the Company was unable to sell 100.30 MUs valuing ₹44.59 crore with respect to HERC norms.

RGTPP

Auxiliary power consumption of the Unit I and Unit II of RGTPP ranged between 5.67 to 8.59 *per cent* and 5.77 to 18.36 *per cent* respectively during 2010 to 2015. Auxiliary power consumption in respect of both the units during 2010-12 was in excess of the norms fixed by HERC whereas consumption in Unit II was in excess during 2013-14 and in Unit I during 2014-15. The reasons for excessive auxiliary power consumption were frequent outages and full/ partial backing down of the units. Due to excess auxiliary power consumption, the Company was unable to sell 40.85 MUs valuing ₹16.42 crore with respect to HERC norms.

The Government and Management in their reply stated (October/ November 2015) that the excess consumption of auxiliary power was due to poor quality of coal and frequent outages of the units and efforts were being made to reduce the auxiliary consumption to the extent possible. The reply was not acceptable as the quality of coal and frequent outages were required to be kept within norms.

2.1.7.3 Excess consumption of secondary fuel oil

Diesel and furnace oil are used as secondary fuel oil in both the plants. The consumption of fuel oil depends on tripping on account of forced outages as well as backing down (reserve shut downs). HERC norms for consumption of fuel oils were 1 ml per kWh of power generated during 2010-15.

The actual secondary fuel oil consumption at DCRTPP ranged between 0.51 and 3.06 ml per kWh in Unit I and 1.05 and 6.15 ml per kWh in Unit II during

2010-15 whereas at RGTPP, it ranged between 0.28 and 10.51 ml per kWh for Unit I and 0.56 to 23.57 ml per kWh for Unit II. There was thus excess consumption of oil as compared to norms in both the plants. Audit observed excess consumption of 11,827.22 KL of oil valuing ₹38.14 crore and 23,513.27 KL oil valuing ₹86.87 crore at DCRTPP and RGTPP respectively during the audit period.

The Government and Management in their reply admitted that excess consumption of secondary fuel oil was due to teething problems, frequent tube leakages and frequent startups, testing and stabilisation.

2.1.7.4 Energy Audit

The Energy Conservation Act, 2001 provides for carrying out of energy audit on regular basis to improve the efficiency of the generating stations and control input cost. An energy audit at DCRTPP was conducted in 2013-14, which recommended measures and estimated annual financial savings of ₹17.78 crore. These recommendations were yet to be implemented (September 2015). At RGTPP, no energy audit had been conducted since setting up of the plant. Thus, non-conducting of energy audit at RGTPP and non-implementation of recommendations for DCRTPP was amongst the factors contributing to non-achievement of input cost targets of HERC.

The Government and Management in their reply stated that the Final Taking Over (FTO) of both the plants was done in May 2013 and July 2015 respectively and as such the energy audit was not conducted. The reply is not acceptable as energy audit was required to be carried out as the plants had been provisionally taken over and the Company was incurring the costs on generation.

2.1.8 Contractual obligations

The compliance of contractual obligations by the EPC contractor in respect of both the plants is discussed below:

DCRTPP

The Company awarded (March 2004) contract for construction of two units of 300 MW each to REL (EPC contractor) at firm price of ₹2,097 crore (₹1,572 crore for supply of machinery and equipments and ₹525 crore for civil works and erection, testing and commissioning) on turnkey basis. The major milestones relating to commissioning of the two units were as under:

Milestones	Unit I	Unit II
Scheduled date of Provisional Taking Over (PTO)	19 November 2007	19 February 2008
Actual date of PTO	31 August 2009	31 August 2009
Date of FTO	01 May 2013	01 May 2013
Equipment performance guarantee	Units were guaranteed for trouble free performance for a period of twelve months from the date of FTO.	

2.1.8.1 Non deduction of cost of incomplete works and release of undue payments

As per terms of the contract, the FTO of the units was to be done on completion of all outstanding works. Audit observed that the Company decided (15 March 2013) to effect FTO and released ₹73.54 crore to REL after making deductions on account of non-supply of mandatory spares (₹6.40 crore) and works carried out at risk and cost of REL (₹0.44 crore) besides amount (₹6.86 crore) incurred on repair of Turbine of Unit I and Unit II respectively despite non-completion of outstanding works valuing ₹155.78 crore.

This non deduction of the cost of incomplete works and the release of payment of ₹73.54 crore on FTO was an undue favour to REL and compromised the financial interests of the Company to the extent of ₹ 229.32 crore.

The Government and Management in their reply stated that the above amount was included in the counter claims filed (August 2014) in Arbitration case. The reply is not acceptable as the Management was aware of the above pending items/ works at the time of FTO and as such amount was recoverable from the contractor rather than amount being paid.

2.1.8.2 Performance of Boiler Turbine and Generator installed at DCRTPP

The plant manufactured by SEC China (OEM) was supplied for the first time (2004) in India to DCRTPP.

The plant remained under forced outages frequently as detailed below:

Year	Unit I		Unit II	
	No. of Tripping	Outage period (Hours:minutes)	No. of Tripping	Outage period (Hours:minutes)
2010-11	19	418:14	35	520:55
2011-12	14	484:19	17	5414:14
2012-13	5	7913:21	8	6181:20
2013-14	7	1044:41	10	3653:49
2014-15	8	312:46	11	881:07
Total	**53**	**10173:21**	**81**	**16651:25**

As can be seen from above table, the plant suffered 134 forced outages during 2010-15, of 26824:46 hours which resulted in generation loss of 6840.12 MUs.

The major long outages of Unit I and II and their impact on Company is discussed below:

(i) Prolonged outages and extra expenditure on overhauling of Unit I

There was forced shut down of Unit I of the DCRTPP on 31 March 2012 due to damage of LP rotor. The EPC contractor refused to take up the repair work and suggested to directly take up the matter with OEM. As the Unit II was also under forced shut down, the OEM suggested (25 May 2012) to carry out complete overhauling of the turbine and generator of both the units and submitted its offer for repair of LP rotor of Unit I and overhauling of both the units subject to condition that the repair and overhauling charges would not be recovered either from EPC or OEM. The Company had to get (June 2012) the repair of LP rotor done by sending it to Shanghai and overhauling of the Unit at its own cost. The Company had to bear an expenditure of ₹9.25 crore (₹2.90 crore paid to OEM for overhauling of the Unit I, ₹0.27 crore on related works and ₹6.08 crore on spares). The Company had, however, neither invoked the contract performance guarantee given by the EPC contractor nor gone in to arbitration in view of the denial of the EPC contractor to carry out the repair of the damaged LP Rotor. Besides this, the Company had to bear a generation loss of 1,900.52 MUs and resultant non recovery of fixed cost[3] of ₹191.95 crore during 2012-13.

Further, without exploring the possibility to purchase new rotating blades along with repair of rotor, the rotating blades, which were lying at DCRTPP, were also sent to SEC, Shanghai for fitting in the LP Rotor. Since these blades were to be kept as mandatory spares, the Company had to place (March 2015) fresh order for procurement of new blades on SEC Shanghai for ₹7.58 crore and the same had not been received so far (December 2015). Thus, had the Company placed order for supply and fitting of new blades in LP rotor along with repair work of LP Rotor, the transportation charges of old blades to the extent of ₹1.80 crore could have been avoided.

The Government and Management in their reply stated that SEC agreed to repair the Unit on a precondition that the cost would not be charged from EPC contractor or OEM. Further, these spares were sent to SEC to avoid delay. The reply is not acceptable as the Company had not taken any action against the EPC contractor for refusal to undertake repair and at the same time had not explored the possibility to purchase new blades.

(ii) Forced Shut Down on account of damage of High Intermediate Pressure rotor and overhauling of the Unit II

The Unit II tripped on 25 September 2011 and had to be shut down due to damage of High Intermediate Pressure (HIP) Rotor. Since the OEM gave (21 December 2011) offer for repair of the defective rotor at ₹13 crore without any warranty/ guarantee for the repaired rotor, the Company got the rotor repaired at risk and cost of REL. While the HIP rotor of the Unit II was under repair, the Unit I also tripped and on the recommendation of OEM, the Company overhauled Unit II at its own cost. Though the equipments were under performance guarantee, yet the Company could not recover ₹2.32 crore incurred on overhauling of Unit II from the EPC contractor due to similar precondition that the repair and overhauling charges would not be recovered either from EPC or OEM. The Company suffered generation loss of 2,625.23 MUs and non recovery of fixed cost of ₹293.16 crore due to continuous outage of 10,295 hours.

The Government and Management in their reply stated that SEC agreed to repair the rotor on a precondition that the cost would not be charged from EPC

[3] Per Unit fixed cost as allowed by HERC in the tariff order for the relevant years.

contractor or OEM and recovery of fixed cost is also a matter of case referred to the Arbitrator. The fact remains that the Company had not taken any action against EPC contractor for refusal to undertake repair.

(iii) Forced outage requiring revival of Unit II from OEM

Even after overhauling, Unit II experienced continuous problems and was under forced shut down for 1,006 hours between December 2012 and May 2013. The Unit was again forced shut down on 3 June 2013 for 2156 hours till 4 September 2013.

The Company placed (21 June 2013) work order for revival of Unit II on OEM and incurred expenditure of ₹2.31 crore. The Company did not recover this amount from EPC contractor though the equipment supplied was under performance guarantee up to 30 April 2014. The Unit remained under forced shut down for 2,156 hours and there was generation loss of 646.96 MUs besides non recovery of fixed cost of ₹74.40 crore.

The Government and Management in their reply stated that the revival of Unit was necessitated due to various operational faults and action has been taken against the officer concerned. The reply is not tenable as the units were under frequent forced shut downs even during performance guarantee period which was valid up to April 2014.

RGTPP

The Company awarded (10 September 2007) contract for construction of two units of 600 MW each to R-Infra at firm price of ₹3,775.43 crore (₹1,431.01 crore for offshore contract, ₹1,593.42 crore for onshore contract and ₹751 crore for services contract) on turnkey basis. The major milestones relating to commissioning of the units were as under:

Milestone activity	Unit I	Unit II
Scheduled date of Provisional Taking Over (PTO)	28 December 2009	28 March 2010
Actual Commercial Operation Date (COD)[4]	24 August 2010	01 March 2011
Actual date of PTO	10 February 2014	20 September 2014
Actual Date of FTO	15 July 2015	15 July 2015

It was noticed that R-Infra was unduly favoured during the period from declaration of COD to effecting of FTO as discussed below:

2.1.8.3 Generation loss due to unscheduled shutdowns

Despite the commencement of commercial operation of Unit I and Unit II on 24 August 2010 and 1 March 2011 respectively, the units were frequently tripping. There were 38 trippings (Unit I) and 29 trippings (Unit II) during 2010-11 & 48 trippings (Unit I) and 22 trippings (Unit II) during 2011-12 due to economizer tube leakage, boiler tube leakage and turbine bearing vibration as a result of incomplete works, on the part of R-Infra. In order to complete

[4] The Commercial operation date is the date from which the plant has been synchronised to the grid and starts selling scheduled power to the DISCOMs

the outstanding works, shutdowns of 8305 hours were provided to R-Infra beyond EPC contractual provisions leading to generation loss of 207.63 MUs and consequential non recovery of fixed cost of ₹256 crore. Audit observed that despite these shutdowns being provided, Unit I and Unit II suffered 61 and 52 trippings respectively during 2012 to 2015 amounting to 9145 hours (Unit I) and 11641 hours (Unit II).

The Government and Management in their reply stated that due to demand supply gap the units were pressed into commercial operation and the maximum deductible 10 *per cent* Liquidated Damages (LD) has been recovered from R-Infra as per contract. But the fact remains that due to incomplete works the Company had to bear avoidable fixed cost.

2.1.8.4 Effecting of PTO without completion of all outstanding works

As per Clause 35 of the EPC contract, the PTO of the Plant was to be effected on successful completion of the trial operation[5] of the Unit, completion of all the outstanding works as approved by owner and providing final operation and maintenance manual.

It was noticed that after the commercial operation, the performance of the units was not satisfactory. The EPC contractor had not completed all the outstanding works such as ash handling system, mill reject system, raw water intake reservoir, condensate polishing unit, Effluent Treatment Plant and other related works. Pending completion of these works, the Company decided (February 2014) to affect PTO on completion of two works only by taking undertaking from R-Infra to commence 16 top priority works immediately. The PTO of Unit I was effected on 10 February 2014 after a lapse of 41 months from the date of commercial operation.

Similarly, due to delayed rectification of the problem of high vibration in HIP turbine bearing of Unit II and delay in completion of pending works, the PTO of the Unit was effected on 20 September 2014 after a lapse of 42 months from the date of completion of trial operation. The FTO of both the units was effected on 15 July 2015 after completion of the pending works.

During exit conference, the Management stated that the PTO was done to ease out the burden of interest by earning of revenue. The reply was not acceptable as the Company allowed PTO without ensuring completion of pending work and favoured the contractor.

2.1.8.5 Forced shut down of Unit II due to deficiency in Rotor

Due to frequent tripping during 7 March 2011 to 17 August 2013 in Unit–II, it was forced to shutdown on 12 October 2013. Pending PTO, R-Infra was bound to carry out the requisite repairs. However, R-Infra/ SEC started the work on 6 January 2014 after delay of around three months. While carrying out repairs it was found that the HIP rotor of turbine was bent and could be repaired only at OEM works Shanghai. In view of peak demand, the Company

[5] Trial operation is continuous operation of plant for 14 days as per contract.

decided (28 January 2014) to get the repair of rotor done by transporting it by air to Shanghai at a cost of ₹10.65 crore instead of by sea. The Company had to bear the difference of sea and air fare amounting to ₹8.34 crore.

Further, the inordinate time of 108 days (12 October 2013 to 28 January 2014) taken by the Company for finalisation of the issue with R-Infra had resulted in loss of generation of 1,123.2 MUs during 78 days (after providing 30 days time for finalisation of issue) and non recovery of fixed cost of ₹126.70 crore.

The Government and Management stated that delay was due to stand of the contractor to undertake the repair on chargeable basis coupled with unavoidable procedural delays in seeking required approvals. The reply is not acceptable as due to procedural delays the repair was delayed besides the Company had to bear the extra expenditure.

2.1.9 Procurement, transportation and consumption of fuel

The coal linkage (source and quantum of supply of coal) to every thermal Power plant was approved by Standing Linkage Committee (SLC) of the Ministry of Energy, Government of India (GoI). On the basis of approved coal linkage, the Company had signed Fuel Supply Agreements (FSA) with Central Coalfields Limited (CCL) in case of DCRTPP and with Northern Coalfields Limited (NCL), Eastern Coalfields Limited (ECL), Mahanadi Coalfields Limited (MCL) and Bharat Coking Coal Limited (BCCL) in case of RGTPP. The Company also purchased imported coal with high GCV from M/s PEC Limited and MSTC Limited (Government of India PSUs) during 2010-15 to improve the GCV of Coal by blending it with locally sourced coal.

The audit findings in this regard are discussed below:

2.1.9.1 Extra expenditure on purchase of coal due to variation in GCV at loading and unloading points

Coal is classified into different grades on the basis of GCV. The price of coal depends on the grade of coal. As per FSA, the seller has to declare one common grade for each colliery from where the coal is to be dispatched. The seller at first raises source wise bills on declared grade basis for coal supplied. Subsequently, in order to arrive at base price on the basis of actual quality of coal, the GCV of the coal is assessed at loading end and credit for differential grade slippage (*i.e.* difference between the base price of declared grade and analysed grade of coal, if any) was to be given by the seller. In the absence of any provision for testing of GCV of coal at unloading end in FSA, credit of grade slippage was not available between loading end and unloading end. Resultantly, the plants had to pay higher rates for lower grade of coal, if the GCV of coal received at plant is lower than the GCV at loading end.

DCRTPP

Audit analysis of the quality test reports of test checked 1,172 rakes during January 2013 to December 2014 revealed that at unloading end GCV was lower than at loading end in as many as 679 rakes. The GCV at loading end ranged between 4841 and 5344 and at unloading end between 3517 and 5050. The variation in the GCV at unloading end ranged between 88 Kcal/Kg and 1502 Kcal/Kg as compared to the GCV at loading end. This resulted in extra payment of ₹152.22 crore during January 2013 to December 2014 besides increasing cost of generation by ₹0.25/kWh[6] during 2013-14.

RGTPP

Audit analysis of the quality test reports rakes tested during April 2013 to March 2015 revealed that out of total 1,519 rakes tested at unloading end, the GCV was found to be lower in as many as 1,463 rakes. The GCV at loading end ranged between 3655.41 and 5091.92 and at unloading end between 2545.09 and 3834.10. The variation in the GCV at unloading end ranged between 710.57 Kcal/Kg and 2115.79 Kcal/Kg as compared to the GCV at loading end. This resulted in extra payment of ₹414.91 crore during April 2013 to March 2015 to the suppliers and increase in the cost of generation by ₹0.34/kWh[6] & ₹0.51/kWh[6] for 2013-14 and 2014-15 respectively.

This higher cost of generation had put unnecessary burden on the consumers as they had to pay higher tariff. The Company had not taken up the matter with Ministry of Coal, Government of India, through State Government. The Government and Management in their reply stated that the matter was taken up with the Central Government at various levels but with no results and that the Company has engaged third party sampling from March 2015. The reply is not acceptable as Company should have taken effective steps to resolve the matter in view of huge financial implication.

2.1.9.2 Avoidable expenditure on grade slippage

For the adjustment of cost of coal as per analysed quality/ grade, the coal companies give credit on account of grade slippage to the extent of difference in the base price of coal only. Coal companies did not reimburse the expenditure incurred by DCRTPP/ RGTPP on excise duty, education cess, higher education cess and central sales tax on account of difference in basic rate of the declared grade and analysed grade of coal.

Audit observed that as per provisions of FSA, the sampling and analysis of the grade of coal was to be completed within 4-5 days of despatch and invoice/ bill were to be raised by coal companies within seven days of delivery. Accordingly, the billing could have been after the receipt of results thereof on the basis of actual/ analysed grade of coal. However, the billing was done before the receipt of result of analysis on the basis of price of declared grade of coal. Resultantly, the Company had to bear extra expenditure of ₹4.68 crore (₹3.75 crore DCRTPP and ₹0.93 crore RGTPP) on account of statutory duties.

The Government and Management in their reply stated that claims were lodged as per FSA and now the matter would be taken up for provisional assessment of Central Excise.

2.1.9.3 Extra expenditure due to non reimbursement of statutory charges and quantity difference of under loading as per FSA

The coal companies supply coal to DCRTPP and RGTPP through railway and

[6] The extra cost borne by the plant due to difference in GCV divided by net power generated.

railway charges freight as per carrying capacity of the wagon. Any idle freight charges for loading below the carrying capacity were to be reimbursed by coal companies.

Audit noticed that the freight charges included basic fare, Dynamic Pricing Charges (DPC), Development Surcharge (DS) and service tax thereon. In case of under loading, the DCRTPP/ RGTPP claims idle freight along with DPC, DS and service tax from the coal company. However, the coal companies give credit for the basic freight only.

Further, the under loading quantity considered for idle freight was also less than the quantity admissible as per FSA. As on May 2015, the total outstanding claims on account of under loading, DPC, DS, service tax *etc.*, recoverable from various coal companies during the period 2010-15 was ₹25.87 crore (DCRTPP ₹7.49 crore and RGTPP ₹18.38 crore).

The Government and Management in their reply stated that the matter has been taken up with the coal companies. Further, the coal companies have been asked to reduce under loading.

2.1.9.4 Avoidable payment of statutory charges and delay in lodging claims for oversized stones

While getting the supply of coal from the coal companies, certain quantity of stones is also received. As per the FSA/ Memorandum of Understanding (MoU), the coal companies were liable to reimburse the weighted average base price and other charges, excluding the statutory charges (royalty, cess, duties, taxes, levies *etc.*) and railway freight for the quantity of oversized stones (above 250 mm). As such the plants had to pay statutory charges and railway freight which the coal companies did not reimburse. To avoid payment of these charges on stone, the plants were required to take effective steps to reduce receipt of stone alongwith coal with the help of coal handling agent[7].

DCRTPP

The plant had not included the work of minimising the receipt of stone in the scope of work of coal handling agent. During April 2010 to November 2014, 30,467.47 MT stone (above 250 mm) was received from CCL which worked out to 0.36 *per cent* of coal supplies. Resultantly, the plant had to bear an extra expenditure of ₹1.09 crore on account of statutory charges paid on oversized stones.

RGTPP

At RGTPP, work of minimising the receipt of stone was not included in the scope of work of coal handling agent. It had to bear an expenditure of ₹0.53 crore (₹0.15 crore from NCL during July 2011 to July 2012 and ₹0.38 crore in case of BCCL during May 2014 to March 2015) on account of statutory charges paid on oversized stones.

Further, RGTPP received 4,283.78 MT stones along with coal from NCL during July 2011 to July 2012. The assessment of stone was to be intimated to Coal Company before 15th day of the following month. However, RGTPP

[7] Coal handling agent is appointed by the Company for improvement in linkage materialisation and to liaison with coal companies and railways.

intimated (2 September 2013) the quantity of stones and lodged claim of ₹0.54 crore pertaining to July 2011 to July 2012 to NCL with delay of 12 to 24 months. NCL rejected the claim and was still outstanding (June 2015).

The Government and Management in their reply agreed and stated that limiting clause in line with audit observation has been inserted in the contracts with the coal handling agent.

2.1.9.5 Excessive transit losses of Coal

The coal from various coal mines is transported to DCRTPP/ RGTPP through various railways sidings. The difference between coal supplied from pit head (Coal Mine) and received at thermal power plant is transit loss. The norms fixed by HERC in respect of both the plants for the year 2010-12 were 1 and 1.5 *per cent* during 2012-15 of the total coal supply. The excessive transit losses adversely affect the profitability of the power plants.

DCRTPP

During 2010-13, the transit losses were higher than HERC norms and ranged between 2.80 *per cent* and 7.17 *per cent*. This resulted in loss of 2.98 lakh MT of coal valuing ₹83.10 crore.

RGTPP

During 2010-13, transit losses were higher and ranged between 6.93 *per cent* and 10.92 *per cent*. This resulted in loss of 4.23 lakh MT coal valuing ₹116.48 crore.

Audit analysed that agreement with the coal handling agent provided for penalty in case transit losses are more than 3 *per cent,* whereas, the normative transit losses fixed by HERC ranged between 1 to 1.5 *per cent*. Resultantly, the company had to bear the extra expenditure despite appointment of coal handling agent.

The Government and Management in their reply stated that in recently awarded work order to coal handling agent, the norms/ benchmark for transit losses has been kept at 1.5 *per cent,* in line with HERC orders.

2.1.9.6 Non procurement of beneficiated[8] coal

The beneficiated coal while saving transportation cost to the extent of 20 to 22.5 *per cent* and yielding better quality of coal also improves GCV and reduces maintenance of plants. The Ministry of Environment and Forest, (MoE&F), GoI notified (September 1997) that the thermal plants situated at distance of more than 1,000 KMs from the pitheads should use beneficiated coal (from June 2002) with ash percentage limited to 34 *per cent* on annualized basis. In view of the benefits of beneficiation, the Company started (March 2011) beneficiation of MCL supplied coal for RGTPP. The work orders for washing of F grade 5.55 MTPA coal were placed (March 2011) on four suppliers[9]. The suppliers supplied only 1.49 MT during June 2011 to May 2012. Thereafter, no efforts were made to use beneficiated coal. Thus,

[8] Beneficiation is the process of washing raw coal of inferior quality at washery in order to remove coal dust, stones and shells and cutting the coal into proper size.

[9] M/s Global Coalfields Limited & Mining Private Limited, M/s Bhatia Coal Washeries Limited, M/s Gupta Global Resources Limited and ACB India Limited.

due to failure of the Company to use full quantity of raw coal linkage as beneficiated coal, the envisaged savings of ₹517.54 crore calculated at the rate of ₹0.14 per KW[10] could not be availed during 2010-15 besides non compliance of the directions of MoE&F.

The Government and Management in their reply stated that the Company was of the opinion that Run of Mines (RoM) coal should be beneficiated only through Government owned washries and due to non availability of Government washries, the coal could not be beneficiated. During exit conference, the Management stated that matter had been taken up with the coal companies and washries would be setup by them for supply of beneficiated coal. But the fact remained that the Company was unable to comply with the directions of the MoE&F apart from the envisaged saving not accruing had it used beneficiated coal.

2.1.9.7 Non execution of FSA with MCL resulting in non settlement of claims on account of stone and short receipt of quantity

As per coal distribution policy notified by the Coal Ministry on 18 October 2007, 100 *per cent* of the quantity as per normative requirement was to be supplied by coal companies through FSA. The Company continued to receive supplies through Memorandum of Understanding (MoU) up to 31 March 2013. The first MoU was signed on 30 November 2009 with MCL for supply of coal at RGTPP. Thereafter, the Company continued to receive supply of coal up to 31 March 2013 on the basis of MoUs signed/ extended from time to time.

It was noticed that the MoU signed on 30 November 2009 and 21 May 2010 were having a clause that all commercial terms and conditions under MoU should be in line with the approved draft model FSA (3 July 2008). However, these terms and conditions were not incorporated in the MoUs signed/ extended between 30 August 2010 and 06 April 2012.

RGTPP lodged claims on account of stone, short receipt and under loading as per model FSA for the period from June 2010 to March 2013 amounting to ₹56.04 crore with MCL but the same were not admitted due to non incorporation of standard terms and conditions of Model FSA in the MoUs entered/ extended between 30 August 2010 and 6 April 2012. Thus, the RGTPP was unable to recover claims amounting to ₹56.04 crore of idle freight and short supply *etc*.

The Government and Management in their reply stated that the clause was omitted on the instance of Coal India Limited (CIL). The reply was not acceptable as the Company should have taken up the matter with Government of India.

2.1.9.8 Avoidable expenditure towards penalty imposed by ECL

As per FSA with ECL, if the purchaser or seller fails to lift/ deliver quantity up to 65 *per cent* of the Annual Contract Quantity (ACQ), the defaulting party

[10] Calculated by the Company on the basis of envisaged benefits submitted to High Power Purchase Committee for purchase of beneficiated coal.

shall be liable to pay compensation to the other party for such shortfall in delivery/ lifting as the case may be.

Audit noticed that RGTPP did not plan lifting of coal from different coal companies in such a way that the minimum lifting was made to avoid penalty. During September 2013 to March 2014, RGTPP lifted 0.82 lakh MT coal from ECL against 2.85 lakh MT (65 *per cent* of the ACQ of 4.39 lakh MT) which was 18.7 *per cent* of ACQ. However, it lifted 12.37 lakh MT during April 2013 to December 2013 from NCL against 10.61 lakh MT (90 *per cent* of ACQ of 15.72 lakh MT for nine months), which was 104.92 *per cent* of ACQ. Thus, there was excess lifting of 1.76 lakh MT (12.37 lakh MT-10.61 lakh MT) from NCL. But due to short lifting of 2.03 lakh MT (2.85 lakh MT-0.82 lakh MT) from ECL, the RGTPP had to pay the penalty of ₹18.20 crore. Had the RGTPP lifted at least 1.76 lakh MT from ECL, it could have avoided the penalty of ₹15.78 crore.

The Management in its reply contended that the GCV of the coal received from ECL at unloading end was at variance to the billed grade GCV which was 4000 Kcal/ kg. They also contended that the landed cost of ECL coal was higher as compared to the coal supplied from MCL & NCL and that the Company had saved ₹70 crore based on the landed costs of ECL and NCL coal. The reply was not acceptable as the Company's contention of savings is only based on the landed cost of coal, ignoring the quality of coal received from ECL. In so far as the issue of variance in the GCV of coal supplied by ECL is concerned the Company should have taken up the matter with the appropriate authorities. However, the fact remains that had the Company lifted at least 1.76 lakh MT coal from ECL, it could have avoided penalty of ₹15.78 crore.

2.1.10 Inventory management

2.1.10.1 Excess inventories vis-a-vis norms

The requirement of stores spares and other material for operational activities is being met through indigenous and foreign purchases. As per the purchase manual of the Company, the purchases of material should be restricted to the minimum requirement so as to avoid over stocking besides ensuring that the stock is readily available for consumption. HERC set the normative limit of inventory (excluding mandatory spares as per OEM recommendations supplied with the plant) for DCRTPP between ₹18 crore and ₹7.23 crore while at RGTPP between ₹51.18 crore and ₹7.26 crore during 2010-15.

At DCRTPP, the actual closing stock of inventory during 2010-15 ranged between ₹56.59 crore to ₹67.24 crore which was in excess of the normative stock limit in the range of 2.5 to 7.9 times. At RGTPP, the actual closing stock maintained ranged between ₹104.24 crore to ₹166.99 crore during the same period which was in excess of normative stock limit by 1.15 to 22 times. Thus, the funds of the Company remained blocked to that extent. Of the high value spares purchased and lying at stores, inventory valuing ₹15.32 crore (RGTPP

₹11.21 crore and DCRTPP ₹4.11 crore) were also lying unutilised as on 31 March 2015 for more than two years.

The Government and Management in their reply stated that considerably higher inventories have to be kept to avoid shipping delays. However, the fact remains that the inventory holdings remained more than the norms and the Company could not convince the HERC to consider higher inventory norms.

2.1.10.2 Procurement procedure

Regulation 6.2 of Purchase Regulations of the Company provides that except for items for which the Company may otherwise decide, open tenders were required to be invited for all purchases. To remove the possibility of cartel formation by the suppliers and to prevent the supplier to take undue advantage of the proprietary nature of stores, Haryana Government guidelines prescribe (May 2010), use of alternative products. To explore the possibility of use of alternate products the guidelines directed for formation of expert committees. The guidelines also prescribed for inviting global tenders to gain advantages of competition in respect of supply of such proprietary items.

Audit observed that the Company did not undertake any exercise to determine the nature of stores to be procured *i.e.* they were of proprietary nature or not. DCRTPP made purchases of ₹148.58 crore during 2010-15 out of which purchases worth ₹108.36 crore (73 *per cent*) were of stores which were of proprietary nature (purchased on limited tender or single tender basis) and purchases of ₹38.78 crore (27 *per cent*) were made on open tender basis. While, RGTPP made purchases of ₹292.77 crore during 2010-15 of which ₹238.77 crore (82 *per cent*) were stores of proprietary nature (purchased on limited tender basis) and purchases amounting to ₹52.42 crore (18 *per cent*) on open tender basis. The higher quantum of purchases of store of proprietary nature on limited tender basis without first deciding the nature was in contravention to the purchase manual of the Company and guidelines of the State Government.

The Government and Management in their reply stated that due to non-availability of detailed drawings of the parts to be procured, the purchases had to be made on proprietary basis and that the Company has started the process of vendor development. The point stays that the Company had not undertaken exercise to determine the nature of stores to be procured. In so far as, the non availability of detailed drawings of the parts to be procured is concerned, the Company did not insist on supply of the same from the vendors despite these being promised as part of the contracts

2.1.10.3 Unfruitful expenditure due to delay in utilisation of CMIMS

The Computerised Maintenance and Inventory Management System (CMIMS) was to be provided as per the turnkey scope of work under Boiler Turbine Generator package of project, at RGTPP consisting of hardware - server, Client PCs *etc.* and software - MS Office, Adobe reader and CMIMS Application software 'Avantis Pro' costing ₹6.40 crore. The entire material was supplied by the EPC contractor in November 2009 for which payment was released in December 2009 after deducting the retention money of ₹0.64 crore, payable on FTO.

Audit noticed that though the Unit I and II were in operation since 2011 but the CMIMS had not been made operational so far (June 2015) due to non customisation[11]. The Company did not deduct the payment due to non operation of CMIMS system from the EPC contractor from its subsequent bills. Due to non-utilisation of CMIMS till now (November 2015), the work envisaged to be done through it, was being done manually and the expenditure of ₹5.76 crore remained unfruitful.

In reply, the Government and Management while admitting the non operationalisation stated that the commissioning charges have been retained from the bills of the contractor and efforts were being made to utilise the same.

2.1.11 Environment protection measures

2.1.11.1 Non utilisation of dry fly ash as per MoE&F guidelines

As per terms and conditions of the EPC contract, R-Infra was to establish the Ash Handling Plant (AHP) consisting of two systems – one for dry fly ash (80 *per cent*) with four streams and the other for wet ash bottom ash (20 *per cent)* in slurry form which was to be dumped in the ash pond. The dry fly ash was to be evacuated through Ash Silo[12] and disposed off as per guidelines of MoE&F. The Company enters into contracts with cement manufacturing companies for lifting and use of dry fly ash and collects administrative charges on such dry fly ash evacuated.

At DCRTPP the dry fly ash evacuation system was inadequate resulting in generation of more ash in wet mode instead of in dry mode causing harm to the environment. This inadequacy is reflected by the fact that of the 23.00 lakh MT fly ash generated, the plant could evacuate 7.33 lakh MT in dry mode during 2010-15 which was only 14 to 53 *per cent* of the quantity of ash generated. This earned the Company ₹28.90 crore during the same period. As the remaining 15.67 lakh MT of fly ash was not evacuated in dry mode, additional revenue of ₹61.76 crore could not be earned by the Company during the same period.

At RGTPP the dry ash evacuation system for both the units was commissioned in November 2011 after a delay of eleven months from the scheduled date of commissioning of plant. Even after commissioning of the evacuation system, the ash generated in dry mode ranged from 2 to 36 *per cent* during January 2012 to February 2014 due to inadequate evacuation system[13]. The Company generated 54.01 lakh MT of fly ash of which 11.18 lakh MT was in dry mode, the sale of which earned the Company ₹33.72 crore during 2010-15. The remaining 42.83 lakh MT of fly ash could not be evacuated in dry mode and thus the Company could not generate additional revenue of ₹140.23 crore

[11] Customisation is process through which a standard product/ software is modified according to the specific needs of the organisation.

[12] Ash silos are storage tanks for evacuation of ash.

[13] Dry fly evacuation system was subsequently augmented by R-Infra in January 2014 and June 2014 at its own cost.

during the same period. Further, due to inadequate dry fly ash evacuation system, the ash had to be disposed off in wet mode which necessitated the raising of height of ash dyke[14]. The work for raising the height of ash dyke was awarded (11 February 2014) for ₹25.04 crore which was in progress (September 2015). As per contract, the EPC contractor was responsible for providing adequate infrastructure for operation of the plant, but the cost of raising height of ash dyke had not been recovered from R Infra.

The Management admitted the facts and stated that the cost of raising the ash dyke at risk and cost of R-Infra is under consideration.

2.1.11.2 Extra expenditure due to assessment of water cess at higher rates and non-availing of rebate thereon

Section 3 of Water (Prevention and Control of Pollution) Cess Act, 1977, lays down that in case the person fails to comply with any of the provisions of Section 25 of the Act or any of the standards laid down by the Central Government, cess shall be payable on higher rates. Further, Section 7 of the *ibid* act states that where any person installs any plant for the treatment of sewage or trade effluent, shall be entitled to a rebate of 25 *per cent* of the cess payable.

It was noticed that both the plants were unable to comply with the MoE&F, GoI requirement of use of beneficiated coal as discussed in para 2.1.9.6 above, water cess was imposed on higher rates. Further, the Company could not avail rebate of 25 *per cent* on cess despite establishment of effluent treatment plant and sewage treatment plant at both the plants. This had resulted in avoidable payments of ₹1.16 crore (DCRTPP ₹0.61 crore and RGTPP ₹0.55 crore) of water cess due to payment of cess on higher rates and non-availing of 25 *per cent* rebate on water cess during 2010-15.

During exit conference, the Management stated that correspondence has been made with the Pollution Control Board but was unable to get the rebate. The point stays that the Company could not meet the parameters for getting rebate.

2.1.12 Internal controls

2.1.12.1 Internal control

Internal control is a management tool used to provide reasonable assurance that the management objectives are being achieved in an efficient and effective manner. A review of the internal control procedures adopted by the Company showed that they were inadequate and not commensurate with the size of operations of the Company in view of the deficiencies pointed out elsewhere and from the following:

- EPC contract terms were not enforced; there were delays in decision making to sort out the issue with contractor; a system of billing by coal

[14] Ash dyke is pond constructed for collection of ash slurry for estimated wet ash generation during five years.

Companies on declared grade basis was not evolved; delayed lodging of claims; non-execution of FSA with coal companies and carrying of excess inventories;

- Both the plants paid avoidable freight surcharges of ₹2.38 crore (DCRTPP ₹0.82 crore and RGTPP ₹1.56 crore) to railways for transportation of coal due to non-timely arrangement of funds for payment of freight in advance despite irrevocable letter of credits opened by the Company in bank for making payment of freight in advance.

The inadequacy was commented upon by Statutory Auditors consistently in their report on annual accounts. The Management stated that efforts are being made to streamline procedures.

2.1.12.2 Internal Audit

The Company has an internal audit cell and had completed audit up to 2013-14 and audit for 2014-15 was in progress (September 2015). However, there was no internal audit manual prescribing the scope and extent of audit checks and areas to be covered. Internal audit reports did not point out any systemic issues or deficiencies to help Management in decision making process and were limited to observations on reconciliations of payments and stocks, irregular petty purchases, entitlement issues *etc*.

The Government and Management in their reply stated that preparation of manual is at final stage and it was considering the outsourcing of internal audit function.

Conclusion

Both the plants were unable to achieve the normative PLF during 2010-15. The cost of generation of power was high due to consumption of inputs in excess of the norms of HERC, and excessive transit losses of coal. The services of EPC contractor were deficient and Company granted undue favour to EPC contractor by not recovering cost of incomplete works and non recovery of expenditure incurred on overhauling of plants at DCRTPP. Frequent forced outages of plants and damage of rotors resulted in loss of generation. There was avoidable expenditure on procurement of coal due to grade slippage, statutory duties, stone claims and poor management of coal linkage. The inventories at both the plants were also in excess of the HERC norms. The Company purchased store of proprietary nature on limited tender basis without first deciding the nature, in contravention of its purchase regulations and Government of Haryana guidelines. There were deficiencies in internal control and internal audit system at the plants.

Recommendations

The Company may consider to:

i. take measures to reduce the excess consumption of auxiliary power, coal, secondary fuel oil;

ii. enforce the terms of EPC contract and effect recovery of cost of repairs undertaken during the warranty period;

iii. pursue with coal companies as well as Ministry of Coal to settle the issues related to grade slippage claims, stone claims and payment of avoidable statutory duties;

iv. bring inventories in line with prescribed norms and make procurement as per regulations of Government of Haryana; and

v. strengthen its internal controls and audit system for effective monitoring of its operations.

2.2 Haryana Agro Industries Corporation Limited and Haryana State Warehousing Corporation

Custom Milled Rice

2.2.1 Introduction

The State Government procures paddy for the Central Pool through its five Procuring Agencies[1] (PAs) including two Public Sector Undertakings (PSUs). The paddy is moved directly from mandis to the millers' premises for milling and the resultant rice, called Custom Milled Rice (CMR) is delivered directly to Food Corporation of India (FCI). Operations relating to Custom Milled Rice (CMR) of PSUs *viz.* Haryana Agro Industries Corporation Limited (HAIC) and Haryana State Warehousing Corporation (HSWC) have been covered in this performance audit. The important findings noticed during audit are as under:

Highlights

HAIC did not allot paddy to the millers as per norms in 75 and 47 *per cent* cases during 2013-14 and 2014-15 respectively. Similarly, HSWC also did not allot paddy as per norms in 29 and 14 *per cent* cases during 2013-14 and 2014-15 respectively.

(Paragraph 2.2.6)

During Kharif Marketing Season (KMS) 2012-13, 2013-14 and 2014-15, 19 millers, to whom 8.45 lakh quintal of paddy was allotted, did not deliver 1.64 lakh quintal of rice and ₹52.06 crore was recoverable from them as on 30 September 2015.

(Paragraph 2.2.7.1)

FCI did not reimburse the claims made of ₹8.24 crore for the period 2010-13 as the Procurement Agencies (PAs) could not submit the necessary certificate for the expenditure incurred on Custody and Maintenance charges.

(Paragraph 2.2.8.1)

The PAs suffered an interest loss of ₹0.93 crore due to delay in milling of paddy and ₹0.63 crore due to delay in submission of certificate to FCI stating the driage had actually been paid by PAs to millers.

(Paragraphs 2.2.7.3 and 2.2.8.7)

[1] Food & Supplies Department, Haryana State Cooperative Supply and Marketing Federation Limited (HAFED), Haryana State Warehousing Corporation, Haryana Agro Industries Corporation Limited and Haryana State Federation of Consumer's Cooperative Wholesale Stores Limited (CONFED).

Internal control structure in PAs was inadequate and not commensurate with the size of their operations. The PAs did not have an accounts manual specifying duties/ responsibilities at each level of management. HAIC in violation of State Government instructions did not conduct mandatory physical verification of stocks of paddy and rice kept in joint custody with the millers.

(Paragraph 2.2.10.1)

2.2.2 Audit objectives

The main audit objectives were to ascertain whether:

(i) the PAs achieved the targets set forth by the State Government regarding procurement of paddy and profitability of the activity;

(ii) allocation of paddy to rice millers was done efficiently;

(iii) the terms and conditions of Milling Agreements were sufficient and duly complied with;

(iv) recovery of statutory and other operational charges from FCI were carried out within norms; and

(v) PAs had an effective internal control system.

2.2.3 Scope of audit and methodology

The audit was conducted between January to April 2015 and covered the period of five years from 2010-11 to 2014-15. The audit examination involved scrutiny of records of Head office(s) of the two PAs, five Farmer Service Centres (FSCs) out of ten FSCs of HAIC and five[2] revenue district offices out of the twelve revenue district offices of HSWC involved in paddy operations.

We explained the audit objectives to both PAs during an Entry Conference with the Management in January 2015. The audit findings were reported to State Government and Management of both PAs (July 2015) and discussed in the exit conference (November 2015) which was attended by the departmental heads of the both PAs. Replies of the Management, endorsed by the Government, of both PAs have been received (November and December 2015) and incorporated while finalising this performance audit.

[2] Karnal, Kurukshetra, Kaithal and Fatehabad were selected on the basis of maximum procurement of paddy for State as a whole. Yamunanagar was selected on the basis of maximum procurement made by HAIC and HSWC.

2.2.4 Audit criteria

The audit findings were evaluated against audit criteria which are sourced from the following:

(i) Instructions/ guidelines issued by the Government of India (GoI)/ State Government/ FCI with regard to activities of procurement and custom milling of paddy;

(ii) Instructions of GoI for re-imbursement of cost, incidentals and differential claims;

(iii) Milling Agreements entered into by PAs with rice millers; and

(iv) Stock accounts/ returns of paddy procured, milled and rice delivered *etc*.

2.2.5 Audit findings

2.2.5.1 Operational Performance of CMR activity

The State Government fixed target of ten *per cent* each for both the PAs of total paddy procured in the State for KMS 2010-11 to KMS 2013-14 and 11 *per cent* each for both PAs for KMS 2014-15. During the period 2010-15, 158.22 lakh MT of paddy was procured in the State for Central pool. Of this, 23.61 lakh MT and 12.95 lakh MT of paddy was procured by Haryana Agro Industries Corporation Limited (HAIC) and Haryana State Warehousing Corporation (HSWC) respectively as tabulated below:-

KMS	Target Fixed[3] (in MT)	Actual paddy procured (In MT)		Shortfall in achievement of targets by HSWC		Shortfall in achievement of targets by HAIC
		HSWC	HAIC	(in MT)	In percentage of target fixed	
2010-11	248200	144943	293221	103257	42	Nil
2011-12	293300	230880	385702	62420	21	Nil
2012-13	384600	327572	598248	57028	15	Nil
2013-14	357500	346435	588001	11065	3	Nil
2014-15	328000	245247	496220	82753	25	Nil
Total	**1611600**	**1295077**	**2361392**	**316523**	**20**	

(Source: Company Data)

Agency wise performance of paddy operations is discussed below:

Haryana Agro Industries Corporation Limited

- During the last five years ending March 2015 HAIC (Company) procured 2.93 lakh MT, 3.85 lakh MT, 5.98 lakh MT, 5.88 lakh MT and 4.96 lakh MT paddy respectively and the percentage of procurement ranged between 118 and 164 of the targets set by the State Government.

[3] Targets are same for both the PAs.

- The Company had finalised its accounts up to 2013-14. During 2010-11 and 2011-12, it reported net profit of ₹7.27 crore and ₹8.15 crore respectively whereas during 2012-13 and 2013-14 it reported losses of ₹43.87 crore and ₹44.64 crore. The main reason of loss during 2012-13 was increase in interest cost from ₹142.49 crore to ₹230 crore due to slow liquidation of stock of foodgrains while main reasons for losses during 2013-14 was damage to wheat stocks. The Company had not worked out the profit/ loss of its procurement activities separately, thus efficiency of paddy operations could not be ascertained in audit.

HAIC stated that no separate Cash Credit (CC) limit had been availed by it and therefore it became difficult to segregate the interest element on CC availed for paddy activities. The reply was not tenable as HSWC was maintening separate accounts for paddy operations and similar practice could be adopted by HAIC also.

Haryana State Warehousing Corporation

- During 2010-15, HSWC (Corporation) procured 1.45 lakh MT, 2.31 lakh MT, 3.28 lakh MT, 3.46 lakh MT and 2.45 lakh MT of paddy. The Corporation had not achieved the procurement target set by the State Government in five years up to 2014-15 and the shortfall ranged between 3 and 42 *per cent*. Since the fixed cost remains constant irrespective of quantity of paddy procured, the corporation should make efforts to achieve the targets fixed by State Government.

HSWC stated that the procurement targets could not be achieved due to less/ non-arrival of paddy in the mandis allotted to it. The reply was not acceptable as in mandis which were shared by it with HAIC and having equal number of days allotted for procurement, the paddy procured by the Corporation was much less than that by HAIC.

- The Corporation had finalised its accounts up to 2013-14. Except in the year 2012-13, the Corporation reported profits (excluding the effect of qualifications of Statutory Auditors and those of the Comptroller and Auditor General of India) during 2010-14 ranging from ₹20.35 crore to ₹28.48 crore. Had the effect of the qualifications on the accounts been considered, the profits would have ranged from ₹16.38 crore to ₹26.45 crore. During 2012-13, the Corporation suffered loss of ₹138.51 crore (excluding qualifications) which would have risen to ₹146.84 crore had the qualifications been considered. The Corporation suffered loss of ₹27.32 crore in the paddy procurement operations in 2012-13. The main reason of loss was making provision of ₹171.65 crore for retirement and leave encashment as per the actuarial valuation which were earlier made on *adhoc* basis.

- The Corporation suffered losses ranging from ₹0.60 crore to ₹27.32 crore in paddy operations during 2010-11 to 2013-14. The

Corporation had not analysed the reasons for continuous loss in this activity.

HSWC replied that CMR was a loss incurring activity and attributed them to non-recovery of holding charges from millers due to issue of 'No Space Certificate' (NSC) by FCI and non-reimbursement of custody and maintenance charges. The reply is not acceptable as in case of issue of NSC, the charges were recoverable from FCI which HSWC had not claimed. Further, Audit observed that custody and maintenance charges were denied by FCI due to non-furnishing of supporting records.

Multiplicity of current accounts at HSWC

2.2.5.2 During 2010-15, HSWC maintained 12 to 13 current accounts at Head Office and two to three CCL accounts in addition to the CCL accounts opened for procurement of foodgrains. It transferred funds in lumpsum from CCLs and STLs to the current accounts for making different types of payments. During audit, we observed that HSWC was having funds ranging from ₹0.15 lakh to ₹56.71 crore in five current accounts[4] operated during 2010-11 to 2014-15. The interest in case of CCL/ STL account is charged from the date amount is withdrawn and funds kept in current account do not earn any interest. Prudent cash management thus demanded that the payments should have been made from CCL accounts. Further, instead of keeping huge amount in the current accounts, the HSWC should have recouped the CCL and thus could have avoided payment of interest of ₹1.79 crore[5] during 2010-11 to 2014-15.

Delay in remittances of sale proceeds by field offices

2.2.5.3 For dispatches of wheat and rice by HAIC and HSWC, payments were credited by FCI through electronic mode in the current account(s) of the respective District Manager(s) who later on remitted these sale proceeds to their Head Office(s). These remittances should have been remitted same day to Head Office so that these could be utilised for early repayment of cash credit limits. The Head office(s) had not issued any instructions to the field offices in this regard.

Audit observed that in three[6] selected Farmer Service Centres (FSCs) of HAIC, the sale proceeds of foodgrains were remitted to its head office with delay ranging between 3 and 56 days. The amounts involved ranged between ₹0.11 crore to ₹14.16 crore. The delay in remittances resulted in avoidable payment of interest of ₹1.74 crore[7]. Similarly in case of Circle Office Panipat of HSWC, funds ranging from ₹0.14 crore to ₹7.91 crore were remitted to Head office with delay ranging between 3 and 48 days. This resulted in loss of

[4] State Bank of India, Bank of Maharashtra, AXIS, HDFC & State Bank of Patiala.

[5] Calculated on average monthly balance @ 7.75 *per cent* for 2010-11 and @ 10 *per cent* per annum for remaining years (prevailing rate of STL).

[6] Karnal, Yamunanagar and Fatehabad.

[7] Calculated at the rate of interest of at which funds were availed from CC Limit for procurement of foodgrains.

interest of ₹0.74[8] crore to the Corporation.

The delay in remittance of sale proceeds to Head Office could have been easily avoided by giving standing instructions to banks for daily transfer of funds after keeping minimum required funds.

2.2.6 Allocation of paddy to rice millers

District Milling Committee[9] (DMC) constituted by State Government for each revenue district allots the rice miller mandi-wise to each PA on the basis of the paddy to be procured by it. As per the norms fixed by the FSD, the PAs are required to allot the paddy to each miller according to its milling capacity so that milling of paddy by rice millers is carried out timely.

However, examination of records of two years[10] (2013-14 and 2014-15) in PAs revealed that allocation of paddy to rice millers was not as per the norms as discussed below:

Haryana Agro Industries Corporation Limited

- The Company did not allot paddy for milling during 2013-14 and 2014-15 according to norms in 75 and 47 *per cent* cases respectively. There was excess allotment in 34 and 11 *per cent* cases and less allotment in 41 and 36 *per cent* cases.
- Mandi wise excess and less allocation during 2013-15 in quantity terms ranged between 2 to 239 *per cent* and 1 to 86 *per cent* respectively.

Haryana State Warehousing Corporation

- The Corporation also did not allot paddy during 2013-14 and 2014-15 according to norms in 29 and 14 *per cent* cases respectively. There was excess allotment in 12 and 6 *per cent* cases and less allotment in 17 and 8 *per cent* cases.
- Mandi wise excess and less allocation during 2013-15 in quantity terms ranged between 2 to 65 *per cent* and 1 to 68 *per cent* respectively.

Thus, the PAs did not adhere to the norms for allotment of paddy to millers. Allotment of excess paddy to the millers than their milling capacity increases the risk of delay/ non-delivery of rice to FCI in time. Audit noticed during 2012-13 and 2013-14, eight millers (seven of HAIC and one of HSWC) misappropriated paddy worth ₹28.47 crore (***Appendix 5)*** who were allotted

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[8] Calculated at the rate of interest of at which funds were availed from CC Limit for procurement of foodgrains.

[9] District Milling Committee constitutes the Deputy Commissioner of the concerned District as Chairman and District Food and Supplies Controller as Member Secretary. The district head of procuring agencies including FCI and two nominees of rice millers are its members.

[10] Data for previous years (2010-11 to 2012-13) was not made available to audit.

paddy more than their entitlements (ranging between 70 MT to 3,449 MT).

HAIC stated that paddy was allotted as per norms but there are variations from the milling capacity as they consider reasons like distance of millers from allotted mandis, past track record of the millers, facilities available at the mill *etc.* when making allotment of paddy for milling. The fact remains that there was excess allotment of paddy of up to 239 *per cent* to mills.

HSWC stated that there were variations in the paddy allotment from the milling capacity in view of its own working interest and every effort would be made in future to allot paddy strictly as per guidelines.

2.2.7 Compliance of terms and conditions of Milling Agreements

The guidelines issued by the FSD every year and milling agreements executed with the millers prescribe that the all rice against the paddy has to be delivered up to 31 March of the next year. The agreement also prescribe that in case the miller is unable to deliver the entire quantity of turnout ratio of rice, they are liable to pay the cost of such short quantity of rice delivered at the rates of CMR fixed by the GoI plus penalty at the rate of 50 *per cent* of such short delivered rice (reduced to 10 *per cent* for KMS 2013-14 only) alongwith interest on Cash Credit Limit (CCL) pattern. Guidelines issued by State Government before the commencement of every KMS *inter-alia* provided that guarantee in shape of Post Dated Cheques (PDCs) of ₹0.25 crore[11] per Metric Tonne (MT) per hour milling capacity was to be obtained from the millers at the time of issue of release orders of paddy. No defaulter rice miller should be considered for allotment of paddy under any circumstances. Further, the joint[12] Physical Verification (PV) of the paddy stocks was to be conducted on fortnightly basis to ensure safe custody of paddy. Milling agreements entered into by the PAs with the millers provided that each miller would get the entire paddy and rice insured. If any amount is recoverable due to value-cut imposed by GoI, the same shall be recovered from the millers.

Scrutiny of records showed:

2.2.7.1 Loss due to misappropriation of paddy

For KMS 2012-13, 2013-14 and 2014-15 due date of delivery of rice was extended from March 2013 to January 2014, March 2014 to September 2014 and March 2015 to September 2015 respectively. We noticed that during these three KMS, 19 millers[13], to whom 8.45 lakh[14] quintal of paddy was allotted, did not deliver 1.64[15] lakh quintal of rice (due against 2.45 lakh quintal of

[11] Increased to ₹30 lakh for KMS 2012-13 and ₹50 lakh from KMS 2013-14 and onwards.

[12] PAs and the miller.

[13] 17 millers of HAIC and two millers of HSWC.

[14] 88760 quintal of paddy for KMS 2012-13, 526850 quintal for KMS 2013-14 and 229100 quintal for KMS 2014-15.

[15] 22540 quintal of rice for KMS 2012-13 valuing ₹8.55 crore, 97410 quintal for KMS 2013-14 valuing ₹36.25 crore and 43730 quintal for KMS 2014-15 valuing ₹10.74 crore.

paddy) and thus, ₹52.06[16] crore as mentioned in ***Appendix 6*** was recoverable as on 30 September 2015. PAs presented the postdated cheques kept as guarantee for the paddy of 11 millers who defaulted in delivery of rice. The cheques bounced and First Information Report (FIR) was lodged against these millers for misappropriation of rice.

Lapses noticed on part of PAs, which facilitated non-delivery of rice were as follows:

- In case of HAIC, PV reports were not available whereas in case of HSWC, PV reports were deficient.
- Miller[17] was given paddy despite not being allotted by District Milling Committee.
- Company not taking action of shifting of paddy from the premises of the defaulting millers[18] who had not delivered any rice from the paddy allotted as per original delivery schedule.
- Defaulting millers[19] of earlier KMS being allotted paddy despite there being instruction to the contrary.

Thus, non-adherence to guidelines of the State Government and non-obtaining of proper guarantee in the shape of FDR/ bank guarantee for the milling of paddy, poor monitoring of the paddy stored in millers premises, *etc.* facilitated the misappropriation of paddy.

HAIC stated that in one case (2012-13) legal action had been initiated and in 10 cases (KMS 2013-14) it was to wait up to March 2016 for payment to be received in view of policy (September 2015) of State Government. The reply was not tenable as for KMS 2013-14, the said policy required millers to deposit 25 *per cent* of the due amount by 30 September 2015 and to give undertaking as well as post dated cheques for the due amount which however, was not complied by any of the miller.

HSWC stated that there was no physical shortage of stocks with the concerned millers and only the delivered rice was rejected by the FCI. Besides it had initiated legal action against the defaulting millers. The reply is not tenable as it was the responsibility of the miller to offer Fair Average Quality rice to FCI. During exit conference HSWC informed that it had recovered ₹1.05 crore out of ₹2.25 crore recoverable from one miller but did not furnish evidence in its support (November 2015).

2.2.7.2 Non recovery of dues from Millers

GoI while conveying (April 2014) the provisional rates of CMR for the year

[16] Includes cost of rice plus penalty of 50 *per cent* of cost of rice due to non delivery plus interest at the rate of 11.83 *per cent* being minimum of the CCL rate prevalent during the period January 2014 to March 2015.

[17] M/s Bodh Parkash Rohit Kumar Rice Mill, Ambala.

[18] M/s Jai Maa Sharda Mills, Naraingarh and M/s Mittal Rice & General Mill of HAIC.

[19] M/s Dayachand Rice Mill, Jind.

2013-14 to State Government imposed a value cut[20] at the rate of one *per cent* of the cost of the rice delivered to FCI. The value of cut imposed was ₹22.54 per quintal which was to be recovered from the millers.

We noticed that as a result of value cut imposed by the GoI, the net amount was recoverable from the millers after adjusting the dues on account of milling charges and driage payable to them. It was noticed that one FSC (Kurukshetra) of HAIC and two district offices (Kurukshetra and Ambala) of HSWC could not recover ₹1.55 crore (HAIC: ₹0.84 crore and HSWC: ₹0.71 crore) from 14 millers despite the completion of KMS 2013-14 by September 2014. We further observed that above 14 millers were given paddy for milling by these PAs for KMS 2014-15 without recovering the earlier dues of ₹1.55 crore pertaining to KMS 2013-14.

During exit conference HAIC stated that it had recovered the entire amount of ₹0.84 crore on this account. However, documents of effecting of recovery were awaited (November 2015). HSWC stated that efforts are being made for recovery of ₹0.71 crore.

2.2.7.3 Loss due to delay in milling of paddy

The provisional incidentals fixed by GoI for the KMS 2008-09 *inter-alia* included interest charges for two months at the rate of ₹19.58 per quintal. At the time of finalisation of rates, GoI worked out interest on the basis of actual storage period of paddy of all the PAs of the State taken together.

We noticed that during KMS 2008-09 and KMS 2010-11, the average storage period of paddy of HAIC and HSWC was more[21] than the actual weighted average storage period of all the State PAs. Thus, due to delay in milling of paddy, the PAs suffered an interest loss of ₹0.93 crore.

Both PAs replied that they have recovered holding charges from the millers for the delay in delivery of rice but did not produce any documentary evidence to support their contention.

2.2.8 Reimbursement of Statutory and other charges from FCI

For each Kharif Marketing Season (KMS), GoI fixes rates of CMR which *inter-alia* includes Minimum Support Price (MSP) of paddy and rates of incidentals. The incidentals reimbursed by the GoI include Statutory charges (Market fee, *Arhtias* commission and RD cess) and other charges (driage, custody and maintenance charges, interest charges, gunny cost and depreciation). These charges are reimbursable subject to certain conditions as mentioned in the CMR rates communicated by the GoI. The PAs should

[20] If due to some reasons, GoI relaxed the specifications of the rice to be procured under central pool it may impose a value cut in the value of CMR commensurate with the specifications relaxed, which was to be recovered from the millers.

[21] In KMS 2008-09, against the average storage period 2.59 months of all State PAs, HAIC and HSWC had 2.72 months and 3.01 months respectively. In KMS 2010-11, average storage period of HSWC was 3.03 months as against the average storage period of 2.74 months of all State PAs.

ensure that only those charges be incurred which are reimbursable by the GoI and necessary conditions for reimbursement should be complied with.

Deficiencies noticed in this regard are discussed below:

2.2.8.1 Non reimbursement of Custody and Maintenance charges

Up to KMS 2012-13, the incidental charges included custody and maintenance charges for two months to meet the cost of upkeep and maintenance of paddy stock before its milling and delivery to FCI. These were allowed on production of a certificate by the State Government (Food and Supplies Department, nodal agency) that these charges had been incurred.

We observed that the paddy procured by the PAs was directly stored at the millers' premises under joint custody of the millers and the PAs. Though the paddy remained in the joint custody in the premises of the millers, PAs incurred expenditure in the form of depreciation on the cost of crates and tarpaulin supplied to millers. The PAs did not keep separate account of expenditure actually incurred in this regard. Thus, the PAs could not submit the necessary certificate and FCI did not reimburse the claims made of ₹8.24[22] crore for the period 2010-13. Further, FCI had also deducted (January 2012) custody and maintenance charges of ₹1.72 crore from HSWC for KMS 2005-08 due to failure in providing necessary documents. Custody and maintenance charges for KMS 2009-10 were not reimbursed[23] by FCI.

Both PAs accepted the fact of non-maintenance of separate records of custody and maintenance charges and stated that separate records will be maintained in future as per requirement of the FCI.

2.2.8.2 Non reimbursement of holding charges

(i) PAs avail Cash Credit Limit (CCL) from the banks for procurement operations. FCI releases the payment to PAs after receipt of rice from the millers. The guidelines issued by the FSD provides that in case a miller failed to deliver the rice to FCI as per the schedule mentioned in the agreement, he was liable to pay holding charges to the PAs for the delayed period in the form of interest calculated at prevalent CCL rate. However, in case delivery is delayed due to inability of FCI to provide the space to the millers, such charges are not recoverable from millers. We noticed that while finalising rates of incidentals for CMR, the GoI was allowing interest charges to PAs up to date of delivery of rice to FCI although PAs were recovering the holding charges[24] from the millers for the intervening period of scheduled date of delivery and actual date of delivery to meet their operational losses. We observed that when GoI allowed (January 2014) extension in delivery period of KMS 2012-13 from September 2013 to January 2014, it was agreed at no cost to itself *i.e.* the interest charges would not be payable to PAs beyond

[22] Claim lodged at the approved rate of ₹41.60 per MT (as per rates fixed by GoI for KMS 2010-11 to 2012-13) for 19.81 lakh MT of paddy against which the CMR was supplied.

[23] Details are awaited from both PAs

[24] It refers to interest charged by PAs from the millers for intervening period of scheduled delivery date and actual delivery date

30 September 2013. Thus, interest cost suffered by PAs due to delay in delivery of rice by millers was to be recovered from the millers.

During KMS 2010-11 to 2013-14, audit observed that millers presented 'No Space Certificates' (NSCs) from FCI. The NSCs supplied by the millers did not bear any reference number, date *etc.* of FCI and were on the letter pads of Millers. The PAs thus did not verify these certificates from FCI. Thus, millers did not deliver rice on due date to FCI ostensibly due to non availability of space in FCI godowns and the funds of PAs were blocked and they did not recover holding charges in shape of interest amounting to ₹8.64 crore from the millers for the period of NSCs.

Both PAs stated that there was no provision to get the NSCs verified from the FCI. The reply was not acceptable as the NSCs were on the letter pad of the millers without any reference number *etc.* of FCI and were therefore not verifiable.

Further, while calculating the holding charges recoverable from millers for KMS 2012-13, we observed that out of five selected revenue districts of HSWC, two revenue districts[25] gave cumulative extension in the delivery schedule[26] by the period of 'No Space Certificate' issued by FCI. This undue favour to the millers resulted in short recovery of holding charges by ₹0.13 crore in district office Kaithal. Detailed information in respect of other revenue districts was awaited (November 2015). HSWC assured for re-examination and recovery, if any, from millers.

(ii) During KMS 2012-13, Ambala District office of Corporation entered into an agreement (October 2012) with M/s Ankit Traders rice mill, Mustafabad for milling of 4,176.73 MT of paddy. The miller was required to deliver 2,798.41 MT of rice to FCI up to the extended period of 30 September 2013. The miller supplied 620 MT of rice till 26 February 2013. The proprietor of the firm expired in February 2013. The legal heir undertook (July 2013) to supply the balance rice but the Corporation did not obtain the PDCs from him. The firm supplied the entire quantity of rice to FCI but could not adhere to the delivery schedule as prescribed in the agreement and as such holding charges of ₹0.20 crore were recoverable from them. The Corporation released (September 2013) the guarantee of ₹seven lakh instead of adjusting it against the recoverable amount. Thus, in the absence of any PDCs/ other security, recovery of holding charges of ₹0.20 crore could not be made.

HSWC admitted the facts and stated that legal action has been initiated against the guarantor of the rice miller and charge sheeted the concerned District Manager. However, the fact remains that the recovery is yet to be made.

[25] Kaithal and Kurukshetra.

[26] October and November 2012–20 *per cent*, December 2012–25 *per cent*, January 2013-25 *per cent*, February 2013–15 *per cent* and March 2013-15 *per cent.*

2.2.8.3 Avoidable Payment to Billing-cum-Payment Agents

HAIC appointed Billing-cum-Payment Agents (BCPAs) for each mandi allotted to them. HSWC appointed BCPAs in 23 out of 126 mandis during the KMS 2010-15.They were paid commission of 11 paise per bag. The job of the BCPAs was to collect the bills from all the *Arhtias*[27] and prepare one bill of each day and submit the same to the concerned PA for payment. The commission paid to the BCPAs was not reimbursable by the GoI. We observed that PAs appointed *Arhtias* on commission basis for functions to be performed by them including the function being performed by the BCPAs. During 2010-15, the two PAs had made payment of ₹0.71 crore to the BCPAs in five selected districts.

Both PAs stated that BCPAs were appointed in limited mandis due to shortage of staff. The reply is not acceptable as we observed that deployment of staff in mandis was made without considering the deployment of BCPAs. HSWC further stated that BCPAs were doing multifarious activities including filling of bags, their weighment on platform scale and loading in trucks. The reply was not acceptable as these were the functions of the *Arhtias* and there was no need to appoint another agency.

2.2.8.4 Loss due to non-receipt of payments from FCI

HAIC & HSWC procures foodgrains by utilising CCL sanctioned by SBI and during 2013-15 the prevailing rate of interest was 11.79 *per cent* per annum. The delayed realisation of payments extends the repayment period of these limits and resultantly the Company/ Corporation had to suffer interest loss.

As per incidental rates circulated by GoI for Rabi Marketing Season 2013 and 2014, separate delivery charges were payable by the FCI for stock delivered from agency storage points to FCI. These delivery charges were meant for reimbursement of expenditure incurred by the agencies on unloading and stacking of stock at their godowns besides including expenditure in respect of destacking, loading and weighment incurred while delivery of stock to FCI.

Audit observed that delivery charges amounting to ₹0.68 crore[28] were recoverable from FCI for 11.87 lakh quintals wheat[29] (Crop year 2013-14 & 2014-15) delivered from storage points to FCI from June 2013 to March 2015 by selected field offices of HAIC. Similarly, ₹0.63 crore[30] were to be recovered by selected field offices of HSWC from FCI on account of 11.03 lakh quintals of wheat (Crop year 2013-14 & 2014-15) delivered during May 2013 to March 2015. Non-recovery of these delivery charges had resulted in loss of interest amounting to ₹8.68 lakh[31] and ₹7.33 lakh[32] till March 2015 to HAIC and HSWC respectively. The District Manager, HSWC, Rohtak had

[27] *Arhtia* – A middle man in mandi.
[28] FSCs-Fatehabad (₹0.23 crore) and Karnal (₹0.45 crore).
[29] Crop Year 2013-14 (Fatehabad-3.31 lakh quintals and Karnal-6.33 lakh quintals) & 2014-15 (Fatehabad-0.69 lakh quintals and Karnal-1.54 lakh quintals).
[30] Circle Office–Rohtak (₹0.63 crore).
[31] FSCs Fatehabad (₹4.30 lakh) and Karnal (₹4.38 lakh).
[32] Circle Office-Rohtak (₹7.33 lakh).

taken up this matter in July 2014 with FCI as well as with its Head Office for getting reimbursement of these delivery charges but no further progress has been made till date (March 2015).

2.2.8.5 *Loss of interest due to delay in submission of guarantee fee claim to FCI*

The PAs availed cash credit limit from the State Bank of India for procurement of paddy, guaranteed by the State Government which charged guarantee fee at the rate of 1/8 *per cent* of the cash credit availed. As per GoI instructions, guarantee fee was payable on actual basis, subject to a maximum of 1/8 *per cent* of the MSP on the quantity of rice delivered to FCI. The claims were to be raised immediately after closure of crop year/ financial year.

We observed that:-

1) HAIC paid a guarantee fee of ₹0.62 crore for paddy for 2004-05 to 2009-10 to State Government in April 2010. However, it belatedly lodged the claim in April 2013 and the same was released by FCI in December 2013. Similarly for KMS 2010-11 and 2011-12, the Company paid (February 2012) guarantee fee of ₹0.23 crore but raised the claim in August 2014. Thus, due to delayed submission of bills the Company suffered an interest loss of ₹0.24 crore (₹18.66 lakh[33] for 2004-05 to 2009-10 and ₹4.90 lakh[34] for 2010-11 & 2011-12).

2) HSWC deposited (March 2013) guarantee fee of ₹0.56 crore for paddy for KMS 2010-11 and 2011-12 but claims of ₹0.43 crore was lodged with FCI in December 2014 resulting in loss of interest of ₹8.11 lakh[35].

Both PAs stated that delay was due to non issuing of the sale certificate by FCI to their district offices in time and informed that District Managers have been advised to obtain certificates from FCI immediately after the close of season.

2.2.8.6 *Loss of interest due to delay in preferring sales bill to FCI*

Guidelines issued by the FSD every year stipulated that the miller have to execute an agreement with the concerned PAs for milling of paddy. As per agreement it was the responsibility of the miller(s) to supply delivery documents to the PAs immediately after the delivery of rice for claiming payment from the FCI failing which miller would be liable to pay CCL rate of interest for the delayed period.

We observed that in the selected districts of the PAs, due to delay in submission of delivery documents by miller, there was delay of 2 days to 71 days in raising the sale bills to FCI during 2013-14 and 2014-15. This resulted in loss of interest of ₹0.44 crore (worked out conservatively after giving 12 days margin) on the basis of minimum of prevalent CCL rates.

[33] Worked out on ₹62.13 lakh at the rate of 10.30 *per cent* for 35 months.
[34] On ₹22.69 lakh at the rate of 11.79 *per cent* per annum for 22 months.
[35] On ₹42.93 lakh at the rate of 10.79 *per cent* per annum for 21 months.

Both PAs stated the delay was on part of FCI and they take time in signing the dispatch documents. The reply is not acceptable as in audit the delay was calculated from the date of signing of the documents by FCI and its submission of sales bill to FCI.

2.2.8.7 Loss of interest due to delay in submission of driage bills to FCI

Before the start of each KMS, GoI fixes provisional rates of CMR which *inter-alia* included MSP of paddy and rates of incidentals. Incidentals also include driage[36] of one *per cent* of MSP of paddy. The driage amount is paid to the millers by the PAs and later on reimbursed by the GoI. As per GoI instructions (August 2013) payment of driage would be allowed subject to the condition that Principal Secretary of the State Government would submit a certificate stating that these charges had actually been paid by the State agencies to the millers.

We observed that in selected five FSCs (HAIC) and one revenue district office (HSWC) ₹7.81 crore was paid as driage charges to the millers for the KMS 2012-13. The Principal Secretary issued the requisite certificate in April 2014 for KMS 2012-13. It was noticed that three FSCs[37] submitted driage bill for KMS 2012-13 to FCI in January and March 2015 with delay ranging between 9 to 12 months. Driage bills for two FSCs[38] were not submitted till date (February 2015). Revenue district (Ambala) of HSWC submitted the driage bill in February 2015 with a delay of 11 months Thus, due to delay in submission of requisite certificate to FCI, the PAs suffered an interest loss of ₹0.63[39] crore.

HSWC stated that delay occurred due to delay in receipt of copy of certificate issued by Principal Secretary and then submission of incorrect bill at the first instance and there was no intentional delay. However the fact remains that due to avoidable delays in one district office, HSWC had to incur loss of interest.

2.2.9 Manpower

For efficient and smooth working of any organisation, adequate staff of suitable capability is required. The detailed staff position in respect of HAIC and HSWC as on September 2015 was tabulated below:

Haryana Agro Industries Corporation Limited

Category	Sanctioned strength	Man in Position as on 30.09.2015	Percentage of shortfall
Category-A	7	3	57
Category-B	26	7	73
Category-C	120	21	82
Category-D	35	75	(+)114
Total	**188**	**106**	

[36] Driage means reduction in weight in reduction in moisture content of paddy.

[37] Yamunanagar, Karnal and Fatehabad.

[38] Kaithal and Kurukshetra.

[39] Calculated on ₹7.81 crore at the rate of 10.74 *per cent* for 9 months.

We observed that vacant posts in category 'A' included one post of the Chief Accounts Officer (CAO) lying vacant since 2004 and two posts of Deputy General Manager (DGM) lying vacant since 2009 and 2012 respectively Further, 19 posts vacant in category 'B' included 14 posts of DMs (out of 15 sanctioned) which became vacant on the retirement of incumbents. In the absence of CAO, DGMs and DMs, the work of headquarters office and the 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 higher monetary risks to the junior staff was fraught with risk.

Haryana State Warehousing Corporation

Category	Sanctioned strength	Man in position as on 30.09.2015	Percentage of shortfall
Group A	10	6	40
Group B	21	15	29
Group C	707	430	39

It would be seen from the above table that 4 posts of Group 'A', 6 posts of Group 'B' and 277 posts of Group 'C' were vacant. The major vacancies in Group 'A' and 'B' were of the posts of Managers, DMs and SDE(C). We observed that in the absence of posts of Managers, Technical Assistants (TAs) and Junior Technical Assistants (JTAs) and accounting staff, the work of circle offices in the field relating to procurement and storage of foodgrains and their accounting was being looked after by junior officials

Both the PAs while admitting the facts stated that the process for recruitment to the vacant post had been initiated.

2.2.10 Internal control

2.2.10.1 Internal Control

Internal control is a management tool used to provide reasonable assurance that the management's objectives are being achieved in an efficient, effective and orderly manner. A review of the internal control structure adopted by PAs showed that they were inadequate and not commensurate with the size of their operations in view of the deficiencies pointed out elsewhere and from the following:

Haryana Agro Industries Corporation Limited

- The Company did not have accounts manual clearly specifying duties/ responsibilities at each level of Management.
- The Company did not conduct mandatory fortnightly physical verification of stock of paddy and resultant rice produced, kept in joint custody with the millers, in violation of instructions of State Government on CMR. This non conducting of physical verification of stocks resulted in cases of misappropriation of paddy;

- The system of timely claiming of dues from FCI was deficient.

- ***Misappropriation of rice***

HAIC godown at Jind was rented out to FCI on yearly basis. The responsibility for storage, preservation and the custody of the stocks rested with the HAIC staff and in case of loss due to deterioration of stock or abnormal storage losses, FCI was to recover the same from HAIC. In May 2013, while delivering the stock of KMS 2010-11, shortage of 1,595 quintals of CMR valuing ₹0.41 crore was noticed. FCI recovered the same from the rent bills in November 2013. An FIR against the defaulting officials was lodged in September 2013 and departmental proceedings were pending till date (November 2015).

- ***Misappropriation of gunny bags***

As per practice prevalent in HAIC, the gunny bags were issued by the store keeper to the mandi-in-charge on requirement basis for packing of paddy/ CMR and PV of these gunny bags was to be conducted annually on 31 March.

We noticed that for the year 2012-13, PV was not conducted at Pipli godown in March 2013 and was belatedly conducted in December 2013 when shortage of 5.65 lakh gunnies was detected. A committee was constituted by the HAIC headquarters in January 2014 which reported (May 2014) shortage of 7.18 lakh jute bags valuing ₹3.02 crore. Though departmental action had been initiated against employees, audit observed systemic deficiencies in internal control and monitoring remained.

The above stated deficiencies had affected the proper monitoring and supervision of different functions of the Company and also rendered its internal control system weak.

HAIC stated that internal control are commensurate with the size and nature of the business but the above points of inconsistency of allocation of paddy to millers, misappropriation of paddy due to non-conducting of PV at timely intervals delay/ non-raising of claims to FCI/ millers *etc.* point to the contrary.

Haryana State Warehousing Corporation

The Corporation did not have an accounts manual specifying duties/ responsibilities at each level of Management. There were delays in submission of bills to FCI and receipt of payments thereof showing internal control procedures were not commensurate with the size and activities of the Corporation.

During exit conference HSWC informed that it had taken decision to prepare its accounts manual for its activities.

2.2.10.2 Internal Audit

Haryana Agro Industries Corporation Limited

The Company adopted (March 2014) an internal audit manual. The internal audit of field units was conducted by a firm of Chartered Accountants (CAs) which did not point out any system lapses/ deficiencies and was restricted mainly to deficiencies in cash, bank and journal vouchers, discrepancies in stock items and improper maintenance of store registers *etc.* The Company had not prescribed any system to prepare action plan for internal audit based on risk factors.

During exit conference, the Company stated that efforts would be made to strengthen the internal audit of the Company.

Haryana State Warehousing Corporation

An internal audit cell was created in September 2013. The Corporation had neither prepared any internal audit manual nor prescribed the scope and extent of checks to be exercised in internal audit. Internal audit of head office where major expenditure/ decisions were taken had never been conducted. During the year 2013-14 only three circle offices out of nine circle offices were audited and during 2014-15 no unit was audited. The internal audit reports were mainly restricted to areas like cash, storage bills, maintenance of books of accounts and no system deficiencies were reported.

HSWC admitted the facts and stated that it had initiated the process for appointment of internal auditor.

2.2.10.3 Other issues - Payment to the farmers

PAs were to make payments to the farmers for procurement of paddy within 48 to 72 hours as per instructions issued by the FSD every year. We observed that PAs did not have details of quantity purchased from each farmer and the details of payments made to them during the last five years 2010-11 to 2014-15. The district offices simply maintained records regarding payments made to the BCPAs/ *Arhtias,* without impressing upon them to provide the details of the payment made to each farmer. Further, in three[40] FSCs of HAIC and four[41] selected districts of HSWC, we observed that during the KMS 2010-11 to 2014-15, the payments were made to BCPA/ *Kachha Arthias* within 1 to 48 days[42] from the date of purchase of paddy. Thus, PAs failed to ensure that in all cases the payments to the farmers were made within the prescribed period.

HAIC in its reply stated that payments were made to BCPA/ *Arthias* after the receipt of the purchase documents. HSWC in its reply stated that it had never received any complaint from any farmer regarding delayed payment. The reply is incorrect as the records produced to audit by HSWC indicate that payments to *Arhtias* were made within 1 to 17 days from the date of purchase of paddy and the fact remains that there was delay in making payment to farmers.

[40] Kaithal, Karnal and Yamunanagar.

[41] Fatehabad, Karnal, Kurukshetra and Yamunanagar.

[42] 1 to 17 days in respect of HSWC and 1 to 48 days in respect of HAIC.

Conclusion

HSWC could not achieve the target of procurement of paddy in any year during 2010-11 to 2014-15. HAIC did not work out the profit/ loss of paddy procurement activity separately. Cases of deviation from State Government guidelines in allotment of paddy in both the PAs were observed. Non adherence to guidelines of the State Government and non-obtaining of proper guarantee in the shape of FDR/ bank guarantee for the milling of paddy, non-conducting of mandatory fortnightly physical verification of paddy and resultant rice produced kept in joint custody with the millers in HAIC, *etc.* facilitated the misappropriation of paddy. FCI did not reimburse custody and maintenance of paddy as bills were not supported by required documents. HAIC did not submit claims of guarantee fee for KMS 2004-05 to KMS 2011-12 and driage for KMS 2012-13 timely to FCI which resulted in loss of interest. The internal controls and internal audit were deficient in both PAs.

Recommendations

The State Government may consider:

i. to instruct HSWC to make efforts to achieve the targets of procurement of paddy as fixed cost remains constant irrespective of the quantum of procurement and adhere to guidelines of State Government in allotment of paddy for milling and its further monitoring;

ii. to instruct HAIC to work out efficiency of its different activities separately;

iii. to revise its guidelines and enhance the amount of guarantee and security from the millers preferably in the shape of BG or FDR, to safeguard the interests of the PAs;

iv. to issue directions to HAIC to immediately conduct mandatory physical verification and to regularly undertake the exercise; and

v. to instruct the PAs to streamline their finances and to make timely claims of their dues from FCI and millers.

Chapter-3

Transaction Audit Observations

Chapter 3

3 Transaction Audit Observations

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

Government companies

Haryana Power Generation Corporation Limited

3.1 Extra Expenditure

PTPS had to cancel a tender enquiry due to non-incorporation of clause of acceptability of revised bid in NIT and would incur extra expenditure of ₹0.29 crore in the contract period.

Clause 8.7 (i) of the Haryana Power Generation Corporation Limited (Company) Purchase Regulation, 2011 provides that revised price bid submitted by the bidder in any case *suo-moto*, original as well as revised offers shall be opened and lowest will be considered only.

Panipat Thermal Power Station (PTPS) of the Company issued Notice Inviting Tenders (NIT) (3 May 2013) for hiring and operation of diesel driven four buses of 52 seat capacity and one mini bus of 40 seat capacity for a period of three years. The bids were to be opened in two parts *i.e.* Technical bid (Part-I) and Price bid (Part-II). Part-I to be opened on 22 May 2013 and Part-II thereafter, only for those bidders who qualify the NIT conditions of Part-I.

Three bidders *i.e.*, M/s Paul Travels, Panipat, M/s Ranjit Transport Company, Bhatinda and M/s Punjab Transport Company, Panipat participated in the tenders. Part-I of the bid was opened on 22 May 2013 and all three bidders were found eligible for opening of Part-II of the bid. However, one bidder, M/s Punjab Transport Company, Panipat before opening of Part-II of the bid submitted its revised price bid (17 June 2013) and PTPS, Panipat opened the price bids of all the three bidders (including original and revised bid of M/s Punjab Transport Company, Panipat) on 17 June 2013 as per detail given below:

Sl. No.	Description of work	M/s Paul Travels, Panipat	M/s Ranjit Transport Company	M/s Punjab Transport Company	
				Original	Revised bid
		Rate per bus per month (₹)			
1.	Hiring of 52 seat bus	93,232	1,46,048	97,972	90,678
2.	Hiring of 40 seat bus	68,726	1,11,288	72,827	68,843

Thus M/s Punjab Transport Company, Panipat emerged as the L-1 bidder. But before issue of letter of award, M/s Paul Travels, Panipat, made (19 June 2013) a representation that there was no provision in the NIT to accept revised bid from any bidder; if the revised bids were accepted, then the same was not intimated to them and as such they were the L-1 bidders and the work should be awarded to them. The Store Purchase Committee of PTPS considered the representation and decided (19 June 2013) to cancel the tenders and to re-invite bids. PTPS re-invited (30 June 2013) the tenders and based on the offers received, awarded (17 February 2014) two work orders, one to M/s Paul Travels, Panipat (L-1) for hiring and operation of four buses (52 seat capacity) at a cost of ₹1,09,649 per bus per month and other to M/s Punjab Transport Company, Panipat (L-1) for one bus (40 seat capacity) at a cost of ₹83,749 per bus per month. The period of contract of both the firms was three years from 09 January 2014 to 08 January 2017.

Audit observed (January 2015) that though the Company had accepted the revised price bid from M/s Punjab Transport Company against the tender enquiry of May 2013 in terms of its Purchase Regulation 2011. Since the necessary clause in this regard was not included in the tender terms and conditions, it had to cancel the tender enquiry. The rates received on retendering in June 2013 were higher by ₹16,417 per bus per month for four buses of 52 seat capacity and ₹15,023 per bus per month for one bus of 40 seat capacity as compared to the L-1 bids of cancelled tender enquiry of May 2013. Thus, due to not incorporating the clause of acceptability of revised bids in NIT terms and conditions, the PTPS, Panipat had to award work at a higher cost and would incur extra expenditure of ₹0.29[1] crore during the contract period.

Management and Government stated (October 2015) that NIT was dropped to give equal opportunity to all bidders. Thus the point stays that as the NIT terms and conditions did not contain the clause that revised bids will be acceptable and the Company having accepted revised bid had to cancel the tender enquiry on being represented against. Thus, the Company will be incurring extra expenditure of ₹0.29 crore due to higher rates obtained in retendering.

3.2 Loss due to making of undue payment to Logistic Agent

The Company paid ₹4.71 crore towards railway freight, custom duty, stamp duty and port charges on 21,631.43 MT of imported coal, which was not received.

The Company placed (17 October 2012) Purchase Order (PO) for supply of 14.50 lakh MT of imported coal on MSTC Limited, Kolkota[2] (Supplier) for its thermal power stations *i.e.* Deenbandhu Chhotu Ram Thermal Power Plant (DCRTPP) Yamunanagar, Rajiv Gandhi Thermal Power Plant (RGTPP), Khedar, Hisar and Panipat Thermal Power Station (PTPS), Panipat. Of this coal, six lakh MT was to be supplied at PTPS, Panipat; two lakh MT to

[1] ₹16,417x 4 buses x 12 months x 3 years plus ₹15,023 x 12 months x 3 years.

[2] A Central Public Sector Undertaking.

DCRTPP and six lakh fifty thousand MT to RGTPP. Adani Enterprises Limited was nominated as Logistic Agent (LA) by the supplier. Accordingly, the Company placed (17 October 2012) work order on the LA for inland logistic activities. The LA was responsible for complete operations involving receipt of cargo at Port till its delivery to power plants and was to be paid handling charges at the rate of ₹250 per MT. Clause 6 read with Clause 6.1 laid down that port charges, custom duty and railway freight were to be paid as per actual (including statutory tax) and other taxes/ statutory duties, if any.

Audit observed (December 2014) during test check of quantity received and payments made in respect of imported coal received through 24 vessels against the above PO that quantity was received short by 21,631.43 MT. The Company while making the payment to LA, deducted the cost of coal short received at the CIF price[3]. However, while calculating the amount of deduction, it did not consider the cost elements of railway freight, custom duty, stamp duty and port charges which form part of the cost[4] of coal to be transported by LA. The Company had paid ₹4.71 crore towards railway freight, custom duty, stamp duty and port charges for the quantity of coal never received which should have been deducted and recovered. This resulted in undue favour to LA and loss to the Company by ₹4.71 crore.

Management/ Government stated (November 2015) that the payment of railway freight, custom duty, stamp duty and port charges were required to be paid to LA on actual basis against documentary evidence as per Clause 6.1(ii) of PO irrespective of quantity received. The reply is not acceptable as the said Clause nowhere mentions the term 'irrespective of quantity received'. Further, succeeding Clause 6.2 provided that adjustments for quantity and quality variations shall be carried out for the purpose of payment on the basis of rake to rake results at unloading end *i.e.* HPGCL thermal power stations. Also the recovery for coal not received should be calculated on the basis of its cost taking into account all the cost elements at transportation point and not just CIF price. Therefore payments of railway freight, custom duty, stamp duty and port charges should have been adjusted on the basis of quantity of imported coal actually received at the plant. Further, in another case, Management stated (September 2015) that provision has been made in new NIT, for procurement of 10 lakh MT imported coal, to pay custom duty on net adjusted quantity of imported coal to be received in HPGCL thermal power plants.

3.3 Excess payment of custom duty

The Company paid excess custom duty of ₹2.10 crore to a firm on imported coal, which was below guaranteed specifications.

The Company placed (17 October 2012 and 2 September 2013) two Purchase Orders (PO) with M/s MSTC Limited for supply of 14.50 lakh MT and

[3] Cost including marine insurance and marine freight at the landing port.

[4] As per guidance note on Cost Accounting Standard -6 on Material cost issued by Institute of Cost and Management Accountants of India.

20.00 lakh MT imported steam coal respectively, to its thermal power stations. Since, M/s MSTC Limited had nominated M/s Adani Enterprises Limited as Logistic Agent (LA), as such simultaneously two Work Orders (WO) were issued by the Company in favour of the LA for handling of imported coal. PTPS Panipat, DCRTPP Yamunanagar and RGTPP Hisar were to receive 15.92 lakh MT, 4.40 lakh MT and 14.18 lakh MT of coal respectively against these two POs. Terms and conditions of WO *inter-alia* provided that the quality of imported coal was to be as per the specification given in the PO and WO. If the specification of coal received was less than the guaranteed specification, then final payment was to be made after adjustment on account of quality variations.

The LA was responsible for complete operations involving receipt of cargo at port till its delivery to thermal power plants and was to be paid handling charges which *inter-alia* involved payment of port charges, custom duty, railway freight and taxes/ statutory duties for which payment was to be made on actual basis.

The firm supplied 9.06 lakh MT[5] of coal to PTPS Panipat, 13.97 lakh MT[6] to RGTPP Hisar and 4.66 lakh MT[7] to DCRTPP Yamunanagar during 2012-13 to 2014-15.

We observed that against this supply, the Company paid custom duty taking the value of imported coal at port. Though the Company recovered ₹58.20 crore from LA on account of quality variations than that specified in the contract but the custom duty paid thereon which worked out to ₹2.10 crore was not recovered. Thus, the Company had paid excess custom duty of ₹2.10 crore to M/s Adani Enterprises Limited.

Management and Government stated (November 2015) that statutory payments like custom duties *etc.* have to be made on the quantity received at discharge port in India and same is paid as actual as per provision of PO/WO. If provision is made regarding payment of custom duty on net adjusted quantity received in plants, then the supplier /LA shall load this factor while submitting their offer for import of coal which would result in extra burden on Company. However, provision has been made in new NIT to pay custom duty on net adjusted quantity of imported coal to be received in HPGCL thermal power plants. The reply is not convincing as Clause 6.2 of *ibid* WO provided for adjustments on the basis of quantity and quality variations at the power stations for the purpose of payment on the basis of results at unloading end *i.e.* HPGCL thermal power stations. Therefore, payments of custom duty should have been adjusted for reduction in value of imported coal on the basis of quality actually received at the plants.

[5] 6.96 lakh MT through 10 vessels against WO of October 2012 and 2.10 lakh MT through 4 vessels against WO of September 2013.

[6] 5.48 lakh MT through 7 vessels against WO of October 2012 and 8.49 lakh MT through 9 vessels against WO of September 2013.

[7] 2.23 lakh MT through 5 vessels against WO of October 2012 and 2.43 lakh MT through 5 vessels against WO of September 2013.

Uttar Haryana Bijli Vitran Nigam Limited

3.4 Loss due to non submission of insurance claims

The Company suffered loss of ₹0.74 crore due to non-submission of claims to the insurance companies in terms of group accidental insurance policy for fatal accidents.

Uttar Haryana Bijli Vitran Nigam Limited (Company) took (16 July 2010) a Group Personal Accident policy to insure its staff *viz.* gazetted and non gazetted employees against fatal and non-fatal accidents for the period 17 July 2010 to 16 July 2011. As per terms of policy, the insurance company was to give compensation of ₹ three lakh in each fatal accident case which was increased to ₹ five lakh with effect from 1 October 2010. The field offices are required to intimate the claim within 28 days of the accident to the insurer Company.

Audit observed (February 2015) that though the Company issued guidelines to the field offices to intimate claims to insurance companies in time, it had not devised any internal control and monitoring mechanism to ensure that all the claims were being intimated in time and pursued so that claims could be recovered from the insurance companies. The Company paid compensation of ₹0.96 crore (Chief Engineer, Operation, Panchkula ₹0.58 crore in nine fatal accident cases and Chief Engineer, Operation, Rohtak ₹0.38 crore in seven fatal accident cases) during July 2010 to March 2015 but did not intimate claims of ₹0.74[8] crore to the insurance Companies at all and thus lost the opportunity to recover the same.

The Management (December 2015) and Government (January 2016) stated in their reply that in Rohtak Circle out of total seven cases, in three cases, claims (₹15 lakh) were lodged with delay and were rejected and that departmental action to fix responsibility is underway for both the circles.

The point remains that the Company suffered loss of ₹0.74 crore due to its lack of institutionalised mechanism to watch submission and recovery of insurance claims.

3.5 Loss of revenue

The Company was deprived of ₹2.70 crore revenue due to supplying power under categories not conforming to tariff orders.

Schedule of tariff for supply of energy and general and miscellaneous charges, of the Company issued in January 2001 provided that general/ mixed load exceeding 10 KW to the schools/ colleges/ educational institutions/ railways (other than traction), *etc.* will be released/ issued under Bulk Supply (BS) category. The sales instructions (1989 and 1993) and reiteration (November 2006) as also tariff order of January 2001, also required clubbing

[8] ₹3 lakh x 1 case (being prior to October 2010) plus ₹5 lakh x 8 cases = ₹43 lakh (Panchkula) + ₹5 lakh x 5 cases plus ₹3.45 lakh+ ₹2.88 lakh on actual basis = ₹31.33 lakh (Rohtak)

of load in same premises. Up to September 2010 the tariff for High Tension (HT) Industrial and BS consumers was same. It was revised (effective from 1 October 2010) and new tariff comprised of energy charges and fixed charges. In case of BS category fixed charges were levied on the basis of Sanctioned Load (SL) and in case of HT industrial category levied on Contract Demand (CD). The fixed charges were leviable at the rate of ₹130 per KW per month on BS consumers and on Non Domestic Supply (NDS) consumers having connected load above 20 KW. Further from April 2014, fixed charges were levied on the basis of CD in both HT industrial and BS categories.

Audit observed:

(a) Northern Railway has two workshops in the State at Jagadhri and Kalka and their SL & CD was 13288 KW & 5200 kVA and 3407 KW & 900 kVA, respectively. As per *ibid* regulations power supply connection to these workshops was to be charged under BS category instead of HT category.

Audit Report of Comptroller and Auditor General of India for the year 2007-08 (Commercial) - Government of Haryana, had reported incorrect categorisation of Railway Workshop, Kalka in the category of BS consumer and therefore not being entitled to rebate applicable to HT Industrial consumers. During discussions in Committee on Public Undertakings (COPU) (November 2011), the Department accepted the mistake in categorisation and stated that they had charged Railways ₹0.29 crore as peak load consumption charges which are charged on Large Supply (LS) category (now called HT Industrial Category) consumers. COPU accordingly dropped the para.

We observed that despite incorrect categorisation being pointed out and accepted by Company before COPU (November 2011), they did not take corrective action of changing the category of power supply connection of Railway Workshops to BS category for the purpose of billing. Thus, due to incorrect application of tariff the Company deprived itself of additional revenue of ₹2.34 crore[9] from December 2011 to March 2015.

(b) National Institute of Technology, Kurukshetra (NIT) had applied (June 2007) for clubbing of existing 31 power supply connections (released under NDS[10] and DS[11]) and releasing a power supply connection in BS category for 2980 KW. NIT deposited (June 2007) ₹0.30 crore for the same. After a lapse of more than four years, the Company intimated (27 September 2011) NIT that their application had been cancelled due to non-submission of the reports, non-commissioning of 11 kV substation structure/ power off transformers *etc*. and asked NIT to resubmit its application. NIT re-applied (30 September 2011) for clubbing and extension of load and releasing

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[9] ₹1.81 crore in respect of Railway Workshop Jagadhari and ₹0.53 crore in respect of Railway Workshop Kalka.

[10] NDS- Non Domestic Supply.

[11] DS- Domestic Supply.

a BS connection for combined load of 4560 KW which was released (November 2012). Further, out of the 31 power supply connections to NIT, Kurukshetra (released under NDS and DS category), eight connections having connected load of 1105 KW were under DS category on which no fixed charges were levied. However, due to Company's delay to club the existing power supply connections and release a power supply connection under BS category, the Company could not recover fixed charges of ₹0.36 crore for the period October 2010 to October 2012 on the 1105 KW of these eight DS power connections.

Management (October and December 2015) and Government (January 2016) in their reply stated that the category of the Railway Workshops connection was 'HT Industrial' since date of release of connection as per prevailing instructions and it was not possible for the Company to change the category from HT Industrial to Bulk supply at the later stage as the agreement is for HT Industrial supply and Company cannot go beyond the agreement. Further, there is no loss of revenue as in the new tariff also the rate of HT Industrial supply is more than the bulk supply rates and for case of NIT Kurukshetra, the Management (October 2015) and Government (November 2015) stated that delay was due to non-compliance of conditions by consumer and natural process which took time in order to complete the job.

The reply was not acceptable as the Company cannot go beyond HERC Regulations and it cannot charge tariff under wrong category only because it would be beneficial to it and it has to adhere to HERC Regulations and sales instructions (1989 and 1993) and reiteration (November 2006) as also tariff order of January 2001, required clubbing of load in same premises which was delayed despite being financially detrimental to its own interests. Thus the Company was deprived of the revenue of ₹2.70 crore due to its own negligence and failure to take corrective action in a timely manner.

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

Haryana Power Purchase Centre

3.6 Extra payment

Diminution in Gross Calorific Value of imported coal resulting in extra payment of ₹75.39 crore.

Haryana Power Purchase Centre (HPPC) entered (07 August 2008) a Power Purchase Agreement (PPA) with M/s Jhajjar Power Limited (JPL), a subsidiary of M/s China Light Power (CLP) India Private Limited, Mumbai, for purchase of power. Accordingly, 1,320 Mega Watt (MW) Mahatma Gandhi Super Thermal Power Project was set up by M/s JPL at Jhajjar to cater to the power requirement of Haryana. As per Schedule 7 of the PPA, tariff was to be paid on monthly basis and in two parts comprising of (i) capacity/ fixed charges and (ii) energy/ variable charges. The recovery of annual capacity charges (fixed cost) is related to the norms of approved Plant Load Factor (PLF). The energy/ variable charges were based on the net quoted heat rate *i.e.* 2396 Kcal/ kWh and cost of coal & Gross Calorific Value(GCV) of coal at the time of consumption. As per formula[12] for payment of energy charges, increase in cost of coal or decrease in the GCV of coal would result in increase in energy charges for raising bills to HPPC. JPL was using imported coal (having higher GCV with high cost) along with indigenous coal for generation of power.

We observed that during August 2013 to March 2015 there was diminution in the GCV of the imported coal at the time of consumption as compared to the GCV at the time of unloading and it ranged between 150 to 690 Kcal/ Kg. But PPA did not have any clause to restrict the diminution in GCV for the purpose of payment to JPL. Due to diminution in the GCV of the imported coal, the HPPC had to pay ₹75.39 crore[13] extra to JPL for the period August 2013 to March 2015. Besides, due to excess payment to JPL, the consumers had to bear higher cost of power.

HPPC in its reply stated (March 2015) that there were various reasons for diminution in GCV of coal *viz.* significant time gap between receipt of coal and its final feeding to the boiler, loss of volatile matter due to drying up of coal, auto ignition in the coal yard *etc.* Besides, there was no unlimited assurance that samples drawn at the time of unloading were truly representative of the bulk all the time. The reply was not convincing as HPPC had not fixed any limit for diminution in value of GCV taking into account various factors which result in diminution in value of GCV. Besides, Appellate Tribunal for Electricity (APTEL) in the case of Punjab State Power Corporation Limited Versus Punjab State Electricity Regulatory Commission also held (December 2014) that diminution in the GCV at the receiving at thermal power stations and firing or bunker end could be minimised within 150 Kcal/Kg. Due to non inclusion of any clause in the PPA to restrict the payment in case of diminution in GCV, the Company paid ₹75.39 crore extra to M/s JPL.

Further HPPC (September 2015) and Government (November 2015) stated that GCV on Air Dried Basis (ADB) will always be significantly higher than GCV on As Received Basis (ARB) as surface moisture is not considered in measurement of GCV (ADB). The reply is not relevant as in audit comparison of GCV of the coal at receipt and fire end has been made on ADB basis. HPPC also stated that APTEL judgment is not applicable to JPL. The reply is not convincing as audit has pointed out that there was no suitable provision in contract to restrict the diminution in GCV of coal and thus inefficiencies of JPL are passed on to DISCOMs. Margin of diminution in GCV of 150 Kcal/Kg. is only indicative to work out the extra payment.

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12 Energy charges payment = Quoted net heat rate (2396 Kcal/ kWh) x weighted average rate of coal (₹/Kg)/ weighted average GCV (Kcal/Kg).

13 Calculated after allowing a margin of diminution of 150 Kcal/Kg GCV

Furthermore, Central Electricity Regulatory Commission in its Regulations for 2014-19 has provided for payment of variable energy charges on the basis of GCV at the time of receipt of coal at power plant and no margin of diminution in value of GCV in the power plant has been provided. However, audit has taken a conservative view and worked out the loss after allowing a margin of 150 Kcal/Kg.

3.7 *Loss in execution of contracts*

DISCOMs suffered loss of ₹33.51 crore due to irregular termination of contract and overpayment to contractors.

To segregate agriculture load from rural domestic load by the two power distribution Companies (DISCOMs) *viz.* Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) awarded contracts for supply and erection of additional 11 kV feeders which hitherto were being fed through common feeders.

a. UHBVNL awarded (15 June 2007) contract for supply and erection of material at a cost of ₹33.89 crore to M/s Teracom for construction of 145[14] feeders of 11 kV to be completed by 31 March 2008. The work was delayed and extension up to 31 December 2008 was granted. During currency of this extension period, UHBVNL issued (26 November 2008) 15 days show cause notice for delay in works and terminated the contract on 10 December 2008 after reviewing the progress of work. By that time M/s Teracom had carried out work of ₹21.15 crore[15] against which ₹10.59 crore had been paid after deducting delay penalty of ₹2.40 crore.

The Contractor represented (January 2009) to UHBVNL for appointment of an Arbitrator who held (30 July 2011) the termination illegal as UHBVNL had terminated the contract by 14th day from the date of issue of notice and within the extended completion period (31 December 2008). It ordered UHBVNL to pay the due amount and release Bank Guarantee along with interest besides rejecting the claims of ₹6.29 crore[16] of UHBVNL. The Company paid the balance of cost of work done of ₹10.54 crore alongwith interest of ₹4.53 crore. Company's appeals filed in High Court of Punjab and Haryana and Special Leave Petition filed in the Hon'ble Supreme Court against the Arbitration award were dismissed on 19 March 2014 and 11 July 2014 respectively.

We observed that UHBVNL while terminating the contract had ignored the terms and conditions of the contract and thus had to suffer loss of ₹8.01 crore due to non-recovery of claims ₹6.29 crore and interest on the Bank Guarantee not encashed of ₹1.72 crore.

After payment to M/s Teracom as per Arbitration award, UHBVNL belatedly

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[14] Subsequently reduced to 121.
[15] Supplied material worth ₹20.54 crore and executed erection work valuing ₹0.61 crore.
[16] Delay penalty ₹2.40 crore, liquidated damages ₹1.69 crore and extra expenditure incurred in completion of left over work ₹2.20 crore

observed during reconciliation (July 2014) that the Contractor had not returned material supplied valuing ₹1.07 crore and decided (July 2014) to initiate legal proceedings against the contractor. However, action is yet to be initiated (November 2015). Thus, due to delay in reconciliation of the material supplied, UHBVNL overpaid ₹1.36 crore (including interest of ₹0.29 crore[17]).

UHBVNL (July 2015) and Government (November 2015) replied that the contract was terminated as the contractor failed to execute works in line with the execution schedule, the payment was made as per decision of courts and that legal proceedings for accounting/ recovery of ₹1.36 crore are under process and shall be filed accordingly in the legal case. The fact remained that the termination was illegal as also held by arbitrator as UHBVNL had terminated the contract before the expiry of the extended period granted by it for completion of work.

b. DHBVNL awarded (30 March 2007) four turnkey works to M/s Teracom for construction of 261 feeders at a total cost of ₹154.50 crore to be completed by 29 October 2007. DHBVNL observing the delay, terminated the contract on 10 December 2008.

As per terms of the contract, ₹36.34 crore[18] was recoverable from M/s Teracom. Against this, DHBVNL was having coverage/ security of ₹33.86 crore[19]. M/s Teracom filed (December 2008) a case in Civil Court against the termination of contract and the same was dismissed (January 2009).

The case went to arbitration where DHBVNL proposed a settlement agreement (June 2011) to reduce delay penalty and Liquidated Damages (LD) from ₹34.76 crore to ₹11.85 crore[20]. The Company released (July 2011-February 2012) the coverage/ security of ₹24.14 crore. However, M/s Teracom disputed (January 2012) the amount worked out by DHBVNL. The Board of Directors (BoD) of DHBVNL decided (October 2012) to obtain legal opinion from Advocate General, Haryana, who opined (January 2013) to contest the case on merits. DHBVNL filed (18 March 2013) application before arbitrator seeking withdrawal of the terms of settlement. In the meantime M/s Teracom has been referred (October 2014) to Board of Industrial and Financial Reconstruction (BIFR).

We observed that DHBVNL agreed for a settlement proposal despite the fact that Civil Court had already decided the case on merit in its favour. Further MD released the coverage/ security without the approval of settlement proposal from the BoD which *inter-alia* included terms within the exclusive competency of BoD/ HPPC. Thus, DHBVNL gave undue favour to

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[17] Interest at the rate 9 *per cent* per annum from the date of Arbitration award *i.e.* July 2011 to July 2014 *i.e.* date of payment.

[18] Delay penalty of ₹19.31 crore, LD of ₹15.45 crore and extra expenditure of ₹1.58 crore in completion of leftover work.

[19] Retention money of ₹18.41 crore and BG of ₹15.45 crore encashed in January 2009.

[20] Delay penalty of ₹8.81 crore and LD of ₹3.04 crore.

M/s Teracom by irregular release of ₹24.14 crore and deprived itself with the coverage available towards recovery of ₹24.49[21] crore besides suffering interest loss of ₹10.56 crore[22] (August 2015). Further, the recovery is also doubtful even if DHBVNL wins the case as M/s Teracom has already gone to BIFR.

The matter was referred to Government and DHBVNL (July 2015): their replies were awaited (January 2016).

Haryana Vidyut Prasaran Nigam Limited

3.8 Extra expenditure

The Company incurred extra expenditure of ₹1.41 crore in purchase of transformers at higher rate.

For the purchase of six power transformers of 25/31.5 MVA rating, the Store Purchase Committee (SPC) of the Haryana Vidyut Prasaran Nigam Limited (Company) opened (25 April 2011) financial bids in which the lowest equated rate[23] of ₹3.52 crore per transformer discovered was of M/s Technical Associates Limited (L-1). SPC apprised (17 May 2011) Whole Time Directors[24] (WTDs) during the meeting that L-1 Firm had been blacklisted by Madhyanchal Vidyut Vitaran Nigam Limited (MVVNL), Uttar Pradesh on 12 August 2010, but Allahabad High Court stayed (22 December 2010) the blacklisting of the firm. WTDs recommended (14 July 2011) to the Utility Level High Powered Purchase Committee[25] (ULHPPC) to consider L-1 Firm because its blacklisting was on account of different power rating transformers and no adverse report for 25/31.5 MVA rating transformers was reported. There was substantial difference of ₹1.41 crore[26] in total equated cost between L-1 and L-2 rates. However, ULHPPC decided (20 July 2011) to place order for three transformers each on L-2 Firm (M/s Vijai Electricals Limited) and L-3 Firm (M/s ECE Industries Limited) at the equated rate of L-2 Firm of ₹3.76 crore per transformer keeping in view that safety and reliability could not be compromised due to uncertain fate of the order of blacklisting of the L-1 Firm. As total value of the purchase proposal was now ₹10.04 crore, approval of State Level High Powered Purchase Committee (SLHPPC) was required but the Company in ignoring the procedure issued (3 August 2011) the Letter of Acceptance (LOA) to L-2 and L-3 firms. Meanwhile, the blacklisting of the L-1 firm was revoked on 5 August 2011. The validity of

[21] Amount recoverable includes delay penalty of ₹10.50 crore, LD of ₹12.41 crore and extra expenditure of ₹1.58 crore in completion of leftover work.

[22] ₹24.14 crore x 12.5/100 x 42 months/ 12 months.

[23] It is total of FOR destination price (₹157.54 lakh) and loading (₹194.61 lakh) due to capitalisation of transformation losses by use of transformer.

[24] Comprised of Director/ Project, Director/ Technical, Director/ Finance, Chief Engineer and Managing Director

[25] Comprised of Whole Time Directors, Chairman, Power Utilities Haryana and Financial Advisor, Finance Department, Haryana.

[26] ₹375.53 lakh (L-2) - ₹352.15 lakh (L-1) x 6 transformers.

bids was up to 31 August 2011. The Company received the communication of revocation on 9 August 2011. SLHPPC granted (21 September 2011) ex-post facto approval of the decision taken by ULHPPC on 20 July 2011.

Audit observed that the initial decision to ignore the L-1 firm and place order with L-2 and L-3 firms was not justified as Allahabad High Court had already stayed the blacklisting orders of L-1 Firm on 22 December 2010 before the opening of the technical bids by the Company on 12 January 2011. Also ULHPPC was not competent to take the decision as purchase value was in excess of ₹10 crore. In view of the financial implications, stay given by High Court and sufficient time available (9 August 2011 to 31 August 2011) till expiry of validity of the bids, the Company should have reviewed the proposals and issued the order to L-1 firm.

This decision of Company to award the work to L-2 and L-3 firm by ignoring L-1 firm which was eligible and having satisfactory track record with the Company is unjustified which resulted in extra expenditure of ₹1.41 crore.

Management (August 2015) and Government (November 2015) stated in their reply that the firm was ignored not only on account of concealment of blacklisting but also due to blacklisting by MVVNL due to poor performance of power transformers. Management further stated that ULHPPC had approved the unit rates and while preparing purchase order it was found that value of total purchase exceeded ₹10 crore and accordingly post facto approval of SLHPPC was obtained.

The reply is not justified as ULHPPC decision to ignore L-1 (20 July 2011) and accept rates quoted by L-2 bidder was beyond its competency and that instead of negotiating and deciding the purchase it should have placed its proposal before SLHPPC to decide the case. Further, the firm was legally not required to disclose the fact of blacklisting as the same had been stayed by the Court and the firm had already supplied transformers to HVPNL, on which there was no adverse report.

Haryana State Industrial and Infrastructure Development Corporation Limited

3.9 Undue favour to an allottee

The Company granted undue favour of ₹1.89 crore to an allottee by not charging interest on extension fee.

The Company allotted (October 1994) a plot measuring 8,800 square meters to M/s Indian Hotel Company Limited (allottee) at a cost of ₹0.62 crore in Phase-VI, Udyog Vihar, Gurgaon for setting up a laundry unit. The allottee took possession of plot on 12 October 1995. As per terms and conditions of the allotment and the industrial policy as amended from time to time, the allottee was to construct a minimum 25 *per cent* of Permissible Covered Area

(PCA) and commence commercial activity by 29 April 2001[27], failing which plot was liable to be resumed. The allottee completed construction of required built up area up to July 2001 but it did not commence any commercial activity. The Company issued (August 2001 to December 2012) various show cause notices regularly to the allottee but the allottee either did not respond to the notices or in response to a few notices requested for extension in implementation of the project. The Company neither allowed extension nor resumed the plot.

The Company issued another show cause notice (December 2012) in response to which the allottee informed (May 2013) that its laundry project could not be implemented as the hotel industry had been badly hit during the recent years and also terrorist attack on their group hotel at Mumbai. Allottee also informed that it had reworked the project and would be in a position to complete it by January 2014. It requested for grant of suitable extension in the time period on payment of all applicable charges, extension fee *etc.*, as per the applicable rules. The Company on recommendations of the standing Committee empowered to address such issues headed by Principal Secretary, Industries Department, (GoH), regularised the period of delay in implementation of project and allowed (March 2014) extension up to 29 April 2015 on payment of extension fee of ₹250 per square meter per year as per its Estate Management Procedure (EMP) 2011 but without charging any interest which was also a recommendation. The allottee deposited the extension fee ₹3.08 crore during February to April 2014.

Audit observed that EMP of 2011 provided that grant of extension in implementation of the project would be subject to the payment of extension fee and interest at the rate of 11 *per cent* per annum on the amount due for the delayed period. There was no provision in the rules/ policy of the Company to waive interest on extension fee. Thus, the Company extended undue favour to allottee by not charging interest on extension fee which worked out to ₹1.89 crore[28] which was in contravention of its EMP 2011.

The Company and Government in their reply stated (October 2015) that the action was duly approved by the BoD which had approved the EMP 2011 and subsequent changes therein from time to time. The reply was not convincing as this action resulted in undue favour to the allottee and loss of ₹1.89 crore to the Company.

3.10 Extra expenditure

Provision of rejection of price quote which resulted in skewed bidding process led to extra expenditure of ₹1.27 crore.

The Company floated (January 2012) Request for Proposal (RFP) for

[27] Including maximum period of extension of one year granted to the allottee on payment of extension fee.

[28] Worked out on annual extension fee of ₹22 lakh due, for the period 2001-02 to 2012-13 at 11 *per cent* per annum as amount was received during February 2014 to April 2014.

engaging an agency for development, implementation and maintenance of internet based application for Estate Management, Central Account System and Rehabilitation and resettlement Annuity payment administration in phases. The bid process was a two stage evaluation. Clause 4.1.2 of the RFP laid down that those bidders who had a score of minimum 70 *per cent* in the pre-qualification cum technical bids only qualified for the financial bids. Clause 4.1.3 of RFP provided that a quote with value less than or more than 50 *per cent* of average quotes shall be out rightly rejected. Selection of bidder was to be based on highest final score to be worked out on the basis of 70 *per cent* weightage for technical score and 30 *per cent* weightage for financial score (Clause 4.2).

The Company received seven bids which were opened on 29 February 2012 of which three bids qualified the pre-qualification cum technical bids evaluation criteria. Financial bids of the three qualified bidders were opened on 26 March 2012 whose results were as below:

Sl. No.	Name of the bidder	Financial quote (excluding taxes) in ₹	Technical Scores
1.	M/s Mars Telecom System Private Limited, Hyderabad	65,25,000	83
2.	M/s Silver Touch Technologies Limited, Ahmedabad	1,92,15,201	80
3.	M/s Dev Information Technologies Limited, Ahmedabad	2,25,00,000	82

The bid of M/s Mars Telecom though being the lowest was disqualified as it was less than 50 *per cent* of average quotes (₹80.40 lakh[29]) of the three bidders, in terms of Clause 4.1.3 of RFP document. The bids of other two bidders were taken up for determination of final score. In terms of Clause 4.1.4 of the RFP document, final score of remaining two bidders were worked out and M/s Silver Touch Technologies Limited, scoring 86 marks was awarded (June 2012) the work for ₹1.92 crore. The entire work was to be completed before 31 May 2013 but has now been completed (November 2015).

We observed (February 2014) that Clause 4.1.3 (to determine the financial proposal) was inserted in the RFP document on the basis of guidelines issued on 14 November 2011 by Secretariat for Information Technology, Government of Haryana for engagement of consultants/ System integrators for IT and e-governance projects. In circulating these guidelines, the Government had indicated that they were at best indicative and there was opportunity for improvisation based on progressive maturity. Thus the guidelines were not mandatory. Further, it was observed that no cost estimates were prepared.

The Company nevertheless adopted the guidelines in *toto*. Annexure A to Para 14 of the Guidelines mentioned that "Provision for disregarding price quotes that are extremely low or inordinately high can also be considered to weed out skew arising in the 'Quality and Cost based Selection' method *e.g.,*

[29] (₹65.25 lakh + ₹192.15 lakh + ₹225 lakh) / 3 = ₹160.80 lakh/ 2.

disregarding quotes that are less than 50 *per cent* of average price" and the company had included this provision in the RFP.

Audit observed that this provision should have not been included in case of those tenders wherein two part bids (technical and financial) are invited because technical bids are invited to assess the capability of the bidders to execute the order. Once the bidders qualify technically then it being clear that the bidder is capable to execute the work, the financial bids should be opened only to find out the lowest bidder. Moreover, to provide further assurance as regard to technical acceptance, the final score under Clause 4.1.4 had already given weightage of 70 *per cent* for technical input. In the above case, the lowest bidder (L-1) *i.e.* M/s Mars Telecom had got the highest score (83) in the pre-qualification cum technical bid which showed that they were capable of executing the work order. However, since the Company had inserted injudicious provision in RFP that a quote with value less than 50 *per cent* of average quotes or more than 50 *per cent* of average quotes would be rejected, it had to reject the lowest bidder. In absence of any estimates, they had no other means to assess the non-seriousness of the bidder.

Thus, above provision of rejection of those price quotes skewed the bidding process resulting in extra expenditure of ₹1.27 crore (₹1.92 crore - ₹0.65 crore).

The Government/Company in their reply stated (September 2015) that Clause 4.1.3 was inserted in RFP in line with standard guidelines issued by Government of Haryana to avoid the risk of failure of E-governance project. The reply is not convincing as the guidelines were not mandatory and the Company should have considered the consequences of the guidelines before its implementation. The point stands that due to rejection of a technically qualified firm, who was also L-1 on the ground that its quote was less than 50 *per cent* of the average quotes, resulted in Company incurring an extra expenditure of ₹1.27 crore.

Haryana State Forest Development Corporation Limited

3.11 Extra expenditure

The Company incurred extra expenditure of ₹0.48 crore on account of higher energy charges and maintenance of electric gadgets.

The Company received an order (October 2013) from the Director, Elementary Education, Haryana, Panchkula for the supply of 37,300 tables and 1,11,900 chairs valuing ₹23.05 crore. The Company distributed this order to its six[30] Regional Offices (ROs) including RO Ambala and RO Kurukshetra. RO Ambala and RO Kurukshetra were to supply 28,136 tables (14,299 and 13,837 tables respectively) and 84,408 chairs (42,897 and 41,511 chairs respectively). The two RO offices manufactured and supplied 28,093

[30] Ambala, Gurgaon, Hisar, Jind, Kurukshetra and Rohtak.

tables (14,256 and 13,837 tables, respectively) and 84,279 chairs (42,768 and 41,511 chairs, respectively).

The Company has its own workshop including a saw mill at RO Kurukshetra and manufactured the tables and chairs by purchasing raw material, fixers, paying wages for carpentry (with tools and machines) and polish to the contractors. However, at RO Ambala, the raw material *i.e.* wood, *etc.* was purchased by the Company but the manufacturing work was awarded to L-1 contractors after inviting quotations (for rate of carpentry; labour charges for polishing and cost of energy & maintenance of electric gadgets).

Audit observed (December 2014) that before awarding the work to the contractors in RO Ambala, the Company did not compare the rates of carpentry, labour charges *etc.* at RO Kurukshetra (where the Company is having its own saw mill). The energy charges paid to the contractors should have been on actual basis and payment made on account of maintenance of electric gadgets should not have exceeded the cost of such gadgets. However, RO Ambala paid energy charges to contractor at ₹186.57 per table and ₹53.77 per chair as against ₹20.29 per table and ₹5.75 per chair at RO Kurukshetra which resulted in extra expenditure of ₹0.44 crore[31]. Further, RO Ambala paid ₹0.35 crore as cost of maintenance of electric gadgets to the contractors at the specified rate whereas RO Gurgaon office, which had also executed part of this order, had executed the order by purchasing electric gadgets at a cost was ₹0.10 crore only. RO Ambala had not only incurred extra expenditure of ₹0.25 crore as compared to expenditure at RO Gurgaon but had also not created any an asset for future use. Thus, had RO Ambala awarded the work keeping in view the energy charges paid on actual basis by RO Kurukshetra and purchased its own electric gadgets, the Company could have avoided extra expenditure of ₹0.69 crore (₹0.44 crore and ₹0.25 crore).

The Management stated (September 2015) that RO Ambala was not having its own workshop space for executing this orderand had hired a building on monthly rental basis in rural area having sufficient space. Due to acute shortage of electricity in rural areas, generator sets were used whereas RO Kurukshetra had its own premises in urban area. The cost of energy generated through generator sets was 4-5 times more than the supply given by UHBVNL Further, due to lack of space at RO Ambala for installation of saw mill machines and generator sets and uncertainty to receive such type of bulk order again, RO Ambala did not purchase these electric gadgets.

The management reply was not acceptable as the electricity charges paid were much higher even after considering the fact that the rates of generation of electricity by generator sets is five times of cost of energy payable to UHBVNL and accordingly the Company incurred extra expenditure of ₹0.23 crore[32] on electricity charges. Further, payment of ₹0.35 crore to contractor as cost of maintenance for the gadgets which could have been

[31] Extra expenditure: 14256 tables x (₹186.57- ₹20.29) + 42768 chairs x (₹53.77- ₹5.75).

[32] Extra expenditure: 14256 tables x (₹186.57-₹20.29x5) + 42768 chairs x (₹53.77-₹5.75x5).

purchased for ₹0.10 crore (cost of acquisition at RO Gurgaon) could not be justified on the ground that there was no certainty for repeat of such bulk order.

The Government stated (October 2015) that decision of the Company to hire the building in rural area was prudent as rent for the same size building in urban area was higher by ₹0.29 crore per year and the Company's object included generation of employment in rural area, increasing financial status of farming and labour community and promoting development of forest based allied industries. The reply is not convincing as the excess expenditure of ₹0.23 crore incurred on higher energy charges could not be compensated with the amount saved on account of hiring of building in rural area because the Company was to pay higher energy charges (five times of cost of energy charged by UHBVNL) on account of electricity used through generator sets.

Thus, the Company incurred extra expenditure of ₹0.48 crore (excess energy charges ₹0.23 crore and excess payment made towards maintenance for the gadgets ₹0.25 crore[33]) to contractor.

Haryana Agro Industries Corporation Limited

3.12 Loss of revenue

The Company suffered loss of ₹7.89 crore due to unscientific and improper preservation of wheat stock.

Haryana Agro Industries Corporation Limited (Company) procures wheat from *mandis* for central pool on behalf of Food Corporation of India (FCI) and delivers it to FCI as per schedule given from time to time. After delivery of wheat, the Company claims reimbursement of the cost of the foodgrains and other charges from FCI. The claims of the Company are based on the Minimum Support Price[34] plus statutory charges and other incidental charges of wheat as fixed by the Government of India (GoI) from time to time. As per guidelines of FCI, if the stocks are damaged while in the custody of the Company, the GoI does not reimburse the loss as the safe custody/ preservation of procured foodgrains is the responsibility of Company.

Audit observed (November 2014) that FCI had not taken over 5,974.85[35] MT wheat of crop year 2010-11 and 2011-12 as the same were damaged and non-issuable due to improper preservation and unscientific storage. FCI categorized the quantity of damaged wheat as unfit for human consumption and as cattle feed to be disposed off through sale to cattle feed manufacturers.

[33] ₹35.42 lakh (payment made towards maintenance for the gadgets)- ₹10.44 lakh (cost of gadgets purchased by RO Gurgaon)

[34] MSP is the price at which Government is ready to purchase the crop from the farmers directly if crop price goes lower than MSP.

[35] Stored at Jeet Ram Plinth (Indri-2,440 MT), HAIC Mandi (Kurukshetra-1,471.15 MT), Agro Complex (Pipli-617 MT), R.D. Rice Mill (330 MT) and Agro Mandi (Kurukshetra-1,471.15 MT).

Out of 5,974.85 MT of damaged stock, Company disposed 2,457.55 MT after inviting tenders in January 2014, thereby leaving balance quantity of 3,517.30 MT. Subsequently in May 2014, 895.50 MT wheat (794.50 MT: Nilokheri, Karnal for the crop year 2011-12 and 101 MT: Amin, Kurukshetra for the crop year 2012-13) was also identified as damaged. Out of total 4,412.80 MT of wheat (3,517.30 MT and 895.50 MT), 4,327.70 MT was disposed off after inviting tenders in June 2014. The balance 85.10 MT was designated as either weight loss or shortage. The Company recovered ₹5.46 crore from the disposal of damaged stock against ₹13.35 crore that would have been recovered from FCI had the wheat been stored as per the guidelines of the FCI. Thus, the Company incurred avoidable loss of ₹7.89 crore (₹13.35 crore - ₹5.46 crore) on disposal of damaged wheat (crop year 2010-11 & 2011-12) due to unscientific and improper preservation.

The Company in its reply (June 2015) while admitting the facts stated that wheat stocks were damaged due to longer storage on open plinths. It was also informed that departmental action had been initiated against the concerned officials.

The matter was referred to the Government (May 2015); their reply was awaited (January 2016).

Haryana State Roads and Bridges Development Corporation Limited

3.13 Unauthorised toll collection

The Company continued to impose and collected toll of ₹29.31 crore on five State Highways despite their declaration as National Highways in violation of the provisions of Haryana Mechanical Vehicles (Levy of Tolls) Act, 1996.

Section 3 of the Haryana Mechanical Vehicles (Levy of Tolls) Act, 1996 provided that no toll shall be levied on any mechanical vehicle crossing or using any toll facility once any State Highway is declared as National Highway. As per Constitution of India, National Highways are covered under Union List and making law on the subject matter is exclusive prerogative of the Parliament.

The Company develops the State Highways and collect toll thereon as per directions/ approval of the State Government from time to time. On the five State highways[36] developed by the Company, it was collecting toll at five toll points on its own or through contractors. The period of validity of these five contracts ranged between April 2014 to February 2016. Terms and conditions of the contracts, *inter-alia,* provided that the Company could terminate their contracts any time without assigning any reason, after issuing 15 days' notice to them.

[36] Gurgaon-Sohana Road, Sohana-Nuh-Ferozepur-Zhirkha-Alwar Road, UP border-Sonepat Gohana Road, Sardulgarh-Sirsa Road, Narnaul-Singhana road

The Government of India (GoI), Ministry of Road Transport and Highways, declared these five State Highways as National Highways on 4 March 2014. We observed that the Company continued to charge toll on these roads up to 25 December 2014 and collected ₹29.31 crore, in violation of the provisions of Haryana Mechanical Vehicles (Levy of Tolls) Act, 1996 despite the fact that Company could terminate their contracts any time without assigning any reason, after issuing 15 days' notice.

The Management stated (June 2015) that collection of toll on notified toll points could not be closed without concurrence of Finance Department and approval of Council of Ministers. The notification for closure of toll points was issued (10 December 2014) after the proposal to close these toll points was approved (25 November 2014) by the Council of Ministers and were accordingly closed on 26 December 2014. So, the collection of toll on these five points was not unauthorised. The reply was not convincing as the Company did not immediately initiate the process of seeking approval of the Government to close the collection of toll once it came to know of the declaration of State Highways as National Highways in March 2014. The late initiation of process of seeking approval for termination of tolls resulted in late decision making and the imposition and collection of toll from March 2014 to December 2014 was an unnecessary burden on the users.

The matter was referred to the Government (May 2015); their reply was awaited (January 2016).

Haryana Tourism Corporation Limited

3.14 Review of Core Activities

The Company has started suffering operational losses in its core activities from the year 2012-13 and it suffered loss of ₹5.44 crore in 2014-15 due to high food and fuel cost, high manpower cost, lack of innovative marketing strategies and low quality of services at its complexes.

3.14.1 Introduction

Haryana Tourism Corporation Limited (Company) was incorporated (May 1974) to promote tourism in the State. It operated 42 to 43 complexes during 2010-11 to 2014-15 which were assigned on lease by Tourism Department. The Company has divided its activities into core activities (accommodation, catering and liquor) and non-core activities (leasing, parking, gate entry, boating and petrol pumps). Audit examined the operation of core activities, which is the main constituent, for promotion of tourism in the State. The share of revenue from core activities in the company ranged between 16.59 and 20.30 *per cent* during 2009-14. Audit selected a sample of

11 complexes[37] which contributed 43 *per cent* of turnover from core activity for detailed scrutiny to assess the efficiency.

Audit observed that the contribution of core activities to total operational profit[38] of Company decreased from ₹5.79 crore in 2010-11 to ₹2.37 crore in 2011-12 and turned into loss in the subsequent years which increased from ₹0.64 crore in 2012-13 to ₹5.44 crore in 2014-15. The number of loss making tourist complexes increased from 26 (60 *per cent*) in 2010-11 to 32 (76 *per cent*) in 2014-15. Of these, 24 complexes were consistently incurring losses in their core activities during 2010-15 and had incurred operational loss of ₹35.26 crore during this period.

3.14.2 Tourist Arrivals

The number of domestic tourists[39] visiting the complexes of the Company decreased from 68.25 lakh in 2010-11 to 64.47 lakh in 2013-14 and increased to 75.46 lakh in 2014-15. At the same time, the number of foreign tourists visiting the Complexes increased from 1.30 lakh to 3.06 lakh during 2010-15. However, the overall tourist arrival decreased from 69.55 lakh in 2010-11 to 66.87 lakh in 2013-14 but increased to 78.52 lakh in 2014-15. The Company needs to deploy new tourist friendly facilities to attract more tourists to its complexes by analysing their feedbacks.

3.14.3 Non-achievement of targets

The Company fixed quarterly financial targets[40] for each complex for core activities. It was observed that the number of complexes achieving the target had decreased from 12 in 2010-11 to 2 in 2014-15 and percentage of shortfall in respect of complexes not achieving the targets ranged between 9.02 and 77.02 of all the complexes during this period. Trends on the key parameters *i.e.*, profitability, occupancy and other cost factors in respect of selected complexes are given in ***Appendix* 7**.

The Management (September 2015) and Government (December 2015) stated that the targets were kept usually on higher side to build up pressure on the complexes and these could not be achieved due to high raw material cost, high salary cost and reduction of business due to difficulty in access to complexes. The reply is not convincing and the Company should have set realistic and achievable targets, the factors of increase in raw material cost and wage bills having been factored in. The complexes with shortfall in targets of above 20 *per cent* had increased from 3 in 2012-13 to 39 in 2014-15.

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[37] The complexes of Yadavindra Gardens Pinjore, Kingfisher Ambala, Magpie Faridabad, Badkhal lake Faridabad, Hotel Rajhans Surajkund, Hermitage Huts Surajkund, Saras Damdama, Barbet Sohna, Grey Pelican Yamunanagar, Tilyar Rohtak and Skylark Panipat were selected on the basis of their turnover on 'Probability Proportionate to Size Method'.

[38] Worked out in audit on the basis of total operational profits/ loss in the complex *minus* sales from non-core activities. Total operational profits worked out without charging apportioned cost of depreciation and common overheads of the Company.

[39] Data compiled by Tourism Department, Haryana.

[40] The targets were fixed in terms of turnover up to 2012-13 and in terms of operational profits from 2013-14.

3.14.4 Food Cost and Fuel Cost

The Company had fixed norms for food cost (August 2008) and fuel cost (December 2012) according to which food cost was to range between 20 and 35 *per cent* and fuel cost between 5 and 12 *per cent* of the turnover for all its complexes. In the selected 11 complexes, the number of complexes where the food cost was more than norms ranged between 3 and 5 during 2010-15. There was extra expenditure of ₹0.44 crore at these complexes. Similarly, complexes where the fuel cost was more than norms increased from 4 in 2010-11 to 9 in 2013-14 and came down to 7 in 2014-15. There was extra expenditure of ₹0.31 crore at these locations.

COPU had also recommended (March 2013) that the Company should keep food cost close to the norms and efforts be made to maintain quality and cost should be reasonable. The Company failed to control its food cost during 2013-14 and 2014-15.The food cost at 4 and 5[41] out of eleven selected Complexes was still more than norms and excess consumption ranged between 4.55 *per cent* and 25.92 *per cent* during the two years.

The Management (September 2015) and Government (December 2015) stated that some units were not able to meet the norms due to increase in rates of raw material and fuel cost and review of norms was under process. The reply is not acceptable as the norms are fixed keeping in view progression in the cost of the raw material and fuel.

3.14.5 Cost of Electricity

We observed that the Company had not fixed norms for consumption of electricity in its tourist complexes. In the selected 11 complexes, the average cost of electricity as a percentage of turnover, ranged between 5.39 (Hermitage Huts, Surajkund) and 32.31 (Yadavindra Gardens, Pinjore) during 2010-15. The Company needs to fix norms to control high electricity cost. Further, the Company had installed key card system[42] in the guest rooms in only two[43] out of 11 test-checked complexes. With the use of key card system, the consumption of electricity in rooms could be reduced[44] by 20 to 30 *per cent* and consequently the Company could have saved ₹1.71 crore (20 *per cent* of electricity bill of ₹8.54 crore) from its electricity charges.

For the electricity connections obtained at its Complexes, the Company had been paying fixed charges on the total sanctioned load. In five[45] complexes maximum demand recorded in the electricity bills was lesser than its

41 Badkhal Faridabad, Hermitage huts Surajkund, Hotel Rajhans Surajkund, Yadavindra Gardens Pinjore, and Barbet Sohna.

42 An energy saving system in which when the client inserts the card attached with the room key on entering his room, electricity is switched on and when the client leaves the room and retrieves the card, electricity is switched off.

43 Sohna and Yamunanagar.

44 As per paper on Energy Efficiency in Hotel Energy Solutions (a United Nations World Tourism Organisation initiated project).

45 Hotel Rajhans, Tilyar Rohtak, Skylark Panipat, Kingfisher Ambala and Magpie Faridabad

sanctioned/ connected load. Had the Company got its sanctioned load reduced on the basis of actual requirements, it could have avoided the payment of ₹0.44 crore during 2012-13 to 2014-15 in these five complexes.

While admitting the points, Management stated (September 2015) that directions have been issued (September 2015) to save electricity and reassess the sanctioned load at unit level.

Audit observed that Hotel Rajhans, Surajkund had obtained a bulk supply electricity connection of 802 KW for its Complex including residential staff quarters. The residential area had 81 to 66 staff quarters with connected load ranging between 197 KW and 164 KW during 2009-15. It had not installed any sub meters to measure electricity consumption in residential area and instead charged a lumpsum amount from the allottee employees. Thus, Company had to bear an amount of ₹0.83 crore[46] during 2009-15 due to non-installation of separate meters for staff quarters.

The Management (September 2015) and Government (December 2015) stated that separate domestic electricity connection in each residential dwelling unit has been provided in June 2015. However the fact remains that due to delayed action of installation of separate meters for staff quarters, the Company had to bear an amount of ₹0.83 crore during 2009-15.

3.14.6 Manpower cost

The Company had decided (March 1989) that salary cost at each complex should not exceed 20 to 25 *per cent* of the turnover of that complex. During 2010-15 in the selected 11 complexes, salary cost ranged between 29.03 *per cent* (Hermitage Huts, Surajkund) and 58.75 *per cent* (Skylark, Panipat) of the turnover. Against the total turnover of ₹149.88 crore the complexes incurred ₹68.40 crore (45.64 *per cent*) towards salary cost. Audit observed that despite consistent high manpower cost during 2010-15, Management did not take steps to rationalise it.

The Management (September 2015) and Government (December 2015) stated that efforts were being made to increase the sales and reduce the number of regular posts by maximising the outsourcing of services.

3.14.7 Occupancy of Complexes

The Company had neither fixed any targets for occupancy nor worked out breakeven level for its Complexes. The occupancy levels of the complexes ranged between 55 *per cent* (2012-13) and 71 *per cent* (2010-11) during 2010-15.

Against the All India average of total room occupancy during 2009-14 of 60 *per cent*[47], the average occupancy of three Complexes[48] out of 11 selected

[46] This has been worked out by assuming a connected load of 2 KW for one room, 3 KW for two rooms and 5 KW for officer quarter as per norms of electricity distribution companies.

[47] Source: Federation of Hotel and Restaurant Association of India data.

[48] Yadavindra Gardens Pinjore, Hotel Rajhans and Saras Damdama.

complexes ranged between 44 *per cent* and 57 *per cent.* Average occupancy of Hotel Rajhans was the lowest at 31 *per cent* during 2009-14.

The Tourism Policy 2008 of the State envisaged that the Company may use the services of Event Managers for marketing and promotion of tourism and introduce facilities in its hotels to make them more tourists friendly. However, the Company had not availed the services of Event Managers except at two occasions[49] during 2010-15.

The Management (September 2015) and Government (December 2015) stated that the occupancy percentage had been affected due to difficulty in access to the tourist complexes as a whole and not for individual complex and flexibility of rates of rooms had been implemented (June 2015) in Hotel Rajhans on experimental basis. The reply is not acceptable as accessibility to the complexes had been affected in only two[50] out of 11 selected complexes and the poor business performance of individual complexes would adversely affect the performance of Company as a whole.

COPU had also recommended that in order to improve the occupancy, powers be provided to officer- in- charge of the complexes to offer flexible rates of rooms to compete with the private hotels but the Company had taken action only at one complex on experimental basis, so far (November 2015).

3.14.8 Quality of Services

Quality of services includes quality of food, hygienic environment, cleanliness, security of premises and behaviour of staff to achieve customer satisfaction. However, the Company has not formulated any policy/ norms on quality of services to be provided in its Complexes.

To check and maintain the quality of services, regular inspection of the Complexes has to be undertaken. However, only eight inspections (against the norm of 96 inspections) were carried out during October 2013 to March 2014 and 40 inspections during 2014-15 (against norm of 192 inspections). Thus, an important mechanism, through which services and customer satisfaction should have been closely monitored and improved, was treated in a perfunctory manner.

Conclusion

There was decreasing trend of complexes which achieved the financial targets for core activities set by the management. The Company had suffered losses in its core activities during the last three years from 2012-13 to 2014-15 due to food, fuel and electricity costs exceeding the norms set as also high manpower costs coupled with low occupancy.

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[49] Mango Mela 2014 and Heritage Festival 2014 at Pinjore.
[50] Kingfisher Ambala and Skylark Panipat

Statutory Corporation

Haryana State Warehousing Corporation

3.15 Avoidable expenditure

The Corporation incurred avoidable expenditure of ₹0.69 crore on construction of building without getting the mutation done in its name.

The State Government decided (19 June 2012) to enhance the State foodgrains storage capacity and directed Haryana State Warehousing Corporation (Corporation) to increase the storage capacity by seven lakh MT. Government accorded approval (19 December 2013) for transfer of land[51] pertaining to Government Livestock Farm (GLF), Hisar to the Corporation for creation of this additional storage. The Corporation paid (26 March 2014) ₹12.78 crore to the GLF and took possession of the land (1 April 2014). It also got the land demarcated (14 May 2014) from Revenue authorities, Hisar. However, without getting mutation done in its name and obtaining Change of Land Usage (CLU) from District Town Planner, Hisar, the Corporation allotted (19 May 2014) a work order after inviting (06 February 2014) tender for construction of warehouse for ₹6.97 crore. The contractor started the construction work on 1 June 2014.

Managing Director of the Corporation in the Officers' meeting (7 June 2014) instructed that Corporation would not start construction unless the requisite mutation is got done in the name of the Corporation and possession is taken free from all encumbrances. While the work was in progress, the Corporation came to know (7 August 2014) that major part of the land which it had purchased, had already been acquired by Government of India (GoI) for proposed National Highway. The Corporation in a meeting (14 August 2014) with National Highway Authority of India (NHAI) requested for alteration of the bye-pass project but NHAI did not agree and asked (12 September 2014) the Corporation to dismantle the construction already made.

Audit noticed that though it was directed (7 June 2014) that construction would not start till mutation is done in Corporation's name, yet construction work continued up to 20 August 2014 without mutation. The Corporation had paid by March 2015 ₹0.69 crore against the execution of work of ₹1.17 crore to the contractor.

Thus, had the Corporation stopped the construction work immediately after decision was taken (7 June 2014) not to start the construction without requisite mutation, the expenditure incurred by the Corporation on construction could have been avoided. The construction on the land without obtaining mutation and continuing with construction work, despite directions to the contrary, resulted in avoidable expenditure of ₹0.69 crore which will further increase to ₹1.17 crore when the entire payment to the contractor shall be made.

[51] Measuring 15 acre 6 kanal and 12 marla

The Government and Management in their reply (September 2015) stated that in many cases where the Corporation had constructed the godowns, mutation of land was yet to be done and is being pursued. However, to prevent recurrence of such incidents in future, the Corporation decided (June 2015) that MD should ensure that the construction works were taken up only after getting NOC from the office of Deputy Commissioner of the district where the works were to be taken up clearly stating that the land is free from all encumbrances. It also stated that the Chief Minister Office had approved (May 2015) allotment of additional one acre land against token money of ₹one to compensate the loss incurred on construction activities on acquired land by NHAI. The reply is not convincing as had the corporation implemented its decision of 7 June 2014, the expenditure of ₹0.69 crore could have been avoided.

(Mahua Pal)

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

Dated: 2 MAR 2016

Countersigned

(Shashi Kant Sharma)

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

Dated: 3 MAR 2016

Appendices

Appendix 1

Statement showing investments made by State Government in PSUs whose accounts are in arrears

(Referred to in paragraph 1.11)

(Figures in columns 4 & 6 to 9 are ₹ in crore)

Sl. No.	Name of the Public Sector Undertaking	Year up to which accounts finalised	Paid up capital	Period of accounts pending finalisation	Investment made by State Government during the year of which accounts are in arrears			
					Equity	Loans	Grants	Others to be specified (subsidy)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
A	**Working Government Companies**							
1.	Haryana Land Reclamation and Development Corporation Limited	2013-14	1.56	2014-15	-	-	7.39	-
2.	Haryana Seeds Development Corporation Limited	2013-14	5.00	2014-15	-	-	13.89	-
3.	Haryana Scheduled Castes Finance and Development Corporation Limited	2009-10	42.62	2010-11	5.49	-	-	4.10
				2011-12	-	-	-	4.00
				2012-13	-	-	-	4.35
				2013-14				6.50
				2014-15	-	-	-	6.75
4.	Haryana Backward Classes and Economically Weaker Section Kalyan Nigam Limited	2010-11	20.47	2011-12	1.00	-	-	1.06
				2012-13	1.00	-	-	1.25
				2013-14	1.25	-	-	3.55
				2014-15	1.25	-	-	3.50
5.	Haryana Women Development Corporation Limited	2009-10	16.61	2010-11	-	-	-	1.50
				2011-12	-	-	-	3.35
				2012-13	-	-	-	3.91
				2013-14	-	-	5.00	-
				2014-15	-	-	-	2.10
6.	Haryana State Industrial and Infrastructure Development Corporation	2013-14	48.83	2014-15	0.02	-	-	-
7.	Haryana Police Housing Corporation Limited	2013-14	25.00	2014-15	-	-	68.00	-
8.	Haryana Tourism Corporation Limited	2011-12	23.66	2012-13	-	-	23.92	-
				2013-14	1.00		20.29	-
				2014-15	-	-	21.50	-
9.	Uttar Haryana Bijli Vitran Nigam Limited	2013-14	1630.28	2014-15	10.00	-	-	3136.59
10.	Dakshin Haryana Bijli Vitran Nigam Limited	2013-14	1439.13	2014-15	10.00	37.48	-	2098.04
11.	Haryana State Electronics Development Corporation Limited	2013-14	9.88	2014-15	0.01	-	-	-
	Total A (Working Government Companies)				**31.02**	**37.48**	**159.99**	**5280.55**
B	**Working Statutory corporations**							
	Total B (Working Statutory Corporations)	-	-	-	-	-	-	-
	Grand Total (A + B)				**31.02**	**37.48**	**159.99**	**5280.55**

Appendix 2

Summarised financial position and working results of Government companies and Statutory Corporations as per their latest finalised financial statements/ accounts

(Referred to in paragraph 1.16)

(Figures in columns 5 to 12 are ₹ in crore)

Sl. No.	Sector/ name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/ loss(-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
A.	**WORKING GOVERNMENT COMPANIES**												
AGRICULTURE AND ALLIED													
1.	Haryana Agro Industries Corporation Limited	2013-14	2015-16	4.14	13.22	(-)40.29	2813.55	(-)45.12	Under finalisation	(-)22.93	(+)163.19	-	114
2.	Haryana Land Reclamation and Development Corporation Limited	2013-14	2014-15	1.56	-	(+)7.01	79.81	(+)1.11	Non Review Certificate	(+)8.61	(+)1.13	13.12	109
3.	Haryana Seeds Development Corporation Limited	2013-14	2014-15	5.00	-	(+)10.90	115.63	(+)0.59	(-)0.36	(+)28.25	(+)2.91	10.30	258
4.	Haryana Forest Development Corporation Limited	2012-13	2014-15	0.20	-	(+)38.10	85.42	(+)6.29	Non Review Certificate	(+)38.30	(+)6.30	16.45	80
		2013-14	2015-16	0.20	-	(+)43.23	72.85	(+)5.81	Non Review Certificate	(+)43.43	(+) 5.82	13.40	73
Sector Wise Total				**10.90**	**13.22**	**(+)20.85**	**3081.84**	**(-)37.61**	**(-)0.36**	**(+)57.36**	**(+)173.05**	**301.69**	**554**
FINANCE													
5.	Haryana Scheduled Castes Finance and Development Corporation Limited	2009-10	2013-14	42.62	14.30	(+)1.63	1.33	(+)0.88	(-)3.70	(+)58.55	(+)1.52	2.60	102
6.	Haryana Backward Classes and Economically Weaker Section Kalyan Nigam Limited	2010-11	2015-16	20.47	60.26	(-)9.26	0.99	(-)1.88	Non Review Certificate	(+) 80.73	(+)1.41	1.75	32
7.	Haryana Women Development Corporation Limited	2009-10	2014-15	16.61	-	(+)0.77	3.53	(+)0.66	Non Review Certificate	(+) 18.25	(+)0.66	3.62	41
Sector Wise Total				**79.70**	**74.56**	**(-)6.86**	**5.85**	**(-)0.34**	**(-)3.70**	**(+)157.53**	**(+)3.59**	**2.28**	**175**

Sl. No.	Sector/ name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/ loss(-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
INFRASTRUCTURE													
8.	Haryana State Industrial and Infrastructure Development Corporation Limited	2013-14	2015-16	48.83	1934.01	(+)1119.64	5073.29	(+)748.59	Under finalisation	(+)3154.78	(+)1046.76	33.18	580
9.	Haryana Police Housing Corporation Limited	2013-14	2015-16	25.00	183.85	(+)0.35	45.43	(+)0.08	Under finalisation	(+)209.20	(+)21.47	10.26	190
10.	Haryana State Roads & Bridges Development Corporation	2012-13	2015-16	122.04	-	(-)25.28	126.16	0.00	(-)8.51	(+)96.76	(+)97.44	100.70	71
		2013-14	2015-16	122.04	-	(-)29.76	157.13	(-)4.48	Under finalisation	(+)92.28	(+)134.74	146.01	
Sector Wise Total				**195.87**	**2117.86**	**(+)1090.23**	**5275.85**	**(+)744.19**	**-**	**(+)3456.26**	**(+)1202.97**	**34.81**	**841**
POWER													
11.	Haryana Power Generation Corporation Limited	2013-14	2014-15	2880.24	3802.50	(-)438.45	5931.88	(-)25.50	-	(+)6718.18	(+)896.22	13.34	3403
		2014-15	2015-16	2890.24	3310.28	(-)333.68	6377.45	(+)108.21	Under finalisation	(+)6340.73	(+)758.05	11.96	
12.	Haryana Vidyut Prasaran Nigam Limited	2013-14	2014-15	2111.84	5505.79	(+)16.08	1056.52	(-)175.14	(-)959.47	(+)8093.57	(+)273.17	3.38	4269
		2014-15	2015-16	2148.78	5818.45	(+)189.26	1377.61	(-)8.42	Under finalisation	(+)8495.48	(+)468.04	5.51	
13.	Uttar Haryana Bijli Vitran Nigam Limited	2013-14	2015-16	1630.28	16236.54	(-)13893.80	10111.94	(-)1465.01	(-)79.60	(+)4494.54	(+)143.87	3.20	9371
14.	Dakshin Haryana Bijli Vitran Nigam Limited	2013-14	2014-15	1439.13	10235.50	(-)10726.59	9849.88	(-)2088.65	(-)7.23	(+)2005.92	(-)1096.96	-	10056
15.	Yamuna Coal Company Private. Limited	2014-15	2015-16	1.24	-	(-)0.05	-	(+)0.01	Non Review Certificate	(+)1.19	(+)0.01	0.84	-
Sector Wise Total				**8109.67**	**35600.77**	**(-)24764.86**	**27716.88**	**(-)3453.86**	**(-) 86.83**	**(+)21337.86**	**(+)273.01**	**1.28**	**27099**
SERVICE													
16.	Haryana Tourism Corporation Limited	2011-12	2015-16	23.66	-	(+)31.91	250.03	(+)2.01	Non Review Certificate	(+)57.34	(+)2.01	3.51	1489
17.	Haryana Roadways Engineering Corporation Limited	2012-13	2015-16	6.60	-	(+)13.88	142.99	(+)13.88	Non Review Certificate	(+)21.35	(+)17.26	80.84	118

Sl. No.	Sector/ name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/ loss(-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
18.	Haryana State Electronics Development Corporation Limited	2012-13	2013-14	9.87	-	(+)48.96	25.45	(+)6.71	Non Review Certificate	(+)63.72	(+)8.57	13.45	204
		2013-14	2014-15	9.88	-	(+)57.69	32.20	(+)8.73	Non Review Certificate	(+)72.45	(+)10.49	14.48	-
19.	Hartron Informatics Limited	2013-14	2014-15	0.50	-	(+)2.98	0.37	(+)0.20	Non Review Certificate	(+)3.48	(+)0.20	5.75	-
20.	Gurgaon Technology Park Limited	2010-11	2011-12	14.72	-	(+)8.99	1.09	(+)4.85	Non Review Certificate	(+)36.94	(+)4.85	13.13	2
21.	Haryana Mass Rapid Transport Corporation Limited	2013-14	2014-15	0.82	-	(-)0.15	-	(-)0.15	Nil Certificate	(+)0.67	(-)0.15	-	-
Sector Wise Total				**56.18**	**-**	**(+)115.30**	**426.68**	**(+)29.52**	**-**	**(+)192.23**	**(+)34.66**	**18.03**	**1813**
Total A (All sector wise working Government companies)				**8452.32**	**37806.41**	**(-)23545.34**	**36507.10**	**(-)2718.10**	**(-)90.89**	**(+)25201.24**	**(+)1687.28**	**6.70**	**30482**
B.	**Statutory corporations**												
AGRICULTURE & ALLIED													
1.	Haryana State Warehousing Corporation	2013-14	2015-16	5.84	32.77	-	97.11	(+)34.23	(-)2.28	(+)324.45	(+)35.37	10.90	667
Sector Wise Total				**5.84**	**32.77**	**-**	**97.11**	**(+)34.23**	**(-)2.28**	**(+)324.45**	**(+)35.37**	**10.90**	**667**
FINANCE													
2.	Haryana Financial Corporation	2013-14	2014-15	207.66	62.01	(-)160.60	7.26	(+)2.97	-	(+)125.65	(+)2.98	2.37	99
		2014-15	2015-16	207.66	-	(-)108.77	4.02	(+) 51.83	Under finalisation	(+)224.24	(+)52.13	23.25	
Sector Wise Total				**207.66**	**-**	**(-)108.77**	**4.02**	**(+)51.83**	**-**	**(+)224.24**	**(+)52.13**	**23.25**	**99**
Total B (All sector wise working statutory corporations)				**213.50**	**32.77**	**(-)108.77**	**101.13**	**(+)86.06**	**(-)2.28**	**(+)548.69**	**(+)87.50**	**15.95**	**766**
Grand Total (A+B)				**8665.82**	**37839.18**	**(-)23654.11**	**36608.23**	**(-)2632.04**	**(-)93.17**	**(+)25749.93**	**(+)1774.78**	**6.89**	**31248**
C.	**Non working Government companies**												
AGRICULTURE & ALLIED													
1.	Haryana State Minor Irrigation & Tubewell Corporation Limited	2013-14	2015-16	10.89	-	(-)352.89	-	(-)2.98	Nil Certificate	(-)342.00	(-)2.98	-	18
Sector Wise Total				**10.89**	**-**	**(-)352.89**	**-**	**(-)2.98**	**-**	**(-)342.00**	**(-)2.98**	**-**	**18**

Sl. No.	Sector/ name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/ loss(-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
FINANCE													
2.	Haryana State Housing Finance Corporation Limited #	Ended 31 Aug 2001	2003-04		-	-	-	-	Non Review Certificate			-	-
Sector Wise Total					**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
POWER													
3.	Haryana Coal Company Limited	24.01.2013 to 31.03.2014	2014-15	0.01	-	-	-	-	Non Review Certificate	-	-	-	-
Sector Wise Total				**0.01**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
INFRASTRUCTURE													
4.	Haryana Concast Limited.#	1997-98	1998-99	6.85	3.69	(-)27.18	-	(-)7.97	-	(+)9.40	(-)3.57	-	-
Sector Wise Total				**6.85**	**3.69**	**(-)27.18**	**-**	**(-)7.97**	**-**	**(+)9.40**	**(-)3.57**	**-**	**-**
MISCELLANEOUS													
5.	Haryana Minerals Limited	2011-12	2013-14	0.24	5.03	(-)9.20	-	(-)1.24	Non Review Certificate	(-)3.93	(-)1.14	-	-
		2012-13	2015-16	0.24	5.03	(-)9.68	-	(-)0.49	Nil comments	(-)4.41	(-)0.39	-	
Sector Wise Total				**0.24**	**5.03**	**(-)9.68**	**-**	**(-)0.49**	**-**	**(-)4.41**	**(-)0.39**	**-**	**-**
Total C (All sector wise non working Government companies)				**17.99**	**8.72**	**(-)389.75**	**-**	**(-)11.44**		**(-)337.01**	**(-)6.94**	**-**	**18**
Grand Total (A+B+C)				**8683.81**	**37847.90**	**(-)24043.86**	**36608.23**	**(-)2643.48**	**(-)93.17**	**(+)25412.92**	**(+)1767.84**	**6.96**	**31266**

@ Capital employed represents Shareholders fund and long term borrowings

\# Companies under liquidation

Appendix 3

Statement showing working results of DCRTPP and RGTPP for the last five years ending March 2015

(Referred to in paragraph 2.1.6)

(₹ in crore)

Sl. No.	Description	2010-11	2011-12	2012-13	2013-14	2014-15
DCRTPP						
1	**Income**					
	Generation Revenue	1152.38	957.65	296.34	1163.29	1274.84
	Other Income	-	113.82	53.32	212.98	110.67
	Total Income	**1152.38**	**1071.47**	**349.66**	**1376.27**	**1385.51**
2	**Generation**					
	Power Generation in MU	3881.19	3239.00	963.31	3472.36	3515.53
	less :Auxiliary Power Consumption	377.68	300.00	100.78	314.35	309.12
	Net Power Generated in MU	**3503.51**	**2939.00**	**862.53**	**3158.01**	**3206.41**
3	**Expenditure**					
(a)	Variable cost	808.77	727.78	269.46	975.73	992.72
(b)	Fixed cost	375.83	416.80	437.69	422.27	398.78
(c)	**Total Cost (a + b)**	**1184.60**	**1144.58**	**707.15**	**1398.00**	**1391.50**
4	**Profit/ Loss [1-3(c)]**	**(-)32.22**	**(-)73.11**	**(-)357.49**	**(-)21.73**	**(-)5.99**
	Variable cost per unit (in ₹)	2.31	2.48	3.12	3.09	3.10
	Fixed cost per unit (in ₹)	1.07	1.41	5.08	1.34	1.24
	Fixed cost approved by HERC (in ₹)	1.34	1.24	1.0193	1.1504	1.14
5	**Total Cost per unit (in ₹)**	**3.38**	**3.89**	**8.20**	**4.43**	**4.34**
6	**Revenue per unit (in ₹)**	**3.29**	**3.64**	**4.06**	**4.36**	**4.32**
7	**Profit/Loss per unit (in ₹)**	**(-)0.09**	**(-)0.25**	**(-)4.14**	**(-)0.07**	**(-)0.02**
RGTPP						
1	**Income**					
	Generation Revenue	295.91	1553.46	1586.77	1745.33	2346.55
	Fuel Surcharge Adjustment	87.04	-	-	-	-
	Other Income	-	272.14	402.93	322.50	291.73
	Total Income	**382.95**	**1825.60**	**1989.70**	**2067.83**	**2638.28**
2	**Generation**					
	Power Generation in MU	2468.94	5558.00	4992.92	4381.96	5720.72
	less :Auxiliary Power Consumption	246.33	349.00	296.31	255.64	334.80
	Net Power Generated in MU	**2222.61**	**5209.00**	**4696.61**	**4126.32**	**5385.92**
3	**Expenditure**					
(a)	Variable cost	361.33	1541.96	1500.11	1336.44	1939.05
(b)	Fixed cost	106.42	714.66	768.28	708.26	697.14
(c)	**Total Cost (a + b)**	**467.75**	**2256.61**	**2268.39**	**2044.70**	**2636.19**
4	**Profit/Loss [1-3(c)]**	**(-)84.80**	**(-)431.01**	**(-)278.69**	**23.13**	**2.09**
	Variable cost per unit (in ₹)	1.63	2.96	3.19	3.24	3.60
	Fixed cost per unit (in ₹)	0.47	1.37	1.64	1.72	1.29
	Fixed cost approved by HERC (in ₹)	1.47	0.96	0.9757	1.1282	1.01
5	**Total Cost per unit (in ₹)**	**2.10**	**4.33**	**4.83**	**4.96**	**4.89**
6	**Revenue per unit (in ₹)**	**1.72**	**3.50**	**4.24**	**5.02**	**4.90**
7	**Profit/Loss per unit (in ₹)**	**(-)0.38**	**(-)0.83**	**(-)0.59**	**0.06**	**0.01**

Appendix 4

Statement showing Operational Performance of DCRTPP & RGTPP during last five years ending March 2015

(Referred to in paragraph 2.1.7)

Sl. No.	Particulars		2010-11	2011-12	2012-13	2013-14	2014-15
1	**Installed Capacity (in MW)**						
	DCRTPP	Unit I	300	300	300	300	300
		Unit II	300	300	300	300	300
	RGTPP	Unit I	600	600	600	600	600
		Unit II	600	600	600	600	600
2	**Power Generated (in MUs)**						
	DCRTPP	Unit I	2235.96	2424.09	246.84	2182.62	1979.84
		Unit II	1645.23	814.62	716.47	1289.75	1535.70
	RGTPP	Unit I	1211.45	2870.20	1812.40	2779.00	3522.23
		Unit II	25.93	2688.06	3180.52	1602.96	2198.49
3	**Auxiliary consumption (in MUs)**						
	DCRTPP	Unit I	205.16	212.59	32.25	189.85	171.43
		Unit II	172.34	89.97	68.52	124.50	137.69
	RGTPP	Unit I	104.01	176.93	106.10	157.53	211.74
		Unit II	4.76	177.18	190.21	98.11	123.06
4	**Net Power Generated (in MUs)**						
	DCRTPP	Unit I	2030.79	2211.50	214.58	1992.77	1808.41
		Unit II	1472.88	724.65	647.95	1165.25	1398.01
	RGTPP	Unit I	1107.43	2693.26	1706.30	2621.46	3310.49
		Unit II	21.17	2510.89	2990.31	1504.86	2075.43
5	**Backing down hours**						
	DCRTPP	Unit I	220.40	120.60	412.90	1089.13	893.37
		Unit II	301.33	111.67	251.27	919.43	1057.90
	RGTPP	Unit I	131.12	163.66	512.04	2221.00	2062.00
		Unit II	-	43.12	304.52	1104.31	1778.39
6	**Backing Down prospective generation (in MUs)**						
	DCRTPP	Unit I	66.12	36.18	123.87	326.74	268.02
		Unit II	90.4	33.5	75.38	275.83	317.37
	RGTPP	Unit I	78.67	98.2	307.23	1332.6	1237.20
		Unit II	-	25.87	182.71	662.59	1067.03
7	**Fixed Cost per Unit (in ₹)**						
	DCRTPP		1.07	1.41	5.08	1.34	1.24
	RGTPP		0.47	1.37	1.64	1.72	1.29
8	**Variable Cost per unit (in ₹)**						
	DCRTPP		2.31	2.48	3.12	3.09	3.10
	RGTPP		1.63	2.96	3.19	3.24	3.60
9	**Total Cost per unit (in ₹)**						
	DCRTPP		3.38	3.89	8.20	4.43	4.34
	RGTPP		2.10	4.33	4.83	4.96	4.89
10	**Sale price per unit (in ₹)**						
	DCRTPP		3.29	3.64	4.06	4.36	4.32
	RGTPP		1.72	3.50	4.24	5.02	4.90
11	**Profit/ Loss per unit (in ₹)**						
	DCRTPP		(-)0.09	(-)0.25	(-)4.14	(-)0.07	(-)0.02
	RGTPP		(-)0.38	(-)0.83	(-)0.59	0.06	0.01

Appendix 5

Statement showing excess quantity of paddy allocated to the defaulting millers

(Referred to in paragraph 2.2.6)

No. of PAs	KMS	Name of DO	Name of the miller	Installed capacity (in MT)	Paddy to be allotted (in MT)	Paddy allotted (in MT)	Quantity excess allotted	Rice due (in MT)	Rice delivered (in MT)	Rice short delivered (in MT)	Total amount recoverable including interest (Figures ₹ in crore)
HSWC	2012-13	Kurukshetra	M/s Jayanti Rice Mill	3	4000	4120	120	2760	1564	1196	4.54
HAIC	2012-13	Jind	Dilip Rice Mill,Narwana	2	4000	4756	756	3187	2129	1058	4.01
-	-	-	M/s Sandeep Rice Mills, Baktua	2	4000	4328	328	2900	2077	823	3.06
-	-	-	M/s Bodh Prakash Rohit Kumar, Rice Mills, Chormatspur	2	4000	4448	448	2980	2671	309	1.14
-	-	-	M/s Shree Krishana Agro Foods, Chormatspur	4	6000	7180	1180	4811	2673	2138	7.95
-	-	Karnal	M/s Ambika Rice Mill	2	4000	4070	70	2727	1779	948	3.53
-	-	Jind	M/s Daya Chand Rice Mill, Dhamtan	6	6000	9449	3449	6331	5778	553	2.07
-	-	Fatehabad	M/s Bhagwati Rice Mills, Ratia	2	4000	4613	613	3090	2507	583	2.17
Total				**-**	**36000**	**42964**	**6964**	**-**	**-**	**-**	**28.47**

Appendix 6

Statement showing loss suffered due to misappropriation of paddy

(Referred to in paragraph 2.2.7.1)

No. of PAs	KMS	Name of DO	Name of the miller	Paddy allotted (in MT)	Rice due (in MT)	Rice delivered (in MT)	Rice short delivered (in MT)	Cost of rice (₹ in crore)	Penalty amount (₹ in crore)	Total Outstanding (₹ in crore)	Rate of interest (in *per cent*)	Period (in months)	Amount of interest (₹ in crore)	Total amount recoverable (₹ in crore)
HSWC	2012-13	Kurukshetra	M/s Jayanti Rice Mill	4120	2760	1564	1196	2.66	1.33	3.99	11.83	20	0.79	4.78
-	2013-14	Yamunanagar	Ganpati Enterprises Yamunanagar	5153	3453	2615	838	1.97	0.19	2.16	11.83	12	0.26	2.42
HAIC	2012-13	Jind	Dilip Rice Mill, Narwana	4756	3187	2129	1058	2.35	0.23	2.58	11.83	20	0.51	3.09
-	2013-14	Ambala	M/s Saini Agro Rice Mills, Naraingarh	2418	1620	1106	514	1.21	0.12	1.33	11.83	12	0.16	1.49
-	-	-	M/s Sandeep Rice Mills, Baktua	4328	2900	2077	823	1.93	0.19	2.12	11.83	12	0.25	2.37
-	-	-	M/s Bodh Prakash Rohit Kumar, Rice Mills, Chormatspur	4448	2980	2671	309	0.72	0.07	0.79	11.83	12	0.09	0.88
-	-	-	M/s Jai Maa Sharda Mills, Naraingarh	1023	685	162	523	1.23	0.12	1.35	11.83	12	0.16	1.51
-	-	-	M/s Shree Krishana Agro Foods, Chormatspur	7180	4811	2673	2138	5.01	0.50	5.51	11.83	12	0.65	6.16
-	-	-	M/s Mittal Rice, Mill, Ambala	1925	1290	485	805	1.89	0.19	2.08	11.83	12	0.25	2.33
-	-	Karnal	M/s Ambika Rice Mill	4070	2727	1779	948	2.22	0.22	2.44	11.83	12	0.29	2.73
-	-		M/s Vaishno Foods	2708	1814	377	1437	3.37	0.34	3.71	11.83	12	0.44	4.15
-	-	Jind	M/s Daya Chand Rice Mill, Dhamtan	9449	6331	5778	553	1.30	0.13	1.43	11.83	12	0.17	1.60
-	-	-	M/s Mittaso Rice Mills, Narwana	1563	1047	850	197	0.46	0.05	0.51	11.83	12	0.06	0.57
-	-	Fatehabad	M/s Bhagwati Rice Mills, Ratia	4613	3090	2507	583	1.37	0.13	1.50	11.83	12	0.18	1.68
-	-	-	M/s Mahalaxmi Rice Mills, Ratia	3807	2551	2478	73	0.17	0.02	0.19	11.83	12	0.02	0.21
HAIC	2014-15	Ambala	Gagan Rice Mill	5862	3927	2884	1043	2.56	1.28	3.84	-	-	0.00	3.84
-	-	-	Mohinder Rice Mill	6931	4644	3076	1568	3.85	1.92	5.77	-	-	0.00	5.77
-	-	-	Mahavir Enterprises	6322	4235	3292	943	2.32	1.16	3.48	-	-	0.00	3.48
-	-	Kurukshetra	Shyam Overseas	3795	2543	1724	819	2.01	1.00	3.01	-	-	0.00	3.01
-	**-**	**-**	**Total**	**84471**	**56595**	**40227**	**16368**	**38.6**	**9.19**	**47.79**	**-**	**-**	**4.27**	**52.06**

Note:-Cost of rice for KMS 2012-13 was ₹2223.71 per quintal for grade- A, for KMS 2013-14 was ₹2345.15 per quintal and for KMS 2014-15 was ₹2456.98 per quintal.

Appendix 7

Statement showing Trends on the key parameters *i.e.,* profitability, occupancy and other cost factors in respect of selected Complexes during 2010-11 to 2014-15

(Referred to in paragraph 3.14.3)

Sl. No.	Name of the complex	Profit/ loss (₹ in crore)		Fuel Cost	Food Cost	Salary cost as percentage of turnover		Electricity cost as percentage of turnover		Occupancy (in *per cent*)	
		Range	Trend	No. of years more than norms	No. of years more than norms	Range	Trend	Range	Trend	Range	Trend
1	Pinjore	-1.00 to -2.45	Increase in Loss	3 (2011-12 to 2013-14)	4 (2011-12 to 2014-15)	42.45 to 61.08	Increasing	22.10 to 49.00	Increasing	39 to 49	Decreasing
2	Hotel Rajhans	-1.33 to 0.49	Mix	1 (2011-12)	2 (2013-14 to 2014-15)	43.12 to 59.16	Mix	9.80 to 15.21	Increasing	22 to 36	Decreasing
3	Hermitage Huts	1.93 to 2.62	Decrease in profit	4 (2010-11, 2012-13 to 2014-15)	4 (2010-11 to 2012-13 & 2014-15)	25.48 to 38.39	Increasing	2.95 to 7.14	Increasing	64 to 80	Decreasing
4	Badkhal	-0.30 crore to 0.83 lakh	Increase in Loss	5 (2010-11 to 2014-15)	5 (2010-11 to 2014-15)	52.45 to 62.95	Increasing	8.00 to 12.49	Increasing	69 to 82	Increasing
5	Magpie	0.52 to 0.95	Decrease in profit	4 (2011-12 to 2014-15)	Nil	35.65 to 42.32	Increasing	6.43 to 9.28	Increasing	78 to 84	Mix
6	Damdama	-0.16 crore to 2.26 lakh	Increase in Loss	3 (2012-13 to 2014-15)	Nil	43.51 to 65.51	Mix	8.09 to 11.01	Mix	50 to 54	Increasing
7	Sohna	-0.30 crore to -1.34 lakh	Increase in Loss	5 (2010-11 to 2014-15)	2 (2010-11& 2014-15)	45.83 to 64.65	Mix	8.90 to 15.77	Increasing	59 to 68	Decreasing
8	Rohtak Tilyar	-1.89 to 0.21	Decrease in profit and loss in 2014-15	Nil	2 (2010-11 & 2013-14)	20.93 to 33.80	Mix	4.88 to 13.50	Mix	50 to 74	Decreasing
9	Ambala	-0.39 to 0.27	Increase in Loss	4 (2010-11 to 2013-14)	1 (2010-11)	39.99 to 60.52	Increasing	8.06 to 15.88	Increasing	40 to 77	Decreasing
10	Yamunanagar	-0.23 crore to -7.90 lakh	Decrease in Loss	3 (2012-13 to 2014-15)	Nil	43.65 to 100.72	Decreasing	6.36 to 11.06	Decreasing	58 to 69	Increasing
11	Panipat Skylark	-0.39 to -0.58	Increase in Loss	3 (2012-13 to 2014-15)	Nil	57.04 to 61.98	Decreasing	9.65 to 14.67	Mix	56 to 74	Increasing

Glossary

Glossary of Abbreviations	
ACQ	Annual Contract Quantity
ADB	Air Dried Basis
AHP	Ash Handling Plant
AP	Agriculture Pump
ARB	As Received Basis
BCCL	Bharat Coking Coal Limited
BCPA	Billing-cum-Payment Agents
BG	Bank Guarantee
BIFR	Board of Industrial and Financial Reconstruction
BoD	Board of Directors
BoM	Bank of Maharashtra
BS	Bulk Supply
BTG	Boiler Turbine and Generator
CA	Chartered Accountants
CAO	Chief Accounts Officer
CCL	Central Coalfields Limited
CCL	Cash Credit Limit
CD	Contract Demand
CEA	Central Electricity Authority
CIL	Coal India Limited
CLP	China Light Power
CLU	Change of Land Usage
CMIMS	Computerised Maintenance and Inventory Management System
CMR	Custom Milled Rice
COD	Commercial Operation Date
CONFED	Haryana State Federation of Consumer's Cooperative Wholesale Stores Limited
COPU	Committee on Public Undertaking
DCRTPP	Deenbandhu Chhotu Ram Thermal Power Plant
DGM	Deputy General Manager
DHBVNL	Dakshin Haryana Bijli Vitran Nigam Limited
DISCOMs	Distribution Companies
DMC	District Milling Committee
DPC	Dynamic Pricing Charges
DS	Development Surcharge
DTs	Distribution Transformers
ECL	Eastern Coalfields Limited
EMP	Estate Management Procedure
EPC	Engineering, Procurement and Construction
FCI	Food Corporation of India
FIR	First Information Report
FSA	Fuel Supply Agreement
FSC	Farmer Service Centres
FSD	Food & Supplies Department
FTO	Final Taking Over
GCV	Gross Calorific Value
GLF	Government Livestock Farm
GoH	Government of Haryana

Glossary of Abbreviations	
GoI	Government of India
HAFED	Haryana State Cooperative Supply and Marketing Federation Limited
HAIC	Haryana Agro Industries Corporation Limited
HERC	Haryana Electricity Regulatory Commission
HIP	High Intermediate Pressure
HPPC	Haryana Power Purchase Centre
HPPC	High Powered Purchase Committee
HSWC	Haryana State Warehousing Corporation
HT	High Tension
JPL	Jhajjar Power Limited
JTAs	Junior Technical Assistants
KL	Kilo Litre
KMS	Kharif Marketing Season
KVA	Kilo Volt Ampere
KW	Kilo Watt
kWh	Kilo Watt Hour
LA	Logistic Agent
LA	Logistics Agency
LD	Liquidated Damages
MCL	Mahanadi Coalfields Limited
MM	Milli Meter
MD	Managing Director
ML	Milli Litre
MOE&F	Ministry of Environment and Forest
MoU	Memorandum of Understanding
MSP	Minimum Support Price
MT	Metric Tonne
MTPA	Million Tonne Per Annum
MUs	Million Units
MVVNL	Madhyanchal Vidyut Vitran Nigam Limited
MW	Mega Watt
NCL	Northern Coalfields Limited
NDS	Non Domestic Supply
NHAI	National Highway Authority of India
NIP	New India Power
NIT	Notice Inviting Tenders
NIT	National Institute of Technology
OEM	Original Equipment Manufacturer
PAs	Procuring Agencies
PLF	Plant Load Factor
PO	Purchase Order
PPA	Power Purchase Agreement
PSUs	Public Sector Undertakings
PTO	Provisional Taking Over
PTPS	Panipat Thermal Power Station
PV	Physical Verification
RDS	Rural Domestic Supply

Glossary of Abbreviations	
RFP	Request for Proposal
RGTPP	Rajiv Gandhi Thermal Power Plant
RIL	Reliance Infrastructure Limited
ROM	Run of Mines
ROs	Regional Offices
SBI	State Bank of India
SEC	Shanghai Electric Corporation
SL	Sanctioned Load
SLC	Standing Linkage Committee
SPC	Store Purchase Committee
STLs	Short Term Loans
TAs	Technical Assistants
UHBVNL	Uttar Haryana Bijli Vitran Nigam Limited
ULHPPC	Utility Level High Powered Purchase Committee
WO	Work Order
WTD	Whole Time Directors