

## Chapter-III

### 3. Transaction audit observations relating to Government companies and Statutory corporations

Important audit findings noticed as a result of test check of transactions made by the State Government companies and Statutory corporations are included in this Chapter.

#### Government companies

#### Haryana State Industrial Development Corporation Limited

##### 3.1 *Doubtful recovery of loan*

#### Sanction and disbursement of loan without safeguarding its interest put the recovery of Company's dues of Rs. 9.13 crore at stake.

The State Government directed (12 March 2003) the Company to advance working capital loan upto rupees seven crore to Naraingarh Sugar Mills Limited (unit) to bail it out from financial crisis. The unit was not eligible for loan as it had already defaulted in repayment of earlier loan. The State Government also directed the Company to formulate detailed terms and conditions of the loan agreement adequately safeguarding its interest. In case the loan was not recovered from the unit it was adjustable against the dues payable by the Company to the Government on annual basis.

The Company sanctioned (14 March 2003) a corporate loan of rupees seven crore to the unit. The terms and conditions of sanction, *inter-alia*, provided that the loan shall be:

- repayable in two years in eight equal quarterly instalments;
- guaranteed by personal guarantees of unit's promoters;
- secured by first party *pari-passu* charge with other loans from term lending institutions on fixed assets; and
- charged on collateral security already mortgaged to the Company for earlier loans.

The Company released (17 March-7 May 2003) rupees seven crore without ensuring compliance of the stipulated terms and conditions of sanction. The unit was in default since inception (April 2003) and requested (11 July 2003) for rescheduling the recovery from December 2005 and waiver of some of the conditions *ibid*. The Company declined (21 August 2003) the request of the unit and directed to comply with the terms and conditions within 15 days. The

unit did not respond and the Company issued (15 January 2004) a recovery notice under Public Moneys (Recovery of dues) Act, 1979. The Company, without taking the approval of the State Government, adjusted (March 2004) Rs. 3.52 crore (term loan: Rs. 2.63 crore and interest: Rs. 0.89 crore) due for payment by the unit in their books against the dues payable by the Company to the State Government.

As the Company had not taken adequate safeguards before disbursement of the loan, it had to reverse the adjustment entry from the books. The unit neither paid interest nor any instalment of principal. As of March 2005, the default amount accumulated to Rs. 9.13 crore (principal: Rs. 7 crore and interest: Rs. 2.13 crore) for which the Company had no security (primary or collateral).

Thus, sanction of loan and disbursement thereof, without compliance of the terms & conditions led to doubtful recovery of Rs. 9.13 crore.

The management stated (April 2005) that the loan was disbursed with the condition that two *per cent* higher rate of interest would be charged till the compliance of the pending terms and conditions. Reply is not tenable as the Company should have safeguarded its interest through enforcing the terms & conditions as directed by the State Government prior to disbursement of the loan.

The matter was referred to the Government in March 2005; the reply had not been received (August 2005).

### **Haryana Roads and Bridges Development Corporation Limited**

#### **3.2 Avoidable payment of interest**

**Mobilising high cost funds without matching requirement and parking the surplus funds at low rate of interest resulted in avoidable interest out go of Rs. 44.79 lakh.**

Housing and Urban Development Corporation Limited (HUDCO) sanctioned (June 2000) a loan of Rs. 144.08 crore to the Company for improvement/upgradation of district roads in the State. As per the plan the Company would draw the loan during October 2001 - July 2003 in eight quarterly instalments. In case of non-drawal of any loan instalment within six months of the stipulated date, the Company would pay commitment charges at the rate of 0.10 *per cent* per quarter for the delayed drawal of funds. The State Government decided (December 2001) that the work would be executed by Public Works Department (PWD) as a deposit work. PWD would provide utilisation certificate every month and the Company would release funds in phases after ensuring utilisation of the earlier funds. The loan amount was reduced (December 2002) to Rs. 105.91 crore due to reduction in project cost and drawal period was extended up to April 2004.

The Company made payment of Rs. 25.96 crore to PWD during May 2002 - February 2003 against the release (March 2002 - January 2003) of 1<sup>st</sup> and 2<sup>nd</sup> instalments amounting to Rs. 26.87 crore by HUDCO. The Company further released (June 2003) Rs. 8.33 crore to PWD against the receipt (April 2003) of Rs. 13.56 crore from HUDCO as 3<sup>rd</sup> instalment of loan. In the intervening period the Company parked the surplus funds in Term Deposits (TDs) with the banks. Though there was an available balance of Rs. 6.14 crore as on 24 June 2003 out of Rs. 40.43 crore already received, the Company requested (June, September and December 2003) HUDCO for release of subsequent instalments without ascertaining requirement. HUDCO released Rs. 42.49 crore towards 4<sup>th</sup> to 6<sup>th</sup> instalments during March 2004.

Out of the total available amount of Rs. 48.63 crore, the Company released Rs. 32.55 crore to PWD in March and May 2004 and kept the surplus funds of Rs. 16.08 crore in TDs earning interest between 5.50 and 5.75 *per cent* against the interest outgo rate to HUDCO ranging from 9 to 10.75 *per cent*.

Had the Company regulated drawal of funds as per utilisation of funds by PWD, it could have saved the differential interest of Rs. 44.79 lakh during May 2004 to March 2005 even after paying commitment charges to HUDCO.

The management stated (March 2005) that anticipated physical progress of works of improvement could not be achieved due to various reasons and the loan drawal had to be effected as envisaged in the agreement otherwise the Company had to pay commitment charges. The surplus funds were kept in TDs with the banks.

The reply is not tenable as better fund management could save an interest outgo of Rs. 44.79 lakh net of commitment charges.

The matter was referred to the Government and the Company in May 2005; their replies had not been received (August 2005).

### **Dakshin Haryana Bijli Vitran Nigam Limited**

#### **3.3 Extra expenditure**

**Acceptance of delayed supply of 1,73,502 single-phase electronic meters resulted in extra expenditure of Rs. 2.98 crore as compared to lower prevailing market rate for similar type of meters.**

On the basis of tenders finalised on 12 October 2002, the Company placed (29 November 2002) purchase orders on six\* firms for the supply of 5,02,000 single-phase electronic meters at a negotiated rate of Rs. 600 per meter (inclusive of meter cupboards (MCBs) at Rs. 130 each). As per delivery schedule, the firms were to get drawings/samples approved within two months

\* Elymer International Pvt. Ltd., Faridabad, Genus Overseas Electronics Limited, Jaipur, HPL Socomec Pvt. Ltd., New Delhi, HSC Hotline Switchgear & Control, Delhi, K.C. Mercantile Ltd., Jaipur and Omni Agate Systems Pvt. Ltd., Chennai.

from the date of receipt of orders and thereafter to supply the ordered quantity in four equal monthly lots. As such, the firms were to supply the meters in four equal lots during March - June 2003. According to terms and conditions of the purchase orders, the Company had the right to refuse the supplies in case of failure to execute supplies within the contractual delivery period.

Audit noticed (December 2003) that all firms except one\* failed to execute the supplies in equal monthly lots as specified in the purchase orders. Out of first three lots of 1,25,500 meters each due in March, April and May 2003 respectively, 1,73,502 meters were not received within the stipulated period. Out of the balance order, 2,50,989 meters were received in time and supply of 77,509 meters was not received. While accepting the delayed supplies of 1,73,502 meters at Rs. 470 per meter (Rs. 600 less cost of MCB: Rs. 130), the Company did not ascertain the prevalent market price as one firm Capital Power Systems, Noida which agreed (October 2002) to supply these meters to the Company at Rs. 670 per meter (inclusive of the cost of MCB at Rs.130 each) had offered (March 2003) to supply similar type of meters to Himachal Pradesh State Electricity Board (HPSEB) at Rs. 298 per meter. It is worthwhile to mention that Punjab State Electricity Board had cancelled (May 2003) orders for purchase of 13 lakh meters in view of lower rates finalised by HPSEB.

The Company was under no contractual obligation to accept delayed supply at higher rate and the acceptance of delayed supply of 1,73,502 single-phase electronic meters by the Company at Rs. 470 per meter resulted in avoidable extra expenditure of Rs. 2.98 crore as compared to the lower prevailing market rate of Rs. 298 per meter.

The management stated (May 2005) that the supplies were accepted within overall delivery period. It further stated that the meters purchased had additional tamper proof features unlike the meters of HPSEB. The reply is not tenable because as per conditions of purchase order, the supplier was required to supply the full ordered quantity in four equal monthly lots and in the case of failure, the Company had the right to refuse delayed supplies to avail of the benefit of lower rates in the market. Besides, the meters purchased by HPSEB were of similar specifications relating to tamper proof features.

The matter was referred to the Government in January 2005; the reply had not been received (August 2005).

### **3.4 Loss of revenue**

**Undercharging penalty for theft of energy in violation of sale instructions resulted in revenue loss of Rs. 72.15 lakh.**

The sales instructions (27 October 1998) of Haryana Vidyut Prasaran Nigam Ltd. provided that in case of theft of energy by HT industrial consumers, penalty would be assessed for preceding six months, if the actual period of theft could not be determined. The tariff leviable was two and three times of the normal tariff for the first and second/subsequent default respectively.

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\* Elymer International Pvt. Ltd., Faridabad.

The Metering and Protection staff (M&P) of the Company checked (29 October 2003) the premises of Mayor International with sanctioned load of 440 KW under Industrial Area, Gurgaon. The consumer was found indulging in theft of energy. Audit noticed (February 2005) that the penalty for the preceding six months in terms of Company's instructions worked out to Rs. 30.04 lakh, but the Company charged (31 October 2003) penalty of only Rs. 4.97 lakh for 11 days on the plea that all the seals were intact on 18 October 2003 when meter reading was taken.

During the subsequent inspection on 10 June 2004, the M&P staff again detected theft. This time also, the Company charged only Rs 5.31 lakh from the consumer for 23 days against chargeable penalty of Rs. 52.39 lakh for preceding six months on the same plea that the seals were intact on 18 May 2004 at the time of taking reading. Charging of penalty for less than six months on the plea that the seals were intact at the time of monthly meter reading is not tenable as the period of theft could not be determined due to non-availability of tamper data. The capacity of the meter to record tamper information had exhausted in 1997 and old data had not been washed thereafter to enable the meter to record the latest data. In the absence of actual duration of theft, assessment should have been made for the last six months.

Thus, against the recoverable penalty of Rs 82.43 lakh, the Company recovered Rs. 10.28 lakh, which resulted in loss of Rs. 72.15 lakh.

The matter was referred to the Government and the Company in May 2005; their replies had not been received (August 2005).

### **3.5 Loss due to non levy of HT surcharge**

**The Company was put to a loss of Rs. 1.41 crore as it did not recover surcharge for low power factor from the consumers as per schedule of tariff.**

As per schedule of tariff, industrial consumers having connected load above 70 KW are covered under HT supply. These consumers are required to maintain the limit of minimum average power factor of 90 *per cent*. In case of failure, surcharge at one *per cent* of energy charges for each one *per cent* decrease up to 80 *per cent* and two *per cent* for each one *per cent* decrease in power factor below 80 *per cent* is to be levied. As per orders (August 2001) of Haryana Electricity Regulatory Commission (HERC) the bulk supply consumers were to be treated at par with industrial consumers for charging of power rates. As per Haryana Electricity Reforms Act 1997, orders of the Commission are binding on the power utilities.

Audit noticed (March 2005) that 39 bulk supply consumers under operation-cum-construction sub-division, Gurgaon did not maintain the minimum power factor. The Company, however, did not levy the requisite surcharge which worked out to Rs.1.41 crore during June 2003-January 2005. Thus, non compliance of the schedule of tariff had resulted in loss of Rs 1.41 crore to the Company.

The matter was referred to the Government and the Company in May 2005; their replies had not been received (August 2005).

### **3.6 Loss due to non-levy of LT surcharge**

**The Company was put to a loss of Rs. 24.71 lakh as it did not recover LT power surcharge from the consumer in terms of schedule of tariff.**

As per schedule of tariff, industrial consumers having connected load up to 70 KW are covered under LT (230 or 400 volts) supply and those above 70 KW under HT (11KV) supply. In case, an HT industrial consumer avails LT supply, a surcharge of 25 *per cent* of energy charges is leviable. As per orders (August 2001) of HERC the bulk supply consumers are to be treated at par with industrial consumers for charging of power rates. As per Haryana Electricity Reforms Act, 1997 the orders of the HERC are binding on the power utilities.

Audit observed (March 2005) that an HT bulk supply consumer Vidya Devi Jindal School, Satrod, Hisar had a connected load of 248 KW. The consumer was, however, getting LT supply at 400 volts. The Company did not recover surcharge of Rs. 24.71 lakh from the consumer for the period from September 2001 to February 2005 at par with industrial consumers and was thus put to a loss of Rs. 24.71 lakh.

The matter was referred to the Government and the Company in May 2005; their replies had not been received (August 2005).

### **3.7 Loss of revenue**

**Failure of the Company to charge for slow meter as per Sales Manual resulted in loss of Rs. 15.95 lakh.**

The sales manual of the erstwhile Haryana State Electricity Board (now Company) provides that, in the case of an inaccurate meter found at the premises of the consumer, his account shall be overhauled for a period not exceeding six months.

The meter of a consumer (Amira Foods Private Limited) under Sub-division, Farukhnagar (Gurgaon) with sanctioned load of 1,250 KW was changed on 6 October 2004 with initial reading of 244.2 KWH and multiplying factor of five. During special checking (22 January 2005), Metering and Protection team of the Company found the meter slow by 25.73 *per cent*. Resultantly, the meter with final reading of 2,81,588.8 KWH was changed on 22 January 2005.

Audit observed (February 2005) that the Company overhauled the consumer's account for the month of January 2005 only and charged Rs. 4.47 lakh for 1.07 lakh units for slow meter. As the meter was slow by 25.73 *per cent* and had been installed on 6 October 2004, the Company should have charged

Rs. 20.42 lakh<sup>^</sup> from the consumer by overhauling the account for the entire period (6 October 2004 to 22 January 2005). Therefore, the Company suffered a loss of Rs. 15.95 lakh due to under charging for slowness of the meter.

The matter was referred to the Government and the Company in May 2005; their replies had not been received (August 2005).

### Haryana Power Generation Corporation Limited

#### 3.8 Idle investment

**Investment of Rs. 37.90 lakh on the installation of chlorination plant was rendered unfruitful as it could not be put to use due to non availability of quality water.**

In order to improve quality of raw water and increase in power generation, the Company installed and commissioned (December 1998) a project comprising three plate type clarifiers (Rs. 2.13 crore) and one chlorination plant (Rs. 35.28 lakh) at Faridabad Thermal Power Station. Power Finance Corporation provided loan to finance the project. The chlorination plant was installed at the inlet point from Gurgaon Canal near Ballabgarh. A tubewell was installed at a cost of Rs. 2.62 lakh at traveling water screen (TWS) near the chlorination plant for tubewell water to be used in the chlorination plant for chlorine dosing and its subsequent release in raw water. The Company did not verify the suitability of tubewell water prior to its installation. Due to highly brackish\* nature of water from the tubewell the chlorination plant could not be put to operation since its installation (December 1998).

The Company got the tubewell water tested (March 2001) and sent the analysis report to Central Electricity Authority (CEA) which advised not to use the tubewell water and proposed (May 2001) a scheme for installation of a clarification cum filtration plant (CFP) to meet the requirement of chlorination plant. The specifications of the proposed CFP had not been finalised so far (March 2005) despite lapse of more than four years. As there is no other source of water for the operation of chlorination plant, the said plant remained idle since its installation.

Thus, due to deficient planning, the investment of Rs. 37.90 lakh made by the Company on chlorination plant (Rs. 35.28 lakh) and tubewell (Rs. 2.62 lakh) had been rendered unfruitful. It had further resulted in loss of interest burden of Rs. 23.69<sup>#</sup> lakh on the capital employed from borrowed funds. The loss was still continuing (July 2005) as the management failed to implement the proposal of the CEA for installation of CFP to meet the requirement of the

<sup>^</sup> Units less billed = 487343 (18,94,066-1406723) and amount= Rs. 20,41,967 (487343 x Rs. 4.19).

\* Salty water.

<sup>#</sup> Calculated at the rate of 10 per cent per annum for the period from January 1999 to March 2005.

chlorination plant. Besides, poor quality of raw water was causing higher coal and auxiliary consumption.

The matter was referred to the Government and the Company in May 2005; their replies had not been received (August 2005).

### **3.9 Undue benefit to a contractor**

<b>Payment of higher insurance premium and price variation on insurance premium resulted in over payment of Rs. 6.03 crore.</b>
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The Company issued (March 2002) a letter of intent for supply, erection and commissioning of two new generation units at Panipat to BHEL on turnkey basis at a cost of Rs. 1,438.70 crore. To execute the project the Company placed (June 2002) a purchase order for supply of components etc. at Rs. 1,080 crore and work order for services at Rs. 358.70 crore. The purchase order and the work order were subject to price variation clause. The work order of Rs. 358.70 crore included insurance premium of Rs. 11 crore payable for comprehensive insurance policy of the lump sum value of Rs. 1,438.70 crore. The payment was to be released at the rate of 12.5 per cent in advance and 87.5 per cent on *pro rata* basis in 30 equal monthly instalments starting from September 2002 along with 100 per cent price variation claims.

BHEL and its sub-contractors obtained two comprehensive policies at an insurance premium of Rs. 6.02 crore for the above project. The Company did not insist for payment of actual insurance premium of Rs. 6.02 crore and paid Rs. 11 crore on account of insurance premium. The Company also paid Rs. 1.05 crore as price variation on the insurance premium component of the contract price.

Audit observed that while awarding the contract, the Company did not consider the implication of price variation formula incorporated in the work order. It led to payment of Rs. 1.05 crore due to price variation on insurance premium, which was of fixed nature. As the payment for insurance premium was in the nature of reimbursement of actual expenditure incurred, it should have been limited to the actual premium paid. Similarly, as price variation clause was also in the nature of compensating the contractor for increase in the prices of inputs during the currency of the contract, no payment was required to be made on insurance premium component being of fixed nature.

Thus, payment of higher amount than actual insurance premium and price escalation on fixed component had resulted in overpayment of Rs. 6.03 crore (excess insurance premium paid: Rs. 4.98 crore and price variation: Rs. 1.05 crore) to the contractor.

The matter was referred to the Government and the Company in March 2005; their replies had not been received (August 2005).

**Haryana Vidyut Prasaran Nigam Limited**

**3.10 Extra expenditure on purchase of power**

**Purchase of power from a private producer in excess of the contracted capacity resulted in extra expenditure of Rs. 55.89 lakh.**

The Company entered (January 2003) into a Memorandum of Understanding (MOU) with Power Trading Corporation (PTC) for purchase of 86 MW power (16.59 lakh units per day) from Malana Power Company Ltd. (MPCL) at Rs. 2.40 per unit for three years from July 2002 to 30 June 2005. The terms and conditions of the MOU, *inter alia*, provided that MPCL would not normally declare the gross available capacity exceeding 86 MW power. In case of availability of extra power, such extra power could also be used by the Company as and when required. The MOU however, did not specify the rates for the purchase of extra power.

Audit observed that during the rainy season (1 July 2003 - 23 August 2003), MPCL supplied 66.73 lakh units in excess of the schedule based on the capacity of 86 MW. Though rates of power available from the Northern grid during this period were lower, the Company did not insist for scheduling supply on the basis of 86 MW and meeting its additional demand from the grid at lower rates or reduction in rates for the excess drawn power, at the lower prevailing rates. The Company paid extra amount of Rs. 55.89\* lakh on the excess purchase of power of 66.73 lakh units calculated as per lower prevailing rates for the power drawn in excess of 86 MW during July and August 2003.

The management stated (May 2005) that drawing of lesser power from the project during rainy season would result in loss to independent power producer (IPP) and the country due to spillage of water and the tariff fixed was at firm rate for three years. The Government endorsed (August 2005) the views of the management.

The reply is not tenable. The Company should have negotiated rates for supply beyond contracted demand of 86 MW as it was under no contractual obligation to bear the loss to the IPP and that the fixed rates were applicable only to the contracted demand of 86 MW.

\* Amount paid for excess purchase of power: Rs. 160.15 lakh (66.73 LUs x 240 paisa pu) minus amount payable for power available from the grid Rs. 104.26 lakh (July 2003; 44.76 LUs at the rate of 150 paisa and August 2003:/21.97 LUs at the rate of 169 paisa pu): Rs. 55.89 lakh.

### **3.11 Loss due to short recovery of water charges**

**The Company suffered loss of Rs. 14.16 lakh due to short recovery of water charges from the staff residing in the housing colony.**

The Company developed a housing colony during September 1998 to February 2002 in Panchkula comprising 432 houses of various categories. Out of these, 376 houses were allotted (January 1999: 256, March 2001: 40 and April 2002: 80) to the employees of HVPNL, UHBVNL and HPGCL, 44 houses were used as offices and 12 were lying vacant. A single point connection was obtained from Haryana Urban Development Authority (HUDA) for feeding Company's under ground water storage tank from where the water was supplied to the houses. No separate meters for individual houses were installed. The Company made payment of water charges at the rates fixed by HUDA, which was to be recovered from the residents. Audit noticed that recovery of water charges from employees was made at the rate of half *per cent* of pre-revised basic pay (prior to January 1996) without matching with the payments made to HUDA for these houses.

Thus, due to non matching of water charges paid to HUDA with the recovery made from the residents, the Company suffered loss of Rs. 14.16 lakh from November 2001 to January 2005.

In reply (June 2005) endorsed by Government (July 2005) the Company stated that its Board of Directors had revised (April 2005) the water charges and had written off the loss on account of less recovery of these charges. The fact, however, remained that the loss had to be written off due to laxity of the management in taking timely appropriate action.

**Haryana Land Reclamation and Development Corporation Limited,  
Haryana Agro Industries Corporation Limited and Haryana Seeds  
Development Corporation Limited**

### **3.12 Excess payment of employers' contribution**

**Three companies suffered loss of Rs. 82.14 lakh due to payment of contribution to employees provident fund in excess of the limits prescribed under the Employees' Provident Fund Scheme, 1952.**

The Employees' Provident Fund Scheme, 1952 provides that the contribution payable by the employer under the Scheme shall be 12 *per cent* of the basic wages, dearness allowance and retaining allowance payable to each employee. Under para 26(A)(2) of the scheme where the monthly pay of such an employee exceeded Rs. 6,500, the contribution payable by the employer shall be limited to the amounts payable on a monthly pay of Rs. 6,500. Para 29(2) of the Scheme further provides that any such employee may contribute an amount exceeding 12 *per cent* of his basic wages, dearness allowance and retaining allowance subject to the condition that employer shall not be under

obligation to pay contribution over and above his contribution payable under the Scheme.

Audit observed (May 2003 and March 2004) that three companies viz. Haryana Land Reclamation and Development Corporation Limited (HLRDC), Haryana Agro Industries Corporation Limited (HAIC) and Haryana Seeds Development Corporation Limited (HSDC) contributed their share at the rate of 12 *per cent* towards the fund during 2002-04 without limiting the monthly pay to Rs. 6,500 in contravention of the provisions of Employees' Provident Fund Scheme, 1952. Resultantly, the companies made excess contribution of Rs. 82.14 lakh (HLRDC: Rs. 21.51 lakh, HAIC: Rs. 26.72 lakh and HSDC: Rs. 33.91 lakh).

The management of HAIC, HLRDC and HSDC stated (April, May and August 2005) that there was no bar in the Act to contribute in excess of the statutory limit and decision of the State Government was pending in this regard. Reply of the HLRDC was endorsed by the Government in June 2005. The reply is not tenable in view of the clear limit of employer's contribution under para 26(A)(2) of the Scheme.

The matter was referred to the Government in April 2005; replies of the Government in respect of two companies\* had not been received (August 2005).

### Statutory corporations

### Haryana Financial Corporation

#### 3.13 Disbursement of loan without complying with laid down procedure

**Sanction of loan against deficient security and release of loan without obtaining no objection certificate from Pollution Control Board, led to non recovery of Rs. 1.08 crore.**

The Corporation sanctioned (November 1995) a term loan of Rs. 1.18 crore (Rs. 7.22 lakh for building and Rs. 1.11 crore for plant and machinery) to Stallion Duplex Pvt. Ltd. (unit) for setting up a craft and duplex board manufacturing unit at village Chirao More district Karnal on the land acquired on lease from its sister concern. The unit was also to procure plant and machinery from the same concern.

As per the policy, the Corporation was to obtain a minimum collateral security of 30 *per cent* of the term loan where the units were located outside the recognised industrial areas and municipal limits. The Corporation did not insist for collateral security on the plea that unit had mortgaged existing land (valuing Rs. 40.06 lakh) and building as primary security. The Corporation sanctioned the loan with the stipulation that the unit would obtain no objection

\* HAIC and HSDC

certificate (NOC) from the Pollution Control Board (PCB) in due course. The Corporation disbursed Rs. 97.48 lakh during March 1996 - November 1997 without any survey of mortgaged land. The unit did not obtain NOC from PCB and never started commercial production due to non receipt of Government's approval and dispute among the directors.

The unit was irregular in repayment and committed default since October 2000. So, the Corporation took (4 December 2003) deemed possession of the unit under Section 29 of the State Financial Corporations Act, 1951. Physical possession of the unit could not be taken as the unit had no independent access and it was located on the rear side of its sister unit with a common gate. The Corporation assessed (January 2004) the value of mortgaged security at Rs. 73.52 lakh against the accepted value of Rs. 1.80 crore after providing depreciation at the rate of 20 *per cent* per annum on the plant and machinery. The Corporation could not dispose of the assets as the unit was not having independent access and there was no demarcation of the leased land accepted as security.

Thus, the irregularities, committed ab-initio in sanction of loan by accepting leasehold land without ensuring clear demarcation and independent access as security and release of loan without NOC from PCB, led to non recovery of Rs. 1.08 crore (Principal: Rs.45.08 lakh and Interest: Rs. 62.64 lakh).

The management stated (March 2005) that obtaining of NOC from PCB was not a pre-condition to disbursement, leasehold primary security was taken for which lease deed was duly registered and efforts are being made to ensure independent passage to the unit so that physical possession could be taken. The reply is not tenable as the Corporation failed to make NOC from PCB a pre-condition for releasing the loan. Further acceptance of leasehold land not having independent passage as security by deviating from its laid down procedure had led to failure of the Corporation to take physical possession of the unit.

The matter was referred to the Government in January 2005; the reply had not been received (August 2005).

### **3.14 Grant of inadmissible benefit**

<b>Injudicious decision to grant inadmissible benefit led to a loss of Rs. 55.19 lakh.</b>
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The Corporation sanctioned (November 1998 and January 2000) a term loan of Rs. 1.27 crore to Barodia Plastics (P) Ltd. (unit) for setting up flexible industrial packing manufacturing unit in Sampla, Rohtak. The Corporation disbursed Rs. 1.25 crore during June 1999 to September 2000 and cancelled (February 2001) the balance loan.

The unit defaulted in repayments since February 2001. The Corporation recalled (August 2001) the entire loan and threatened to take possession of the unit. A fire broke out (17 April 2002) in the unit, destroying the entire plant & machinery and the unit approached the Corporation for relief. The total loan

outstanding (17 April 2002) was Rs. 1.52 crore (principal: Rs. 1.24 crore and interest: Rs. 28.32 lakh).

The unit submitted (April 2003) a fresh request for settlement of its account under OTS scheme for waiver of penal interest, compound interest and 2/3<sup>rd</sup> of simple interest. As per Company's policy, this concession was available only to the units where primary and collateral securities had been disposed of and for the remaining shortfall amount, Recovery Certificate (RC) had been issued to the revenue authorities. The security available (of Rs. 2.56 crore) with Corporation was more than the amount recoverable (Rs. 1.88 crore).

The Company, however, allowed (29 April 2003) a relief of Rs. 55.19 lakh though no relief was admissible to this unit as both primary and collateral securities were available with the Corporation and no RC had been lodged in this case. Thus, the injudicious decision to grant inadmissible relief in violation of its own policy led to a loss of Rs. 55.19 lakh to the Corporation.

The management, while admitting the facts, stated (March 2005) that the recovery through the process of sale of property is time consuming process and to avoid unnecessary litigation with the borrower the settlement was done.

The reply is not tenable as avoidance of the litigation in a court of law to effect recovery had defeated the very purpose of remedies available to the Corporation under the State Financial Corporations Act, 1951.

The matter was referred to the Government in February 2005; the reply had not been received (August 2005).

### ***3.15 Irregular sanction/disbursement of loan***

**Non inclusion of working capital stipulation in sanction letter particularly when the same was recommended in the pre-sanction inspection report and delayed possession of the unit rendered the recovery of Rs. 1.33 crore doubtful.**

The Corporation sanctioned (November 1999) a term loan of Rs. 65 lakh to Krishna Rice and General Mills (unit) for setting up a rice-processing unit at Village Gandapura, District Yamuna Nagar. The loan was disbursed during February - September 2000.

The unit defaulted in the payment of interest since August 2001. Due to persistent default, the Corporation issued (October 2001) a recall notice. Subsequently, notice was issued (April 2002) for taking possession of the unit. The possession proceedings of the unit were, however, kept in abeyance on a meagre payment of rupees two lakh against due amount of Rs. 84.29 lakh. The Corporation delayed physical possession of the unit on receipt (March - September 2003) of post-dated cheques, which were dishonoured by the banks on presentation (June - October 2003). The Corporation took (November 2003) possession of the unit and assessed (January 2004) the value of primary security at Rs. 59.51 lakh against accepted value of rupees one crore. The Corporation attributed non-availability of working

capital as one of the reasons for failure of the unit. The unit was put to auction eight times during March 2004 - January 2005 but the Corporation did not get any buyer. The outstanding amount as on November 2004 was Rs. 1.33 crore (Principal: Rs. 65 lakh, miscellaneous expenditure: Rs. 0.48 lakh and interest: Rs. 67.20 lakh).

Audit noticed (November 2004) that the pre-sanction inspection report of the Branch Manager, *inter-alia*, recommended (October 1999) that the unit would furnish a letter of commitment from the bankers for consideration of working capital limit before disbursement of loan. But the Corporation without assigning any reason omitted the stipulation from the sanction letter.

Thus, exclusion of working capital stipulation in sanction letter and delayed possession of the unit leading to depreciation in the value of assets and putting the recovery of Rs. 1.33 crore at stake.

The management stated (March 2005) that the stipulation to furnish letter of commitment from the bankers for consideration of working capital limit before disbursement was not imposed at the time of sanction in view of prevailing practice for speedy implementation. The reply is not tenable as specific recommendation for letter of commitment from banks was made in the pre-sanction appraisal and lack of working capital had led to failure of the unit.

The matter was referred to the Government in March 2005; the reply had not been received (August 2005).

### **Haryana Warehousing Corporation**

#### **3.16 Loss due to improper storage**

#### **Improper storage and belated decision to recondition stock of wheat led to a loss of Rs. 53.14 lakh to the Corporation.**

The Corporation keeps wheat stock procured by State agencies for Food Corporation of India (FCI) in covered godowns as well as on open plinth till delivery to FCI. The terms and conditions of storage tariff, *inter alia*, provide that staff deployed by the Corporation would exercise reasonable care and diligence required by law for keeping the goods in good condition.

The Haryana State Federation of Consumers Co-operative Wholesale Stores Ltd. (CONFED) deposited 87,697.12 quintal of wheat during April-May 1998 and the Corporation kept these stocks on open plinth at its Nissing godown. During March 1999 to July 2000, CONFED arranged delivery of 62,531.33 quintal to FCI leaving a balance stock of 25,165.79 quintal wheat. The Manager, Nissing centre intimated (August 2000) its head office that the stocks stored on the open plinth was damaged and required segregation and improvement. On joint inspection (March 2001) by the Corporation and CONFED, it was seen that the texture of the gunnies of peripheral layers, top and bottom layer bags was poor and some bags were water affected requiring

segregation/salvaging and improvement to get the stock dispatched to FCI. The Nissing centre reconditioned (January 2002) some bags (3500) but the FCI rejected (February 2002) the wheat stocks as the percentages of damage and weevilling\* were beyond the permissible limits.

Thereupon, the entire stock was sorted/reconditioned (December 2002) by the Corporation at a cost of Rs. 4.49 lakh. The stock worth Rs. 54.34 lakh was damaged which was disposed off at Rs. 18.91 lakh; besides, there was storage loss of 2,279 quintal valuing Rs. 13.22 lakh. Balance stock of 17,908.90 quintal was delivered to FCI.

The Corporation suffered a loss of Rs. 53.14 lakh (loss on damaged stock: Rs 35.43 lakh, storage loss: Rs. 13.22 lakh and expenditure on reconditioning of stock: Rs. 4.49 lakh ).

Thus, belated decision to recondition entire stock led to a loss of Rs. 53.14 lakh to the Corporation.

The matter was referred to the Government and the Company in March 2005; their replies had not been received (August 2005).

### 3.17 Misappropriation of rice

#### **Delivery of paddy without adequate security led to misappropriation of rice and loss of Rs. 55.93 lakh.**

The Corporation procures paddy for Central pool and provides the same to millers, who deliver rice to the Food Corporation of India (FCI) after milling. The milling agreements entered (September and October 2003) with millers, *inter-alia*, provided that the millers would take delivery of paddy for milling purposes either against bank guarantees or delivery of advance rice to FCI equivalent to the cost of paddy handed over to them. The millers would be responsible for safe custody of paddy till delivery of rice and submit fortnightly reports indicating stock position of milled/unmilled paddy. In the event of default in delivery of rice, the millers were liable to pay the price of undelivered rice at the rates fixed by Government of India plus interest at cash credit rate.

Audit observed (February 2005) that the Corporation, without obtaining bank guarantees or ensuring advance delivery of rice to FCI as per terms of agreement, allowed the millers to take delivery of paddy. The Corporation delivered 9809.17 MT paddy to four\*\* millers for milling during October/November 2003 to February 2004. The millers, in turn, delivered 5991.14 MT rice to FCI during October 2003 to May 2005 against 6572.14 MT rice due, leaving an undelivered balance of 581<sup>\$</sup> MT rice valuing Rs. 62.45 lakh. The amount recoverable from millers after adjusting security of Rs. 2.25 lakh and amount deposited thereafter (Rs. 4.27 lakh) was

\* grain eaten by insects.

\*\* Jagdamba Rice Mill (1,690.85 MT), Shiva Food (2,095.87 MT), Shakumbhra Devi Rice Mill (2,615.55 MT) and Sethi Rice mill (3,406.90 MT).

<sup>\$</sup> Jagdamba Rice Mill (60 MT), Shiva Food (271 MT), Shakumbhra Rice Mill (79 MT) and Sethi Rice Mill (171 MT).

Rs. 55.93 lakh (August 2005). The Corporation did not initiate any action against the millers.

Thus, failure of the Corporation to obtain bank guarantee or ensuring delivery of advance rice by the millers to the FCI before delivering paddy to the millers facilitated misappropriation of rice by the millers and resulted in loss of Rs. 55.93 lakh.

The management's reply endorsed by the State Government stated (August 2005) that FIR had been lodged against the millers.

## General

### 3.18 Corporate governance

#### *Introduction*

**3.18.1.** Corporate governance is the system by which the companies are directed and controlled by the management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. Board of Directors are responsible for governance of their companies.

The Companies Act, 1956 was amended in December 2000 by providing, *inter-alia*, Directors' Responsibility Statement (Section 217) to be attached to the Directors' Report to the shareholders. According to Section 217 (2AA) of the Act, the BODs has to report to the shareholders that they have taken proper and sufficient care for the maintenance of accounting records, safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

Further, according to Section 292 A of the Companies Act 1956, every public limited company having paid-up-capital of not less than rupees five crore shall constitute an Audit Committee at Board level.

*Inter-alia*, two main components viz. matters relating to the BODs and constitution of the Audit Committee that constitute the mechanism of corporate governance have been discussed in this para.

There is no listed Government company in the State. A review was undertaken by Audit in respect of 17 unlisted working Government companies (**Annexure 12**) having turnover/paid up capital exceeding rupees five crore, with the objective of assessing the compliance by these companies of provisions that affect corporate governance and matters related thereto, for the last four years ended 2004-05.

### ***Board of Directors***

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

### ***Board meetings***

**3.18.3** Section 285 of the Companies Act, 1956 provides that Board meeting shall be held at least once in every three months and at least four such meetings shall be held every year. Audit observed that only three meetings of the Board were held each year in case of HBKN (2002-03, 2003-04 and 2004-05), HFDC (2001-02, 2002-03 and 2004-05), and two meetings in HSRDC (2001-02).

### ***Attendance of directors in the meetings of the Board***

**3.18.4** Directors in 11 out of 17 companies did not attend the Board meetings regularly as detailed in **Annexure 13**.

It is seen from the **Annexure 13** that on an average 45 to 70 *per cent* directors attended the Board meetings during 2001-05. Some of the directors did not attend at all or attended negligible meetings during the year/their tenure in the Company. This would had adverse effect on the deliberations on the matters discussed in the Board meetings.

### ***Vacancy position of Directors***

**3.18.5** The post of Director (Finance) was vacant in HVPN and HPGC since August and September 1999 respectively. In HPHC the Managing Director was holding the post of the Chairman also upto August 2004. As such, against requirement of seven directors there were six directors upto August 2004.

### ***Non-submission of Directors' Responsibility Statement***

**3.18.6** Directors' Responsibility Statements though required under section 217 (2AA) of the Companies Act, 1956 were not attached to the Directors' Reports presented to shareholders in respect of HSRDC and HWDC for the years 2001-03.

### ***Audit Committee***

**3.18.7** According to Section 292-A of the Companies Act Audit Committees should comprise not less than three directors and such number of other directors as the Board may determine of which two-third of the total number of members shall be directors, other than Managing Director or Whole Time Directors. The Audit Committee shall elect a Chairman from amongst themselves.

The Audit Committee is required to review the annual financial statements before their submission to the Board and should also examine adequacy of internal audit and internal control system. The Act also provides that statutory auditors, internal auditors and the Director in-charge of finance should attend and participate in the meetings of the Audit Committee.

***Formation of Audit Committee***

**3.18.8** Six\* companies had not constituted Audit Committees in violation of Section 292A of the Companies Act, 1956.

***Meetings of Audit Committee***

**3.18.9** The Audit Committee set up in August 2001 by HSRDC did not hold any meeting so far (May 2005).

**3.18.10** Audit Committee of DHBVNL did not hold any meeting during 2003-04.

**3.18.11** In spite of the decision of the Board of UHBVNL and HPGCL to hold two meetings in a year, Audit Committee of UHBVNL did not hold any meeting during 2003-04. During 2004-05 Audit Committee of UHBVNL and HPGCL held only one meeting.

**3.18.12** The Statutory auditors of three companies (DHBVNL, HVPNL and UHBVNL) did not attend the Audit Committee meetings held during 2001-05.

***Discussion by Audit Committees***

**3.18.13** In DHBVN and UHBVN annual financial statements for 2001-02 and 2002-03 were not placed in the Audit Committee meeting before submission to the Board. Adequacy of internal control/internal audit system was not reviewed in Audit Committee meetings in DHBVNL and HVPNL.

***General***

**3.18.14** As per Section 383-A of Companies Act 1956 all companies having paid up capital of not less than rupees two crore# shall have a whole time Company Secretary. Four\$ companies did not comply with these provisions. In HSDC, the post of Company Secretary was vacant since June 2000.

***Attendance in Annual General Meetings (AGMs)***

**3.18.15** The attendance of directors in AGMs of the companies under review was negligible. Managing Director, Chairman, and directors holding shares of the companies concerned only attended the AGMs.

***Impact of poor corporate governance***

**3.18.16** Foregoing paras would reveal that the companies not only violated the legal provisions, there was a lack of seriousness with which these were governed. Deficient Corporate governance contributed to the following:

- During last 4 years four@ companies closed down their activities.

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\* HBKN, HPHC, HARTRON, HTC, HWDC and HSFDC.

# Prior to 11.06.2002 Rs. 50 lakh

\$ HSFDC, HBKN, HWDC and HSRDC.

@ Haryana Minerals Limited, Haryana State Minor Irrigation and Tubewells Corporation Limited, Haryana State Small Industries and Export Corporation Limited and Haryana State Handloom and Handicrafts Corporation Limited

- Four<sup>^</sup> companies incurred loss of Rs.3.25 crore as per latest available accounts finalised upto September 2004.
- Thirty six accounts of 14<sup>\$</sup> working companies were in arrears as on 30 September 2004 ranging from one to six years.
- Targets for disbursement of loans to various weaker sections of society/minorities could not be achieved.
- Adequate steps were not taken to strengthen the internal audit and internal control system.
- Funds were diverted from the purpose for which sanctioned by various funding agencies.
- Due to lack of coordination with government, administrative expenditure of social welfare companies was not got reimbursed from Government which resulted in diversion from other sources.

***Summary***

- Directors were not regular in attending Board meetings in most of the companies.
- Audit Committees were either not formed or did not function as required under the Companies Act, 1956.
- Statutory Auditors were not regular in attending the meetings of the Audit Committee.

The matter was referred to the Government and the companies in April 2005. Seven companies\* accepted (May/June 2005) the facts. This includes two companies, HVPNL and HLRDC which stated that absence of directors in the Board meetings was due to their holding important posts in various Government departments and remained busy in attending important and time bound departmental works/meetings. The Financial Commissioner & Principal Secretary to Government of Haryana, Power Department endorsed (July 2005) the views expressed by the HVPNL. Nomination of persons holding important posts elsewhere without ensuring their contribution not only violated the statutory provisions but also prevented better governance of these companies. Reply of management in respect of 10 companies and the Government in respect of 16 companies was awaited (August 2005).

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<sup>^</sup> HML, HSRDC, HBKN and HTC.

<sup>\$</sup> HAIC, HREC, HARTRON, HFDC, HPHC, HSRDC, HSFDC, HBKN, HWDC, HTC, HPGCL, HVPN, UHBVN and DHBVN.

<sup>\*</sup> HLRDC, HVPNL, HSIDC, HSRDC, HFDC, HAIC and HPHC.

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**3.19 Deficiencies in internal control system in State Financial Sector Undertakings: Haryana State Industrial Development Corporation Limited and Haryana Financial Corporation**

**3.19.1** Internal control is a management tool to provide reasonable assurance that the objectives are being achieved. It is an integral part of the process designed and effected to achieve its specified objects ethically, economically and efficiently. It helps in creating reliable financial and management information system besides effective decision making. Internal control system is most effective when it is built into the entity's infrastructure and is an integral part of the organisation. It assumes more significance in the Government financial institutions so that the risk of default by the borrowers is reduced to the minimum.

There is one Government company, Haryana State Industrial Development Corporation Limited (HSIDC) and one Statutory corporation, Haryana Financial Corporation (HFC) in the financial sector. Audit observed (February 2005) the following deficiencies in the implementation of internal control system in these PSUs:

***Budgetary control***

***Preparation of budget***

**3.19.2** Timely preparation of budget and analysis of the variations in the execution serves as an effective internal control. Audit observed the following deficiencies in the preparation and analysis of the budget:

***HSIDC***

- The Company did not prepare budget manual.
- Budgets for the year 2000-01 to 2004-05 were prepared and approved by the Board after two to three months of the commencement of the year.

***HFC***

The Corporation is required to prepare business plan and resource forecasting (BPRF) for submission to Small Industries Development Bank of India (SIDBI) and then the Board of the Corporation approves the same. Thereafter, the Corporation borrows funds from financial institutions, banks etc. depending upon the requirement. Audit observed that:

- The Corporation did not prepare budget/BPRF Manual.
- The Corporation did not prepare and submit the BPRF well before the commencement of the financial year (FY) to SIDBI. Resultantly, there was delay in approval by the Board. The delay ranged between six and 13 months of the commencement of the year during 2000-05.

The management stated (June/July 2005) that delay was due to time taken in compilation of annual accounts and collection of data from various branch offices relating to previous years. The reply is not

acceptable, as the Corporation did not devise any system for timely preparation of budgets.

- The Corporation did not analyse the reasons for variances between budgeted and actual figures which ranged between (-) 7.98 and 14.21 *per cent* during 2000-04.

The above deficiencies indicate that both HSIDC and HFC were not using budget as a tool of internal control.

#### ***Documentation of procedures***

**3.19.3** Functional manuals provide guidance for appraisal, disbursement and recovery of loan as per terms and conditions. These manuals required modifications to cope with changing environments.

Audit observed that HFC and HSIDC did not revise their manuals (Appraisal and disbursement: HFC and Finance Division Manual: HSIDC) since 1992 and 1997 respectively to incorporate changes occurred with the passage of time.

#### ***Audit Committee***

##### ***HFC***

**3.19.4** Under Clause 49 (Corporate Governance) of listing agreement, the Board of Corporation constituted (January 2002) an Audit Committee. The Committee held three meetings only (22 March 2002, 16 March 2004 and 28 February 2005) as against the requirement of minimum nine meetings.

#### ***Internal audit***

**3.19.5** Internal audit (IA) is an appraisal activity established within an entity as an independent internal control. Its functions include, amongst others, examining, evaluating and monitoring the adequacy and effectiveness of the accounting and internal control systems.

A review of the internal audit systems revealed the following deficiencies:-

##### ***HSIDC***

- The Company had no IA wing and the internal audit had been outsourced to Chartered Accountants (CAs). Even after 38 years of its formation (1967) the Company had not prepared Internal Audit Manual. The Company did not prepare elaborate plans for internal audit on the plea that it was conducted by firms of CAs and the audit plans approval rested with these firms.
- The internal audit reports were too general. These did not cover important areas like policies and procedures of the Company, performance of the schemes, segregation of duties and responsibilities, personnel planning, budgeting, risk management and recovery accounts of allottees.

**HFC**

- The Corporation had not updated its IA Manual since 1992.
- Though required by IA Manual, audit of divisions at head office and implementation of policies and procedures was not specifically carried out since inception. The Corporation stated (July 2005) that all important issues, changes/deviations are decided by the General Managers' Committee (GMC) hence audit of divisions at head office was not carried out. The reply is not tenable as IA is an independent mechanism to provide assurance.
- There was no system to monitor timely submission/disposal of IA reports.

***Internal control system regarding lending activity***

**3.19.6** The lending function involves three major activities viz:

- Appraisal and sanction;
- Disbursement (obtaining security and documentation) and monitoring;
- Demand and recovery; and
- Disposal of assets taken over.

Audit noticed deficiencies as under:

***Appraisal and sanction***

**3.19.7** Appraisal is the critical examination of technical, financial and commercial feasibility of a project. Faulty appraisal is mainly responsible for advancing loans to unviable units leading to their ultimate closure and non-recovery of public dues.

**HFC**

Appraisal Manual of the Corporation prescribed that thorough examination of the back ground of the borrower and technical, financial and market appraisal of the project should be conducted. Audit observed following deficiencies in a test check of 73 out of 367 cases in three\* districts.

Sl. No.	Nature of deficiency	No. of cases
1.	Credit worthiness of applicant was not properly ascertained independently from banks/financial institutions.	30
2.	Promoters' background/track record was not evaluated properly.	25
3.	Evidence in support of projections in applications was not obtained.	4
4.	Technical/commercial appraisal was not properly done.	30
5.	Statutory clearances were not obtained during appraisal.	4
6.	Security was accepted at much higher rates than realizable rates in the market.	39
7.	Collateral security was not taken or disputed security was taken	8

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\* Ambala, Panchkula and Yamunanagar.

Audit further observed that the Corporation had not been analysing the credit risk of the project on the basis of its strengths, weaknesses, opportunities and threats (SWOT) to ensure more objective appraisal of the project risks and to minimise level of subjectivity and individual bias involved in lending decisions. Further, the audited accounts of existing units financed by the Corporation had not been obtained and verified to ascertain the actual viability of the similar unit to be financed.

***Disbursement and monitoring of term loans***

***HSIDC and HFC***

**3.19.8** The scrutiny of the system of monitoring and disbursement revealed the following deficiencies:

- Both the PSUs did not maintain any separate control register indicating status of the units financed.
- The PSUs did not maintain inspection registers indicating progress of projects to ensure their completion as per schedule.
- As per the terms of sanction of the loan, the HSIDC and HFC are empowered to nominate Directors in their assisted units. This is important way to ascertain the status and to have control over the affairs of the assisted unit. The HSIDC appointed nominee directors on the Board of 61 out of 212 assisted units whereas in case of HFC complete information was not available.

***Demand and recovery of loans***

**3.19.9** The position of demand and recovery during 2001-04 was as below:

***HSIDC***

As per generally accepted principles, recovery of loans is the most important operation as the Company has to plough back the funds and recycle it. The position of demand and recovery up to 2002-03 was included in CAG's Report (Commercial) 2002-03 (Government of Haryana) (para 2.2.15 and 2.2.16). During 2003-04 the Company recovered Rs. 93.02 crore against the demand of Rs. 195.81 crore which comes to 47.51 per cent.

The management stated (March/June 2005) that targets had been fixed for each branch office and recovery was monitored regularly. The reply is evasive as it does not explain the reasons for sub-performance.

**HFC**

**3.19.10** The position of demand and recovery for the last three years ended March 2004 is given below:

**(Rupees in crore)**

Year	Demand	Recovery	Percentage of recovery
2001-02	1028.80	149.71	14.55
2002-03	1219.42	147.51	12.10
2003-04	1390.65	166.55	11.98

It is evident from above that the percentage of recovery dropped from meagre 14.55 during 2001-02 to 11.98 during 2003-04. The Corporation had not taken any remedial measures to improve recovery.

Test-check of loan cases of HFC revealed that reasons for default were not analysed for taking corrective measures. Audit noticed the following deficiencies regarding demand and recovery.

Sl. No.	Nature of deficiency	No. of cases
1.	There was delay in initiating action against persistent defaulters to ensure safety of assets.	33
2.	Inspection of assisted units was not regularly done to verify security and health of units.	13
3.	Either no or delayed action was taken against promoters for missing assets.	8
4.	Collateral/personal guarantees were not invoked.	1
5.	Follow up of recovery was deficient.	5
6.	Assets created with loan amount were not insured by borrower during the currency of loan.	2

***Disposal of assets taken over***

**3.19.11** Audit observed that the PSUs were taking abnormally long time in the disposal of these units. The table given below indicates the position of units under possession as on 31 March 2004:

Period	HSIDC		HFC	
	Number of units	Amount outstanding (Rupees in crore)	Number of units	Amount outstanding (Rupees in crore)
Less than one year	1	2.75	54	46.90
One-two Years	4	2.16	76	75.46
Two-three years	3	4.08	39	62.54
More than three years	1	1.53	106	127.01
<b>Total</b>	<b>9</b>	<b>10.52</b>	<b>275</b>	<b>311.91</b>

It is evident from above that in both the PSUs, units taken over were lying for disposal for over three years. Both HSIDC and HFC had not fixed time limit for sale of such units.

The matter was referred to the State Government in (May 2005); reply had not been received (August 2005).

### **3.20 Follow up action on Audit Reports**

#### *Replies outstanding*

**3.20.1** The Comptroller and Auditor General of India's Audit Reports represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. Finance Department, Government of Haryana issued (July 1996) instructions to all Administrative Departments to submit replies to paragraphs/reviews included in the Audit Reports within a period of three months of their presentation to the Legislature in the prescribed format, without waiting for any questionnaires.

Though the Audit Reports for the years 2001-02, 2002-03 and 2003-04 were presented to the State Legislature in March 2003, February 2004 and March 2005 respectively, seven out of 11 departments, which were commented upon, did not submit replies to 31 out of 62 paragraphs/reviews as on 30 September 2005 as indicated below:

Year of the Audit Report (Commercial)	Number of reviews/paragraphs appeared in Audit Report		Number of reviews/paragraphs for which replies were not received	
	Reviews	Paragraphs	Reviews	Paragraphs
2001-02	2	14	-	3
2002-03	3	19	1	11
2003-04	2	22	-	16
<b>Total</b>	<b>7</b>	<b>55</b>	<b>1</b>	<b>30</b>

Department-wise analysis is given in **Annexure 14**. Departments largely responsible for non-submission of replies were Power, Industries and Agriculture. The Government did not respond to even reviews highlighting important issues like system failure, mismanagement and inadequacy of recovery system.

#### *Action taken notes on Reports of Committee on Public Undertakings (COPU) outstanding*

**3.20.2** Replies to 12 paragraphs pertaining to 11 Reports of the COPU presented to the State Legislature between March 1995 and February 2004 had

not been received (September 2005) as indicated below:

<b>Year of the COPU Report</b>	<b>Total number of Reports involved</b>	<b>No. of paragraphs where replies not received</b>
1994-95	2	3
1996-97	2	1
2000-01	3	3
2002-03	2	2
2003-04	2	3
<b>Total</b>	<b>11</b>	<b>12</b>

These reports of COPU contained recommendations in respect of paragraphs pertaining to six<sup>@</sup> departments, which appeared in the Reports of the Comptroller and Auditor General of India for the years 1990-91 to 1999-2000.

***Action taken on persistent irregularities***

**3.20.3** With a view to assist and facilitate discussion of irregularities of persistent nature by the State COPU, an exercise had been carried out to verify the extent of corrective action taken by the auditee organisations concerned. The results are indicated in **Annexures 15** and **16**.

***Government companies***

Irregularities of various nature having financial implications of Rs. 19.55 crore including Rs. 10.78 crore (Haryana State Industrial Development Corporation Limited) in respect of persistent irregularities mentioned in para 3.21.3 of Audit Report (Commercial) 2003-04 were included in the Reports of the Comptroller and Auditor General of India for the years 1997-98 to 2003-04 (Commercial)-Government Haryana. These irregularities were persisting with the companies for two to seven years. Audit observed that action taken by the companies/State Government on the irregularities was inadequate as per details given in **Annexure 15**.

***Statutory corporations***

Irregularities of various nature having financial implications of Rs. 7.86 crore including Rs. 3.92 crore (Haryana Financial Corporation) in respect of persistent irregularities mentioned in para 3.21.3 of Audit Report (Commercial) 2003-04 were included in the Reports of the Comptroller and Auditor General of India for the year 1998-99 to 2003-04 (Commercial)-Government of Haryana. The irregularities were persisting with the Corporation for six years. Audit observed that action taken by the Corporation/State Government on the irregularities was inadequate as per details given in **Annexure 16**.

The matter was referred to the Government in June 2005; the reply had not been received (September 2005).

***3.20.4 Response to Inspection Reports, Draft paragraphs and Reviews***

Audit observations noticed during audit and not settled on the spot are communicated to the respective head of PSU and concerned department of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads

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<sup>@</sup> Power (three), Industry (two), Mines and Geology (three), Forest (one), Tourism (two) and Agriculture (one).

of departments within a period of six weeks. Review of Inspection Reports issued up to March 2005 revealed that 742 paragraphs relating to 254 Inspection Reports pertaining to 21 PSUs and Haryana Electricity Regulatory Commission remained outstanding at the end of 30 September 2005. Department-wise break up of Inspection Reports and audit observations outstanding as on 30 September 2005 is given in **Annexure 17**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Audit, however, observed that 17 draft paragraphs and two reviews forwarded to the various departments during January to July 2005 as detailed in **Annexure 18** had not been replied to so far (30 September 2005).

It is recommended that the Government may ensure that (a) procedure exists for action against the officials who failed to send replies to Inspection Reports/draft paragraphs/reviews and ATNs to recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/outstanding advances/overpayments is taken within prescribed period; and (c) the system of responding to the audit observations is revamped.

**Chandigarh**  
**Dated**

**(Ashwini Attri)**  
**Accountant General (Audit) Haryana**

**Countersigned**

**New Delhi**  
**Dated**

**(Vijayendra N. Kaul)**  
**Comptroller and Auditor General of India**