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 60th 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 cen*t 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.

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- 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

[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.

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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:

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- 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.

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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

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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.