हिमाचल प्रदेश

REPORT

OF THE

COMPTROLLER

AND

AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 2007

(COMMERCIAL)

GOVERNMENT OF HIMACHAL PRADESH

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ANNEXURES

PREFACE

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

(i) Government companies,
(ii) Statutory corporations and
(iii) Departmentally managed commercial undertakings.

2. This Report deals with the results of audit of Government companies and Statutory corporations including Himachal Pradesh State Electricity Board and has been prepared for submission to the Government of Himachal Pradesh under Section 19 A of the Comptroller and Auditor General's (CAG) (Duties, Powers and Conditions of Service) Act, 1971, as amended from time to time. The results of audit relating to departmentally managed commercial undertakings are included in the Report of the Comptroller and Auditor General of India (Civil) - Government of Himachal Pradesh.

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

4. In respect of Himachal Road Transport Corporation and Himachal Pradesh State Electricity Board which are Statutory corporations, the CAG is the sole Auditor. In respect of Himachal Pradesh Financial Corporation, he has the right to conduct the audit of their accounts in addition to the audit conducted by the Chartered Accountants, appointed by the State Government in consultation with the CAG. In respect of Himachal Pradesh Electricity Regulatory Commission, the CAG is the sole auditor. The Audit Reports on the annual accounts of all these corporations are forwarded separately to the State Government.

5. The cases mentioned in this Report are those, which came to notice in the course of audit during 2006-07 as well as those which came to notice in earlier years, but were not dealt with in the previous Reports. Matters relating to the period subsequent to 2006-07 have also been included, wherever necessary.

6. The audit in relation to the material included in this Report has been conducted in conformity with the Auditing Standards issued by the CAG.

OVERVIEW

1 Overview of Government companies and Statutory corporations

As on 31 March 2007, the State had 21 Public Sector Undertakings (PSUs) comprising 18 Government companies (including two non-working companies) and three Statutory corporations. In addition, there were three companies under the purview of Section 619-B of the Companies Act, 1956 as on 31 March 2007. The total investment in working PSUs increased from Rs. 3,743.45 crore as on 31 March 2006 to Rs. 3,886.32 crore as on 31 March 2007. The total investment in non-working PSUs decreased from Rs. 705.26 crore as on 31 March 2006 to Rs. 4.79 crore as on 31 March 2007.

(Paragraphs 1.1, 1.2, 1.16 and 1.31)

According to the latest finalised accounts of 19 working PSUs (16 Government companies and three Statutory corporations), six Government companies and one Statutory corporation earned aggregate profit of Rs. 10.06 crore and Rs. 1.88 crore respectively. Only one company declared a dividend of Rs. 35.15 lakh during 2006-07. Eleven working PSUs (nine Government companies and two Statutory corporations) incurred aggregate loss of Rs. 71.62 crore as per their latest finalised accounts. Of the loss incurring working Government companies, four companies had accumulated losses aggregating Rs. 141.97 crore, which exceeded their aggregate paid-up capital of Rs. 51.75 crore. Two Statutory corporations incurred losses aggregating Rs. 45.27 crore. These two loss incurring Statutory corporations had accumulated loss of Rs. 540.21 crore, which exceeded their paid-up capital of Rs. 305.68 crore.

(Paragraphs 1.7, 1.8, 1.9 and 1.11)

Two working Government companies had incurred losses for the last five years ended 31 March 2006 and 31 March 2007 leading to negative net worth. In view of continuous losses, the Government may take steps to either improve the performance of these companies or consider their closure.

(Paragraph 1.29)

2 Performance Reviews relating to Government companies and Statutory corporations

Performance reviews relating to Felling and Conversion of trees by **Himachal Pradesh State Forest Corporation Limited,** Working of **Himachal Pradesh Agro Industries Corporation Limited,** Information Technology Review of Computerised Reservation of Hotel Rooms in **Himachal Pradesh Tourism**

Development Corporation Limited, Tariff, Billing and Collection of revenue in **Himachal Pradesh State Electricity Board,** Implementation of Accelerated Power Development Reforms Programme by **Himachal Pradesh State Electricity Board** and Information Technology Review of Computerised Booking in **Himachal Road Transport Corporation** were conducted. Some of the major audit findings are as follows:

Felling and Conversion of trees by Himachal Pradesh State Forest Corporation Limited

The Himachal Pradesh State Forest Corporation Limited (Company) was incorporated (March 1974) under the Companies Act, 1956, with a view to undertake proper and scientific exploitation of forest resources in the State by nationalising operation of extraction of timber to eliminate the agency of contractors. Some of the major deficiencies noticed during performance review were as follows:

- The Company failed to initiate steps for undertaking work departmentally to eliminate the agency of contractors in a phased manner thereby defeating the very purpose of formation of the Company.
- There was delay in receipt of marking lists, taking over and working of lots resulting in loss of Rs.1.88 crore due to payment of extension fee, interest and less extraction of timber.
- Submission of incorrect data to the Pricing Committee resulted in fixation of higher royalty rates and consequent avoidable payment of royalty of Rs.2.36 crore to the Forest Department.
- Fixation of higher royalty rates by assuming obtainable yield at a higher rate resulted in a loss of Rs.1.74 crore.
- Failure of the Company to review requirement of manpower resulted in payment of salary and wages of Rs.8.75 crore to surplus manpower during the period June 2003 to March 2007.

(Chapter 2.1)

Performance review on the Working of Himachal Pradesh Agro Industries Corporation Limited

Himachal Pradesh Agro Industries Corporation Limited (Company) was incorporated (September 1970) with a view to promote agro based industries in the State. The Company did not draw any long-term plan for achievement of its main objective of promoting agro-based industries in the State. It did not plan annual activities well before the commencement of financial year in consultation with State Government Departments, which were the main buyers of Company's products. Some of the major deficiencies noticed during performance review were as follows:

- Out of five production units, three units were incurring losses continuously on account of low capacity utilisation due to lack of adequate demand from the State Government Departments and inability of the Company to market its products in the open market.
- The Company purchased major portion of food grains for manufacturing cattle feed during off season resulting in incurring of avoidable extra expenditure of Rs.54.35 lakh.
- Out of 20 trading units and one petrol pump, 10 units were continuously incurring losses and loss suffered by these units during five years up to 2006-07 amounted to Rs.1.59 crore due to inaction of the Management to improve their working.

(Chapter 2.2)

Information Technology Review of Computerised Reservation of Hotel Rooms in Himachal Pradesh Tourism Development Corporation Limited

The Company introduced (1993) computerised Central Hotel Reservation System for Hotel reservation facility at Central Reservation Office, Shimla. The software was got modified (September 2000) as web enabled software from National Informatics Centre. Some of the important findings are as follows:

- No policies relating to computerisation have been framed by the company.
- The Company failed to recover cancellation charges of Rs.2.42 crore from the customers who reserved the rooms in the hotels at nil advances due to defect in the System.
- The Company completed (March 2007) Local Area Network (LAN) in three units at a cost of Rs.10.88 lakh but as the System had no provision to upload the data from the online hotel reservation system; the basic purpose of LAN was defeated.

(Chapter 2.3)

Tariff, Billing and Collection of revenue in Himachal Pradesh State Electricity Board

The Himachal Pradesh State Electricity Board (Board) was incorporated (September 1971) for generation, transmission and distribution of electricity in an efficient and economical manner in the State. Sale of power is regulated with reference to the tariff fixed by the Himachal Pradesh Electricity

Regulatory Commission (HPERC) from time to time. Prior to the establishment (December 2000) of the HPERC, the Board was exercising the powers conferred on it by the Electricity (Supply) Act, 1948 with regard to fixation of tariff. The Board failed to file tariff petitions annually in time and on the basis of justifiable data resulting in disallowing of expenditure by the HPERC and consequential loss to the Board. The Board was unable to bill most of the consumers monthly resulting in delay in collection of revenue. Some of the major deficiencies noticed during performance review were as follows:

- Failure of the Board to file tariff petitions annually in time with complete details and justifiable data resulted in loss of Rs.154.86 crore and delay in recovery of Rs.533.72 crore.

- The Board failed to restructure its high cost debts resulting in loss of Rs.48.21 crore due to non-adjustment of interest through tariff.

- Failure of the Board to reduce transmission and distribution losses as per the targets fixed by HPERC resulted in loss of potential revenue of Rs.79.75 crore.

- The Board failed to bill the consumers in accordance with the laid down procedure/directions of HPERC resulting in non-recovery of revenue of Rs.70.40 crore.

- Internal control mechanism and internal audit system were deficient resulting in increase in number of units remaining un-audited by Internal Audit and non-settlement of large number of outstanding observations of Internal Audit.

(Chapter 3.1)

Implementation of Accelerated Power Development Reforms Programme by Himachal Pradesh State Electricity Board

The Union Ministry of Power (MOP) launched a nationwide programme called Accelerated Power Development Programme (APDP) during 2000-01, which was subsequently modified and rechristened as Accelerated Power Development Reforms Programme (APDRP) during 2002-03. The modified programme focuses on up-gradation of sub-transmission and distribution system in densely electrified zones in the urban and industrial areas and improvement in commercial viability of the State Electricity Boards. Some of the major deficiencies noticed during performance review were as follows:

- The State Government delayed the release of APDRP funds aggregating Rs.228.46 crore to the Board by 7 to 637 days thereby making itself liable to pay Rs.9.09 crore as penal interest to the GOI.

Besides, the Board had to pay Rs.1.01 crore on account of interest at the rate of 12 *per cent* on loan component of Rs.16.39 crore for the period of delay in release of funds by the State Government.

- Delay in completion/non-execution of targeted works resulted in loss of potential revenue of Rs.15.32 crore as envisaged in the APDRP schemes.

- The Board incurred avoidable extra expenditure of Rs.35.99 crore due to allotment of work at higher rates, failure to purchase the material in bulk, use of conductor of higher size, delay in completion of works, non-receipt of material, *etc*.

- The monitoring of works under APDRP was deficient due to weak management information/internal control system and absence of internal audit system.

(Chapter 3.2)

Information Technology Review of Computerised Booking in Himachal Road Transport Corporation

The Corporation introduced (1995-96) in-house developed software for booking of tickets and loaded it on computers installed at 15 locations under eight Regional Offices at a cost of Rs. 15 lakh. Some of the major deficiencies noticed during performance review were as follows:

- During the last 11 years, the corporation had not formulated any strategic plan for computerisation.

- There was neither any password policy nor the system of taking back ups regularly.

- There was lack of consistency in executable programs working in different booking counters. Resultantly, leakage of revenue could not be ruled out.

- The System did not contain refund module for computerised cancellation of tickets, the depot codes were not fed correctly and the System accepted advance booking even after issuance of way bills.

- There was lack of consistency in executable programs working in different booking counters. Resultantly, leakage of revenue could not be ruled out.

(Chapter 3.3)

4 Transaction audit observations

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

- avoidable payment of Rs.8.52 crore in four cases,

  (Paragraphs 4.5, 4.7, 4.9 and 4.10)

- undue favour of Rs.2.36 crore in four cases,

  (Paragraphs 4.2, 4.3, 4.8 and 4.12)

- loss of revenue of Rs. 1.50 crore in three cases,

  (Paragraphs 4.1, 4.11 and 4.13)

- Unfruitful investment of Rs. 94.33 lakh in one case,

  (Paragraph 4.4)

- Diversion of grant-in-aid of Rs. 17.15 lakh in one case.

  (Paragraph 4.6)

Gist of some of the important observations is given below.

- Non-acceptance of rate by **Himachal Pradesh State Forest Corporation Limited** offered by a party for bulk purchase of turpentine oil despite known decreasing trend in rates resulted in a loss of Rs.18.04 lakh due to subsequent sale of turpentine oil at lower rates.

  (Paragraph 4.1)

- In addition to payment of price variation increase of Rs.42.19 lakh as per the standard price variation formula incorporated in the agreement, the **Beas Valley Power Corporation Limited** paid further price variation increase of Rs.82.10 lakh to the contractor resulting in undue favour to him.

  (Paragraph 4.2)

- Failure of the **Himachal Pradesh State Electricity Board** to exercise the option available for redemption of bonds of Rs 58.44 crore after five years resulted in avoidable payment of interest of Rs.6.89 crore for the period beyond fifth year.

  (Paragraph 4.7)

- The merger of excise duty in the ex-works rates by the **Himachal Pradesh State Electricity Board** though the supplier was exempted from payment of the same, resulted in extending of an undue favour of Rs.1.29 crore to the supplier on the purchase of conductor.

  (Paragraph 4.8)

- Failure of the **Himachal Pradesh State Electricity Board** to fix rates for supply of conductors as per instructions contained in the tender document resulted in avoidable overpayment of Rs.78.64 lakh.

  (Paragraph 4.9)

- Failure of the **Himachal Pradesh State Electricity Board** to obtain documentary evidence of payment of excise duty from the supplier before releasing the payment resulted in avoidable payment of excise duty of Rs.73.48 lakh.

(Paragraph 4.10)

- The **Himachal Pradesh State Electricity Board** sold its surplus land at Barmana having market value of Rs.1.17 crore to a private party for Rs.47.87 lakh resulting in loss of Rs.69.13 lakh coupled with interest loss of Rs.13.32 lakh due to accepting the total agreed cost after 22 months from the date of agreement.

(Paragraph 4.11)

- Injudicious decision of **Himachal Road Transport Corporation** to provide free traveling facility to the cancer/spinal injury patients in its buses and its improper implementation resulted in loss of Rs.49.23 lakh.

(Paragraph 4.13)

CHAPTER-I

1 Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2007, there were 18 Government companies (16[@] working companies and two[$] non-working companies[#]) and three working Statutory corporations as against 18 Government companies (14 working companies and four non-working companies) and three working Statutory corporations as on 31 March 2006 under the control of the State Government. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provision of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by the CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangements of the Statutory corporations are as shown below:

Name of the Corporation	Authority for audit by the CAG	Audit arrangement
Himachal Pradesh State Electricity Board (HPSEB)	Under Rule 14 of the Electricity (Supply) (Annual accounts) Rules 1985 read with Section 172 (a) and 185 (2) (d) of the Electricity Act, 2003[*]	Sole audit by the CAG
Himachal Road Transport Corporation (HRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by the CAG
Himachal Pradesh Financial Corporation (HPFC)	Section 37(6) of the State Financial Corporations Act, 1951	Audit by the Chartered Accountants and supplementary audit by the CAG

Source: Provisions of the relevant Statutes.

@ *One new company i.e. Himachal Pradesh Power Corporation Limited has been incorporated and one non-working company i.e. Himachal Pradesh Road and Other Infrastructure Development Corporation Limited has been revived*

$ *One company has become working company and Assets and Liabilities of one company have been transferred to Himachal Pradesh Infrastructure Development Board*

Non-working companies are those which are under the process of liquidation/closure/merger, etc.

* *The earlier provision of Section 69 (2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003*

The State Government had formed (December 2000) the Himachal Pradesh Electricity Regulatory Commission and its audit is entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003.[**]

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2007, the total investment in 19 working Public Sector Undertakings (16 Government companies and three Statutory corporations) was Rs.3,886.32 crore[#] (equity: Rs.749.04 crore, long-term loans*: Rs.3,136.86 crore and share application money: Rs.0.42 crore) as against total investment of Rs.3,743.45 crore (equity: Rs.707.04 crore, long-term loans: Rs.3,033.93 crore and share application money: Rs.2.48 crore) in 17 working PSUs (14 Government companies and three Statutory corporations) as on 31 March 2006.

The investment (equity and long-term loans) in various sectors and percentages thereof at the end of 31 March 2007 and 31 March 2006 are indicated below in the pie charts:

** *Earlier Section 34 (4) of the Electricity Regulatory Commissions Act, 1998 repealed by the Electricity Act, 2003*

State Government's investment in working PSUs was Rs.779.35 crore (others: Rs.3,106.97 crore). Figure as per Finance Accounts, 2006-07 was Rs. 734.05 crore. The difference is under reconciliation

* *Long-term loans mentioned in paragraphs 1.2, .1.3, 1.4 and 1.16 are excluding interest accrued and due on such loans*

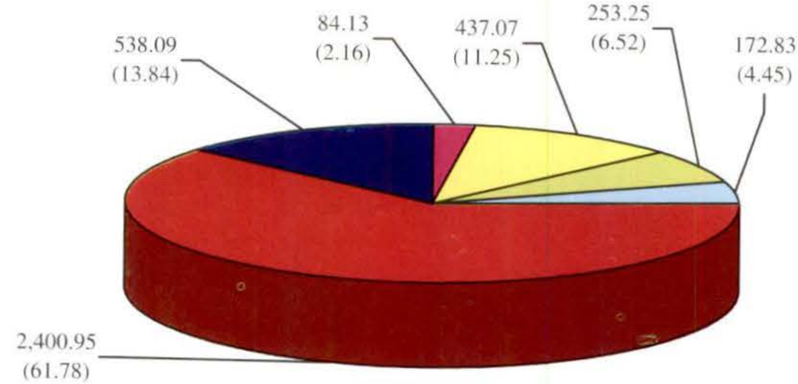
Sector-wise investment in working Government companies and corporations

(Rupees in crore)

(Figures in brackets are percentage)

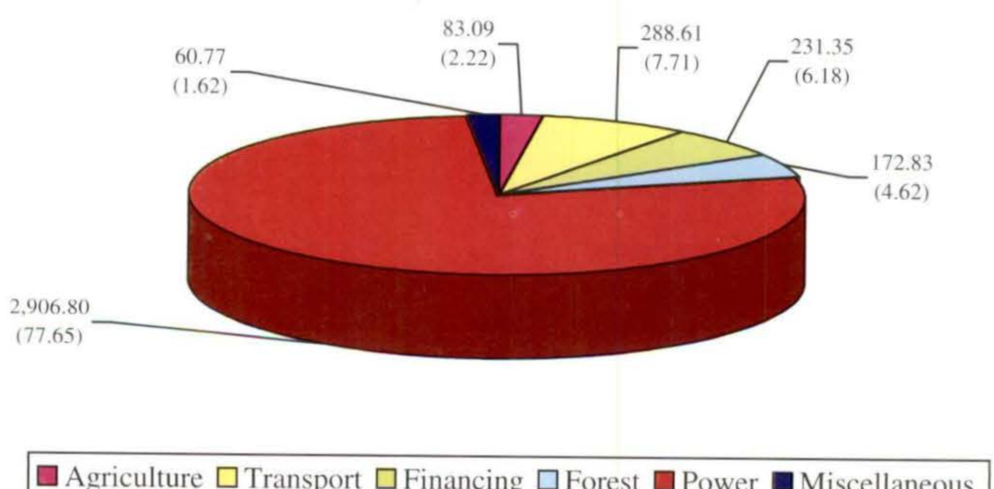
As on 31 March 2007

Total Investment-Rs.3,886.32 crore



As on 31 March 2006

Total Investment-Rs.3,743.45 crore



An analysis of investment in working PSUs is given in the following paragraphs.

Working Government companies

1.3 Total investment in working Government companies at the end of March 2006 and March 2007 was as follows:

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2005-06	14	131.95	2.08	212.26	346.29
2006-07	16	161.25	0.42	663.38	825.05

Source: As per information furnished by the companies.

The increase in investment was mainly due to addition of two* working Government companies.

As on 31 March 2007, the total investment in working Government companies comprised 19.60 *per cent* of equity and 80.40 *per cent* of loans as compared to 38.70 and 61.30 *per cent* respectively as on 31 March 2006.

Due to increase in long-term loans mainly in Himachal Pradesh Road and Other Infrastructure Development Corporation Limited, the debt equity ratio of working Government companies as a whole increased from 1.58:1 in 2005-06 to 4.10:1 in 2006-07.

The summarised statement of Government investment in working Government companies in the form of equity and loans is given in **Annexure-I**.

Working Statutory corporations

1.4 The total investment in the three working Statutory corporations at the end of March 2006 and March 2007 was as follows:

(Rupees in crore)

Name of corporation	2005-06		2006-07	
	Capital	Loan	Capital	Loan
Himachal Pradesh State Electricity Board (HPSEB)	282.11	2,624.69	282.11	2,118.43
Himachal Road Transport Corporation (HRTC)	264.81	23.80	277.11	159.96
Himachal Pradesh Financial Corporation (HPFC)	28.57	173.18	28.57	195.09
Total	**575.49**	**2,821.67**	**587.79**	**2,473.48**

Source: As per information furnished by the corporations.

* *Himachal Pradesh Power Corporation Limited and Himachal Pradesh Road and Other Infrastructure Development Corporation Limited*

The decrease in investment was mainly due to decrease in long-term loans in Himachal Pradesh State Electricity Board.

As on 31 March 2007, the total investment in the working Statutory corporations comprised 19.20 *per cent* of equity capital and 80.80 *per cent* of loans as compared to 16.94 and 83.06 *per cent* respectively as on 31 March 2006.

Due to decrease in long-term loans, the debt equity ratio of the working Statutory corporations as a whole decreased from 4.90:1 in 2005-06 to 4.21:1 in 2006-07.

The summarised statement of Government investment in the working Statutory corporations in the form of equity and loans is given in **Annexure-I**.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

1.5 The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of the working Government companies and working Statutory corporations are given in **Annexure-I and III**.

The budgetary outgo in the form of equity and loans and grants/subsidies from the State Government to the working Government companies and Statutory corporations for the three years up to 2006-07 is given below:

(Amount: Rupees in crore)

	2004-05				2005-06				2006-07			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity	3	1.70	2	14.41	3	1.29	2	12.70	4	2.06	1	12.30
Loans	-	-	1	6.76	-	-	1	1.97	-	-	1	7.93
Grants	-	-	-	-	-	-	-	-	-	-	-	-
Subsidy	3	5.39	3	79.25	3	4.85	3	125.96	5	6.25	3	50.72
Total outgo	**6***	**7.09**	**3***	**100.42**	**6***	**6.14**	**3***	**140.63**	**9***	**8.31**	**3***	**70.95**

Source: As per information furnished by the companies/corporations.

* *These are actual number of companies/corporations which received budgetary support in the form of equity, loans, grants and subsidy from the State Government during respective year*

During 2006-07, the Government had guaranteed loans aggregating Rs.240.27 crore obtained by two Government companies (Rs.10.60 crore) and two Statutory corporations (Rs. 229.67 crore). At the end of the year, guarantees amounting to Rs. 2,411.74 crore against six Government companies (Rs. 627.81 crore) and two Statutory corporations (Rs. 1,783.93 crore) were outstanding. There was no case of default in repayment of guaranteed loans during the year. The Government had not forgone any amount by way of loans written off or interest waived or given moratorium on loan repayment during the year. During 2006-07, the guarantee commission payable to the Government by one Statutory corporation (HPSEB) was Rs.46.13 lakh and by one Government company (Himachal Pradesh State Handicrafts and Handloom Corporation Limited) was Rs.0.72 lakh.

Finalisation of accounts by PSUs

1.6 The accounts of Government companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in the case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of the respective statutes.

It can be seen from **Annexure-II** that out of 16 working Government companies and all the three working Statutory corporations, only seven[*] companies and all the three corporations had finalised their accounts for 2006-07. During October 2006 to September 2007, nine Government companies finalised ten accounts for the previous years. Himachal Road Transport Corporation finalised accounts for previous year also. The accounts of nine Government companies were in arrear for periods ranging from one to

[*] *Himachal Pradesh General Industries Corporation Limited, Himachal Pradesh State Electronic Development Corporation Limited, Himachal Pradesh State Handicrafts and Handloom Corporation Limited, Himachal Pradesh State Civil Supplies Corporation Limited, Himachal Pradesh State Industrial Development Corporation Limited, Himachal Pradesh Power Corporation Limited and Himachal Pradesh Road and Other Infrastructure Development Corporation Limited*

three years as on 30 September 2007, as detailed below:

Sr. No.	No. of working Government companies	Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial No. of Annexure-II
1	1	2004-05 to 2006-07	3	8
2	1	2005-06 and 2006-07	2	10
3	7	2006-07	1	1, 2, 3,4, 9, 11 and 13

It is the responsibility of the administrative departments to monitor and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments were informed every quarter by Audit of the position of arrear in finalisation of accounts by companies under their administrative control, no effective measures had been taken and as a result, the net worth of these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

1.7 The summarised financial results of working PSUs (Government companies and Statutory corporations) as per the latest finalised accounts are given in **Annexure-II**. Besides, statements showing the financial position and the working results of individual working Statutory corporations for the latest three years for which accounts have been finalised are given in **Annexure-IV and V** respectively.

According to the latest finalised accounts, nine companies and two corporations had incurred an aggregate loss of Rs. 26.35 crore and Rs.45.27 crore respectively and six companies and one corporation had earned an aggregate profit of Rs.10.06 crore and Rs.1.88 crore respectively. Excess of expenditure over income in respect of Himachal Pradesh Road and Other Infrastructure Development Corporation Limited was reimbursable by the State Government.

Working Government companies

Profit earning working companies and dividend

1.8 Out of seven working Government companies which finalised their accounts for 2006-07, three* companies earned an aggregate profit of Rs.8.59 crore but only one company i.e. Himachal Pradesh State Civil Supplies Corporation Limited, declared dividend aggregating Rs. 35.15 lakh. The dividend as a percentage of share capital (Rs.36.83 crore) in the above three profit making companies worked out to 0.95. The remaining two profit making companies did not declare any dividend. The total return by way of dividend of Rs. 35.15 lakh worked out to 0.23 *per cent* in 2006-07 on total equity investment of Rs. 150.34 crore by the State Government in all the Government companies as against 1.44 *per cent* in previous year. The State Government formulated (August 1982) a dividend policy for payment of minimum dividend of three *per cent.* However, these guidelines were complied with by one company only.

Similarly, out of nine working Government companies which finalised their accounts for the previous years during October 2006 to September 2007, three[#] companies earned a profit of Rs.1.48 crore. Two[&] companies earned profit for two successive years.

Loss incurring working companies

1.9 Of the nine loss incurring working Government companies, four[$] companies had accumulated losses aggregating Rs.141.97 crore which exceeded their aggregate paid-up capital of Rs.51.75 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of subsidy, *etc.* As per available information, the total financial support provided by the State Government by way of subsidy during 2006-07 to two** out of these four companies amounted to Rs. 1.09 crore.

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* *Himachal Pradesh State Electronic Development Corporation Limited, Himachal Pradesh State Civil Supplies Corporation Limited and Himachal Pradesh State Industrial Development Corporation Limited*

\# *Himachal Pradesh State Small Industries and Export Corporation Limited, Himachal Backward Classes Finance and Development Corporation and Himachal Pradesh Tourism Development Corporation Limited*

& *Himachal Pradesh State Small Industries and Export Corporation Limited and Himachal Backward Classes Finance and Development Corporation*

$ *Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited, Agro Industrial Packaging India Limited, Himachal Pradesh State Handicrafts and Handloom Corporation Limited and Himachal Pradesh State Forest Corporation Limited*

** *Agro Industrial Packaging India Limited and Himachal Pradesh State Handicrafts and Handloom Corporation Limited*

Working Statutory corporations

Profit earning Statutory corporations and dividend

1.10 Himachal Pradesh State Electricity Board which finalised its accounts for the year 2006-07 earned profit of Rs.1.88 crore, but did not declare any dividend.

Loss incurring Statutory corporations

1.11 Two** working Statutory corporations incurred losses aggregating Rs.45.27 crore as per their latest annual accounts. Both the corporations had accumulated losses aggregating Rs.540.21 crore which exceeded their aggregate paid-up capital of Rs.305.68 crore. Despite their poor performance, the State Government assisted these corporations through equity, loans and subsidy of Rs.68.25 crore during 2006-07.

Operational performance of working Statutory corporations

1.12 The operational performance of the Statutory corporations is given in **Annexure-VI**.

Return on Capital Employed

1.13 As per the latest finalised accounts, the capital employed* worked out to Rs. 966.08 crore in 16 working companies and total return+ thereon was negative as compared to total return of Rs.18.45 crore (2.40 *per cent*) in the previous year. Similarly, during 2006-07, the capital employed in case of three working Statutory corporations as per their latest finalised accounts worked out to Rs. 2,929.64 crore and total return on capital employed was Rs. 113.83 crore in 2006-07, which is 3.89 *per cent.* The return on capital employed was Rs.129.13 crore (3.72 *per cent*) in 2005-06. The details of capital employed and total return on capital employed in case of Government companies and Statutory corporations are given in **Annexure-II**.

** *Himachal Road Transport Corporation and Himachal Pradesh Financial Corporation*

* *Capital employed represents net fixed assets (including capital works-in-progress)* plus *working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves and borrowings (including refinance)*

\+ *For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account*

Reforms in the power sector

Status of implementation of the Memorandum of Understanding between the State Government and the Central Government

1.14 In pursuance of the decisions taken at the Chief Ministers' conference on Power Sector Reforms, held in March 2001, a Memorandum of Understanding (MOU) was signed on 31 March 2001 between the Ministry of Power, Government of India (GOI) and the Department of Power, Government of Himachal Pradesh as a joint commitment for implementation of a reform programme in the power sector with identified milestones. The State Electricity Board was able to meet all the milestones set out in the MOU.

State Electricity Regulatory Commission

1.15 The Government of Himachal Pradesh constituted (30 December 2000) the Himachal Pradesh Electricity Regulatory Commission (HPERC), with one member under Section 17 (1) of the Electricity Regulatory Commissions Act, 1998*. The audit of HPERC is entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003. HPERC had not finalised any accounts so far (September 2007).

Non-working Public Sector Undertakings

Investment in non-working PSUs

1.16 As on 31 March 2007, the total investment in two non-working Government companies was Rs 4.79# crore (equity: Rs.4.79 crore) against Rs.705.26 crore (equity: Rs.34.79 crore and long-term loans: Rs.670.47 crore) as on 31 March 2006.

The classification of the non-working Government companies was as under:

Sr. No.	Status of non-working PSUs	Number of non-working companies	Investment	
			Equity	Long-term loans
(i)	Under liquidation	1[A]	0.92 (0.92)	-
(ii)	Under closure	1[B]	3.87 (33.87)	- (670.47)
	Total	**2**	**4.79 (34.79)**	**- (670.47)**

(Figures in brackets are for previous years)

In respect of one non-working Government company *viz.* Himachal Worsted

**Since replaced with Section 82 (1) of the Electricity Act, 2003*

#State Government's investment in non-working PSUs as per accounts of Companies and Finance Accounts for 2006-07 was Rs. 3.87 crore.

[A] Himachal Worsted Mills Limited

[B] Nahan Foundry Limited

Mills Limited, an official liquidator has been appointed and process of liquidation is in progress (September 2007). One company, Himachal Pradesh Road and Other Infrastructure Development Corporation Limited has been revived by the Government and treated as working Government company. Assets and liabilities of Himachal Pradesh Health Systems Corporation Limited have been transferred to Himachal Pradesh Infrastructure Development Board. The process of striking off the name of this Company from the records of the Registrar of Companies has been started. Nahan Foundry Limited was under closure under Section 560 of the Companies Act, 1956 for the last 18 years with investment of Rs. 3.87 crore. Effective steps need to be taken for its expeditious closure.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

1.17 During the year, the State Government had not provided any budgetary support in the form of equity, loan, subsidy, grants, *etc.* to the non-working company.

Finalisation of accounts by non-working PSUs

1.18 Out of two non-working companies, one company i.e. Himachal Worsted Mills Limited was under liquidation and the other company *i.e.* Nahan Foundry Limited was defunct. The Nahan Foundry Limited has finalised its accounts for the year 2006-07.

Financial position and working results of non-working PSUs

1.19 The summarised financial results of non-working Government companies as per the latest finalised accounts are given in **Annexure-II**.

The year wise details of paid-up capital, net worth, cash loss/cash profit and accumulated loss/profit of non-working PSUs as per their latest finalised accounts are given below:

(Rupees in crore)

Year of latest finalised accounts	Number of companies	Paid-up capital	Net worth	Cash loss (-) / cash profit (+)	Accumulated loss (-)/ accumulated profit (+)
2005-06	3	33.87	29.55	(-)0.61	(-)4.50
2006-07	1	3.87	(-)0.62	(+)0.01	(-)4.49

Source: Worked out by Audit from the audited accounts of PSUs.

Status of placement of Separate Audit Reports of Statutory corporations in Legislature

1.20 Separate Audit Reports (SARs) on the accounts of all the three Statutory corporations for the period up to 2005-06 have been placed in the State Legislature by the State Government.

Disinvestment, privatisation and restructuring of Public Sector Undertakings

1.21 During the year 2006-07, there was no case of disinvestment and privatisation of Government companies and Statutory corporations. Assets and liabilities of Himachal Pradesh Health Systems Corporation Limited were transferred to Himachal Pradesh Infrastructure Development Board. The process of striking off name of this Company has been started. Himachal Pradesh Road and Other Infrastructure Development Corporation Limited has been revived by the Government.

Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

1.22 During October 2006 to September 2007 the accounts of 14 companies were selected for audit. The net impact of important audit observations as a result of audit of accounts of these PSUs was as follows:

Details		No of accounts		Rupees in lakh	
		Government companies	Statutory corporations	Government companies	Statutory corporations
		Working	Working	Working	Working
(i)	Decrease in profit	1	1	205.80	597.00
(ii)	Increase in profit	1	-	203.54	-
(iii)	Increase in loss	1	1	242.74	52.96
(iv)	Decrease in loss	1	-	155.42	-

Some of the major errors and omissions noticed in the course of audit of annual accounts of these companies/corporations are mentioned in the succeeding paragraphs.

Errors and omissions noticed in case of Government companies

1.23 Himachal Pradesh State Forest Corporation Limited

Accounts for the year 2001-02

- Rs. 51.34 lakh allowed by the Income Tax Department as interest on advance income tax deposit has been treated as adjustment against the advance income tax for the assessment years 1988-89, 1995-96, 1998-99 and 2001-02. This has resulted in understatement of 'advance income tax' and profit by Rs. 51.34 lakh. No action has been taken in spite of comment of the C&AG of India on the accounts for the year ended 31 March 1998, 1999, 2000 and 2001.

- Current liabilities and Provisions include an amount of Rs. 1.21 crore shown as payable on account of royalty (Rs. 13.69 lakh, interest on royalty and sales tax (Rs. 1.07 crore), which was not payable to the Forest Department. This has resulted in overstatement of sundry creditors and understatement of Profit Rs. 1.21 crore.

Accounts for the year 2002-03

- Current Assets, Inventories-Stock Suspense include an amount of Rs. 1.11 crore, being value of timber burnt in fire in May 1999 (Rs. 30.45 lakh), value of driage in fuel wood stock (Rs. 22.45 lakh), value of felled trees from which timber could not be extracted (Rs. 50.18 lakh), value of trees which were not insured and burnt (Rs. 3.97 lakh) and debts considered by the management as doubtful of recovery (Rs. 3.80 lakh) and approved by the Board of Directors (BODs) for write off. Non-provision of Rs.1.11 crore on above account resulted in overstatement of current assets and understatement of loss by that amount.

- Loans and advances, advances recoverable in cash or in kind or for value to be received considered good include an amount of Rs. 1.02 crore shown recoverable from the Forest Department on account of excess sales tax paid. This amount was not recoverable as the appeal filed by the Company has been dismissed by the Appellate Authority. Depiction of this amount as recoverable has resulted in overstatement of Loans and Advances and understatement of loss by Rs. 1.02 crore. This was also commented on the accounts for the year 2001-02.

- Current Liabilities and Provisions include an amount of Rs. 1.15 crore shown as payable on account of royalty, interest on royalty and sales tax, which was not payable to the Forest Department. This has resulted in overstatement of sundry creditors and loss by Rs. 1.15 crore. This was also commented on the accounts for the year 2001-02.

Errors and omissions noticed in case of Statutory corporations

1.24 Himachal Road Transport Corporation (2005-06)

Loss for the year has been overstated by Rs. 52.96 lakh due to understatement of loss on account of overstatement of closing stock (Rs. 6.79 lakh) and sundry debtors (Rs. 5.04 lakh) and overstatement of loss on account of excess accountal of interest/penalty on late deposit of passenger tax Rs. 64.79 lakh.

Audit assessment of the working results of the State Electricity Board

1.25 Based on the audit assessment of the working results of the Board for three years up to 2006-07 and taking into consideration the major irregularities and omissions pointed out in the Separate Audit Reports (SARs) on the annual accounts of the Board and not taking into account the subsidy/subventions receivable from the State Government, the net surplus/deficit and the percentage of return on capital employed of the Board is as given below:

(Rupees in crore)

Sr. No.	Particulars	2004-05	2005-06	2006-07 (Provisional)
1	Net surplus/(-) deficit as per books of accounts	(-)37.25	20.48	1.88
2	Subsidy from the State Government	Nil	76.85	96.09
3	Net surplus/(-) deficit before subsidy from the State Government (1-2)	(-)37.25	(-)56.37	(-)94.21
4	Net increase/decrease in net surplus/(-) deficit on account of audit comments on the annual accounts of the Board	32.33	(-)5.97	@
5	Net surplus/(-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-)4.92	(-)62.34	@
6	Total return on capital employed*	120.58	59.50	@
7	Percentage of total return on capital employed	3.94	1.78	@

Source: Annual Accounts and Separate Audit Report of Himachal Pradesh State Electricity Board

Persistent irregularities and system deficiencies in financial matters of PSUs

1.26 The following persistent irregularities and system deficiencies in Himachal Pradesh State Electricity Board had been pointed out during the course of audit of its accounts but no corrective action had been taken so far:

- Register of fixed assets had not been completed by various units of the Board.
- Function-wise break up of assets had not been prepared since 1985-86.
- Physical verification of assets had not been carried out.

@ *Since the accounts for the year 2006-07 are under audit, these figures have not been indicated*

* *Total return on capital employed represents net surplus (+)/deficit (-) (after taking into account impact of comments) plus total interest charged to profit and loss account (less interest capitalised)*

- Consolidated statement showing year wise break-up of sundry debtors and further segregating them into good, bad and doubtful debts was not prepared.
- An amount of Rs.5.57 lakh in respect of Electrical Maintenance Division, Bhabanagar was recoverable from various firms since 1989-90.

Recoveries at the instance of Audit

1.27 Test check of records of Himachal Pradesh State Electricity Board/other PSUs conducted during 2006-07 disclosed wrong fixation of tariff/non-levy/short levy of tariff/short realisation of revenue, *etc.* aggregating Rs. 70.27 crore in 913 cases. During 2006-07, a sum of Rs. 9.59 crore relating to 278 cases was recovered at the instance of Audit.

Internal Audit/Internal Control

1.28 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal control/internal audit systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which need improvement. Directions/sub-directions under the Act, *ibid*, were issued to the Statutory Auditors in respect of 20 Government companies. In pursuance of the directions so issued, reports of Statutory Auditors involving 15 accounts of 15 Government companies were received (September 2007).

An illustrative resume of major comments made by Statutory Auditors on possible improvement in the internal audit/internal control system in respect of State Government companies is indicated in **Annexure-VII**. The major comments were of the following nature:

- Internal audit coverage was inadequate.
- Four companies had not fixed maximum and minimum limit and economic order quantity for procurement of stocks and stores.
- There was no system of obtaining balance confirmation from debtors.

Recommendations for closure of PSUs

1.29 Two Government companies, Agro Industrial Packaging India Limited and Himachal Pradesh State Handicrafts and Handloom Corporation Limited had incurred losses for the last five years ended 31 March 2006 and 31 March 2007 respectively and had a negative net worth. In view of the continuous losses, the Government may either improve the performance of these companies or consider their closure.

Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)

1.30 The position of discussion of Audit Reports (Commercial)/(Civil and Commercial) by the Committee on Public Undertakings as on 30 September 2007 was as under:

Period of Audit Report	Number of Reviews and Paragraphs			
	Appeared in the Audit Report		Discussed by COPU	
	Reviews	Paragraphs	Reviews	Paragraphs
2001-2002	3	13	-	4
2002-2003	2	10	-	5
2003-2004	1	14	-	3
2004-2005	-	13	-	2
2005-2006	5	14	-	-
Total	**11**	**64**	**-**	**14**

During 2006-07, COPU met nine times and discussed one review and twenty six paragraphs. Audit Report (Civil and Commercial) - Volume-II for the year ended 31 March 2006 was placed before the State Legislature on 3 April 2007.

619-B companies

1.31 There were three companies coming under the purview of Section 619-B of the Companies Act, 1956 as on 31 March 2007 as against two such companies as on 31 March 2006. During 2006-07, one company, Kinner Kailash Power Corporation Limited was incorporated. **Annexure-VIII** indicates the details of paid-up capital, investment by way of equity, loans and grants and summarised working results of the three companies based on their latest available accounts.

CHAPTER II

PERFORMANCE REVIEWS RELATING TO GOVERNMENT COMPANIES

2.1 Felling and Conversion of trees by Himachal Pradesh State Forest Corporation Limited

Highlights

The Company failed to initiate steps for undertaking work departmentally to eliminate the agency of contractors in a phased manner thereby defeating the very purpose of formation of the Company.

(Paragraph 2.1.7)

The Company did not prepare annual budget plans in advance of the financial years as done by all Government departments and actual achievements did not commensurate with the budgeted estimates.

(Paragraph 2.1.8)

There was delay in receipt of marking lists, taking over and working of lots resulting in loss of Rs.1.88 crore due to payment of extension fee, interest and less extraction of timber.

(Paragraphs 2.1.13 and 2.1.15)

Submission of incorrect data to the Pricing Committee resulted in fixation of higher royalty rates and consequent avoidable payment of royalty of Rs.2.36 crore to the Forest Department.

(Paragraph 2.1.12)

Fixation of higher royalty rates by assuming obtainable yield at a higher rate resulted in a loss of Rs.1.74 crore.

(Paragraph 2.1.25)

Failure of the Company to review requirement of manpower resulted in payment of salary and wages of Rs.8.75 crore to surplus manpower during the period June 2003 to March 2007.

(Paragraph 2.1.31)

Management information system and internal control mechanism were deficient. The data/returns received from the field were not used for creating a data bank for use in decision making to improve the working of the Company.

(Paragraphs 2.1.34 and 2.1.35)

Introduction

2.1.1 The Himachal Pradesh State Forest Corporation Limited (Company) was incorporated (March 1974) under the Companies Act, 1956, with a view to undertake proper and scientific exploitation of forest resources in the State by nationalising operation of extraction of timber to eliminate the agency of contractors.

The affairs of the Company are managed by the Board of Directors consisting of not less than two and not more than twelve Directors including the Chairman, Vice Chairman and the Managing Director. The Managing Director is the Chief Executive of the Company and he is assisted by the Executive Director, the Financial Advisor, Company Secretary and four Directors. The Company has 14 Forest Working Divisions, five Himkasth Sale Depots which are managed by the Divisional/Depot Managers and two Rosin and Turpentine factories managed by the General Managers. The organisational chart of the Company is given in **Annexure-IX**.

Scope of audit

2.1.2 A review on the working of the Company was included in the Report of the Comptroller and Auditor General of India (Commercial)-Government of Himachal Pradesh for 1995-96. The review was discussed by the Committee on Public Sector Undertakings (COPU) in November 2000. The recommendations of COPU and action taken notes thereon were received in March 2001 and March 2003 respectively. There were no recommendations of COPU relevant to the subject under present performance audit. Four Forest Working Divisions from each of the two Directorates (North and South) were selected for audit based on marked volume of trees taken over for exploitation during 2002-03 to 2006-07 which was 10.08 lakh cum as against the total volume of trees of 14.98 lakh cum. The present Performance review, conducted from January to April 2007, is based on scrutiny of records maintained at the Head office, all the three Directorates and eight* out of 14 Forest Working Divisions selected on simple random sampling method without replacement. It covers the activity of exploitation of forests *i.e.* taking over of lots of trees marked by the Forest Department, felling and conversion of taken over trees and transportation of extracted timber to road side and sales depots during the last five years ended March 2007.

Audit objectives

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

- the Company succeeded in eliminating contractors from the extraction activities;

* *Shimla, Sawra, Rampur, Chopal, Mandi, Kullu, Dharmshala and Chamba*

- the Company prepared annual working plan well in advance in consultation with the Forest Department and planned its activities prudently;
- the forest/trees allotted to the Company by the Forest department and forests/trees on private land bought by the Company were taken over immediately after joint inspection of marking of forests/trees;
- the payment of royalty, sales tax, *etc.* to the Government and payment to private forest/tree owners was made as per the rules prescribed by the State Government;
- the felling of trees, extraction of timber and its transportation to the sales depots was done in an efficient, economical and effective manner; and
- there was effective management information and internal control system and evaluation mechanism in the Company.

Audit criteria

2.1.4 The audit criteria adopted for assessing the achievement of audit objectives were:

- action plan and guidelines issued by the Company;
- rules relating to taking over of forest/trees and awarding of work for felling and extraction of timber;
- manual of procedure and instructions for the timber extraction and working of Himkasth Sales Depot(Manual);
- orders of the State Government/Company relating to payment of royalty and sales tax to the Government and extraction and transportation charges to the contractors;
- provisions of the Himachal Pradesh Forest Produce (Regulation of Trade) Act, 1982; and
- provisions in the Accounting System Manual.

Audit methodology

2.1.5 The methodology adopted for achieving the audit objectives with reference to the audit criteria was examination of:

- agenda papers and minutes of the meetings of the Board of Directors and sub-committees, if any;
- working plan and guidelines issued by the Company along with annual budget *vis-a-vis* actual achievement;
- records relating to marking list, taking over of lots, allotment of works, execution of work and payments to Labour Supply Mates, payment of royalty, extension fee and interest, *etc*;

- management information and internal control system and evaluation mechanism along with Internal Audit Reports and Certified Annual Accounts; and
- issue of audit enquiries and interaction with the Management.

Audit findings

2.1.6 Audit findings, arising from the performance review on Felling and Conversion of trees by the Company were issued (June 2007) to the Government/Company and were discussed (7 August 2007) in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE). The Principal Secretary (Forests), Government of Himachal Pradesh and the Managing Director of the Company attended the meeting. The views expressed by the members have been taken into consideration while finalising the review.

Audit findings are discussed in the succeeding paragraphs.

Timber Extraction Works

Failure to eliminate contractors from timber extraction works

2.1.7 The State Government, exploits forests departmentally, as well as by engaging private contractual agencies for other forest operations and regulating timber trade. The Company was specifically set up with the objective of extraction of timber from forest area so as to eliminate the agency of contractors from this activity. The work relating to forests exploitation was entrusted to the Company in a phased manner from 1974-75 and was completely handed over to it in 1982-83. The price and the terms and conditions for handing over standing trees and other forest produce by the Forest Department to the Company are to be determined on yearly basis by a Committee known as 'Pricing Committee' constituted by the State Government.

The Company failed to eliminate the agency of contractors from timber extraction works defeating the very purpose of setting up the Company.

The Company has not evolved a mechanism for undertaking timber extraction works departmentally to eliminate the agency of contractors in a phased manner over a prescribed period. This resulted in complete dependence on contractors and defeated the very purpose of nationalisation of timber extraction works as well as fulfilling the purpose of setting up the Company.

The Management stated (July 2007) that there is complete ban on green marking and in view of salvage and scattered markings, it was not possible to use modern machine tools for exploitation works. Due to lack of infrastructural facilities and skilled manpower, the departmental working of lot was not possible. The reply is not tenable as the Company failed to initiate steps for promotion of departmental working to eliminate the agency of contractors in a phased manner thereby defeating the very purpose of formation of the Company.

Deficient budgetary control

2.1.8 Budget is a quantitative, financial expression of a programme of measures planned for a year. The budget is drawn up with a view to plan future operations, allotment of funds and determined expenditure and returns of expenditure and to make *ex-post facto* checks on the results obtained. Timely preparation of budget and analysis of the variations noticed during execution serve the purpose of internal control. The budgets indicate the health of an organisation. The following deficiencies were noticed in the preparation and use of budget as a tool of internal control:

- The Company did not prepare annual budget plans well before the commencement of the financial years. There were delays in preparation and submission of budgets by the divisions, its consolidation at Directorate level and finalisation at head office. The annual budgets for 2002-03 to 2006-07 were approved by the Board of Directors (BODs) after five to eight months from the commencement of the financial year, indicating the casual state of affairs/no link between expenditure and income and total lack of financial control and management.
- There was no system of reviewing/reporting the actual performance periodically with reference to targets with a view to analyse the reasons for shortfall, if any and take remedial measures. Fact is, with delayed passing of budget, review and reporting was of little consequence.
- Delay in finalisation of budget also means that the Company had less time to spend money and during the first few months of financial year, there were constraints of expenditure.
- Delayed budget also led to delay in finalisation of annual accounts.

The table below indicates the budgeted and actual income, expenditure and profit/loss of the Company for the last five years ending March 2007:

(Rupees in lakh)

	2002-03	2003-04*	2004-05*	2005-06*	2006-07*
Budgeted					
Income	14,945.30	13,720. 00	13,823.00	15,316.25	14,827.07
Expenditure	14,935.00	15,033.00	14,243.00	15,186.75	14,741.41
Profit (+)/Loss (-)	(+)10.30	(-)1,313.00	(-)420.00	(+)129.50	(+)85.66
Actual					
Income	12,769.86	13,359.57	13,675.04	14,184.60	13,580.97
Expenditure	14,760.20	14,504.20	13,804.05	14,272.52	14,075.51
Profit (+)/Loss (-)	(-)1,990.34	(-)1,144.63	(-)129.01	(-)87.92	(-)494.54
Variation					
Income	(-)2,175.44	(-)360.43	(-)147.96	(-)1,131.65	(-)1,246.10
Expenditure	(-)174.80	(-)528.80	(-)438.95	(-)914.23	(-)665.90
Profit (+)/Loss (-)	(-)2,000.64	(+)168.37	(+)290.99	(-)217.42	(-)580.20

Source: Annual accounts of the Company.

* *The figures of actual income and expenditure for the years 2004-2007 are provisional*

Huge variations both in budget allocation and expenditure indicated that the budgeted figures were not based on any scientific analysis of performance during earlier years or any database maintained at the Head office.

The Management stated (July 2007) that efforts to streamline the system for preparation of budget in time were being taken. The Principal Secretary (Forests) during ARCPSE meeting (August 2007) also emphasized the need for analysing the variations and taking effective measures to minimise them.

Working results

The Company incurred loss of Rs.55.82 crore in timber extraction works during 2002-06 as the cost of extraction of timber was higher then the sale value.

2.1.9 The working results of timber extraction works for the five years ended March 2006 are given in **Annexure-X.** It would be seen from the details in the Annexure that the Company incurred loss in timber extraction works in each year during the period of review and total loss incurred during the five years amounted to Rs.55.82 crore. The cost of production of timber during the last five years was 5.10, 24.96, 15.39, 1.38 and 8.90 *per cent* higher than the sale value.

As against the loss of Rs.55.82 crore in timber extraction works of the Company during 2001-06*, the over all net loss of the Company during the same period was Rs.33.31 crore thereby indicating that profit of Rs.22.51 crore generated by other activities was absorbed by losses in timber extraction works.

In view of recurring losses, the State Government, on the recommendation of the BODs, constituted (July 2005) a committee of seven members under the chairmanship of Vice Chairman of the Company for investigating the reasons for losses in working of timber and also to study the working of adjoining hill states to make suitable recommendations to reduce/eliminate the losses. The Committee was required to submit its report within three months. The report had, however, not been submitted so far (August 2007).

The reasons for losses as analysed in audit were as under:

- delay in working of lots resulting in deterioration of timber and payment of extension fee;
- huge losses in the working of private lots on royalty basis;
- total dependence of the Company on contractors for extraction/auction/sale of timber despite having surplus manpower; and
- payment of interest on delayed payment of royalty.

The Management confirmed (July 2007) the working results and the reasons for the losses as analysed by Audit. Effective steps need to be taken to minimise the losses.

* *Accounts of 2006-07 not finalised*

Timber extraction works

2.1.10 The table below indicates the volume of trees marked, royalty and sales tax payable and timber obtained during the last five years ended 2006-07:

Year	Volume marked/taken over (cubic meters in lakh)	Royalty payable (Rupees in crore)	Sales tax payable (Rupees in crore)	Converted Timber obtained (cubic meters in lakh)
2002-03	3.32	33.98	10.20	2.15
2003-04	2.33	22.08	6.62	1.90
2004-05	3.21	28.67	8.60	1.71
2005-06	3.76	43.92	5.49*	1.87
2006-07	2.36	26.35	3.29	2.02
Total	**14.98**	**155.00**	**34.20**	**9.65**

Source: Compiled from the relevant records of the Company.

The above details shows that royalty of Rs.155 crore and sales tax/value added tax of Rs.34.20 crore was payable for the volume marked/taken over during the last five years ending March 2007. As against this, royalty of Rs.124.76 crore and sales tax/value added tax of Rs.30.39 crore was due for payment up to March 2007. Out of above, only Rs.21.09 crore was outstanding (June 2007) and the remaining amount had already been paid to the State Government. The amount of Rs.21.09 crore comprised of Rs.15.05 crore pertaining to 2002-03 (Rs.8.67 crore due in March 2003) and 2005-06 (Rs.6.38 crore due in March 2006) and the balance amount of Rs.6.04 crore pertained to 2006-07 (due in February 2007). The amount was pending reconciliation by various Forest Working Divisions of the Company with the respective Divisional Forest Officers. Delay in reconciliation and subsequent delay in payment of royalty results in payment of interest for the period of delay as pointed out in paragraph 2.1.13 *infra*.

The Management attributed (July 2007) the delay in making timely payment of royalty to reasons like paucity of funds, disputes with the Forest Department, non-fixation of final royalty rate in advance, *etc.* due to which payment of interest was stated to be unavoidable. The reply is not tenable as being a commercial organisation, the Company should manage its affairs efficiently and economically and co-ordinate its activities with the Forest Department at highest level for timely fixation of royalty rates. The reconciliation should have been completed in time to avoid unnecessary payment of interest.

* *Sales tax was payable @ 30 per cent up to 2004-05, but the same has been substituted by VAT @ 12.5 per cent from 1 April 2005*

Delay in receipt of marking lists, taking over of lots and non-preparation of plan by the Divisional Managers

2.1.11 As per rules, the marking lists for *khair, chil,* fuel wood, coppice and bamboo *etc.* are to be received by the Company from the Forest Department by 15 September of the year in which the lots are to be worked and for fir, spruce, *deodar, kail etc.* by 15 December of the preceding year during which the lots are to be worked. No marking lists should be received either by the Directors or the Divisional Managers from the Forest Department without the approval of the Managing Director (MD) after 15 September and 15 December respectively. The lots are to be taken over under proper receipt after inspection by the field staff of the Company within one month from the receipt of marking lists. A plan of operation for exploitation of the lots has to be drawn by the Divisional Managers of Forest Working Divisions of the Company in relation to the time schedule so as to complete the exploitation within the working period of lots.

It was observed (April 2007) that out of 292 lots marked for felling during 2003-06 in five* Forest Working Divisions, marking lists of 74 lots were received after 15 December, that too without the approval of the MD. Further, 166 lots were taken over after the scheduled period of one month. A plan of operation was also not drawn up the Divisional Managers of eight** Forest Working Divisions selected for scrutiny. Delay in receipt of marking lists/taking over of lots and non-preparation of plan by the Divisional Managers delayed the completion of timber extraction work resulting in payment of extension fee of Rs.57.56 lakh to the Forest Department and less extraction of timber valuing Rs.38.80 lakh as brought out in paragraphs 2.1.13 and 2.1.15 *infra* respectively.

The Management assured (July 2007) to look into the matter. The Principal Secretary (Forests) also assured (August 2007) during ARCPSE meeting that the instructions would be issued to the field units for not accepting the lots after the scheduled date without the approval of the Managing Director.

Excess payment of royalty and value added tax

2.1.12 The royalty rates are fixed by the State Government on the recommendations of the Pricing Committee constituted by it on advalorem basis as a percentage of weighted average sale rates as worked out by the Company based on rates obtained in auctions during the preceding year.

The Company paid royalty for 2005-06 lots at the rates fixed by the Pricing Committee on the basis of weighted average sale rates of 2004-05 as furnished (July 2005) by the Company. As the rates furnished by the Company for 2004-05 were abnormally high, the MD got the matter investigated by the Director (Marketing) and the revised weighted average sale rates were forwarded (December 2006) to the Principal Chief Conservator of Forests for

* *Shimla, Chamba, Chopal, Sawra and Rampur*

** *Shimla, Chopal, Rampur, Sawra, Dharamsala, Chamba, Kullu and Mandi* rectification of royalty rates by the Pricing Committee. The Pricing Committee directed (February 2007) the Principal Secretary (Forests) to take stock of the correct position and recommend the action to be taken in the next Pricing Committee meeting. Final outcome was still awaited (August 2007). The Company did not take action against the officials responsible for furnishing incorrect information relating to rates of 2004-05. Intimation of incorrect weighted average sale rates of 2004-05 resulted in fixation of higher royalty rates and consequential excess payment (June 2006) of Rs.2.36 crore (royalty: Rs.2.10 crore and value added tax: Rs.26.29 lakh) which is yet to be received back from the State Government.

Intimation of incorrect input resulted in fixation of higher royalty rates and consequential excess payment of royalty (Rs.2.10 crore) and value added tax (Rs.26.29 lakh).

The Management admitted (July 2007) the facts. The Principal Secretary (Forests) stated (August 2007) during ARCPSE meeting that the revised data furnished by the Company would be examined and final outcome intimated to Audit in due course.

Avoidable excess payment of interest and extension fee

Non-payment of royalty on due dates resulted in payment of interest of Rs.52.76 lakh on royalty during 2003-07.

2.1.13 Royalty for trees taken over by the Company from Forest Department is required to be paid to the Department in two to ten installments depending upon the working period of lots. Delay in payment of installments of royalty attracts interest at the rate of 9 *per cent per annum* payable to the Forest Department with effect from April 2004 (prior to this, the rate of interest was 11.5 *per cent per annum* applicable with effect from 1 April 2001). The Company did not pay the installments of royalty on the due dates and thus had to pay Rs.52.76 lakh to Forest Department as interest on royalty during 2003-07.

Further, as per the standard terms and conditions of agreement with the Forest Department, the Company is required to complete the work of lots within the working period allowed by the Forest Department for completing the extraction work of lot in the forest. The Company can seek extension in working period on payment of extension fee for the extended period. As per decision of the Pricing Committee (August 2001) of the State Government, the Company is liable to pay extension fee as under:

- If royalty has been paid, at the rate of 0.2 *per cent* per month for first extension and at the rate of 0.3 *per cen* thereafter (2.4 to 3.6 *per cent per annum*)..
- If royalty has not been paid, at the rate of 1.5 *per cent* per month (18 *per cent per annum*) for first extension and at the rate of 2 *per cent* per month (24 *per cent per annum*) thereafter.

In this regard, it was observed (April 2007) as under:

- Test check of records in five* Forest Working Divisions revealed (April 2007) that out of 292 lots taken over during 2003-06, the work of 288 lots was awarded to the Labour Supply Mates (LSMs) after delay of one to 17 months from the start of the working period.

* *Shimla, Rampur, Chopal, Chamba and Sawra*

The delay in allotment and completion of work resulted in avoidable expenditure of Rs.57.56 lakh.

- The delay in awarding the work was mainly on account of snow bound forests, cancellation of tenders due to higher rates received in tenders, non-participation of LSMs in tender, *etc*. The delay in allotment and completion of work resulted in payment of extension fee of Rs 77.49 lakh to the Forest Department in respect of 115 lots in these five FWDs during 2000-01 to 2004-05 against which Rs.19.93 lakh only was recovered from the LSMs under the provisions of the agreement for delay of one to 14 months in execution of work. This resulted in avoidable expenditure of Rs.57.56 lakh. So far (August 2007), the Company has not devised mechanism for awarding work immediately after taking over lots, avoiding delay in execution and recovery of entire amount of extension fee from the LSMs for delay in completion of work.
- The financial prudence demands that to avoid payment of extension fee at higher rates, royalty should be paid in time on scheduled dates. Scrutiny of lot files revealed that the four* Forest Working Divisions of the Company either did not pay or made part payment of royalty relating to lots of 2002-03 though royalty for ensuing year's lots was paid as per schedule. This resulted in avoidable payment of extension fee of Rs.49.03 lakh at the rate of 18 *per cent per annum* for 2002-03 lots. Had the Company paid royalty for lots of 2002-03 before making payment for 2003-04 lots, the payment of extension fee could have been reduced to Rs.9.81 lakh thereby resulting in saving of Rs.39.22 lakh.

The Management stated (July 2007) that the royalty could not be paid in time due to financial constraints and availing of cash credit from the banks was not advantageous as the bank interest rate was higher than the rate of interest being charged by the Forest Department. It was further stated that payment of extension fee was unavoidable due to delay in taking over of lots, allotment of work to LSMs and execution of timber extraction works and evolving of any other mechanism was not possible. The reply is not tenable as the non-payment of royalty in time and non-working of lots within lease period made the Company liable to pay interest and extension fee respectively at the rate, which was much higher than the interest rate of 11.75 to 10.25 *per cent per annum* being charged by banks on cash credit during the period 2002-03 to 2006-07. Besides, the reasons put forth for payment of extension fee were controllable and the payment could have been minimised by better co-ordination with the Forest Department and managing the affairs of the Company economically and efficiently.

Loss due to faulty taking over of lots

2.1.14 On the recommendations of the Pricing Committee, the State Government decided (December 1999) that the Company would take over the lots handed over to it after due date by the Forest Department for working and

* *Rampur, Chamba, Sawra and Chopal*

these would be treated as received in the next year. On such lots, the Company would pay royalty and sales tax to the Forest Department as per the rates applicable for the next year's lots. During test check of records in five* Forest Working Divisions, it was noticed (April 2007) that the marking lists of 11 lots due for exploitation during 2002-03 and 28 lots due for exploitation during 2003-04 were received by the Company in January and February 2002 and February to June and October 2003 respectively with a delay of one to 11 months. Thus, these lots were required to be considered for the subsequent years *i.e.* 2003-04 and 2004-05 respectively. The royalty rates were reduced in the subsequent years. The concerned Divisional Managers, however, did not consider these lots for the subsequent years resulting in excess payment of royalty of Rs.42.76 lakh including sales tax.

Loss due to delay in working of lots by Labour Supply Mates (LSMs)

2.1.15 The work of felling, conversion and carriage of timber up to road side depots of four lots** was awarded between July 1997 and July 2001 to LSMs which was scheduled to be completed between June 1999 and June 2003. The work was not completed by the concerned LSMs within the stipulated period. As per clause 12(a) of the agreement with LSMs, the work was cancelled and the Company got these works completed through other LSMs at the risk and cost of first LSMs. The delayed working of the lots resulted in loss of Rs.38.80 lakh on account of less extraction of timber/timber found rotten/extension fee paid to the Forest Department. The cases filed (October 2004 and May 2006) by the FWD, Chopal with the Arbitrator (Director South of the Company) against the first LSMs for recovery of loss in respect of first two lots were still (August 2007) pending for decision. The Company did not take action against the first LSMs in accordance with the clause 12(a) of the agreement in respect of remaining two lots.

The Management admitted (July 2007) during ARCPSE meeting that two cases were pending with the Arbitrator for decision. It assured that the necessary action in remaining two cases would also be initiated.

Wasteful expenditure on purchase of timber tools

2.1.16 Revised terms and conditions of tender (condition No. 16) circulated (July 2000) by the Company for implementation during timber extraction works, *inter alia,* provided that successful tenderers would arrange labour, tools, godown and accommodation at their own cost and the Company would have nothing to do with such arrangements.

* *Chopal, Rampur, Sawra, Chamba and Kullu*

** *{No.10/2001-03 (Dhartasuli: Rs.10.79 lakh), No. 6/97-99 (Kanda uni:Rs.20.95 lakh), No 4/2001-02 (Chamba: Rs.4.56 lakh) and No. 17/2001-02 (Churah:Rs.2.50 lakh)}*

Test check of records (April 2007) revealed that three[1] Forest Working Divisions purchased timber tools valuing Rs.21.28 lakh during 2001-2007 for supply to the LSMs. In view of revised terms and conditions, purchase of timber tools worth Rs.21.28 lakh lacked justification and their distribution to the LSMs amounted to undue favour to them.

The Management stated (July 2007) that the matter was being looked into.

Excess payment due to incorrect accountal of wet lead [2]

2.1.17 As per practice in vogue, normal wet lead is taken as half of the measured distance. It was, however, noticed (April 2007) that in respect of 15 lots pertaining to 2002-03 and 2003-04, normal wet lead was not reduced to half for calculating the total manual carriage lead while preparing economics/upset price, based on which timber extraction works were awarded to the LSMs. This resulted in allowing higher rate for manual carriage of timber and consequent excess payment of Rs.12.16 lakh to the LSMs in three[3] Forest Working Divisions.

The Management in ARCPSE meeting stated (August 2007) that the cases mentioned in the para would be looked into and uniform system for accountal of normal lead would be followed in future.

Loss due to payment for inflated lead

2.1.18 As per rules,[4] leads for manual and mechanised carriage etc. have to be measured, fixed during planning and mentioned while inviting tenders or allotting the work.

The work of '*khad*'[5] floating was awarded (November 1999) for Rs.67.68 lakh to a LSM by FWD, Sawra on lowest rate of Rs.1,490.05 per cum against schedule rate of Rs.1,753 per cum. The work was started in December 1999 and completed in March 2001.

During currency of work, a dispute arose regarding lead (distance of river up to Mohri Khatal) and after re-measurement (October 2000) by the DM of FWD, Sawra, the lead was found 35 KM as against 52 KM taken for working out the schedule of rate while calling for tenders. Accordingly, the re-worked contract value of Rs.44.57 lakh was released (June 2001) after withholding Rs.22.11 lakh.

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1 *Dharamsala, Chamba and Mandi*

2 *Wet lead is the distance of marked forest from one end to another for carriage of timber*

3 *Shimla, Mandi and Chamba*

4 *Para 1.3 of Procedure and Instructions for the timber extraction works and working of Himkasth Sale Depots*

5 Lot No. *5/96-97 {(Chinon) from Foot-Odor (Dodra Kawar) to Mohri Khatal (UP)}*

Aggrieved by the action, the LSM filed (April 2002) a case in the Hon'ble High Court which referred the matter to the Arbitrator. The Director (South) was appointed (December 2002) as Arbitrator. During the pendency of the case, the Company, on the initiative of the LSM, settled the matter and paid (September 2005) him Rs.20 lakh on the apprehension of losing the case due to its failure to mention the distance of lead in the tendered document/allotment letter. Thus, non-adherence to the prescribed procedure resulted in a loss of Rs.20 lakh.

The Management admitted (July 2007) that this happened due to a system failure and that the lead was now being taken as 35 KMs. The reply is not tenable as the Corporation had not yet (August 2007) introduced the system of mentioning lead in tender documents and agreement deeds to make the system more transparent and reliable.

Non-adjustment of royalty and sales tax of rotten trees

2.1.19 As per the decision (October 1999) of the Pricing Committee, royalty and sales tax is not payable for rotten and hollow trees where the volume of such rotten/hollow trees is more than 5 *per cent* of the marked volume. In order to ascertain the quantum of the rotten/hollow trees, joint inspection has to be conducted by the officers of the Company and the Forest Department on the request of the Company within two months of felling of trees. Rotten/hollow trees are those which have 25 *per cent* or more rottage or hollowness at the stump cross section.

Failure to follow the laid down procedure resulted in non-adjustment of royalty and sales tax of Rs.85.95 lakh paid in respect of rotten trees.

It was observed (April 2007) that in seven lots of four* Forest Working Divisions, the joint inspection of lots was not got conducted within the stipulated period of two months and no efforts were made at highest level to ensure the presence of officials of Forest Department to verify the rotten volume of 13,684 cum. This volume was more than five *per cent* of the marked volume in each lot. As a result, royalty and sales tax of Rs.85.95 lakh paid on these rotten trees to the Forest Department could not be got adjusted and resulted in loss to the Company.

In ARCPSE meeting, the Management stated (August 2007) that the matter was under consideration of the Pricing Committee and it would be settled as per their decision.

Loss due to non-working of lots

2.1.20 As per rules, the trees standing on very steep and rocky portions, likely to be damaged during felling or conversion, should not ordinarily be marked and if marked, should not be taken over.

* *Kullu, Chamba, Sawra and Chopal*

Taking over of trees in contravention of the procedure and instructions resulted in loss of Rs.70.95 lakh.

It was noticed (April 2007) that standing volume of 4,454 cum and felled volume of 2,716 cum in Shimla and Kullu Forest Working Divisions was taken over for exploitation during 1992 to 1998. These were not worked by the Company as the trees were on very steep and rocky portions and were being shown as work-in-progress and stock suspense till date (August 2007). Taking over of these lots in contravention of the procedure and instructions resulted in loss of Rs.70.95 lakh.

The Management stated (July 2007) that a committee had been constituted to look into the matter and recommend action to be taken.

Delay in realisation of dues for supply made to tribal areas

Non-streamlining of procedure for recovery of dues from the Forest Department on account of supply of fuelwood and timber to tribal areas resulted in non-recovery of Rs. 6 crore and loss of interest of Rs.50.30 lakh.

2.1.21 The Company supplies fuelwood, charcoal and timber to tribal areas of the State through the Forest Department. The sale proceeds are also received through the Forest Department. As on 31 March 2005, Rs.39.68 lakh, being the cost of 155 cum timber, was recoverable from the Forest Department. During 2005-07, the Company further supplied 140.192 cum timber and 1,05,894 quintals of fuelwood valued at Rs.3.21 crore, recovery of which was awaited (August 2007). In addition transportation charges of Rs.2.39 crore were also recoverable (31 March 2007) from the Forest Department for the supplies made during 2002-07. Thus, total recoverable amount from the Forest Department as on March 2007 amounted to Rs. 6 crore. It is pertinent to mention here that for delay in payment of royalty, the Company is paying interest at the rate of 9 *per cent* to the Forest Department whereas no interest is paid by the Forest Department/Government to the Company for delay in payment of dues for supplies made to tribal areas. As the Company arranged funds for meeting its day to day working capital requirement by obtaining cash credit facility from different banks at interest rates ranging from 11.75 to 10.25 *per cent* during 2002-03 to 2006-07, non-reimbursement of dues by the Forest Department/Government for a long period resulted in loss of interest of Rs.50.30 lakh to the Company.

The Principal Secretary (Forests) in the ARCPSE meeting stated (August 2007) that the system was being streamlined for timely realisation of dues of the Company.

Irregular writing off shortages/driage

2.1.22 As per rules, the physical verification of timber, fuelwood and pulpwood lying in retail sale depots is required to be conducted at the end of each financial year so as to see that stocks as per books of accounts are physically in existence and also to work out the normal wastage on account of driage and action taken for abnormal wastages/shortages.

The Forest Working Division, Kullu did not work out normal and abnormal shortages of pulp and fuelwood in its retail sale depots on regular basis. During 2002-03, it worked out shortage of 1,799.067 cum pulp (315.068 cum) and fuelwood (1,483.999 cum) based on the difference between timber as per books and stocks physically verified. Shortages were attributed to driage/wastage in handling which were not worked out/allowed to the depots earlier. These shortages valued at Rs.22.45 lakh were written off (January 2004) by the Divisional Manager of the Forest Working Division though he had no authority to do so. The Company neither investigated the reason for non-conducting of physical verification prior to 2002-03 nor taken action against the Divisional Manager for exceeding his power to write off the shortages.

The Management admitted (July 2007) the lapse on the part of concerned Divisional Manager in acting beyond the delegated powers. It was assured that the matter would be placed before the Board of Directors for further action.

Failure to investigate the cases under stock suspense

2.1.23 The cases of loss of timber due to floods, fire, *ghall** theft, shortage in transportation, *etc.* are shown under the head stock suspense pending enquiries/recoveries/settlement/write-off, *etc.* by the appropriate authority. At the end of 2000-01, the stock suspense amounted to Rs.4.79 crore. The Company further transferred Rs.3.66 crore to suspense head during 2001-02 to 2005-06. After recovery of Rs.1.41 crore and writing off Rs.27.53 lakh during the above period, Rs.6.76 crore (insured stock Rs. 1.83 crore and Rs. 4.93 crore uninsured) appeared in the accounts under this head as on 31 March 2006.

Analysis of cases involving Rs.4.31 crore appearing under this head in Kullu and Sawara FWDs revealed that the cases pertained to 1982-2005. The Company did not review the cases periodically to identify the administrative action to be taken in each case. Though, the Chairman of the Company also emphasised (February 2004) the need to clear the items under this head, the Company did not make any serious effort to investigate the cases and clear the suspense head (July 2007).

The Management stated (July 2007) that a committee has been constituted to look into these cases.

Exploitation of private timber

2.1.24 Sale of private timber was nationalised in the State in January 1983. Accordingly, the Company was entrusted with the exploitation of private trees and sale of timber obtained. The purchase and sale of private timber is regulated by the H.P. Forest Produce (Regulation of Trade) Act, 1982. The price to be paid to the tree owners is notified by the State Government under Section 7 of the *ibid* Act. During 2001-03, the price (royalty) of standing trees was paid to the owners at the rates fixed by the State Government and the timber extracted was sold by the Company as its own. From 2003-04

* *Ghall is a process of transportation of timber through river from forest to road side depots*

onwards, another system of sale linked price for working of private lots was introduced by the State Government. Under this system, the sale proceeds are paid to the owners after deducting actual direct expenses incurred by the Company with interest and 15 *per cent* handling charges. The owners of trees are required to exercise option for either of the two methods. An option once exercised was to be final and irrevocable.

The standing volume of trees taken over from the private tree owners and payment made thereagainst during 2002-03 to 2006-07 was as under:

Year	Standard Volume (in cubic meter)	Price of trees (Rs.in lakh)	Price per cubic meter (in Rupees)
2002-03	42,013	847.00	2,016.04
2003-04	49,750	639.75	1,285.93
2004-05	44,110	687.46	1,558.51
2005-06	41,859	554.09	1,323.71
2006-07	52,399	628.79	1,200.00

Source: Compiled from the relevant records of the Company.

In this regard, the following points were noticed.

Loss due to fixation of higher royalty rates for exploitation of private trees

Fixation of higher royalty rates for exploitation of private trees resulted in loss of Rs.1.74 crore on exploitation of 67 lots during 2001-03.

2.1.25 Scrutiny of records revealed that the Company incurred loss of Rs.8.82 crore during 2001-02 and 2002-03 on exploitation of private timber (Rs.3.40 crore in 2001-02 in six[1] Forest Working Divisions and Rs.5.42 crore in 2002-03 in nine[2] Forest Working Divisions). Test check of records relating to exploitation of private trees for 2001-03 in Shimla Forest Working Division revealed that out of 87 private lots exploited on royalty basis, the division was not able to recover even the direct costs incurred on exploitation of 67 lots and thus, sustained a loss of Rs.1.74 crore. It was observed that the main reason for loss was fixation of higher royalty rates by assuming obtainable yield at a higher rate. Though, the MD is one of the members of the Pricing Committee, yet he failed to furnish the realistic data of assumed yield to the Pricing Committee so that the royalty rates could have been fixed on realistic basis and financial loss to the Company would have been avoided.

The Management admitted (July 2007) the facts and stated that the system was changed from 2003-04 and the Company did not incur further losses.

[1] *Shimla, Nahan, Solan, Mandi, Hamirpur and Una*
[2] *Shimla, Nahan, Chopal, Nerwa, Solan, Fatehpur, Kullu, Hamirpur and Una*

Excess payment to private tree owners

2.1.26 As per final economics (December 2004) of a private lot (Kotgarh), an amount of Rs.31.99 lakh was payable to the Special Power of Attorney* (SPA) after deducting felling, conversion, transportation and handling charges on the actual yield. An amount of Rs.48.43 lakh was, however, paid (October 1998 to November 1999) in three instalments to the SPA based on approved tentative economics of Rs.69.06 lakh.

After completion of felling and conversion of trees, the Company obtained 662.952 cum timber during the above period, which was 179.050 cum less than the expected yield. The Company did not take less yield into account while releasing second and third installment of royalty to safeguard its interest, though the actual yield was known to the Company at that time. The final sale proceeds (December 2004) amounted to Rs.63.94 lakh and only Rs.31.99 lakh was payable to the SPA, however, the Company had already paid Rs.48.43 lakh to the SPA thereby resulting in excess payment of Rs.16.44 lakh. The Company filed (November 2005) a case for recovery of the same in the High Court against the SPA and tree owners. Final outcome was awaited (July 2007). The present situation arose due to failure to exercise internal checks (releasing of second and third instalment without taking into account less yield) during currency of the work.

The Management admitted (July 2007) the lapse of the then Divisional Manager, Rampur while releasing second and third instalments of royalty, who had since retired from service. The fact, however, remains that the Management failed to take action against the Divisional Manager concerned in time.

Transportation of timber

2.1.27 The table below indicates the volume of timber obtained after extraction of felled trees taken over from the Forest Department and the timber transported to sale depots during the last five years ended 2006-07:

Year	Timber obtained# (cubic meters in lakh)	Timber transported to sale depots. (cubic meters in lakh)	Percentage of timber transported to timber obtained
2002-03	2.15	1.32	61.40
2003-04	1.90	1.19	62.63
2004-05	1.71	1.02	59.65
2005-06	1.87	0.98	52.41
2006-07	2.02	0.97	48.02

Source: Compiled from the relevant records of the Company.

* *SPA: A person authorised by the tree owners for dealing with the Company on their behalf*

\# *Also includes timber not transported during the last year*

It would be seen from the above that percentage of timber transported to the sale depots ranged between 48.02 and 62.63 during 2002-07. The percentage of timber transported had reduced from 62.63 in 2003-04 to 48.02 in 2006-07. There were no reasons on record for decrease in transportation of extracted timber

Downgrading of timber

2.1.28 When timber is received at the HSDs, it is categorised according to quality as Smuda, B and C class, rotten, broken pieces, etc. The table below gives the details of total timber sold, timber graded/sold as C class and the percentage of C class timber to total timber sold during the last five years ended 31 March 2007:

Year	Total timber sold (cum)	Timber graded as C class (cum)	Percentage of C Class timber to total timber sold
2002-03	1,17,795	24,346	20.67
2003-04	1,33,309	23,593	17.70
2004-05	95,124	14,893	15.66
2005-06	1,04,179	2,810*	2.70
2006-07	1,01,820	142*	0.14
Total	**5,52,227**	**65,784**	

Source: Compiled from the relevant records of the Company.

Delay in transportation of timber to sale depot resulted in deterioration of quality and consequent less realisation of revenue of Rs.31.77 crore on its sale.

It is evident from the above details that out of 5,52,227 cum timber sold during 2002-07, 65,784 cum was sold as C class at the rates which were lower than the average sale rates of B class timber by Rs.4,418 to Rs.5,899 per cum. The extraction of C class timber is not permissible under Clause 9 of Schedule 'A' annexed to the agreement executed with the LSMs. The Company is not having any mechanism to check the quality of timber extracted in the Forests and as such there are possibilities that the C grade timber was being extracted by LSMs and yet the payment was being made to them. In the absence of records to show the quality of timber extracted in the forest, it is presumed that the quality of timber deteriorated during long transit period due to exposure to vagaries of weather resulting in its classification as C class and consequent less realisation of revenue of Rs.31.77 crore.

The Principal Secretary (Forests) stated (August 2007) in the ARCPSE meeting that the procedure of grading the timber had been modified and there had been considerable decrease in the quantity of C Class timber in 2005-06.

* *This is due to change in system of classification of timber in HSDs effective from September 2005*

It is a fact that due to modifications of the procedure of grading of timber, the quality of C grade has considerably reduced but at the same time the weighted average sale rate of B grade has come down substantially to Rs. 6641 per cum in 2005-06 and Rs.7,338 per cum in 2006-07 from Rs. 8663 per cum in 2004-05. It is thus indicative of the fact that the modified procedure had not served its purpose.

Loss due to non-deduction of service tax

2.1.29 GOI amended (December 2004) the Service Tax Rules, 1994 with effect from 1st January 2005. The amended Rules provide that where consignors or consignees are falling under the specific categories provided in the Service Tax Rules, service tax is required to be paid by them instead of goods transport agency. As the Company falls under the specified category, service tax at the prescribed rate was required to be paid by it after deduction from the freight paid to the transporters for transportation of timber. The Company, however, did not issue instructions to its Forest Working Divisions for deducting service tax from the transporters till March 2006.

It was noticed (April 2007) that 14 FWDs* did not recover service tax of Rs.16.08 lakh from the transporters during the period January 2005 to March 2006 though the same was deposited (March 2006) by the Company resulting in undue benefit to the transporters and loss to the Company to that extent.

The Management admitted (July 2007) the lapse and informed that an amount of Rs.4.13 lakh had been recovered from the transporters and efforts were being made to recover the remaining amount.

Arbitration cases

2.1.30 In terms of Clause 27 of the standard agreement deed executed with the LSMs, disputes of less yield, shortages, losses on account of *ghall*, flood and fire, recovery of extension fee, *etc.* are referred by the MD to the Arbitrator appointed by the Company. It was noticed (April 2007) that in almost all cases, the Arbitrators were officers of the Company. The Arbitration Act, 1940 provide for giving award within four months, yet 26 cases involving recovery of Rs.6.16 crore from the LSMs referred to the Arbitrators during August 1997 to November 2006 were pending for decision as on 31 March 2007 as detailed below:

Year	No. of cases pending	Amount (Rupees in lakh)
1997-98	1	174.04
2000-01	2	109.61
2003-04	3	54.83
2004-05	7	92.64
2005-06	9	153.34
2006-07	4	31.94

Source: Compiled from the relevant records of the Company.

* *Dharamsala, Mandi, Sundernagar, Kullu, Chamba, Fatehpur, Una, Hamirpur, Shimla, Sawra, Chopal, Rampur, Solan, and Nahan*

It would be seen from the above details that the pending arbitration cases were five months to nine years old.

The Management stated (July 2007) that the Arbitrators were to perform quasi-judicial function and they could not be forced to decide the matter without following complete procedure. The reply is not tenable as the time limit prescribed in the Arbitration Act for deciding cases should have been adhered to.

Manpower management

Surplus manpower

The Company failed to reduce the surplus manpower. Salary and wages paid to surplus manpower during June 2003 to March 2007 amounted to Rs.8.75 crore.

2.1.31 The Company did not review the requirement of manpower till March 2003 though the marked standing volume fell from 6.87 lakh cum in 1990-91 to 3.32 cum in 2002-03. On the directions (April 2003) of the State Government, the Company assessed (May 2003) the position of staff and 75 regular and 978 daily waged employees were declared surplus. As on March 2007, the number of surplus employees was 1,008 (2 regular and 1,006 daily waged) and wages paid to them during June 2003 to March 2007 amounted to Rs.8.75 crore (Regular: Rs.11.84 lakh and Daily waged: Rs.8.63 crore). Though the matter for deployment of surplus manpower in other organisations was being pursued with the State Government, the surplus staff was still (August 2007) on the roll of the Company.

The Principal Secretary (Forests) in the ARCPSE meeting informed (August 2007) that the Government had decided to absorb the excess manpower of the Company in the Government Departments. The actual deployment of the surplus manpower in other departments was, however, awaited (August 2007).

Payment of salary and wages to officials not working with the Company

2.1.32 Two Stenographers being shown as working at the Head Office and FWD, Shimla were actually working in the State Government Secretariat since January 1996 and April 2001 respectively. Orders of the competent authority for allowing them to work in the State Government Secretariat were not on record. From January 1996 to 31 March 2007, the Company incurred an expenditure of Rs.23.49 lakh on their pay and allowances without taking any work from them resulting in payment of idle wages. It is also pertinent to mention here that Forest Working Division Kullu, Mandi, Nahan, Sawra, Rampur and HSD Baddi were working without stenographers.

The Principal Secretary (Forests) in ARCPSE meeting stated (August 2007) that efforts would be made to send these officials to the State Government on deputation basis.

Corporate governance

2.1.33 Corporate governance is the system by which Companies are directed and controlled by the Management in the best interest of the shareholders and other stake holders ensuring greater transparency and better and timely financial reporting. The Companies are governed through the BODs.

As per the Memorandum and Articles of Association, the BODs should consist of minimum two and maximum 12 Directors. As on 31 March 2007, the BODs had 12 Directors (four officials and eight non-official including the Chairman and Vice Chairman).

In this regard, the following deficiencies were noticed:

- None of the 20 meetings of the BODs held during 2002-2003 to 2006-07 had full presence of the members of the BODs.
- Nominee of the Finance Department (Financial Commissioner Cum Secretary/Principal Secretary (Finance) did not attend 15 meetings.
- One of the non-official Directors was engaged in timber extraction works as a LSM in Forest Working Division, Chamba without any disclosure/declaration of his interest as required under section 299 of the Companies Act, 1956.
- After admitting (March 2005) that lack of professional management was also one of the contributory factors to the losses of Public Sector Undertakings (PSUs), the State Government stressed (March 2005) the need of recasting the BODs of PSUs by inducting at least two independent and professionally qualified Directors for giving valuable support to the senior management to run the PSUs along professional lines and instructed (March 2005) the Forest Department for taking appropriate action. Audit, however, noticed that neither the Forest Department nor the Company had taken requisite action so far (August 2007).

The Management stated (July 2007) that the State Government had to take action regarding appointment of professional directors. Regarding diversification of activities, it was stated that action had been taken in the field of eco-tourism and as regards medicinal plants, project report had been prepared and expected recoveries were being worked out.

Internal control and internal audit

Internal control

2.1.34 Internal control is an integral part of the process designed and effected by the Management of an organisation to achieve its specified objects ethically, economically and efficiently. It helps in creating reliable MIS for effective decision making. Internal Control System is most effective when it is built into the entity's infrastructure and is an integral part of the essence of the organisation. In order to exercise internal control upon the activities, the organisation should have functional and internal audit manuals.

In this regard, Audit observed as under:

- The present functional manual (viz. Procedure and instructions for timber extraction work and working of Himkashth Sales Depot) was prepared long back in 1988. The same has not been updated to include important instructions issued from time to time in regard to working of the Company.
- The procedure laid down in the revised Accounting System Manual regarding maintenance of cash book *i.e.* crediting/debiting the cash book with cash received, other receipts, cash withdrawn from the banks and payment of expenses, daily closure of cash book, daily working of balances, counting of cash in hand, and signing of cash book daily by the cashier and the supervisory officer was not followed by Forest Working Division, Sawra. Taking advantage of the lapse, an official of the division suspectedly misappropriated Rs.4.88 lakh during 2005-07. After being pointed out by Audit, the Management started (May 2007) looking into the matter. Final action was awaited (August 2007).
- The Company did not have an effective MIS. The Head Office of the Company obtained voluminous technical, financial and non-financial information from the Directorates and Forest Working Divisions through various periodical returns or one time collection of information. Such returns, received by various sections of the Company, are not put to use for development of master data base. Due to lack of consolidation and analysis of data, the top Management was not able to utilise it for effective monitoring and decision making.
- Accounting System Manual prepared (March 2004) by a firm of Chartered Accountants at an expenditure of Rs.2.47 lakh was only partly implemented by the Management.

The Management stated (July 2007) that there was always a scope for improvement, which was a gradual process. The Principal Secretary (Forests), however, agreed in ARCPSE meeting (August 2007) that there was dire need to strengthen the MIS with the help of computerisation and efforts would be made in this regard. He further stated that in future, system reports would be prepared in house instead of getting these prepared from out side agencies.

Internal audit

2.1.35 Internal audit is an integral part of internal control system of an organisation. It is an important tool in the hands of the Management which helps in promoting accuracy and reliability in an organisation's accounting data.

Internal audit of some of the units was being got conducted from the firms of Chartered Accountants. Some other units were being audited by an internal audit cell of the Company. Audit observed the following deficiencies in the internal audit system:

- The Company has not prepared internal audit manual for guidance of the Internal Auditors.
- The staff in the internal audit cell was being posted temporarily from different units as a stop gap arrangement without proper training.
- The reports of internal auditors were dealt with at the level of Financial Advisor/Executive Director and not submitted to the MD/BODs.
- The Company did not maintain year-wise detail of outstanding observations of internal auditors or observations which were repeated year after year for taking remedial/preventive action.

Absence of evaluation mechanism

2.1.36 Evaluation mechanism of different activities at different stages of operation was not in place in the Company. There was no system of comparing the actual financial results with the budgeted estimates of the Company as a whole and sale proceeds of each lot with the tentative economics prepared in the beginning. Neither there was system of grading the timber in the field in the manner in which it was being sold in the sale depots. In the absence of evaluation mechanism, the Management was not in a position to assess the impact of its actions on the working of the Company for taking necessary remedial actions.

The Management stated (July 2007) that the system of evaluation of activities was being introduced and the system of preparation of final economics of lots after sale of entire timber had been introduced for 2005-06 lots.

Acknowledgement

2.1.37 Audit acknowledges the co-operation and assistance extended by the Company and officers of the State Government at various stages of conducting the performance audit.

The matter was reported to the Government in June 2007; reply is awaited (September 2007).

Conclusion

The Company failed to eliminate the private contractors from timber extraction works. It did not prepare annual budgets well before the commencement of financial years. Actual achievements were also not

compared with the budgeted estimates. There was delay in receipt of marking lists, taking over of lots and extraction and transportation of timber. The Company suffered losses due to avoidable payment of royalty, obtaining of less yield, avoidable payment of extension fee, payment of royalty and sales tax for rotten trees, deterioration of timber during transit and excess manpower. Management information and internal control system were deficient and evaluation mechanism was non-existent.

Recommendations

- Action plans/annual budgets should be prepared well before the commencement of the financial years and compared with actual achievements.
- The working through private contractors should be reduced gradually by promoting departmental extraction of timber.
- Delays in receipt of marking list, taking over of lots, execution of works and payment of royalty should be avoided.
- Action should be taken to eliminate surplus manpower.
- System of management information and internal control should be strengthened and evaluation mechanism put in place.

2.2 Performance review on the Working of Himachal Pradesh Agro Industries Corporation Limited

Highlights

There was no practice of preparing annual plan well before the commencement of financial year in consultation with the State Government Departments which were the main buyers of the Company's products.

(Paragraph 2.2.7)

The financial position of the Company deteriorated as its accumulated loss of Rs.4.61 crore (31 March 2003) increased to Rs.9.25 crore (31 March 2007) which had partially eroded the paid-up capital of Rs.11.80 crore as on that date.

(Paragraph 2.2.11)

Out of five production units, three units were incurring losses continuously on account of low capacity utilisation due to lack of adequate demand from the State Government Departments and inability of the Company to market its products in the open market.

(Paragraphs 2.2.15 to 2.2.21)

The Company purchased major portion of food grains for manufacturing cattle feed during off season resulting in incurring of avoidable extra expenditure of Rs.54.35 lakh.

(Paragraphs 2.2.22)

Out of 20 trading units and one petrol pump, 10 units were continuously incurring losses and loss suffered by these units during five years up to 2006-07 amounted to Rs.1.59 crore due to inaction of the Management to improve their working.

(Paragraph 2.2.24)

The Government/Company failed to reduce the surplus manpower. Salary and wages paid to surplus manpower during the period 2003-2007 amounted to Rs.1.10 crore.

(Paragraph 2.2.26)

Management information and internal control systems were deficient and the system of appraisal of performance was non-existent.

(Paragraph 2.2.32)

Introduction

2.2.1 Himachal Pradesh Agro Industries Corporation Limited (Company) was incorporated (September 1970) with a view to promote agro based industries in the State. The main objectives of the Company are to:

- accelerate and increase agricultural production;
- contribute to the production of subsidiary and supplementary foods;
- increase the availability of supplies of food; and
- contribute to the development of agro industries in the State.

In pursuance of its objectives, the Company was operating five production units, one each for manufacturing pesticides and insecticides, agricultural implements, honey processing and one each for cattle and poultry feed. The Company was also running 20 trading units and one petrol pump in the cities and towns of the State. The trading units deal in items such as cement, iron and steel, bitumen, tyres and tubes, batteries, *etc.*

The Management of the Company is vested in the Board of Directors (BODs) consisting of 15 Directors including the Chairman and the Managing Director (MD), who is the Chief Executive. He is assisted by a General Manager, three Deputy General Managers, a Chief Accounts Officer and a Production Manager (Commercial/Pesticides) at the Head Office. Operational/trading activities in the field units are being looked after by two Deputy General Managers and the field units are headed by branch in-charges. Organisational chart is annexed as **Annexure-XI.**

Scope of audit

2.2.2 The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India (Commercial) for the year 1999-2000. The review was discussed by the Committee on Public Sector Undertakings (COPU) in July 2007. The recommendations of COPU are awaited (August 2007).

The present Performance review on the working of the Company conducted during April and May 2007 covers scrutiny of records for the last five years ended 31 March 2007 maintained at the Head Office, all the five production units and 10 out of 21 units (20 trading units and one petrol pump) selected on random sampling basis without replacement.

Audit objectives

2.2.3 The audit objectives of the Performance review were to ascertain whether:

- the Company succeeded in achieving the objectives for which it was incorporated;
- the Company utilised the installed capacity of its manufacturing units to the optimum level;
- the activities were carried out effectively, efficiently, economically and ethically;
- the Company utilised its manpower effectively and efficiently;
- effective internal control procedure was in vogue and adequate monitoring (management information system) and follow up was in place; and
- internal audit was used as a tool to make internal control effective.

Audit criteria

2.2.4 The audit criteria used for assessing the achievement of audit objectives were:

- instructions/guidelines issued by the State Government and Government of India (GOI) from time to time in regard to working of the Company;
- agenda and minutes of the meetings of the BODs;
- targets fixed for manufacturing and trading activities;
- purchase, sales and marketing procedures/policies;
- provision in the Accounts Manual; and
- human resource policies.

Audit methodology

2.2.5 The methodology adopted for attaining the audit objectives with reference to audit criteria was examination of:

- instructions and guidelines of the State Government and GOI issued from time to time;
- agenda and minutes of the meetings of the BODs and Committees constituted by the BODs;

- records relating to indents, production registers, tender and purchase order files, sales registers, sales invoices, stock registers, *etc.;*
- management information and internal control system; and
- interaction with the Management and issue of audit queries.

Audit findings

2.2.6 Audit findings, arising from the performance review on the working of the Company were issued (July 2007) to the Government/Company and were discussed (16 August 2007) in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE). The Joint Secretary (Horticulture), Government of Himachal Pradesh and the Managing Director of the Company attended the meeting. The views expressed by the members have been taken into consideration while finalising the review.

Audit findings are discussed in the succeeding paragraphs.

Planning and budgetary control

2.2.7 Advance planning based on database maintained and market survey conducted from time to time is very vital for running an organisation efficiently, economically and effectively. Preparation of annual budget which is a quantitative financial expression of a programme of measure planned for a given period, forms an integral part of planning. The budget is drawn up with a view to plan activities for future and to make *ex-post-facto* checks on the results obtained. Timely planning/preparation of budget and analysis of the variations noticed during actual execution serve the purpose of internal control also.

In this regard, the following deficiencies were noticed:

- The Company did not plan its annual activities in consultation with the different departments (Horticulture, Agriculture, Forest and Public Works) of the State Government despite its dependence on them for sale of its products.
- The Annual Business Plan and Resources Forecast (BPRF) were not being prepared before commencement of the financial year. Hence, Audit was unable to determine the growth which the Company wanted to achieve during the year and whether the Company was able to sustain the same. Annual Budgets and targets were prepared (April-July) on the basis of performance during the previous years.
- The Company neither maintained data base nor conducted field/market survey to see market trends.

The targets fixed and actual achievements thereagainst during the last five years ended 31 March 2007 were as under:

(Rupees in crore)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07 (Provisional)
Manufacturing units					
Target of sales	11.16	11.16	11.16	6.48	4.25
Achievement	7.31	5.50	4.53	3.53	3.31
Shortfall (-) Excess (+)	(-) 3.85	(-) 5.66	(-) 6.63	(-) 2.95	(-) 0.94
Percentage shortfall	34.50	50.72	59.41	45.52	22.12
Trading Units					
Target of sales	16.49	16.52	18.30	19.61	25.66
Achievement	11.80	12.24	12.05	17.54	21.82
Shortfall (-) Excess (+)	(-) 4.69	(-) 4.28	(-) 6.25	(-) 2.07	(-)3.84
Percentage shortfall	28.44	25.91	34.15	10.56	14.96

Source: Compiled from the relevant records of the Company.

It may be observed from the above details that:

- The Company was not able to sustain the targets fixed for sales in manufacturing and trading units in all the years.
- The shortfall in manufacturing units ranged between 22.12 and 59.41 *per cent* during 2002-03 to 2006-07.
- Instead of taking remedial actions to increase the sales of manufactured items, the Company reduced the target by 41.94 *per cent* in 2005-06 and 61.92 *per cent* in 2006-07 as compared to the targets of 2004-05, indicating a negative growth. Even the reduced targets were not achieved.
- Similarly, the Company could not achieve the sale target of trading items in all the years. Thus, there was negative growth on both sides.

The Government stated (September 2007) that the Company planned its activities well in advance in consultation with different departments and annual targets were fixed on the basis of data base and survey of market. The reply is not tenable as the Management did not produce record relating to meetings held with different departments, data base maintained and conducting of market survey.

Capital structure

2.2.8 The authorised capital of the Company was Rs.15 crore consisting of 15 lakh shares of Rs.100 each. As against this, the paid-up capital of the Company as on 31 March 2007 was Rs.11.80 crore, subscribed by the Government of Himachal Pradesh (Rs.9.84 crore) and GOI (Rs.1.96 crore).

Failure to avail benefit of disinvestment scheme of Government of India

2.2.9 In accordance with the scheme for disinvestment, the GOI communicated (March 1994) to the State Government that it would pass on its shares (Rs.1.96 crore) for a token consideration (Rs.1,000) to the State Government in case the Company had negative net worth. In case of positive net worth on the basis of latest available accounts, it was to offer its shares at a price 25 *per cent* less than the book value. As the net worth of the Company was negative during 1993-94 and 1994-95, the BOD approved (June 1994) the disinvestment proposal of the GOI. As no follow up action was taken to avail the benefit under the scheme, the State Government was deprived of the benefit of acquiring share capital of Rs.1.96 crore for a token consideration of Rs.1,000. This lapse was pointed out in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000. The State Government informed (September 2003) the COPU that Rs.1,000 sent to the GOI were received back (May 2003) and the Company was asked (May 2003) to submit statement of realisable assets and liabilities along with value. The State Government further informed the COPU that the detail of expenditure involved for valuation of realisable assets and liabilities were being analysed (September 2003) by the Engineering Cell of the Company. Audit observed that no further action has been taken in the matter so far (September 2007).

The Government replied (September 2007) that the Company was not interested to get the benefit of receipt of equity of the GOI by paying Rs.50 lakh in cash because the Company would have incurred a loss of Rs.50 lakh without getting any tangible cash transfer of Rs.1.96 crore which would have been only on paper. The reply is not tenable as the Company had negative net worth during 1993-95 and it was required to pay only Rs.1,000 and not Rs. 50 lakh. The State Government would have acquired equity of Rs.1.96 crore at a cost of Rs.1,000 only.

Borrowings

2.2.10 Long-term and short-term loans of Rs.1.11 crore and Rs.1.60 crore along with interest of Rs.1.40 crore and Rs.1.63 crore were overdue for payment to the State Government since 1983-84 and 1990-91 respectively at the end of March 2007. Besides, a sum of Rs.76.68 lakh (including interest of Rs.36.68 lakh) borrowed from the Ministry of Food Processing Industries, GOI was also outstanding as on 31 March 2007. The Company was not able to repay the loans due to its poor financial health.

Financial position

The accumulated loss of Rs.4.61 crore as on 31 March 2003 increased to Rs.9.25 crore as on 31 March 2007, which had partially eroded the paid-up capital of Rs.11.80 crore as on that date.

2.2.11 The financial position of the Company for the last five years ended 31 March 2007 is given in **Annexure-XII.**

Annexure-XII shows that accumulated loss of Rs.4.61 crore (31 March 2003) increased to Rs.9.25 crore (31 March 2007). The accumulated loss of Rs.9.25 crore had partially eroded the paid-up capital of the Company of Rs.11.80 crore as on 31 March 2007. So far, the Company has not drawn any long term growth or economy plan to reduce the accumulated loss.

Un-utilised grant

2.2.12 The Company had not utilised grant of Rs.9.97 lakh received (1991-92) from the State Government for Poultry Development Scheme. In reply to the review on the working of the Company incorporated in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000, the Government informed (September 2003) the COPU that the Company proposed to utilise/refund the grant in future, but no further action has been taken so far (August 2007) to utilise the grant or refund the amount.

The Government stated (September 2007) that the grant would be utilised whenever up-gradation of machinery in the Feed Unit would take place. The reply is not tenable as the Company had given a similar reply to the COPU in September 2003 and the grant was still (September 2007) lying unutilised since its receipt (1991-92).

Diversion of funds

The grant of Rs. 50 lakh received from the State Government was diverted for other than the intended purpose.

2.2.13 The Company received (July 1997) Rs.50 lakh from the State Government to procure potatoes between 7 to 23 July 1997 under the Potato Support Scheme to provide remunerative prices to agriculturists. The Company neither procured potatoes nor refunded the amount. It diverted the amount for payment of salary and wages (Rs.2.42 lakh) and discharge of liabilities (Rs.47.58 lakh). The Director of Agriculture had been demanding (October 1999) the return of the amount along with interest @ 18 *per cent per annum* which worked out to Rs.90 lakh (July 2007). The fact of diversion of funds was also pointed out in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000. The State Government replied (September 2003) to the COPU that the Company had submitted a proposal for adjusting the amount against Rs.1.28 crore recoverable from the Agriculture Department on account of expenses incurred by the Company in running workshop of the Department at Bhangarotu and the matter was under correspondence. Audit, however, noticed (May 2007) that the State Government had refused (November 2006) to accept the proposal and the Company was liable to pay the amount of Rs.50 lakh along with interest of Rs.90 lakh up to July 2007 to the Agriculture Department.

The Government stated (September 2007) that in case, the Agriculture Department does not agree to pay Rs.1.28 crore to the Company, the Company would approach the State Government for conversion of Rs.50 lakh into equity. The reply is not tenable as the State Government has already refused to adjust the amount against the amount being shown as recoverable from the Agriculture Department.

Working results

2.2.14 The working results of the Company for the last five years ended 31 March 2007 are given in **Annexure-XIII**. It would be seen from the Annexure that the Company had been continuously incurring losses year after year and it incurred loss of Rs.5.33 crore during the last five years which was due to the following reasons:

- Under utilisation of installed capacity of plants (paragraphs 2.2.15, 2.2.17, 2.2.19 and 2.2.21 *infra*);
- Non-closure of trading units continuously running in losses (paragraph 2.2.24 *infra*);
- Payment of idle wages (paragraph 2.2.26 *infra*).

The Government stated (September 2007) that the operational loss had been reduced from Rs. 1.95 crore in 2005-06 to Rs.1.26 crore in 2006-07 and it further projected to reduce it to Rs.18.37 lakh in 2007-08. The reply is not tenable as the Company has not formulated any concrete plan so far (September 2007) to reduce the operational loss to Rs.18.37 lakh in 2007-08.

Manufacturing activities

Pesticides Formulation Plant

Productions and sales performance

2.2.15 The Company set up a Pesticides Formulation Plant at Parwanoo at a cost of Rs.70.40 lakh. It obtained (February 1983 to August 1998) registration from the GOI for manufacturing 39 products of insecticides and pesticides under the Insecticides Act, 1968.

The licensed capacity of the plant and utilisation there against during the last five years ended 31 March 2007 was as under:

Year	2002-03	2003-04	2004-05	2005-06	2006-07
Licenced Capacity					
Liquid (KL)	250	250	250	250	250
Dust and wettable dry powder (WDP) (MT)	1,150	1,150	1,150	1,150	1,150
Actual Production					
Liquid (KL)	28.18	-	-	-	-
Dust and wettable dry powder (WDP) (MT	70.5	97.3	163.5	95.7	47.1
Percentage utilisation					
Liquid	11.27	-	-	-	-
Dust and wettable dry powder (WDP	6.13	8.46	14.22	8.32	4.10
Sales					
Targets (Rs. in crore)	2.50	2.50	2.50	2.50	0.92
Achievement (Rs. in crore)	1.08	0.29	1.87	0.95	0.43
Percentage achievement	43.20	11.60	74.80	38.00	46.74

Source: Compiled from the relevant records of the Company.

From the details in the above table and scrutiny of other connected records of production and sale of pesticides revealed as under:

- Capacity utilisation of the plant in respect of liquid formulation was 11.27 *per cent* during 2002-03. There was no production thereafter as neither Hindustan Antibiotics Limited placed purchase orders on the Company nor there was demand for the same from the State Government Departments. It was noticed that the State Government Departments were purchasing their requirement of liquid formulation from private firms.

- The capacity utilisation in respect of WDP ranged between 4.10 and 14.22 *per cent.*

- Low capacity utilisation resulted in payment of idle wages of Rs.5.80 lakh as the plant remained idle for 578 days during the last five years ended 31 March 2007.

- Besides, the Company also incurred an avoidable expenditure of Rs.5.20 lakh on account of fixed charges of electricity over and above the contract demand actually utilised by the plant.

Against the targeted loss of Rs.17.71 lakh, the Pesticides Formulation Plant incurred loss of Rs.75.72 lakh during 2003-07.

- Against the targeted loss of Rs.17.71 lakh, the plant incurred loss of Rs 75.72 lakh during the last five years ended 31 March 2007.

- The Production Manager of the plant was heading the Pesticides Division at the Head Office since June 2003. He had been looking after the activities relating to marketing of bio-fertilizers and bio-pesticides also. The in charge of quality control was looking after the production in the plant. The posting of the Production Manager at the Head Office mainly to look after marketing of bio-fertilizers/bio-pesticides, the work which should have been done by one of the Marketing Officers, deprived the Company of the benefit of his supervision in the plant on a sustained basis.

2.2.16 The low capacity utilisation was mainly due to poor marketing and lack of patronage by the State Government. Even though the four products[&] of the Company got tested (2003-04) by the Agriculture and Horticulture Departments of the State Government from Himachal Pradesh University of Horticulture and Forestry, Solan and Himachal Pradesh University of Agriculture, Palampur for bio-efficiency were found to be of standard quality, the Agriculture and Horticulture Departments of the State Government procured only 70.02 MT of pesticides/insecticides valuing Rs.1.43 crore from the Company against their total procurement of 120.11 MT and 536.56 MT of pesticides/insecticides valuing Rs.2.64 crore and Rs.10.17 crore respectively during the last five years ended 31 March 2007. The quantity procured by these departments from the Company was only 10.66 *per cent* of their requirement of pesticides/insecticides. The rest of the material was purchased by these departments from private parties who were on rate contract with the State Government (429.05 MT valued at Rs.7.51 crore) and from the producers who supplied the material under their brand names (157.60 MT valued at Rs.3.87 crore). This resulted in supply of the material to the consumers at higher cost of Rs.1.39 crore as the rate contract material was supplied after adding five *per cent* commission (Rs.45.30 lakh) to be shared equally by the department concerned and the Company and the material purchased under the brand names was costlier (Rs.94 lakh) in comparison to the rate at which the Company could have supplied after formulating the same in its plant. This was despite the fact that the Company and the private firms use the same technical material purchased from the same source and repack the same after processing as per the requirement under the Insecticides Act, 1968. Thus, the Company could have supplied the entire quantity without compromising the quality. But the Company failed to convince the Agriculture and Horticulture Departments and the consumers about the quality and cheaper cost of its products. The Company remained dependent on the Government Departments for orders and did not formulate any market strategy to sell its products in the open market through its 20 trading units located within the State.

[&] *Mencozeb 75% Wettable powder (WP), Carbendazim 50% WP, Dodine 65 % WP and Copperoxychioride 50 % WP*

The Government stated (September 2007) that the Company had established (April/May 2007) contact with Hindustan Antibiotics Limited (HAL) and buyers in Rajasthan. They hoped to break even or make nominal profit in 2007-08.

Cattle and Poultry Feed Plants

Production performance

2.2.17 The Company set up two Cattle and Poultry Feed plants at Parwanoo and Jachh at a cost of Rs.3.84 lakh and Rs.9.85 lakh respectively. The details of installed capacity, actual utilisation there against and percentage utilisation of capacity during the last five years ended 31 March 2007 are as under:

Particulars	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
Parwanoo					
Installed capacity (single shift) (MT)	4,800	4,800	4,800	4,800	4,800
Actual production (MT)	3,839	4,379	3,548	3,568	3,119
Percentage utilisation	79.98	91.23	73.92	74.33	64.98
Jachh					
Installed capacity (single shift) (MT)	2,400	2,400	2,400	2,400	2,400
Actual production (MT)	73	1,559	1,754	887	1,043
Percentage utilisation	3.04	64.96	73.08	36.96	43.46

Source: Compiled from the relevant records of the Company.

Scrutiny of details in the above table and other connected records in respect of production and sale of cattle and poultry feed revealed as under:

- The percentage of capacity utilisation at Parwanoo plant during 2002-03 to 2006-07 ranged between 64.98 and 79.98, except in 2003-04 when it increased to 91.23 due to receipt of maximum orders for cattle feed from the Department of Animal Husbandry under drought relief scheme.

- The percentage of capacity utilisation at Jachh plant ranged between 36.96 and 73.08 during 2003-04 to 2006-07 and it was only 3.04 in 2002-03 due to closure of the plant for six months for renovation.

- The Company depended mainly on orders from the State Government for sale of cattle and poultry feed. The percentage of sales in the open market to total sales in respect of Parwanoo and Jachh plants ranged between 32.65 and 55.80 and 1.13 and 13 respectively during the period 2002-03 to 2006-07.

- The low capacity utilisation resulted in payment of idle wages of Rs.5.11 lakh and avoidable extra expenditure of Rs.4.64 lakh on account of fixed charges for contract demand of electricity over and above the actually availed contract demand.

The Government stated (September 2007) that the sales could increase only if the Company had working capital to purchase the raw material and establish retail distribution network. It further stated that it was not possible to stop payment of wages and incurring of other fixed expenditure. The reply is not tenable as there was nothing on record to show that the Company had made efforts to generate working capital. So far as establishing of retail distribution network is concerned, the Company is already having 20 trading units in the entire State and the same could have been used for retail distribution.

Non-production of fish feed

The Company was not producing fish feed though it modernised its plant at Jachh at a cost of Rs.17.29 lakh.

2.2.18 The annual requirement of fish feed in the State was 65 to 70 MT. The Fisheries Department of the State provided (2002-03) Rs.15 lakh to the Company for modernising its existing feed plant at Jachh for production of trout fish feed. The Company was required to supply the trout fish feed to the Fisheries Department as well as to the fish farmers of Kullu and Mandi districts through its sale outlets. Audit observed (May 2007) that after modernising (September 2002 to May 2003) the plant at a cost of Rs.17.29 lakh at Jachh by keeping it closed for eight months, the Company was still not producing trout fish feed (August 2007).

The Government stated (September 2007) that the Company was ready to manufacture and sell fish feed through its branches provided confirmed orders were received from the Fisheries Department. The reply is not tenable, as per commercial practices for marketing its products the Company itself should enquire about the requirement of fish feed from the Fisheries Department/fish farmers of the State and supply accordingly. This way the Company could have also reduced its losses by increasing the capacity utilisation of its plant at Jachh and using the idle manpower. Further, the Fisheries Department had requested (September 2006 and June 2007) the Company to start regular production of trout fish feed and make the same available through its sale outlets. The Department had conveyed (June 2007) its annual requirement of trout fish feed to the extent of 20-25 tonnes.

Production performance of Implements Factory

2.2.19 The implements factory set up in October 1982 at a cost of Rs.67.83 lakh caters to the demand for agricultural implements from the State Government Departments and private consumers. The installed capacity, actual production there against, percentage utilisation of installed capacity, targeted and actual sales during the last five years ended 31 March 2007 is given in **Annexure-XIV.**

Scrutiny of the details revealed as under:

The capacity utilisation of Implements Factory decreased from 32.21 *per cent* in 2002-03 to 7.13 *per cent* in 2006-07 due to lack of demand for its implements.

- The percentage utilisation of capacity decreased from 32.21 in 2002-03 to 7.13 in 2006-07.
- The shortfall in achievement of sales increased from Rs.36.03 lakh in 2002-03 to Rs.71.19 lakh in 2005-06. Instead of making efforts to increase the sales, the Company decreased the target of sales from Rs.90 lakh to Rs.50 lakh in 2006-07 but in this year also there was shortfall of Rs.23.36 lakh in sales.
- The losses suffered by the unit increased from Rs.16.45 lakh in 2002-03 to Rs.35.29 lakh in 2006-07. The total loss suffered by the unit during these five years amounted to Rs.1.51 crore.

2.2.20 Scrutiny of records revealed (May 2007) that the high incidence of loss was on account of low capacity utilisation due to dependence on the Government Departments for sale of implements, poor marketability, high operating cost, competition from private parties and avoidable extra expenditure of Rs.2.41 lakh on account of fixed charges for contract demand of electricity over and above the actually availed contract demand. The same state of affairs was pointed out in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000. The State Government in their reply to COPU stated (September 2003) that efforts were made to transfer the factory to Himachal Road Transport Corporation (HRTC) but the HRTC did not agree and the Company was exploring other alternatives. It was, however, observed that the Company had not explored other alternatives so far (May 2007). Further, though the State Government had assured (June 1995) to procure 50 *per cent* requirement of the Government Departments from the Company, there was nothing on record to show that the Company was meeting their requirement to that extent.

The Government stated (September 2007) that the Company had approached the State Government for revival of the plant. The decision of the Government is, however, awaited (September 2007).

Honey Processing Plant

Production performance

2.2.21 Reference is invited to paragraph 2A.8.1 (iv) (a) and (b) of the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000 wherein performance and purchase of honey processing plant at Kandrori was commented upon. It was stated in the para that against the projected profit of Rs.0.61 crore, the plant had incurred loss of Rs.0.46 crore during the last four years ended 31 March 2000. The loss was mainly due to inadequate marketing arrangements. The Government stated (September 2003) to COPU that the Company had made arrangements for sale through Bajaj Sevashram Limited, Udaipur and sold 8,784.40 Kgs honey during 2000-01 and 22,464 Kgs during 2001-02. The Company was also exploring marketing of honey through other dealers.

Scrutiny of records revealed (May 2007) that during the last five years ended 31 March 2007, the plant incurred loss of Rs.46.34 lakh against the sale of Rs.15.16 lakh made during this period. The Company had projected loss of Rs.58.89 lakh against the projected sale of Rs.1.01 crore. The details are given in **Annexure-XV**. The capacity utilisation ranged only between 1.63 and 6.76 *per cent* as against the projected 80 *per cent* capacity utilisation in the revised (March 1997) Techno Economic Feasibility Report. As analysed in audit, low capacity utilisation was mainly on account of inadequate working capital and consequent non-procurement of raw honey, low storage capacity of 35 MT against the requirement of 90 MT to reach at break even, non-availability of cold storage to keep Hidroxge Methyl Furfural of raw honey at acceptable temperature level and inadequate marketing. The Company also did not explore marketing of honey through other dealers as promised to COPU.

Keeping in view the ground realities, the BODs decided (September 2003) to close down or to lease out the plant. The State Government, however, decided (December 2003) to revive the plant and the services of Vice Chancellor, Himachal Pradesh University (an expert in bee keeping) were sought for this purpose. The Vice Chancellor submitted (January 2005) his report and suggested ways and means to revive the plant. His suggestions had not been implemented so far (September 2007).

The Government stated (September 2007) that various market strategies were being adopted for sale through different agencies and interested parties. A proposal had been sent to the GOI for 50 *per cent* subsidy on total project cost of Rs. 55 lakh required for up-gradation of the plant and a 100 MT capacity cold storage would be established. The reply is only an after thought as during the last five years under review, the Management had not made such efforts.

Avoidable extra expenditure

The purchase of raw material in off season resulted in incurring of an avoidable extra expenditure of Rs.54.35 lakh.

2.2.22 Maize, de-oil rice bran (DRB), rice polish, soya flaks, wheat-bran and de-oil mustard oil cake (DMOC) are the main foodgrain ingredients for manufacture of cattle feed. These foodgrains are available at cheap rates in the market in two seasons of the year *i.e.* April to June and September to November.

Test check of records of cattle and poultry plant at Parwanoo revealed that during the last five years ended 31 March 2007, the Company purchased (through open tenders) major portion of foodgrains during off season when the rates were higher as compared to the rates during the season as indicated below:

Sr No	Food grains ingredient (MT)	Quantity purchased During season (MT)	Off season (MT)	Total (MT)	Percentage of quantity purchased during off season to total purchase	Per MT higher rates paid during off season as compared to rates in season (Rupees)	Avoidable extra expenditure (Rs in lakh)
1	Maize	428.14	1,798.97	2,227.11	80.78	542.53	9.76
2	Rice Polish	242.00	458.72	700.72	65.46	688.87	3.16
3	De-oil Rice Bran (DRB)	1,868.41	7,067.34	8,935.75	79.09	636.73	45.00
4	Soya Flaks	290.71	378.07	668.78	56.53	1,917.63	7.25
5	Wheat Bran	149.66	118.08	267.74	44.10	813.00	0.96
6	De-Oil Mustard oil cake (DMOC)	912.30	1,963.52	2,875.82	68.28	697.22	13.69
	Total	3,891.22	11,784.70	15,675.92	75.18		79.82

Source: Compiled from the relevant records of the Company.

It would be seen from the above that the Company purchased 75.18 *per cent* of its total requirement of foodgrains during off season resulting in incurring of avoidable extra expenditure of Rs 79.82 lakh. For the purchase of 11,784.70 MT foodgrains during off season, the Company required Rs.4.62 crore at the rates prevailing during the season. Even if, the Company had arranged the above amount by availing overdraft from the banks for nine months, the Company could have saved Rs.54.35 lakh after adjustment of interest of Rs.25.47 lakh payable to the banks.

The Government stated (September 2007) that there was no loss on account of procurement of raw material during off season as the Company was recovering full cost of feed. The Company neither had funds to built up stock of raw material nor intended to built such inventory due to short shelf life of raw material.. The reply is not tenable as purchase of raw material during season at cheaper rates would have increased the profit of the Company. The contention of the Management that the raw material had short shelf life is also not tenable, as the suppliers from whom the Company purchases raw material during off season purchase the same during season and store the same for sale in off season.

Trading activity

Trading in items not covered in the Memorandum and Articles of Association

2.2.23 As stated in paragraph 2.2.1 *supra,* the Company was running 20 trading units and one petrol pump through out the State which deal in sale of trading items such as cement, iron and steel, bitumen, tyres and tubes,

The sale of items not covered in the objectives increased from 33 *per cent* in 2002-03 to 71 *per cent* in 2006-07.

batteries, petrol and diesel, *etc.* which are, however, not covered in its objectives as included in the Memorandum and Articles of Association (MAA) of the Company. The sale of items not covered in the objectives accounted for 33, 36, 42, 62 and 71 *per cent* of the total sales during the last five years ended 31 March 2007. The Company was concentrating more on trading of items not covered in its objectives resulting in lack of overall focus in achievement of main objectives. Though the trading activities not covered in the objectives were approved (June 1995) by the BODs, formal amendment in the MAA was yet to be carried out (September 2007). This was also pointed out in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000. The Government stated (September 2003) to the COPU that the proposed amendments to be incorporated in the MAA of the Company were being examined. No further action had, however, been taken so far (September 2007), which was indicative of an indifferent attitude of the Management.

The Government stated (September 2007) that the above mentioned items except bitumen are incidental and ancillary to the attainment of main objects and hence there was no need to carry out amendment in the MAA. The reply is not tenable as the items which are traded are not incidental or ancillary to the attainment of the main objectives of the Company.

Performance of trading units

Ten trading units were continuously incurring losses and loss suffered during the period 2002-07 by these units amounted to Rs.1.59 crore but the Management did not take any action to improve their working or to close these units.

2.2.24 Scrutiny of records (May 2007) relating to the trading units revealed as under:

- Out of 20 trading units and one petrol pump, only two units (Shimla and Chamba) earned profit of Rs.40.83 lakh during the last five years ended 31 March 2007.
- Nine[*] units earned profit of Rs.40.01 lakh and loss of Rs.76.32 lakh in different years during 2002-07.
- Remaining 10[$] units were continuously incurring losses. Their loss during the last five years ended 31 March 2007 amounted to Rs.1.59 crore.
- Out of above 10 units, six[**] units were under the direct supervision of a Deputy General Manager stationed at Dharamshala. Their loss during the last five years amounted to Rs.1.04 crore.
- The Management did not take action to improve the working of the trading units or to close these units.

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* *Jachh, Parwanoo, Rampur, Morinda, Mandi, Kullu, Bilaspur, Solan and Nalagarh*

$ *Kumarsain, Rohru, Nagrota, Paonta Sahib, Dharamsshala, R.O. Morinda, Jawalamukhi, Amb, Una and Hamirpur*

** *Dharamshala, R.O. Morinda, Jawalamukhi, Amb, Una and Hamirpur*

Sundry debtors

2.2.25 As per credit policy of the Company, credit sale to the Government Departments was permissible subject to the condition that amount was recovered in the same financial year. For credit sale to private parties, officers allowing such credit were to be held responsible for recovery of the dues.

Position of debtors as on 31 March 1999 was commented upon in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000. The Government stated (September 2003) to COPU that the position of debtors was being monitored on monthly basis and efforts were being made to reduce the outstanding position to the bare minimum. Despite above assurance to the COPU, the Management did not make efforts to recover the old debts and as a result the debts increased from Rs.2.21 crore (March 1999) to Rs.4.28 crore (31 March 2007).

Age-wise position of the outstanding debts of Rs.4.28 crore as on 31 March 2007 was as under:

Outstanding for	**(Rupees in lakh)**
Less than one year	359.74
More than one and less than three years	14.19
More than three years	54.30
Total	**428.23**
(Government Departments: Rs.403.40 lakh, Private: Rs.24.83 lakh)	

Source: Compiled from the relevant records of the Company.

Scrutiny of records relating to sundry debtors revealed as under:

- Debts of Rs.3.41 crore as on 31 March 2002 increased to Rs.4.28 crore as on 31 March 2007.
- Debts of Rs. 8.13 lakh pertaining to private parties were outstanding for recovery for more than three years.
- Debts of Rs.32.34 lakh pertaining to the Government Departments were outstanding for over 3 to 15 years. The reasons for debts remaining outstanding for such a long period were not analysed/brought to the notice of BODs.
- Recovery of debts of Rs.37.68 lakh (Government:Rs.23.85 lakh and private parties: Rs.13.83 lakh) were considered doubtful of recovery by the Management. Debts of Rs.13.83 lakh pertaining to private parties were under litigation as on 31 March 2007.
- There was no practice of receiving confirmation of outstanding balances from the debtors before preparation of annual financial statement each year.

- The responsibility for not recovering the amount of credit sale to private parties was not fixed on the officers concerned as per the credit sale policy of the Company.

The Government stated (September 2007) that special drive was being launched to recover the outstanding debts and action would also be initiated against those who fail to recover private debts within the stipulated time. The reply is not tenable as the effectiveness of measures being taken would be known in due course and the Company failed to honour the commitment made to COPU in September 2003 regarding efforts to reduce the debts to bare minimum.

Manpower

Manpower management

2.2.26 The Company has not fixed norms for deployment of staff with reference to actual work load in the field units and at the Head office.

During 2003-07, the Company paid Rs. 1.10 crore to 21 employees who were in excess of the requirement.

The Management assessed (2001-02) 80 employees as surplus in the Company. As against this, the Company was able to reduce the strength of surplus manpower to 21 as on May 2007 through absorption in other Government departments/voluntary retirement scheme. During 2003-07, the Company paid Rs.1.10 crore to above 21 surplus employees.

The Government stated (September 2007) that the number and salary of excess employees was notional as the list of surplus employees was prepared in view of critical financial position of the Company. The reply is not tenable as the list of surplus employees furnished to the State Government could not be treated as notional and the Company was able to reduce the strength of surplus employees from 80 in 2001-02 to 21 up to May 2007.

Undue benefit to daily wage workers

2.2.27 As per instructions of the State Government (April 2000), daily wage workers of all Government Departments/Undertakings having completed eight years of continuous service as on 31 March 2000 were eligible for regularisation. It was observed (May 2007) that the Managing Director of the Company regularised (March 2003) eleven daily wage workers who had completed only two to four years of continuous services as on 31 March 2000 in violation of the State Government instructions. This resulted in extension of undue benefit of increase in salary and wages by Rs.12.98 lakh to these workers.

The Government stated (September 2007) that the BODs was a competent authority which works like Government for employees of the Company. The reply is not tenable as the MD of the Company took the decision and even BODs cannot go beyond the instructions of the State Government.

Irregular promotions

2.2.28 The BODs decided (June 1996) that for promotion of officers of Class A category in future, the Departmental Promotion Committee (DPC) would consist of Commissioner-cum-Secretary (Horticulture), MD and General Manager of the Company. It was noticed (May 2007) that the MD filled (May 2002 and May 2004) four Category 'A' posts without the approval of the DPC resulting in non-compliance of the decision of the BODs.

The Government stated (September 2007) that the decision (June 1996) of the BODs remained inoperative and the promotion was made as per notified R&P Rules. The reply is not tenable as during April 1997, the promotions of some other officials were made by the DPC as per decision (1996) of the BODs.

2.2.29 The MD changed (September 2006) the initial cadre of a Laboratory Assistant appointed (December 1981) as Clerk with retrospective effect and allowed him promotions up to the level of Marketing Assistant (June 2004). The promoted official had neither the required experience of seven years as Senior Clerk nor he had qualified the Departmental Promotion Test as provided in the Recruitment and Promotion Rules of the Company. As per instructions (January 2003) of the State Government, such matters were required to be referred to the Committee consisting of Finance Secretary, Administrative Secretary, Secretary-*cum*-Director Institutional Finance (DIF) and MD and thereafter approval of the BODs was required. This resulted in violation of the State Government instructions and undue favour of Rs.8.08 lakh to the employee on account of increase in salary and wages up to March 2007.

The Government stated (September 2007) that as per R&P Rules, the MD. was fully competent to change the cadre. Government was silent whether this could be done retrospectively for duties not performed as clerk. The reply is not tenable as the same is at variance with the instructions of the State Government and the concerned employee was not having the required experience.

Marketing

2.2.30 Marketing is the backbone of an organisation. Production also corelates with the marketing efforts to avoid locking up of funds in inventory. There were eight Marketing Officers (MOs) and six Marketing Assistants (MAs) in the Company who were posted in different branches/units. Scrutiny of records revealed that the Company had not framed any marketing policy for selling its products. It never held any seminar of prospective consumers with a view to educating them about the suitability and benefit of buying the Company's products. The Management also did not fix any targets of sale to be achieved by the above MOs and MAs. Though, the annual incidence of their salary and wages worked out to Rs.45.65 lakh, there was nothing on record to show that they procured any orders for sale of Company's products.

Besides, two MOs and two MAs were deployed (between November 1991 and April 2007) in other Government Departments on deputation basis and they could be repatriated to the Company at any time by the borrowing departments. The Company has not established any distribution/dealership retail net work for sale of its products and its trading units are located only in cities and towns.

The Government stated (September 2007) that the Marketing Assistants were not MBAs experienced in marketing. They were from cadre of Clerks. The reply is not tenable as it was for the Company to recruit suitable MOs and MAs or to give training to the MAs who are from the cadre of Clerks.

Corporate governance

2.2.31 Corporate governance is the system by which companies are directed and controlled by the Management in the best interest of the shareholders and others stake holders ensuring greater transparency and better and timely financial reporting. The BODs is responsible for governance in the Company.

In this regard, Audit observed the following:

- As against four meetings of the BODs to be held in a year under Section 285 of the Companies Act, 1956, the Company held three meeting each during 2002-03, 2004-05 and 2005-06.
- The Financial Commission-*cum*-Secretary (Finance) did not attend any meeting held during 2003-04 and 2005-06.
- One non-official Director did not attend any meeting during 2002-03 and 2005-06. Similarly, two other non-official Directors during 2003-04 and 2004-05 and three non-official Directors during 2006-07 did not attend any meeting.
- The budget proposals prepared by the Company were not submitted to the BODs for consideration.
- The BODs did not discuss measures to increase production and sale. Thus, there was lack of policy initiative relating to production, marketing and improvement in working.

The Government stated (September 2007) that the audit view point had been noted and being advisory in nature, the same would be placed before the BODs for information.

Internal control

2.2.32 Internal control is an integral part of the process designed and effected by the Management of an organization to achieve its specified objectives ethically, economically and efficiently. It helps in creating a reliable financial and management information system (MIS) besides facilitating effective decision making. Internal control system is most effective when it is built into the entity's infrastructure and is an integral part of the essence of the organisation. Internal audit is an important part of the internal control system. In order to streamline the working procedure and exercise effective internal control upon its activities, the organisation should have functional and internal audit manuals.

Audit noticed (May 2007) the following deficiencies in the internal control system:

- The Company did not have a well defined MIS. It did not maintain a centralised database. Information source and information use centers were also not identified to effectively channelise the flow of information for decision making.
- The information and statistics available in regard to periodical progress in manufacturing and trading activities *vis-à-vis* laid down performance targets were inadequate and insufficient to identify the areas of deficiency for suggesting remedial measures.
- The Company had no system of performance appraisal of activities with a view to assessing the extent to which it was able to promote and achieve its main objectives.
- The Company also did not have a system of periodical reporting through monthly/quarterly/six monthly returns to the top management indicating factual position of working and recommendations/follow-up required.
- The Company had not prepared functional and internal audit manuals so far (September 2007). Non-preparation of manuals even after more than three decades of its existence was indicative of lackadaisical approach of the Management towards developing an efficient and effective working procedure and internal control system.
- The internal audit was being got conducted year after year from a firm of Chartered Accountants at a fee ranging between Rs.0.60 lakh and Rs.0.70 lakh per year. The report is submitted yearly. Though, the reports were generally submitted to the MD, there was no system to monitor the follow-up action on the reports. The Company did not maintain a consolidated record to show the number of observations settled as a result of follow-up and those remaining outstanding for want of action.
- Though, the duties of the internal auditors, *inter alia,* contain review of policies, procedures and internal control system of the Company yet their reports never contained any observation in this regard.

The Government stated (September 2007) that the Company had maintained centralised database and different matters were regularly reported to the BODs. A system of monthly reporting on performance of units was in vogue and reports and suggestions of internal auditors were considered appropriately.

The reply is not tenable as during the currency of review as well as in the meeting of ARCPSE, the Management did not produce to Audit any database for scrutiny. The actions proposed to be taken to improve the working were also not placed before the BODs. The Company could not produce detail of observations made by the internal auditors during the period of review and which were outstanding for compliance as on 31 March 2007.

Acknowledgement

2.2.33 Audit acknowledges the co-operation and assistance extended by the Company and officers of the State Government at various stages of conducting the performance audit.

Conclusion

The Company did not draw any long-term plan for achievement of its main objective of promoting agro-based industries in the State. It did not plan annual activities well before the commencement of financial year in consultation with State Government Departments, which were the main buyers of Company's products. Out of five production units, three units were incurring losses continuously on account of low capacity utilisation due to lack of adequate demand from the State Government Departments and inability of the Company to market its products in the open market. Un-economic operation of trading units and surplus manpower also contributed to losses of the Company. Management information and internal control systems were deficient and the system of appraisal of performance was non-existent.

Recommendations

- **The Company should focus on its main objectives. It needs to plan annual activities well before the commencement of financial year in consultation with State Government Departments, which are the main buyers of Company's products.**
- **Capacity utilisation of production units should be increased and concerted efforts should be made to sell its products in the open market.**
- **The working of loss making trading units should either be improved or these should be closed without further delay.**
- **Management information and internal control system needs to be strengthened and the system of appraisal of performance put in place.**
- **It should formulate an aggressive production and marketing policy.**

2.3 Information Technology Review of Computerised Reservation of Hotel Rooms in Himachal Pradesh Tourism Development Corporation Limited

Highlights

The Company introduced (1993) software computerised Central Hotel Reservation System for Hotel reservation facility at Central Reservation Office, Shimla. The software was got modified (September 2000) as web enabled software from National Informatics Centre.

Some of the important findings as a result of audit are mentioned below:

No policies relating to computerisation have been framed by the Company.

(Paragraphs 2.3.8)

There was delay in adopting various changes made by the Company from time to time in the rent rates, *etc.* in the computerised system resulting in faulty reports.

(Paragraphs 2.3.11 and 2.3.13)

The Company failed to recover cancellation charges of Rs.2.42 crore from the customers who reserved the rooms in the hotels at nil advances due to defect in the System.

(Paragraph 2.3.18)

The Company completed (March 2007) Local Area Network (LAN) in three units at a cost of Rs.10.88 lakh but as the System had no provision to upload the data from the online hotel reservation system; the basic purpose of LAN was defeated.

(Paragraph 2.3.20)

Introduction

2.3.1 The Himachal Pradesh Tourism Development Corporation Limited (Company) was incorporated in September 1972 as a wholly owned Government Company with a view to providing a complete package of tourism services including accommodation, catering, transport facilities and sports activities.

The Company introduced (1993) computerised 'Central Hotel Reservation System' (CHORES) for hotel reservation facility only at Central Reservation Office (CRO), Shimla. The CRO reserved the hotel rooms on the basis of requests obtained from various marketing offices/hotels/tourist information offices/general sales agents/travel agents and sent the daily reservation charts of reservation for each hotel at least three days in advance using Company's vehicles, public transport system, fax, telephones, *etc.* To overcome various shortcomings of the existing software, the Company got the CHORES modified (September 2000) as web enabled software from National Informatics Centre (NIC).

As on 31 March 2007, the Company had 55 hotels (Hotels, *Yatri Niwas*, Cottages/Log huts) having 1006 rooms and 10 marketing offices for hotel reservation.

Organisational set-up

2.3.2 The management of the Company vests in the Board of Directors consisting of 12 Directors including the Chairman (Chief Minister is the ex-officio Chairman) and Managing Director (MD) who is the Chief Executive. The MD is assisted in his day to day activities by the General Manager. The management of marketing offices/hotels/cafes is under the charge of Deputy General Managers/Assistant General Managers/Senior Managers/Managers and Assistant Managers.

Senior Accounts Officer (IT) is the overall in charge of computerisaion in the Company.

Objectives of computerised reservation

2.3.3 The main objectives of switching over to computerised reservation (Internet) from central reservation office are to:

- decentralise the hotel reservation from the centralised booking;
- provide easy access to the customers/tourists to know about the availability position of accommodation in the Company's hotels;
- make the reservation process easier at marketing offices/hotels within and outside the State;
- keep proper track of reservation and cancellation made by the customers and to help them;
- reduce the gap of communication between the customers and the Company's hotels where the customers actually check in;
- increase occupancy in Company's hotels; and
- provide facility to the customers to know about the various tourist spots and Company's properties in the State web site of the Company.

Scope of audit

2.3.4 The IT Audit of records relating to reservation of hotel rooms of five[1] out of 10 marketing offices and 12[2] out of 55 hotels/*yatri niwas*/log huts in the State was conducted during March - May 2007.

Audit objectives

2.3.5 Objectives of the IT Audit were to evaluate:

- reliability, integrity and authenticity of the data;
- availability of the data;
- safety and security of data; and
- IT environment in various booking centers and availability of related documentation.

Audit criteria

2.3.6 The audit criteria used for the IT audit were:

- The IT best practices; and
- The business rules for the charging of fares.

Audit methodology

2.3.7 The methodology adopted for attaining audit objectives with reference to audit criteria was as under:

- Review of agenda and minutes of meeting of the Board of Directors (BODs) and Committee constituted by the BODs.
- Study of the computerised system.
- Before commencing audit, the audit objectives, criteria and scope were discussed (March 2007) with the General Manager (HPTDC) in an entry conference. The audit findings were discussed (May 2007) with the Managing Director (HPTDC) in an exit conference.

1 *Marketing Offices: Chandigarh, Delhi, Kullu, Manali and Shimla*
2 *Hotels: Holiday Home, Shivalik, Peterhoff, Kunzum, Manalsu, Log huts, Hadimba huts, Beas, Sarvari, Silvermoon, Castle Naggar and Himachal Bhawan*

Audit findings

General

There was no password, backup and Business Continuity Plan policy to ensure security of the System and data.

2.3.8 Though the company decided to go for computerisation in 1993, it has not yet framed any policies relating to computerisation. Some of the important policies which have not been formed include the 'Password policy', 'The Backup Policy', 'The Business Continuity Plan' and above all the company's IT strategy.

Test check of 17 units revealed that trained staff was deployed only in five units for handling advance reservation. In remaining 12 units, either the staff was not trained or computers were not available for online reservation. In the absence of adequate on the job training, users were not able to handle different modules.

The Management accepted (May 2007) the audit observations and stated that efforts would be made to provide in-house training to the officials.

Non-conducting of post implementation review

2.3.9 Post implementation review is necessary to evaluate as to whether the System meets the envisaged requirements. Audit noticed (May 2007) that the Company had not conducted post implementation review on the working of the software.

System shortcomings

Lack of accounting module in the system

The System had no module for accounting purpose.

2.3.10 The System had no accounting module. The System was being utilised for electronic blocking of rooms, confirmed reservation of rooms *vis-à-vis* the availability position of accommodation which was electronically processed by the System. The System also did not produce daily/monthly returns for inter-unit adjustment of reservation amount and calculation of commission of General Sales Agents or Travel Agents. This was being done manually by the accounts officials.

The Management stated (May 2007) that the matter regarding providing of accounting module was under consideration and the needful would be done in the next phase.

System did not show effective rates

2.3.11 Though, the customers can view discount offers, the System gives actual tariff instead of the discounted rates when he enters the reservation menu and selects for reservation in hotel where discounted tariff is applicable.

It was noticed in audit that:

- the System did not display the room rent with European Plan (EP)[3] and Continental Plan (CP)[4] distinctly;
- in six[5] hotels, the System failed to ensure the collection of Modified American Plan (MAP) [6] charges during May and June 2006 as the System did not display the MAP based tariff of rooms. It only reflected room rent on EP or CP basis which was fed in the System;
- the Company decided (November 2005) to allow 30 *per cent* discount on room rent to senior citizens in all hotels during season and additional 10 *per cent* over and above the discount announced in off season. Similarly, the privilege card holders were entitled to 20 *per cent* discount on the charges for accommodation, food and beverages in addition to the discount announced by the Company from time to time subject to a maximum of 50 *per cent*. During test check of computerised system for reservation of rooms in hotels, it was noticed that the System did not contain the facility of providing discount on reservation of rooms in hotels to senior citizens and privilege card holders at the time of on line reservation.

The Management stated (May 2007) that the Company offered various discounts from time to time and the same were shown under a separate icon "Special Offer" and that the matter would be considered for rectification during up-gradation of the System.

Excess deduction of commission

2.3.12 The Company started (May 2006) on-line advance reservation of hotel rooms (through credit card) through HDFC bank at 5 *per cent* commission from May 2006 and 3.5 *per cent* from January 2007 which is deducted by the bank itself.

During audit of computerised reservation system in Marketing Office, Shimla, Audit noticed that the System did not display the discounted rates of rooms rent for monsoon and winter seasons with the result the customers made payment as per actual rent through credit card and commission was deducted by the HDFC on the actual rent instead of on discounted rent received by the Company in its hotel. This resulted in excess deduction of commission of Rs.0.15 lakh by HDFC bank on discount of Rs.3.22 lakh (allowed between May 2006 and March 2007) and resulted in loss to the Company to that extent.

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3 *European Plan means tariff of room*

4 *Continental Plan means tariff of room includes breakfast*

5 *Silvermoon, Sarvari, Beas, Rohtang Manalsu, Kunzum and Holiday Home.*

6 *Modified American Plan means tariff of room includes breakfast and lunch or dinner*

The Management stated (May 2007) that online advance reservation was started from May 2006 through HDFC bank whereas the System was developed in September 2000. It was further stated that the matter would be considered for rectification during up- gradation of the System.

Generation of faulty reports

The reports generated through the System were incorrect and misleading.

2.3.13 Test check of reports extracted from the System for 1 April 2005 for occupancy of all hotels revealed that the percentage of occupancy of some hotels was shown as negative.

Various reports extracted from the System revealed that the booking office-wise business reports reflected Rs.158.08 crore as net amount of advance reservation for 2005-06 whereas the final accounts of the Company reflected the total room rent income including booking through the System for the same year as Rs.15.84 crore only. Thus, the reports generated through the System were incorrect and misleading.

The Management stated (May 2007) that the error had been brought to the notice of the NIC and the same would be corrected in the software of hotel reservation system.

Faulty generation of customer Identification number (ID)

2.3.14 The System generates unique customer ID for each customer at the time of reservation. The test check of data, however, revealed that the System generated 58 duplicate customer IDs. Such situations may create problem to the Company as well as to the customers. If two customers have the same customer ID and one of them approaches for cancellation of reservation, the System may cancel the reservation of other customer too who has the same customer ID.

Test check of the data revealed that the System had not generated 1,089 customer ID numbers during September 2000 to March 2007. The missing customer IDs might have posed problem to the Management as well as to the customers at the time of check in.

The Management stated (May 2007) that such mistakes happened sometimes due to technical snag in web server.

Change Management

Less realisation of advance room rent

2.3.15 The Company revises tariff of hotel rooms from time to time after analysing the occupancy or after providing extra facilities in the accommodation. The Company generally revises tariff from 1 April each year.

During test check of reservation of rooms through computer System in three[7] hotels, it was noticed that the tariff of rooms in the System was not linked with the date from which the tariff was effective and changed tariff simply over wrote the existing rates. This resulted in less realisation of advance room rent of Rs.0.06 lakh during 2007-08 for reservation made up to March 2007. It deprived the Company of the benefit of enhanced advance room rent to the above extent.

The Management stated (May 2007) that the difference of room rent was collected by the concerned unit at check out time and that the matter would, however, be considered for rectification during up-gradation of the software.

Failure to club different category of rooms through the System

2.3.16 There are different categories of rooms in Company's hotels. The Company changes the category of rooms from time to time after providing extra facilities.

During test check of the System of online hotels reservation, it was noticed that after deletion of one category of rooms from the System and merger of the same with other category, the rooms of earlier category remained in the data file though they were shown as merged with the other category in the master file as the System updates the added category of rooms. Thus, the deleted category of rooms is available in the merged category for further reservation.

To cope with the problems, the booking officials first extracted the reservation chart of that hotel and after merging/deleting the one category of rooms and again confirmed this reservation in the System in the merged category at nil advances manually. This should have been done through the System to avoid clerical mistakes.

Other points of interest

Non-releasing of unoccupied reservation from the System

The System does not release unoccupied reserved rooms. Thus, the Company fail to reserve such rooms even though the same are not occupied.

2.3.17 As per Company's policy, 100 *per cent* of the room rent for the first day and 50 *per cent* for subsequent days are to be received for advance reservation of rooms in Company's hotels.

Test check of arrival charts extracted from the System of different hotels for 2006-07 revealed that confirmed reservations were made at nil advances for regular/ selected customers but the customers failed to check in the hotels on the scheduled dates. The concerned hotels failed to cancel the reservations from the System where such reservations were made for more than two days. Due to non-releasing of such reserved rooms from the System, the Company could not reserve these rooms for other customers.

[7] *Beas, Kunzum and Sarvari*

The table below indicates the position of reservations made against nil advances during 2002-07 and consequences thereof:

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Total transaction reserved	19,051	23,579	26,426	29,638	35,903
Total transaction cancelled	3,692	4,155	2,366	2,568	4,199
Transaction cancelled out of reservation made against nil advances	2,928	3,460	2,219	2,441	2,910
Transaction cancelled out of reservation made as per applicable rates	764	695	147	127	1,289
Percentage of cancellation out of reservation made against nil advances to total cancellation	79.31	83.27	93.79	95.05	69.30
Percentage of cancellation against reservation made as per applicable rates to total cancellation	20.69	16.73	6.21	4.95	30.70

The percentage of cancellation of reservations made against nil advances to total cancellation ranged between 69.30 and 95.05 which was very high in comparison to percentage of cancellation against reservation made as per applicable rates to total cancellation. It indicated that the persons who were allowed to reserve rooms against nil advances took undue advantage of the facility and cancelled the reservation at will without keeping in mind the loss to the Company.

Loss of cancellation charges

Due to reservation of rooms at nil advances, the Company could not recover cancellation charges of Rs.2.42 crore.

2.3.18 As per Company's policy for cancellation of reservation, 80 *per cent* of the advance is refunded in case request for cancellation is received before seven clear days or more before the scheduled date of check in. If the request for cancellation is received between four to six days before the date of check in, 50 *per cent* of advance is refunded. No refund is given if the request for cancellation is received less than four days before the date of arrival.

Audit noticed (May 2007) that in case of those customers who reserved the rooms in hotels at nil advances but cancelled their reservation prior to the scheduled date of checking in the hotel, the Company could not recover the cancellation charges of Rs.2.42 crore at the minimum rate of 20 *per cent* from the customers due to reservation made at nil advances as detailed below:

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Reservation amount of internet booking (in lakh)	369.53	438.67	519.33	598.88	754.12	2,680.53
Number of units (rooms) reserved	36,137	44,156	46,850	52,669	64,835	244.647
Reservation amount per unit (Average) (rupees)	1,023	993	1,109	1,137	1,163	5,425
Units cancelled of nil advance (numbers)	7,553	12,467	24,041	28,111	36,211	1,08,383
Reservation amount to be taken (in lakh)	77.27	123.80	266.61	319.62	421.13	1,208.43
Minimum reservation amount to be cancelled at the rate of 20 per cent (in lakh)	15.45	24.76	53.32	63.92	84.23	241.68

It was noticed that the cancellation of reservation was being done manually instead of through the System. The System should have automatically calculated the refund admissible and released the reservation. Audit further noticed that though the booking officials cancelled the reservation from the System, the amount refunded was not entered in the System in most of the cases. Thus, the reports generated for analysing the booking office-wise business for the specific period did not reflect the correct reservation (net) amount and defeated the very purpose of generation and analysis of various reports.

Test check of expected arrival chart of customers of seven[8] hotels/huts for March 2007 also revealed that the booking officials of various marketing offices/hotels/tourist information centres reserved the rooms through the System at nil advances. The customers neither cancelled the reservation nor checked in the hotels on the scheduled date resulting in loss of cancellation charges of Rs.3.81 lakh.

Failure to use transport reservation system software

2.3.19 The web site of the Company shows the accessibility to the particular place and also the transport facility available in Company's vehicles but the reservation in the Company's vehicles is not available online. The Company also got developed (March 2002) a transport reservation software at a cost of Rs.0.75 lakh from National Informatics Centre Services Inc.

[8] *Holiday Home, Peterhoff, Kunzum, Hadimba Cottage, Rohtang Manalsu, Log Huts and Beas*

(A Government of India Enterprise under NIC) for advance booking in Company's vehicles to increase the occupancy.

The transport reservation software developed at a cost of Rs.0.75 lakh was not being used.

During test check of records of transport reservation system, it was noticed that advance booking of Company's vehicles was being done manually even after lapse of five years of the development of software for reservation resulting in wasteful expenditure of Rs.0.75 lakh. The Head Office of the Company had issued (July 2003) three computers to transport wings for transport reservation but the same were being utilised by the transport wings for typing and accounts works.

The Management stated (May 2007) that as the booking of passengers in contract carriages during off season was less than the seating capacity of the buses and it had to ply light vehicles instead of Company's buses, the System could not be implemented. The reply is not acceptable as the Company was aware of this situation prior to development of the software.

Non-inter-linking of the local area network with online hotel reservation system

2.3.20 The Company completed Local Area Network (LAN) in three[9] units up to March 2007 at a cost of Rs.10.88 lakh and work of LAN in two[10] units was in progress.

Audit noticed (May 2007) that the System had no provision to upload the data from the online hotel reservation system. The inter unit adjustment of advance rent of reservation was also being fed manually by the accounts section in the System. Thus, the basic purpose of LAN to make the work easy, reducing manual intervention was defeated.

The matter was reported to the Company/Government in July 2007; their replies are awaited (September 2007).

Conclusion

Though, the Company had done a tremendous job of creating web site and providing facility of online reservation in its hotels, there were various defects in the System such as overwriting of existing tariff on revision of tariff, non-linking of tariff to date, packages like various discounts and MAP, AP and New Year tariff. The System also did not generate the desired reports *viz.* permits issued to customers, daily cash statement, linking with hotel LAN System, *etc.* which were necessary for effective management information system and internal control.

9 *Hotel Holiday Home, Head Office and Hotel Peterhoff*

10 *Himachal Bhawan, Chandigarh and Hotel Pinewood, Barog*

Recommendations

- **The Company should connect each hotel with one another and also with the Corporate Office for effective monitoring and internal control.**

- **The Company should review the System with a view to incorporate all the business rules for tariff charging of hotel rooms. This would avoid loss to the Company on account of non-realisation of advance room rent.**

- **The Company should incorporate accounting module in the System to facilitate generation of reports for inter unit adjustment of reservation amount and calculation of commission of General Sales Agents and travel agents.**

CHAPTER III

PERFORMANCE REVIEWS RELATING TO STATUTORY CORPORATIONS

HIMACHAL PRADESH STATE ELECTRICITY BOARD

3.1 Tariff, Billing and Collection of revenue

Highlights

Failure of the Board to file tariff petitions annually in time with complete details and justifiable data resulted in loss of Rs.154.86 crore and delay in recovery of Rs.533.72 crore.

(Paragraphs 3.1.7, 3.1.10 to 3.1.13)

The Board failed to restructure its high cost debts resulting in loss of Rs.48.21 crore due to non-adjustment of interest through tariff.

(Paragraph 3.1.8)

Failure of the Board to reduce transmission and distribution losses as per the targets fixed by HPERC resulted in loss of potential revenue of Rs.79.75 crore.

(Paragraph 3.1.14)

Failure of the Board to recover from the consumers share of cost of providing connections resulted in undue favour of Rs.10.48 crore to them.

(Paragraph 3.1.18)

The Board failed to bill the consumers in accordance with the laid down procedure/directions of HPERC resulting in non-recovery of revenue of Rs.70.40 crore.

(Paragraphs 3.1.19 to 3.1.28)

The amount of permanent default from the consumers increased from Rs.5.70 crore in 2002-03 to Rs.7.02 crore in 2006-07 due to failure of the Board to take effective steps to recover the default amount.

(Paragraph 3.1.32)

Internal control mechanism and internal audit system were deficient resulting in increase in number of units remaining un-audited by Internal Audit and non-settlement of large number of outstanding observations of Internal Audit.

(Paragraphs 3.1.37 and 3.1.38)

Introduction

3.1.1 The Himachal Pradesh State Electricity Board (Board) was incorporated (September 1971) for generation, transmission and distribution of electricity in an efficient and economical manner in the State. Sale of power is regulated with reference to the tariff fixed by the Himachal Pradesh Electricity Regulatory Commission (HPERC) from time to time. Prior to the establishment (December 2000) of the HPERC, the Board was exercising the powers conferred on it by the Electricity (Supply) Act, 1948 with regard to fixation of tariff.

The Member (Operation) is the overall in-charge of the activity of sale of power to all categories of consumers. He is assisted by Chief Engineer (Commercial), Chief Engineer (Operation) North, Chief Engineer (Operation) South and Chief Engineer (Operation) Central Zone. The Chief Engineers (Operation) are further assisted by 12 Superintending Engineers (Operation), 49 Executive Engineers and 226 Assistant Engineers in the operation and maintenance of the entire power distribution network of the Board. The organisational chart is annexed as **Annexure-XVI.**

A review on Billing and Collection of Revenue in the Board was included in the Report of the Comptroller and Auditor General of India for the year 1996-97 (Commercial) - Government of Himachal Pradesh. The report was discussed by the Committee on Public Sector Undertakings (COPU) in February 2002. Action Taken Notes on its recommendations finalised/placed in the State Legislature in March 2003 were received in August 2007.

Scope of audit

3.1.2 The present performance review conducted from November 2006 to April 2007 covers examination of overall efficiency of the Board in fixation/revision of tariff, billing and collection/accountal of revenue from all the categories of consumers for energy sold during 2002-03 to 2006-07. Four* out of 12 circles having 75 sub-divisions were selected for detailed examination on simple random sampling method without replacement, which contribute about 64 *per cent* of the revenue of the Board.

* *Solan, Nahan, Una and Dalhousie*

The table below indicates category-wise number of consumers, connected load and revenue assessed. The sample selected is also based on connected load and selected consumers and assessment of revenue thereagainst under various categories as on 31 March 2007, which represented more than 60 *per cent* of total revenue assessed:

Sr. No.	Category of consumers	No. of consumers	Connected load (In MW)	Assessment of revenue during 2006-07 (Rs. in crore)	Connected load of the selected consumers (In MW)	Assessment of revenue of the selected consumers (Rs. in crore)	Percentage of revenue assessed of the selected consumers to total revenue
1	2	3	4	5	6	7	8
1	Domestic	15,31,613	1,997.164	216.48	637.675	79.14	36.56
2	N.D.N.C.‡	14,209	76.644	33.83	14.692	9.28	27.43
3	Commercial	2,03,135	416.375	112.20	126.291	37.03	33.00
4	Industrial (LS, SMS)	33,198	1,010.626	761.58	795.043	642.51	84.36
5	Govt. irrigation and water supply scheme	3176	165.963	129.67	75.341	53.73	41.43
6	Public lighting	551	3.138	4.84	1.253	1.56	32.23
7	Agriculture/Irrigation	11,487	64.483	16.72	45.758	7.65	45.75
8	Bulk supply	151	83.430	41.04	20.694	12.94	31.53
9	Temporary	1,743	15.072	8.50	10.666	8.11	95.41
	Total			**1,324.86**	**1,727.413**	**851.95**	**64.32**

Source: Compiled from the relevant records of the Board.

Apart from the above, the overall performance of all the categories of consumers with reference to outstanding arrears, non-overhauling of consumers accounts, delay in billing, non-downloading of data and non-observance of codal procedures was also examined.

‡ *NDNC: Non-domestic Non-commerical. This category includes Government/semi government offices, educational institutions, religious places, sanik rest houses, working women hostels and hospitals.*

Audit objectives

3.1.3 The audit objectives of the Performance review were to ascertain whether:

- aggregate revenue requirement (ARR) projected in the tariff petitions to HPERC for determination of tariff were realistic and filed annually in time;
- energy was sold to consumers with reference to HPERC guidelines and tariff rates;
- billing process was carried out effectively, energy charges were billed correctly and revenue realised efficiently and accounted for correctly;
- effective efforts were made to realise /reduce the revenue arrears; and
- internal control mechanism was efficient and effective.

Audit criteria

3.1.4 The audit criteria adopted for assessing the achievement of audit objectives were:

- billing schedule, tariff distribution code and commercial/revenue manuals issued by HPERC and Board;
- procedures, guidelines and rules and regulations laid down by the State Government, HPERC/and the Board;
- directives issued by the HPERC and Board for reduction of losses, employees cost, debt re-structuring, metering, billing and collection; and
- directives of the State Government/HPERC/Board, rules/regulations for taking action against the defaulting consumers.

Audit methodology

3.1.5 The following mix of audit methodologies was adopted for achieving the audit objectives of the performance review:

- study of Regulations/Orders/Distribution Codes issued by HPERC and Commercial and Revenue Manual/Orders of HPSEB;
- examination of annual reports and performance reports of the Board, agenda and minutes of the meetings of the members of the Board;
- scrutiny of agreements executed with consumers, meter reading, sealing certificates, billing files, revenue collection system and other reports;
- analysis of targets and achievements of the revenue and effectiveness in realisation of revenue;
- issue of audit enquiries and interaction with the Management.

Audit findings

3.1.6 Audit findings, arising from the performance audit of Tariff, Billing and Collection of Revenue in the Board were issued (June 2007) to the Government/Board and were discussed (16 August 2007) in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE). The Secretary, Multi-purpose Project and Power, Government of Himachal Pradesh and Member (Finance), Member (Technical) and Member (Operation) along with other officers of the Board attended the meeting. The views expressed by the members have been taken into consideration while finalising the review.

Tariff

Non-filing/delay in filing of Aggregate Revenue Requirement (ARR)

Due to delay in filing of tariff petitions/submission of incorrect data, the Board could not realise potential revenue of Rs.24.14 crore.

3.1.7 The Electricity Regulatory Commission Act, 1998 lays down the methodology and procedure to be adopted by the utility for filing ARR with HPERC. As per laid down procedure, the utility has to submit full details of its expected aggregate revenue from the charges for the financial year to the HPERC at least three months before the ensuing financial year or part thereof. The Indian Electricity Act, 2003 (I E Act, 2003) provides that the tariff determined by the HPERC should safeguard the interest of the consumers, ensure recovery of cost of electricity in a reasonable manner and reduce/eliminate cross subsidy within the period to be specified by the HPERC. The HPERC approved first cost based tariff in November 2001. Revised tariffs were approved by the HPERC in July 2004[$], July 2005 and July 2006.

It was noticed that due to non-filing of tariff petitions for 2002-03 and 2003-04 and delay in filing of tariff petition/submission of incorrect data, the Board/Government could not realise potential revenue of Rs.24.14 crore as discussed below:

- The Board failed to submit ARR/tariff petition for the year 2002-03 and 2003-04 which resulted in increase in revenue gap. To bridge the revenue gap, the Board raised short term loans of Rs.185 crore from REC (Rs.65 crore), PFC (Rs. 30 crore) and United Commercial Bank (Rs.90 crore) and paid interest of Rs.8.67 crore on these loans. It also deprived the State Government of the revenue receipt of Rs.70.01 lakh on account of tariff petition fee payable at the rate of 2 *paise* for every 20 Kwh (units) as provided under the Conduct of Business Regulation 2001, which was ultimately recoverable from the consumers through tariff.

$ *Loss of Rs.48.83 crore for the delay in filing tariff petition for the year 2004-05 has already been commented upon in para 6.5 of the Report of the C&AG of India for the year 2004-05*

- In terms of the above procedure, the Board filed (November 2005) its application for ARR for 2006-07 with the HPERC. As the application was incomplete, the HPERC did not admit the same. The required additional information was finally submitted by the Board on 16 June 2006 and the tariff order issued by the HPERC on 3 July 2006 was made effective by the Board from 8 July 2006.

Failure of the Board to file complete details in time resulted in non-realisation of potential revenue of Rs.24.14 crore from April to June 2006.

The Government stated (August 2007) that the tariff petition for 2002-04 could not be submitted due to introduction of major changes in tariff structure by the HPERC. Since the tariff petition was neither filed nor processed, the question of loss of revenue to the Government did not arise. The HPERC had compensated the Board to recover the increased cost through stabilisation charges of Rs.23 crore. It was also admitted by the Government that the HPERC did not provide for the increased tariff during April 2006 to June 2006 as there was delay on the part of the Board in forwarding the requisite details.

The reply of the Government establishes the fact that the Board failed to comply with the directives of the HPERC resulting in loss of revenue. Further, the Board was allowed to recover only Rs.23 crore out of total revenue gap of Rs.185 crore. The Board also failed to file the true up petition for the recovery of this amount though there was provision for the same in the tariff order for the year 2005-06 and admitted that the delay was on its own part.

Non-restructuring of high cost debt

Failure of the Board to restructure high cost debts resulted in non-adjustment of interest of Rs.18.21 crore through tariff.

3.1.8 On the direction (June 2004) of the HPERC, the Board assured (June 2004) to re-structure the high cost debt with low rate of interest by the end of October 2004. Accordingly, the HPERC deducted (July 2004) anticipated interest saving of Rs.10.03 crore on loans and bonds from the ARR for 2004-05. The Board, however, failed to re-structure the high cost debt of Rs.692.98 crore (bonds: Rs. 500.98 crore and bank loans: Rs.192 crore) in the prescribed time schedule. So far as bonds are concerned, redemption of bonds (except for SLR bonds) could not be done as there was no provision for early redemption of the bonds in the terms and conditions of various bonds. In case of SLR bonds amounting to Rs.58.44 crore raised (January to March 1999) from Kangra Central Co-operative Bank and H.P. State Co-operative Bank for seven years, the Board did not exercise the option for redemption after five years (March 2004). This has been commented in paragraph 4.8 *infra* of the Report., The bank loans were restructured in January 2005 after a delay of two months from the prescribed time schedule assured to HPERC. This resulted in non-adjustment of interest of Rs.4.96 crore from the consumers through tariff.

Similarly, while finalising the tariff order for the year 2006-07, the HPERC disallowed interest charges of Rs.43.25 crore on high cost debt on the same analogy which also could not be adjusted in the tariff.

The Government stated (August 2007) that the Board had gone in appeal against the order of the HPERC and the Appellate Tribunal had set aside the disallowance of interest by the HPERC. Accordingly, the HPERC had also dropped the direction in tariff order for 2007-08 and the Board would file true up petition on account of the above judgement. It was also stated that by restructuring the old high cost debts with cheaper rate of interest, the Board had saved interest of Rs.59.36 crore over the remaining period of these loans.

The reply is not tenable as the Tribunal had set aside (July 2006) disallowance of portion of interest with the directive that the Board would take effective steps to reduce the rate of interest within one year. It also stated that failure to do this would lead to the same eventuality during the next tariff period. The Board has, however, not been able to restructure the high cost debts of Rs. 363.60 crore (non SLR bonds: Rs.333.61 crore and SLR bonds: Rs.29.99 crore) so far (August 2007).

Payment of excess fee for tariff determination

3.1.9 The HPERC is empowered[&] to determine the tariff within the State. The Board, while filing ARR for the financial years 2004-05, 2005-06 and 2006-07 paid tariff determination fee of Rs.52.56 lakh, Rs.50.52 lakh and Rs 54.73 lakh respectively at the rate of two paisa per 20 Kwh on total energy available for sale including inter-state sale. Since the inter-state sale is regulated by the Central Electricity Regulatory Commission (CERC), inclusion of inter-state sale while calculating the fee payable resulted in excess payment of tariff determination fee of Rs.31.65 lakh and consequent excess recovery to that extent from the consumers.

The Government stated (August 2007) that the fee was paid in accordance with the conduct of business regulations for total power available for sale within and out side the State. The reply is not tenable as the tariff relating to interstate sale of power is determined by the CERC. Thus, the payment of petition fee to the HPERC in respect of interstate sale was not in order.

Expenses disallowed by the HPERC

3.1.10 As per the CERC guidelines, the Board was required to file petition for determination of project-wise generation tariff. The HPERC had also issued direction[*] in the tariff order for 2004-05 whereby the Board was required to file applications for fixing the cost of generation in respect of Board's own

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& *As per Section 86 (a) read with Section 79 of the Indian Electricity Act, 2003*

* *No. 9.4.24 dated 2 July 2004*

projects to the HPERC for the year 2005-06 by the end of October 2004. The Board in its tariff petition for 2005-06 filed during December 2004 did not submit petition for generation tariff as required above and submitted generation petition only during January 2005 based on allocation of expenditure and not on actual basis. During the hearing (June 2005) by the commission, the Board submitted that it was not in a position to submit separate petitions for each of its Power Houses due to non-maintenance of data. Consequently, the HPERC in its interim order directed (June 2005) the Board to submit additional information on generation tariff by 13 June 2005 but the Board failed to submit the same (August 2007).

Failure to furnish the requisite information in respect of generation cost of four projects to the HPERC, resulted in non-recovery of Rs.6.02 crore through tariff.

From the available data, the HPERC observed (March 2007) that generation cost of some of the Power Houses was on higher side and restricted the generation cost of these projects to the level fixed by it for private sector projects. Due to Board's failure to submit the applications as per the CERC/HPERC's guidelines and also the information sought by the HPERC, the generation cost of Board's four projects (Binwa, Thirot, Gumma and Nogli) was slashed by the HPERC by Rs.6.02 crore and could not be recovered from the consumer through tariff resulting in loss to the Board to that extent.

The Government stated (August 2007) that the Board would file true up petition on the basis of the judgment (July 2006) given by the Appellate Tribunal. The fact remains that the cost of generation disallowed by the HPERC would remain un-recovered up to March 2008 as the Board failed to include the above amount in the tariff petition for the year 2007-08 filed on 30 November 2006.

3.1.11 During the financial year 2004-05, the Board purchased 4,763.531 million units (MUs) of energy from other agencies such as Punjab State Electricity Board, (PSEB), NTPC, NHPC, *etc.* While filing ARR for 2005-06, it, however, envisaged power purchase of 3,452 MUs (excluding Government's share) valued at Rs.704.21 crore which was 72.47 *per cent* of the power purchased during 2004-05. The HPERC approved purchase of 3,624 MUs valued at Rs.692.18 crore. It was observed that during 2005-06, the Board actually purchased 4,918.951 MUs of power that is 42.50 *per cent* more than what was envisaged, valued at Rs.1082.30 crore.

The Government stated (August 2007) that the HPERC in its tariff order for 2007-08 had approved (April 2007) the power purchase on actual basis in the true up petition. The reply is not tenable as the HPERC has allowed only Rs.1,057.74 crore against the actual expenditure of Rs.1,082.30 crore. Due to incorrect estimation, recovery of Rs. 365.56 crore (Rs.1,057.74 crore- Rs. 692.18 crore) was delayed by two years and an amount of Rs. 24.56 crore could not be recovered.

Due to incorrect submission of data to the HPERC, expenditure of Rs.264.78 crore could not be recovered through tariff.

3.1.12 In the tariff orders for the years 2005-06 and 2006-07, the HPERC had disallowed an expenditure of Rs.228.08 crore and an expenditure of Rs.36.70 crore could not be recovered by the Board through tariff from the consumers due to incorrect submission of data (Sr. No. 5 to 7) in tariff petition to HPERC as tabulated below:

Sr. No.	Year of tariff petition	Actual expenditure	Expenditure allowed	Difference	Reasons
		(Rs. in crores)			
1	2005-06 & 2006-07	7.50	--	7.50	Expenditure of Rs. 7.50 crore on account of employee cost was disallowed as the Board had deviated from the adopted pay scale pattern of the Punjab State Electricity Board (PSEB).
2	2005-06 & 2006-07	176.05	94.58 (2005-06 Rs.28.74 crore and 2006-07 Rs.65.84 crore)	81.47	Merger of 50 *per cent* Dearness Allowance (DA) in the Basic pay was allowed by the State Government subject to consideration of resource scenario. Since the Board was running in losses the impact of merger was disallowed by the HPERC with the direction not to allow any future increase in DA till the efficiency is improved by the Board.
3	2006-07	131.46	--	131.46	Differential amount of two part* billing for interstate purchase of power as per CERC orders of 2005 for the period 2004-05 (Rs.80.46 crore) and 2005-06 (Rs.51 crore) was not passed on to the consumers.
4	2005-06	7.65	--	7.65	Expenditure of Rs.7.65 crore incurred on account of employees cost of Larji and Khauli Hydel projects was not allowed due to time overrun of 16 to 22 months.
5	2005-06	88.97	68.70	20.27	The amount of Rs. 20.27 crore could not be claimed due to the fact that against the actual expenditure of Rs. 88.97 crore on account of terminal benefits to its employees, the Board claimed only Rs. 68.70 crore in its tariff petition.
6	2005-06 & 2006-07	4.22	--	4.22	The Board did not include an expenditure of Rs.2.37 crore for 2005-06 and Rs.1.85 crore for 2006-07 on account of Rent, Rates and Taxes and audit fee in its tariff petition.
7	2005-06	53.89	41.68	12.21	The amount of Rs. 12.21 crore could not be claimed due to the fact that against the actual charges of Rs. 53.89 crore on account of depreciation, the Board claimed only Rs. 41.68 crore in its tariff petition.
	Total	**469.74**	**204.96**	**264.78**	

Source: Compiled from the relevant records of the Board and tariff orders passed by the HPERC.

* *Two part billing: Billing for capacity charges as well as energy charges*

The Government stated (August 2007) that the deviation from the pay scales pattern of PSEB was allowed to employees with the approval of the Whole Time Members (WTMs) of the Board and in view of the decision of Appellate Tribunal, the actual expenditure of Rs.83.55 crore on account of merger of 50 *per cent* DA in basic pay for the year 2005-06 was allowed in true up petition for 2007-08. The balance if any, would also be claimed. The reply is contradictory as the Board had earlier adopted the pay pattern of the PSEB. Moreover, it would recover only Rs.54.81 crore (Rs.83.55 crore - Rs.28.74 crore allowed) incurred during 2005-06 in the year 2007-08 and the excess expenditure of Rs.26.66 crore (Rs.92.50 crore-Rs.65.84 crore allowed) incurred during 2006-07 would be recovered only during 2008-09, if allowed by the HPERC.

In respect of cases mentioned at Sr. No. 3 and 5 to 7, the Government stated (August 2007) that the HPERC had allowed expenditure on account of prior period expenses (Sr. No.3), terminal benefits (Sr. No.5), Audit fee, Rent Rates and Taxes (Sr. No. 6) and Depreciation (Sr. No.7) on actual basic in tariff order for 2007-08. In case of employees cost (Sr. No. 4) of Hydel Projects, it was stated (August 2007) that the Board would file true up petition on the basis of judgement (July 2006) of Appellate Tribunal. The reply is not tenable as the expenditure of Rs.168.16 crore was allowed by the HPERC in tariff order for the year 2007-08. The Board would be able to recover this amount after a delay of one (Rs.52.85 crore) to two (Rs.115.31 crore) years. As regards employees cost of Hydel Projects, the true up petition was yet to be filed. Thus, out of disallowed expenditure of Rs.264.78 crore, an amount of Rs.96.62 crore would remain un-recovered and the amount of Rs.168.16 crore would be received with a delay of one to two years.

Non-recovery of surcharge on delayed payment of subsidy

3.1.13 Surcharge of Rs.3.52 crore on delayed payment of subsidy recoverable from the State Government was not recovered by the Board though the above amount was deducted from the ARR by the HPERC at the time of finalising tariff for 2004-05.

The Government stated (August 2007) that surcharge on subsidy was not acceptable as the Board also delayed payment of free power, electricity duty and repayment of loans to the Government.

Excess transmission and distribution losses

3.1.14 In the process of transmission and distribution, considerable energy is lost. Transmission loss is the technical loss due to inherent characteristics of transformers, cables and conductors, *etc.* Distribution loss occurs due to inherent characteristics of distribution system and a part of it is lost due to leakage of energy on account of theft, defective meters, meter readings not taken, *etc.* (commercial losses). Large part of energy is also dissipated in the system due to inadequate provision of system compensation through installation of capacitor banks at load end and in the premises of the consumers.

The details of energy received; sold to consumers, targets of T&D losses fixed by HPERC and excess losses as worked out by Audit are given below:

(*In MUs*)

Sr. No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
1	Total power available for sale	4,079.576	5,302.527	5,605.123	6,246.306	6,442.779
2	Inter state sale	688.026	1692.889	1658.999	1722.531	1255.270
3	Sale within the state	2,519.002	2,726.324	2,954.155	3,568.689	4,351.303
4	T & D losses	872.548	883.314	991.969	955.086	836.206
5	Percentage of T & D losses	21.39	16.66	17.70	15.29	12.98
6	Target of T & D loss as fixed by HPERC (*per cent*) :					
	(i) Inter state	3	3	3	3.45	3
	(ii) Within the state	22.5	21.5	20.5	19.5	18.5
7.	Losses as per target fixed by HPERC	779.590*	817.172	849.746	931.685	991.330
8	Excess T & D losses	92.958	66.142	142.223	23.401	(-)155.124
9.	Average sale rate	2.20	2.21	2.59	3.35	
10	Value of excess T & D losses (in crore)	20.45	14.62	36.84	7.84	

Source: Compiled from the relevant records of the Board and HPERC.

A scrutiny of records revealed that while approving tariff for 2001-02 (29 October 2001), the HPERC fixed T&D losses of 23.5 *per cent* (within State) and accepted the benchmark of one *per cent* reduction in losses every year as set out in the Memorandum of Understanding (MOU) signed (March 2001) by the State Government with the Government of India. The target was based on the expectation of HPERC that the Board would bring efficiency in its working gradually and reduce the losses in the system. It would be seen from the above table that instead of improving the efficiency, the losses in each year were more than the target fixed by the HPERC (except during the year 2006-07).

The value of excess T & D losses over the target fixed by HPERC worked out to Rs.79.75 crore.

The value of excess T&D losses over the targets fixed worked out to Rs. 79.75 crore during these years. During 2006-07, the Board was able to bring down the losses below the target to the extent of 155.124 MUs.

* *Inter state sale of 688.026 MUs being equivalent to 97 per cent. Inter state sale inclusive of loss is thus = 709.31 MUs. Inter state loss being = 21.28 MUs. Sale within the State = 3,370.266 MUs (4,079.576- 709.310 MUs). Loss allowed by HPERC for sale within the State = 758.31 MUs (22.5 per cent). Total loss allowed by HPERC = 779.590 MUs (758.310 MUs+21.280 MUs). Figures for the remaining years have been worked out accordingly*

The Government stated (August 2007) that the Appellate Tribunal had directed the HPERC to allow 22 *per cent* loss as *an ad hoc* one time measure. It was further stated that the losses for the year 2004-05 and 2005-06 had been allowed in the tariff order for the year 2007-08. The reply is not acceptable as the Board failed to recover the losses for the year 2002-03 and 2003-04 amounting to Rs. 35.07 crore. Moreover, the losses for the year 2004-05 and 2005-06 would be recovered after a period of two to three years.

Cross subsidisation

3.1.15 The Electricity Act, 2003 provides that the tariff mechanism should reduce and eliminate cross subsidies within the prescribed period as specified by the Board. The details of cross subsidisation *i.e.* positive (+) or negative (-) contribution in the share of assessment as compared to the share in energy consumption by various categories of consumers for a period of five years up to 2006-07 are given in **Annexure-XVII.** As can be seen from the Annexure, the domestic consumers are largely benefited from the cross subsidisation at the cost of other categories of consumers. The agriculture consumers are being billed at the rate of 50 *paise* per unit as against the cost of Rs.4.57 per unit. The subsidy on this account could not be worked out as the necessary data in respect of agriculture consumers was not made available to Audit.

Billing operations

3.1.16 Billing and collection of revenue mechanism of the Board has been laid down in their Sales Manual Part-I. Guidelines/instructions for billing and collection are also issued by the HPERC and the Chief Engineer (Commercial) from time to time. The source of revenue of the Board is sale of power to its consumers. Electricity is one industry where sale is invariably on credit and receipt of revenue takes place after a certain period. Therefore, prompt and accurate billing is necessary for improving the financial position of the Board and any laxity may entail huge losses of revenue. In order to ensure prompt and accurate billing, the following are the basic requirements:

- Installation of meters of required capacity capable of recording different parameters as per the tariff provisions.
- Recording of meter readings on due dates.
- Prompt and accurate billing in accordance with the tariff provisions.
- Levy of penalty for violation of terms and conditions of supply and immediate disconnection in case of non-payment of dues.
- Compliance of provisions of Indian Electricity Act, 2003, Sales Manual Part-I and directives issued by the HPERC and the Board.

As on 31 March 2007, the billing of all categories of consumers, except large supply consumers, was being done through 226 sub-divisions. The billing of large supply consumers was done through Central Billing Cells at circle level. It was observed that non-billing of consumers in accordance with the laid down procedure and applicable tariff resulted in non-recovery of cost share[#] from consumers, peak load violations, non-billing of consumers for energy recorded at the sub-stations, wrong verification of load, un-authorised use of power, contract demand violation, wrong application of tariff, *etc.* as discussed in the subsequent paragraphs.

Failure to bill the consumers as per the billing cycle

Un-billed revenue increased from Rs.29.13 crore as on 31 March 2003 to Rs.81.86 crore as on 31 March 2007.

3.1.17 The Board adopted (March 2001) monthly and bi-monthly billing cycle for urban and rural areas respectively. The Board has, however, not maintained data to show the number of consumers in the urban and rural areas separately. It does not know as to whether the adopted billing cycle is being followed or not. Scrutiny of records revealed (March 2007) that the prescribed billing cycle was not being followed in 22 sub-divisions[£] test checked in audit. In these sub-divisions billing was being done after three, four and five months resulting in delay in collection of revenue. Further, scrutiny of records revealed that per year unbilled revenue increased from Rs.29.13 crore as on 31 March 2003 to Rs.81.86 crore as on 31 March 2007.

The Government while accepting the audit observation stated (August 2007) that the billing cycle could not be adhered to as the sub-divisions did not have adequate skilled manpower. Efforts were underway to outsource the billing to ensure regular billing.

3.1.18 ***Non-recovery of cost share***

The Board failed to recover cost share of Rs.10.13 crore from the consumers for providing connections though it could have been recovered as per regulations framed by the HPERC.

In pursuance of regulations framed by the HPERC under Section 46 of the Electricity Act, 2003, the Board is empowered to recover the cost share for providing connections to the industrial consumers from the sub-stations/capacity being augmented/added under the short term plan scheme. In the following cases, the Board could not recover the cost share of Rs. 10.13 crore from the concerned consumers:

Sr. No.	Name of the Circle/Division/ Sub-division	No. of consumers	Amount of cost share not recovered	Annual interest liability	Remarks
			(Rs. in crore)		
1	Nahan circle	64	9.49	1.14	Cost share on account of capacity addition of Kala Amb, Paonta, Sataun and Dhaula Kuan sub-stations.
2	Kala Amb, Dhaula Kuan and Paonta Sub-division	4	0.64	0.08	Cost share not recovered in terms of the sanction orders.

Source: Compiled from the relevant records of concerned circle/sub-divisions.

Cost share: Share of cost incurred by the Board for making power available to the consumers

£ *These sub-divisions were under Una, Kangra and Hamirpur circles of the Board*

In respect of above cases, the Government stated (August 2007) that the recovery has been held up in view of stay on recovery by the HPERC. The reply is not tenable as the Board did not furnish (August 2007) the requisite details to the HPERC for calculation of realistic per KVA cost data resulting in stay by HPERC.

- In case of two industrial consumers (Tannu Alloys and Ferro Chem.) under Una circle, the power loads were sanctioned (June 2005 and July 2006) subject to the condition that the proportionate cost of 33 KV dedicated/joint feeder or augmentation of existing feeder along with bay and associated equipment at both ends would be borne by them. Though the connections were released (December 2005 and January 2007) in both the cases by tapping the existing 33 KV feeders but the proportionate cost of Rs.35.22 lakh of the bay and terminal equipment at the sending end and also the interest liability of Rs.4.22 lakh thereon was not recovered. It was noticed (March 2007) that in case of Tannu Alloys (now Balaji) to whom connection was released by tapping the existing 33 KV Amb-Gagret feeder, the losses on the system increased to 9.93 *per cent* (at 33 KV) against the earlier average losses of 1.27 *per cent.* The Board neither investigated the reasons for this abnormal increase in losses nor charged the same (10.16 lakh unit valued at Rs.21.33 lakh) from the consumer so far (August 2007).

The Government stated (August 2007) that the connections to both the consumers were released by tapping 33 KV line emanating from 132 KV sub-station at Amb due to non-availability of bay and space at Amb sub-station. Further, Vacuum Circuit Breaker was being provided on the tapping points for the consumer (Tannu Alloys) and it was proposed to provide a meter also to monitor the losses.

The reply is not tenable as the Board had the right to recover the proportionate cost as per HPERC regulations which was not done and action taken by the Board is for improving the system in future and not specific to the audit observation.

Non-levy of peak load violation charges

Failure to levy peak load violation charges on the consumers resulted in non-recovery of revenue of Rs.27.51 crore.

3.1.19 Schedule of tariff applicable from time to time envisages the levy of peak load violation and energy charges for drawl of power over and above the load exempted for peak load hours. Schedule of tariff further provides that if an industrial consumer wants to run his unit during peak load hours, prior sanction of the competent authority was required failing which the consumer was liable to pay violation charges. The HPERC also clarified (August 2002) that exemption allowed for drawal of power during peak hours would be the contract demand and consumer exceeding that limit would have to pay the penalty for the over drawal. In this regard, Audit observed as under:

- In case of five* consumers under Nahan and Solan circles, the bills for penalty for drawal of power over and above the sanctioned load for peak

* *Malwa Cotton, Lime Chemical, Pragati Paper Mill, Kamla Dial and Pronto Stearing*

hours were not raised in accordance with the guidelines issued by the HPERC for over drawal of power. This resulted in non-levy of peak hour violation charges of Rs.2.61 crore during January 2002 to May 2005.

The Government stated (August 2007) that no mention of light load in the sanction was made which was otherwise deemed to be exempted. The reply is not relevant as according to the award pronounced (August 2002) by the HPERC, the load sanctioned for the peak hours was to be considered as contract demand (which was inclusive of light load) for peak hours.

- The Board allowed peak load exemption from April to October during the year to three industrial consumers {ACC Barmana (August 1995), GACL Darlaghat (August 2001) and Gonnterman Nalagarh (March 1998)}. For November to March, the consumers were required to obtain separate exemption sanction. Though these consumers drew power during peak load hours in November to March without sanction, the Board did not take any action to recover the peak load violation charges for the period from November 2001 to March 2005 resulting in revenue loss of Rs.16.99[$] crore.

The Government stated (August 2007) that there was no need to take sanction every year for running of industry during peak hours in winter months. The reply is not tenable as the consumers were allowed peak load exemptions for summer months only. The Board had itself clarified (May 2006) that the consumers with such type of sanction would have to seek exemption for the period from November to March every year.

- A consumer (Sidhartha Super Spinning Mills) under Nalagarh sub-division drew power over and above the sanctioned (May 1984) contract demand (CD) of 1400 KVA and 494 KVA for peak hours during summer and winter months respectively against sanctioned load of 1847.2 KW with effect from May 2002 to May 2005 in violation of peak hour's restrictions. The Board, however, did not levy penalty for violation resulting in short recovery of Rs.1.67 crore from the consumer (June 2007).

The Government stated (August 2007) that the sanction for peak load was for 1847.2 KW (2052.44 KVA). The reply is not tenable as the consumer should have been allowed to draw power up to 1400 KVA and 494 KVA during summer and winter months respectively in view of peak load sanction accorded during May 1984 instead of 1847.2 KW which was his connected load. Further, the consumer had neither applied for fresh peak load exemption nor the restriction imposed (May 1984) for winter months was lifted by the Board.

- The Chief Engineer (Commercial) Shimla imposed (December 2006) power restriction of 70 *per cent* of the load exempted for peak hours on the consumers who were allowed evening peak load exemption due to restricted

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$ *ACC: Rs. 9.34 crore, GACL: Rs. 6.23 crore and Gounterman: Rs.1.42 crore* availability of power. In six♠ cases, the violation charges of Rs.1.01 crore for December 2006 were levied (January 2007) by the central billing cell at Solan for violation of peak load restrictions. The Board on the basis of representations received (January 2007) from the concerned consumers withheld (March 2007) the recovery of violation charges on the plea that the field units had not conveyed the message for such restrictions to the consumers.

The Government stated (August 2007) that the recovery of violation charges for the month of December 2006 had been waived off. The reply is indicative of the state of affairs in the Board as instead of recovering Rs.1.01 crore, it waived off the recovery from the defaulting consumers.

- In Barotiwala sub-division, an industrial consumer (Deepak Spinners) had sanction to run 533.300 KW load including 115 KW for lighting during peak hours. The consumer was allowed (August 1986) extension of load to 788 KW which was extended up to February 1987 on the request of the consumer. There was, however, nothing on record to show, that, the consumer was granted extension beyond February 1987. The consumer drew power during peak hours over and above the earlier exempted load of 533.300 KW during April 2002 to August 2005 for which penalty of Rs 99.03 lakh was not levied.

The Government stated (August 2007) that the peak load violation charges were recovered from the consumer as per the tariff applicable from time to time. The reply is not tenable as records relating to extension for peak load exemption granted beyond February 1987 were not made available and during the above mentioned period, the consumer had drawn power between 825 and 1535 KVA against the peak load exemption of 559 KVA.

- It was also noticed that, in case of 39 industrial consumers under Solan and Nahan operation circles, peak load exemption/violation charges of Rs.4.24 crore (**Annexure-XVIII**) were not recovered resulting in loss to the Board to that extent.

Delay/non-overhauling of consumer accounts

3.1.20 Schedule of tariff applicable from November 2001 provided for levy of demand charges at the rate of Rs.125 per KVA in respect of industrial consumers on actual recorded demand or 80 *per cent* of the contract demand, whichever was higher. In respect of consumers to whom the connections were released prior to November 2001, the Board offered various opportunities for entering into fresh agreements for contract demand. Opportunities so offered by the Board to enter into fresh agreements for contract demand were set aside (August 2002) by the HPERC. The Board decided (February 2004) to enter into fresh agreements for contract demand and to overhaul the accounts of all

♠ *Auro Spinning, Mahabir Spinning, Birla Taxtile, Winsome Taxtile, Raja forging and N.M.T Spinning Mill* such consumers by charging the demand charges on the actual recorded demand during November 2001 to February 2004. In this regard, Audit observed as under:

- In 10 cases under three* sub divisions, the accounts of the consumers for the period November 2001 to February 2004 were overhauled after one year and in five@ cases the compliance of the Board's orders was still awaited (August 2007). This resulted in delay/non-receipt of revenue of Rs.1.34 crore (difference of amount to be charged and actually charged) and loss of interest of Rs.46.92 lakh (August 2007) due to delay or non-receipt of revenue.

The Government stated (August 2007) that the accounts of all the consumers had been overhauled. The delay was due to more number of consumers and in certain cases the decision of Court was awaited. The reply is silent as to whether the amount has been recovered from the consumers or not.

- A meter change order was issued (July 2002) to replace the electro mechanical meter installed on the premises of Swastik Food Products, Damtal with electronic meters. The meter was replaced (May 2003) after a delay of ten months. After installation of electronic meter, monthly energy consumption varied (May 2003 to October 2003) between 47,390 and 73,610 units but action to investigate the variation with a view to overhaul the consumer account as per provision of Sales Manual and Abridged Condition of supply (14 e) was not taken.

The Government stated (August 2007) that the previous as well as replaced meter did not show abnormal consumption and slight increase in consumption could not be charged for the previous period. The reply is not tenable as variation in energy consumption on replacement of meter was between 81 to 320 *per cent* which could not be termed as slight variation.

Non-billing of consumers for consumption recorded at the sub-stations

3.1.21 The monthly energy consumption and contract demand recorded through energy meters installed at the premises of the consumer being fed through an independent feeder should invariably be compared with the reading of that particular feeder recorded at the sub-station. The Chief Engineer (Commercial), issued (November 2003) instructions stating that the metering and billing of consumers provided with connections through dedicated feeders should be done at grid sub-station from where power supply emanates. Audit, however, observed that this requirement was not complied with in respect of six cases (**Annexure-XIX**) resulting in short billing of Rs.2.85 crore.

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* *Barotiwala, Nalagarh and Parwanoo*

@ *Winsome Taxtile, Winsome Spectrum, Winsome Spinner, Delux Enterprises and Deepak Spinner*

Wrong verification of light load

3.1.22 The HPERC decided (August 2002), that, in case an industrial consumer having no peak load exemption, draws power over and above the light load during peak hours, the entire drawal of power should be charged at the rate of Rs.300 per KVA. The HPERC in its tariff order (July 2005) further provided that the light load as per test report shall be deemed to have been exempted. As such, no separate peak load exemption is required for light load.

In nine* cases under Solan circle, the Board while releasing the connections (July 1987 to May 2005) included the connected load of industrial power plugs ranging between 144 and 393.78 KVA in the bonafide factory light§ load instead of taking it under industrial load. This resulted in wrong verification of light load. In one case out of the above nine cases, the load of machinery such as balancing, winding, stacking, lathes, cutting, trickling machines, compressors, *etc.* was not included in the test reports. Thus, wrong verification of light load resulted in revenue loss of Rs.96.62 lakh on account of non-levy of peak load violation charges by considering the industrial load as the bonafide factory light load during the period February 2002 to October 2006.

The Government stated (August 2007) that demand notices for recovery of Rs.22.38 lakh had been issued (January 2006) to two consumers. In case of third consumer against whom demand notice for recovery of Rs.17.14 lakh was not issued, the power plugs installed in the unit were part and parcel of light load. The reply is not tenable as the notices for recovery were issued in respect of Government connections only. In case of private consumers, the load of similar nature was considered as light load which was indicative of the tendency to favour private consumers.

Delay/non-issuance of bills in respect of temporary connections

3.1.23 Sales Manual Part-I stipulates that in case of temporary connections, meter readings should be taken monthly and energy bills issued to the consumers regularly. Scrutiny of records in this regard revealed non-recovery of revenue of Rs.98.22 lakh (**Annexure-XX**) for the period January 2004 to November 2006 due to late issue of bills (five consumers), bills issued after disconnections (four consumers), accounts of consumers not opened in ledger (15 consumers) and energy consumed by consumers not recorded (13 consumers).

* *Audhinik Packagers, A.B. Tools, Cosmo Ferrites, V.K. Appliances, Shivathene, Henkel Terson, B.C.C. Fuba and C.R.I (2 Nos)*

§ *Energy consumed for light in the factory premises including factory building, offices, store, canteen, library, factory yard lighting, welfare centers, etc.*

The Government stated (August 2007) that an amount of Rs.1.38 crore had already been recovered from 125 consumers. The reply is not acceptable as Rs.1.38 crore is not inclusive of Rs.98.22 lakh pointed out by Audit during test check and the entire matter requires review.

3.1.24 Schedule of tariff applicable from time to time provided for levy of energy charges at different rates for energy consumed during normal, night and peak hours, besides penalty on over drawal of power during peak hours. In order to record all these parameters, time of day/electronic meters compatible for MRI to record half hourly energy consumption from 00 hours to 24.00 hours are being installed on the premises of the consumers. The Board in some cases did not download the data from MRI and in some cases scrutiny of data down loaded from MRI was not done. From the details in **Annexure-XXI** it would be seen that in respect of a case where data was downloaded at the instance of audit and in other cases where analysis of data was done by Audit, short recovery of Rs. 2.26 crore was involved due to drawl of power during peak hours, difference in actual time and time set in meters in three circles and in one case, penalty (amount not ascertained) was not imposed during the period April 2005 to June 2006.

The Government in respect of cases mentioned in the Annexure-XXI stated (August 2007) that some recoveries have been made but no details were furnished to show whether the recoveries included the cases noticed by the Audit and no reply was given for the time difference in the meters installed at the premises of the consumers. The matter requires a detailed review.

Un-authorised use of power

The Board failed to recover Rs.23.95 crore from the consumers for failure to observe the conditions of sanction of power.

3.1.25 General condition of sanction order provides that in case of infringement of any of the condition of supply, the sanction shall be deemed to be cancelled. Further, Section 126 of Electricity Act, 2003 provides that if on inspection of any premises of a consumer, the inspecting officer comes to a conclusion that such consumer is indulging in unauthorised use of electricity, the assessment in such cases shall be made at a rate equal to one and half time the tariff applicable for the relevant category of service. Scrutiny of records in this regard revealed that in cases detailed in **Annexure-XXII**, though the consumers did not adhere to the conditions of sanction order, the Board failed to charge them for violation resulting in non-recovery of Rs.23.95 crore for the period June 2003 to February 2007.

The Government in respect of the cases mentioned in the Annexure-XXII admitted (August 2007) the lapse but gave no reasons and what remedial action would be taken.

3.1.26 The Sales Manual Part-1 envisages that normally a consumer, in accordance with clause 27 of the Abridged Conditions of supply, shall not, without previous consent in writing of the Board, assign, transfer or part with the benefits of his agreement with the Board. In case, a consumer wants to transfer his connection in the name of somebody else, a request on Board's standard application form by the person in whose name the connection is sought to be transferred, should be made to the local officer of the Board accompanied by the consent of the existing consumer for change of name. It was observed that, a power connection with connected load of 177.82 KW was released (February 2005) in favour of Mars Chemcarb, Dhaulakuan. The load was subsequently (August 2005) increased to 989.904 KW. The above firm changed its name before the issuance (August 2004) of power availability certificate (PAC) to Gulshan Chemcarb Ltd. which further merged (April 2004) with Gulshan Chemfill, a company registered (October 2000) in Uttar Pradesh which shifted (October 2004) its business to Himachal Pradesh. The Board had released the power connection in favour of Mars Chemcrab Ltd. It is pertinent to mention here that the existing consumer Gulshan Chemfill* was paying energy charges through cheques in his name and the Board was issuing receipts in the name of Mars Chemcarb and did not question the consumer or report to vigilance. The new consumer applied (February 2006) for the change of name which was accepted (July 2006) by the Board.

Thus, the consumer unauthorisedly used the sanction issued in favour of Mars Chemcarb Ltd which stood dissolved prior to the issuance of PAC. As such the consumer should have been charged at enhanced rates under Section 126 of the Electricity Act, 2003. Non-levy of enhanced charges resulted in short recovery of Rs.68.13 lakh from March 2005 to August 2006.

The Government stated (August 2007) that the matter would be investigated and outcome intimated in due course of time.

Non/short levy of contract demand/violation charges

3.1.27 Scrutiny of records revealed that the various field offices of the Board failed to comply with the provisions of tariff orders issued by the HPERC from time to time with regard to levy of contract demand/violation charges resulting in revenue loss of Rs.4.72 crores for the period March 2003 to February 2007 (**Annexure-XXIII**).

In respect of first five cases mentioned in the Annexure, the Government stated (August 2007) that:

- power factor of 0.90 was not relevant in the case at Serial number 1. The reply is not tenable as the tariff order stipulated that in cases where the consumer had not entered into contract demand in KVA, the connected load should be computed in KVA assuming 0.90 power factor.
- the demand charges in respect of case at Serial number 2 had been levied during the built up period for the load actually connected. The reply is not tenable as the Sales Manual of the Board provides for charging the maximum demand/connected load calculated on month to month basis during the built up period of the load.

* *Account No. 01000065012*

- the reduction in contract demand in respect of case at Serial number 3 was allowed by the competent authority. The reply is not tenable as the consumer was not entitled to reduction in contract demand during first year of release of load.

- the field unit had worked out the recovery of Rs.3.53 lakh in respect of case at Serial number 4 which included load retention charges of Rs. 1.13 lakh. The reply is not tenable as according to the Sales Manual, no authority could extend the built up period of load beyond six months from the date of release of connection whereas the Board extended the same to 16 months for calculation of retention charges.

- in respect of case at Serial number 5, the consumer had extended the load/revised the contract demand which was sanctioned by the Board. The reply is not tenable as the contract demand sanctioned by the Board was set aside by the HPERC.

- In respect of case at Serial number 6, the Government did not furnish any reply.

Short billing of energy charges

3.1.28 The Sales Manual Part-I envisages that the supply of power to various categories of consumers is chargeable at the relevant schedule of tariff as determined before the release of connection. The applicability of tariff is, however, subject to revision on the basis of nature and quantum of load. Schedule of tariff for commercial category applicable from time to time envisages that this tariff will also include all other categories, which are not covered by any other tariff schedule.

The Board short billed the consumers for Rs.5.15 crore during November 2001 to March 2007.

In this regard, it was noticed that there was short billing of energy charges of Rs.5.15 crore during the period November 2001 to March 2007 to the consumers (**Annexure-XXIV**) for non-adhering to the requirements as mentioned above.

The Government while admitting (August 2007) the facts, stated that the units are taking action to recover the amount short billed in all the cases (except for two cases, reply to which has not been received).

Non-observance of codal procedure

3.1.29 In order to provide power connection to a consumer, procedure relating to receipt of Application and Agreement form (A & A form), Advance Consumption Deposits (ACD), preparation of financial justification, sanction and verification of test report has been laid down in the Sales Manual Part-I. Para 179 of Sales Manual Part-I read with condition number 24 of Abridged Conditions provides that if a connection is disconnected due to non-payment of dues, the connection in the same premises should not be restored unless the dues of the Board are cleared by the consumer. Audit observed that, in the following cases, officials of the Board did not follow the laid down procedure.

The Board did not take action against the officials concerned for not following the laid down procedure as there is no provision in the Manual for taking action for such faults.

- The connection of Pamwi Tissue./Paper Machine & Wire. in industrial area Barotiwala was permanently disconnected (March 2004) when total outstanding/recoverable dues amounted to Rs.1.35 crore. An amount of Rs.24.03 lakh was adjusted (September 2004) against security deposit and the balance of Rs.1.11 crore remained un-recovered (June 2007). The above amount accumulated due to acceptance of payment of energy bills and arrears of dues in installments. The consumer paid energy bills partly up to November 2003 when the arrear had accumulated to Rs.80.28 lakh. Thereafter, the consumer stopped the payment of energy bills as well as the arrear but the drawal of power continued up to March 2004. Further, though the arrear of Rs.1.11 crore had not been recovered so far (March 2007), the connection in the same premises to another consumer *i.e.* Gopsons Papers. was sanctioned (September 2005) by the SE (Operation), Solan circle in contravention of the above provision. Non-recovery of arrear of Rs.1.11 crore also resulted in interest loss of Rs.35.07 lakh from April 2004 to March 2007 at the rate of 10.5 *per cent* as laid down by the HPERC for recovery.

The Government stated (August 2007) that the recovery suit had already been filed in the court and connection released to another consumer in the same premises had been disconnected. The reply is not tenable as during this period of nine months (July 2003 to March 2004), the consumer deposited only four instalments with the approval of the Board which resulted in increase of outstanding arrears from Rs. 19.29 lakh to Rs.135.39 lakh. The consumer defaulted in payment of instalments after November 2003 when outstanding arrear was Rs.71.71 lakh but the Board failed to initiate action for disconnection of supply.

- The Sales Manual Part-I empowers the SE to sanction load ranging between 101 KW and 500 KW at 11 KV. This instruction further envisages that irrespective of the quantum of load, the power to sanction load containing electric furnace of 100 KW and above and loads containing steel rolling, re-rolling mills is vested in the Board only. Contrary to the above instructions, the SE, Operation circle Nahan, sanctioned/released (December 2001) power load of 400 KW to Jaswal Metal having furnace/rolling mill which was unauthorised. Neither the SE had obtained sanction of the Board so far (March 2007) nor the Board had taken action against the SE for exceeding his powers.

The Government stated (August 2007) that the load was sanctioned directly by SE as it contained only motive load and no furnace, rolling /re-rolling mill load was involved. The reply is not tenable as the additional load of 400 KW was sanctioned in favour of consumer for the modernisation of existing furnace/rolling mill.

- In Nalagarh sub-division No-1, the category of consumer (Dhariya Labs) was changed (August 2002) from large supply to small and medium supply consumer after verification of the connected load by the Sub-Divisional Officer (SDO) whereas it should have been done by the Executive Engineer. The Board has not taken action against the SDO for exceeding his powers.

- In 14 cases, the reduction/change in contract demand was allowed/accepted (July 2005 to February 2007) by the SDOs without receipt of A & A form, ACD and sanction of the competent authority. The Board did not take action against the SDOs for exceeding his powers.

The Government stated (August 2007) that the Board had noted the point for future compliance and the case for regularisation of reduction of load from the competent authority was being moved separately.

- In 11 cases in two[@] sub-divisions, the field officers had released/granted extension in load (June 2003 to January 2007) without getting the test reports verified from the competent authority. The Board has not taken action against the officials who exceeded their powers.

The Government stated (August 2007) that the test reports could not be countersigned due to over sight and now the test reports had been verified by the concerned EEs.

Checking of connections by the flying squads

3.1.30 As per Sales Manual Part-I, three flying squads under the control of CE (Commercial) have been assigned (2001-2002) the duty of checking at least 3,600 connections in a year of all categories of consumers against the then total number of 15.25 lakh consumers which was 0.23 *per cent* of the total number of consumers. Though the number of consumers had increased to 17.99 lakh in March 2007, the Board did not revise the consumer connections to be checked by the flying squads. The targets fixed for checking by the flying squads and achievement there against during the last five years ended 31 March 2007 is given in **Annexure-XXV**.

It would be seen from Annexure-XXV that:

- the percentage of connections checked to total connections during the last five years ended 31 March 2007 ranged between 0.21 and 0.23 only, yet irregularities amounted to Rs.1.82 crore were detected. An increased percentage of checking would have resulted in better benefits to the Board. While the percentage of checking of domestic and commercial consumers against the total consumers checked (which varied from 3,503 to 3,796

@ *Nurpur and Damtal*

connections) was 41.95 and 54.55 in 2005-06 and 24.82 and 68.05 in 2006-07 respectively, the percentage of checking of industrial consumers who contribute about 54.79 *per cent* of the revenue was only 3.50 in 2005-06 and 7.14 in 2006-07.

There was no monitoring at Head Office to watch the amount of irregularities pointed out by the flying squads and amount actually recovered. The HPERC in its tariff order for 2006-07 also pointed out an extremely depleted role being played by the flying squads in detecting un-authorised/dishonest use of electricity and directed to strengthen its existing flying squads network so as to play a grater role in the area of surprise inspection of consumers' installations.

Despite good results from checking, the Board, however, did not strengthen the flying squad network so far (August 2007).

The Government stated (August 2007) that the norms for checking of connections were not amended due to introduction of two part tariff and installation of electronic meters. MRI data of all electronic meters was available with the Board and the accounts of consumers could be checked easily in the sub-divisions. The matter for strengthening of the flying squads was under consideration with the Board. The reply is not acceptable as MRI data had not been down loaded by most of the sub-divisions test checked in Audit. Further, the audit also noticed many cases of unauthorised extension of load and peak load violations which were required to be detected by the flying squads as per the provisions of the Sales Manual.

Collection of revenue

3.1.31. Salient features of revenue collection mechanism being followed by the Board are as follows:

- Billed revenue is collected at collection counters located at every sub-division.
- Consumers can pay current energy consumption charges in cash as well as through cheques on the due dates mentioned in the bills for payment, failing which they are liable to pay surcharge.
- Payments through cheques are received in advance by two days from the due date for payment in cash to facilitate timely crediting of the amount in the Board's account.
- The banks in the field are required to transfer the funds deposited by the field units daily to their branches at Shimla.

Inefficiency in collection of revenue

3.1.32 The balance outstanding for recovery at the beginning of the year, revenue assessed during the year, revenue collected, balance outstanding at the end of the year, *etc.* during the last five years ended 31 March 2007 are detailed in **Annexure-XXVI**.

The scrutiny of details in Annexure would reveal the following:

- The dues outstanding at the end of March 2007 were Rs. 107.87 crore which include Rs.39.74 crore recoverable from the Government Departments/Local Bodies. The amount recoverable from Local Bodies increased from Rs.3.74 crore as on 31 March 2003 to Rs.10.92 crore. Besides, Rs.28.82 crore were outstanding against IPHED alone. The Board never resorted to disconnection of supply or pursuing of matter at the Chairman's level for recovery of huge arrears from the Government Departments and Local Bodies.
- The Board during the finalisation of tariff for 2004-05 intimated (June 2004) the collection efficiency at 92 *per cent*. The HPERC directed (June 2004) the Board to improve the collection efficiency to 99 *per cent* as against the actuals of 83.35 *per cent* during 2003-04. The actual collection efficiency of the Board during 2004-05 to 2006-07 was, however, between 86.35 *per cent* to 92.81 *per cent*. The collection efficiency in Kaza and Jubbal divisions during April 2002 to March 2007 ranged between 48.15 and 70.89 *per cent* and 51.48 and 63.16 *per cent* respectively which was very low.

The recoverable amount from permanent defaulters increased from Rs.5.70 crore (2002-03) to Rs.7.02 crore (2006-07).

- The amount recoverable from the permanent defaulters after adjustment of security increased from Rs.5.70 crore in 2002-03 to Rs.7.06 crore in 2005-06, though it decreased to Rs.7.02 crore in 2006-07. No concrete action seemed to have been taken by the Board to recover the above amount.
- As on 31 March 2007, 143 cases involving an amount of Rs.18.96 crore were under litigation before the High Court of Himachal Pradesh, Appellate Tribunal for electricity (New Delhi) and Dispute Settlement Committee's of the Board. The cases were filed between April 1999 and March 2007.

The Government stated (August 2007) that efforts were being made to recover the outstanding balance from the Government Departments and Local Bodies (LBs). It was observed that during 2002-03 to 2006-07, the State Government released grants totaling Rs.74.84 crore to LBs and in the interest of the Board, the State Government could have adjusted its dues while releasing the grants to the LBs.

Non-collection of additional advance consumption deposit (ACD)

3.1.33 Security Regulations 2005 envisage that the consumer shall at all times maintain with the Board an amount equivalent to consumption charges for the billing cycle period as security during the period the agreement for supply of energy to such consumers remains in force. Adequacy of security is to be reviewed every year and the shortfall of existing deposit, if any, is recoverable from the consumers. In this regard, Audit observed as under:

- As on 31 March 2007, recovery of ACD of Rs.2.27 crore from 27 consumers under four* sub-divisions was awaited resulting in interest loss of Rs. 45.57 lakh.

* *Kala Amb, Barotiwala, Paonta Sahib and REC Nalagarh*

- Security regulations envisage recovery of security from the Government Departments also. It was seen that in 3,046 cases under 16 sub-divisions, recovery of Rs.4.40 crore from the Government Departments was awaited (August 2007) since April 2005 resulting in interest loss of Rs.84.50 lakh.
- In Amb-division, an industrial consumer (Him Alloys) having connected load of 6,000 KW furnished (December 2006) a bank guarantee of Rs.60 lakh in lieu of security deposit deposited in cash earlier Though the monthly energy charges of the consumers had gone up to Rs.1.64 crore, the Board instead of raising demand for ACD of Rs.1.04 crore, allowed (February 2007) refund of Rs.60 lakh lying with the Board. This resulted in short receipt of ACD of Rs.1.04 crore.

The Government stated (August 2007) that the instructions had been issued to the sub-divisions to give notices to consumers for enhanced ACD and efforts were being made to recover the ACD from the existing consumers. The additional security to secure the running bill would be obtained from the consumers.

Failure to claim delayed payment surcharge

3.1.34. The Board receives payment of energy charges in cash as well as through cheques. The due dates for payment in cash and by cheques are, however, different. In cases where payment is not received on or before the due date, surcharge at the rate of two *per cent* of the bill up to July 2004 and one *per cent* thereafter is levied. To avoid surcharge, cheques should be cleared by the banks by the due date for payment of the bill in cash. Test check of records of Nalagarh sub-division revealed (July 2004 to December 2006) that cheques worth Rs.20.37 crore were cleared after due dates for payment of bills. The Board did not ascertain as to whether the delay was on the part of the consumers or on the part of the banks. Thus, surcharge of Rs.24.48 lakh leviable for late receipt of payments could neither be levied on the consumers nor interest for delay in crediting the amount could be claimed from the banks.

The Government stated (August 2007) that the matter had been taken up with the Banks for clearance of cheques within the stipulated period but did not state why this chronic issue which led to loss of interest was not addressed earlier.

Accountal of revenue

Failure to claim interest from banks for delay in crediting the amount

3.1.35. As per the provision in the Manual for Banking operations, daily balance of collection account at the close of each day after keeping balance of Rs.5,000 is required to be remitted by the authorised branches of the banks in the field to their main branch at Head Office of the Board by telegraphic transfer for credit to the main collection account of the Board.

Scrutiny of records of four sub-divisions revealed that there was delay of 2 to 74 days during April 2004 to January 2007 in crediting the cash (Rs.252.87 crore) transferred from the banks of the field units to the main account maintained at Shimla. The Board did not lodge any claim so far (August 2007) with the banks for interest of Rs.25.73 lakh recoverable for delay in crediting the amounts by the banks.

The Government stated (August 2007) that the necessary instructions had been issued to the field units to get the transfer of daily collection to the main account regularly but did not state why this chronic issue which had led to loss of interest was not addressed earlier.

Internal control and Internal audit system

Internal control

3.1.36 Internal control is a process designed for providing reasonable assurance of accountability and fulfillment of obligations of operations efficiently, safeguarding assets and reliable disclosure of financial data through timely reporting. Internal control includes budgetary control, accounting control, cost control, periodic operating reports, statistical analysis and internal audit. Scrutiny of records in this regard revealed the following deficiencies:

- The Board has not prescribed returns to monitor the implementation of decisions taken by the HPERC and proper implementation of the tariff. Due to this, the decision taken (August 2002) for levy of peak load and contract demand violation charges could be implemented only from September 2004 (paragraph 3.1.19 *supra*), the data relating to compatibility of meters with the meter reading instrument having programme for electronic transfer of data in accordance with the tariff applicable was not available with the Board (paragraph 3.1.24 *supra*).
- In addition to above the field officers had utilised the powers of higher authorities for the sanction of load, verification of test reports, reductions in contract demand and connected load (paragraph 3.1.29 *supra*)

The Government stated (August 2007) that the implementation of tariff was being adhered to and bills were rendered to the consumers as per contract demand. The reply is not based on facts as the Audit has pointed out a number of cases where the provisions of tariff orders were not implemented. These points were indicative of deficient internal control.

Internal audit

3.1.37 The Board is maintaining an Internal Audit Wing for conducting the perpetual audit of revenue being assessed and collected by sub-divisions. The main function of internal audit is to examine the accounts of a month during the following month with a view to immediately rectify the mistakes/irregularities noticed, if any. Contrary to above, the consumers' accounts were being checked quarterly. The table below indicates the number of audit parties, un-audited accounts months, short assessment detected, pending reports, etc. for the last five year ended March 2007:

Sr. No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
1	Number of audit parties	32	32	32	32	32
2	Un-audited accounts months	25	57	399	1,531	2,679
3	Short assessment worked out by internal audit (in lakh)	1,860.42	1,827.16	1,075.17	1,388.27	1,409.87
4	Amount not accepted by the units (in lakh)	495.59	100.77	39.26	71.24	50.49
5	Pending audit reports	3,770	3,678	3,627	3,594	3,582

Source: Compiled from relevant records of the Board

It would be seen from the above that:

- the un-audited account months increased from 25 as on 31 March 2003 to 2,679 as on 31 March 2007 mainly due to non-strengthening of the internal audit wing to cope up with the increase in the number of consumers from 9.59 lakh in March 1991 to 17.99 lakh in March 2007;
- internal audit parties pointed out short revenue receipt of Rs.75.60 crore during April 2002 to March 2007 against which the concerned units did not accept the amount of Rs.7.57 crore due to divergent interpretation of rules and provisions. Final decision of the Corporate Office in this regard was not on record;
- at the end of March 2007, 3,582 audit reports were awaiting compliance. Year-wise break-up of pending reports along with amount involved and action being taken to clear the reports was not available on record at corporate level, which was indicative of inaction at different levels of the management.
- the Board had also not prescribed any return to monitor the recovery of accepted amount by the field units for review at the corporate level. Thus, the recovery of accepted amount could not be vouchsafed in audit.

The Government stated (August 2007) that the action for strengthening of internal audit wing was to be taken at Board level being policy matter. All out efforts were, however, being made to recover the short assessment.

Acknowledgement

3.1.38 Audit acknowledges the co-operation and assistance extended by the Board and officers of the State Government at various stages of conducting the performance audit.

Conclusion

The Board failed to file tariff petitions annually in time and on the basis of justifiable data resulting in disallowing of expenditure by the HPERC and consequential loss to the Board. The Board was unable to bill most of the consumers monthly resulting in delay in collection of revenue. It also did not bill the consumers in accordance with the categorisation, laid down procedure and applicable tariff resulting in non-recovery of legitimate revenue on account of cost share, peak load violations, non-billing of consumers for energy recorded at the sub-stations, wrong verification of load, un-authorised use of power, contract demand violation, wrong application of tariff, *etc*. The system of collection of billed revenue and internal control and audit mechanism was also deficient.

Recommendations

- **Board has to show more commitment to ensure efficient and effective revenue collection.**
- **The Board should redefine its role as a service provider and should not compromise or relax rules in revenue collection.**
- **Tariff petitions containing accurate and justifiable data need to be filed annually and in time.**
- **Categorisation of consumers should be done properly so that there is no loss to the Board.**
- **Provisions of checking of meters of all categories of consumers at regular intervals should be ensured.**
- **Cash credit through cheques should be improved.**
- **System of collection of billed revenue and internal control and audit mechanism need to be strengthened.**
- **Percentage of vigilance/flying squad checks should be improved.**
- **Discussions should be held with State Government so that Government Department and LB outstandings are paid out of annual grants to them.**
- **Monitoring should be strengthened.**

3.2 Implementation of Accelerated Power Development Reforms Programme

Highlights

The Board did not prepare Detailed Project Reports for various schemes to be implemented under APDRP keeping in view the requirements of the field units. During execution of projects, the cases of deviation/variation in the execution of projects were noticed.

(Paragraph 3.2.9 to 3.2.11)

The State Government delayed the release of APDRP funds aggregating Rs.228.46 crore to the Board by 7 to 637 days thereby making itself liable to pay Rs.9.09 crore as penal interest to the GOI. Besides, the Board had to pay Rs.1.01 crore on account of interest at the rate of 12 *per cent* on loan component of Rs.16.39 crore for the period of delay in release of funds by the State Government.

(Paragraph 3.2.14)

Delay in completion/non-execution of targeted works resulted in loss of potential revenue of Rs.15.32 crore as envisaged in the APDRP schemes.

(Paragraph 3.2.29)

The Board incurred avoidable extra expenditure of Rs.35.99 crore due to allotment of work at higher rates, failure to purchase the material in bulk, use of conductor of higher size, delay in completion of works, non-receipt of material, *etc*.

(Paragraph 3.2.30)

The monitoring of works under APDRP was deficient due to weak management information/internal control system and absence of internal audit system.

(Paragraph 3.2.43)

The system of appraisal of performance of works executed was non-existent.

(Paragraph 3.2.44)

Introduction

3.2.1 The Union Ministry of Power (MOP) launched a nationwide programme called Accelerated Power Development Programme (APDP) during 2000-01, which was subsequently modified and rechristened as Accelerated Power Development Reforms Programme (APDRP) during 2002-03. The modified programme focuses on up-gradation of sub-transmission and distribution system in densely electrified zones in the urban and industrial areas and improvement in commercial viability of the State Electricity Boards. The State of Himachal Pradesh was categorised as a Special Category State (SCS) with 100 *per cent* finance *i.e.* 90 *per cent* grant and 10 *per cent* loan. To reform the Power Sector, Memorandum of Understanding (MOU) between the MOP and the Government of Himachal Pradesh (GHP) and the Memorandum of Agreement (MOA) between the MOP and the Board were executed in March 2001 and December 2002 respectively. The MOU and the MOA were valid for five years. The MOU expired on 31 March 2006 and has not been extended thereafter. The MOA is valid up to 30 November 2007. Non-compliance to various terms and conditions of MOU/MOA has been discussed in paragraphs 3.2.20 to 3.2.26 *infra*.

The main objectives of the APDRP were to:

- reduce aggregate technical and commercial (AT & C) losses to around 15 *per cent*;
- bring about commercial viability in the Board;
- reduce outages and interruptions; and
- increase consumer satisfaction.

The APDRP schemes are being implemented through 12 operation circles of the Himchal Pradesh State Electricity Board (Board). The Superintending Engineers (SEs), being incharge of circles, have been designated as Chief Executive Officers (CEOs) for the implementation of APDRP schemes. They are assisted by the Executive Engineers. The Chief Engineer (System Planning) is the nodal officer responsible for preparation, approval and monitoring of APDRP schemes. The implementation is being carried out under the overall supervision of the Member (Operation) and Member (Technical) of the Board. The organisational chart is given in **Annexure-XXVII.**

Scope of audit

3.2.2 The implementation of APDRP schemes by the Board during April 2002 to March 2007 was reviewed by Audit between July 2006 and March 2007 in five (Bilaspur, Hamirpur, Una, Kullu and Solan) out of 12 circles selected on simple random sampling method without replacement. As against the total sanctioned amount of Rs.322.78 crore for various schemes in all the 12 circles of the Board, an amount of Rs.127.32 crore was sanctioned for the above five circles. Up to March 2007, the Board incurred an expenditure of Rs.343.12 crore in all the 12 circles and Rs.127.76 crore in these five circles.

Audit objectives

3.2.3 The audit objectives of the Performance review were to ascertain whether:

- the Detailed Project Reports (DPRs) were prepared realistically to achieve the programme objectives;
- the funding requirements were assessed realistically and funds were sanctioned and released by the Government of India/State Government in time and the same were utilised efficiently/economically and effectively for achievement of the objective of the programme;
- schemes/programmes were implemented in an efficient, economical and effective manner;
- the AT & C losses were reduced in accordance with the action plan and targets;
- monitoring of the programme was effective in securing timely and corrective remedial measures at all levels;
- satisfaction level of consumers had improved in terms of quality, regularity and cost of power supplied; and
- an effective and efficient system of evaluation for assessing the achievements of objectives with reference to the envisaged results was in place.

Audit criteria

3.2.4 The audit criteria adopted for assessing the achievement of Audit objectives were:

- Projections/targets set out in the DPRs;
- Guidelines/instructions of MOP on APDP/APDRP;
- Target and bench marks/conditions laid down in the MOU/MOA;
- Targets set for reduction of AT & C losses; and
- Monitoring mechanism envisaged in the guidelines and MOA.

Audit methodology

3.2.5 The following mix of audit methodology was adopted for achieving the audit objectives with reference to Audit criteria of the performance review:

- review of instructions/guidelines issued by MOP/State Government from time to time for implementation of APDRP;
- review of agenda papers and minutes of the meetings of Whole Time Members (WTMs) of the Board;
- examination of DPRs/Cost Estimates of the projects/schemes;

- review of details of funds received and utilised;
- review of records relating to procurement of material/equipment, implementation of projects and scrutiny of monthly reports on benchmarks/milestone of MOU/MOA;
- review of monthly progress reports and returns on physical and financial performance; and
- issue of audit enqueries and interaction with the Management.

Audit findings

3.2.6 Audit findings arising from the performance audit were issued (May 2007) to the State Government/Board and were discussed (16 August 2007) in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE). The Secretary, Multi-purpose Project and Power, Government of Himachal Pradesh and Member (Finance), Member (Technical), Member (Operation), Chief Auditor, Chief Accounts Officer, Chief Engineer (System Planning) Chief Engineer (Technical) and Chief Engineer (Central Zone) of the Board attended the meeting. The views expressed by the members have been taken into consideration while finalising the review.

3.2.7 Audit analysis of the implementation of various APDRP schemes revealed major shortcomings/deficiencies such as non-execution of works provided in the DPRs, deviation during execution of works, delay in completion of projects, diversion of APDRP funds, incorrect reporting to the MOP, avoidable extra expenditure, unfruitful expenditure, non-achievement of objectives of APDRP, *etc*. These are discussed in the succeeding paragraphs:

Project planning

3.2.8 Optimum benefit from investment in any project is best derived if the execution of the project is undertaken after conducting proper survey of the ground realities in the field and collection of inputs for conducting cost benefit analysis.

There were cases of deviations/variations in the execution of projects indicating that the DPRs were not prepared keeping in view the requirements of the field units.

Scrutiny of records revealed that there were cases of deviations/variations in the execution of projects indicating that the DPRs were not prepared keeping in view the requirements of the field units. These are discussed as follows:

Non-execution of works provided in the DPR

3.2.9 DPR of Solan circle envisaged (March 2002) a provision of Rs.58.95 lakh for installation of LT switched capacitors on 13 feeders for reduction of T&D losses to the extent of 1.50 MUs and thereby saving Rs.44.25 lakh. It was however, noticed that against the installation of LT switched capacitor on 13 feeders, installation was done (December 2006) only on one feeder at a cost of Rs.0.10 lakh. Consequently, reduction in T&D losses could be achieved to the extent of 0.11 MUs only against 1.50 MUs envisaged. The unutilised amount of Rs.58.85 lakh was diverted to other component/works under APDRP and energy saving of 1.39 MUs as envisaged in the DPR could not be achieved.

The Government stated (August 2007) that installation of LT capacitors was not desirable. The reply is not tenable as the installation of capacitors is necessary to maintain the required power factor. The Government also did not furnish the details as to the components on which funds of Rs.58.85 lakh were ultimately utilised.

3.2.10 Physical and financial achievement of work in six* circles revealed non-execution/negligible execution of certain works provided in the DPRs (March 2002 and March 2003). As a result, the major portion of the funds of Rs.10.42 crore provided (March 2002 and March 2003) for works as detailed below were diverted to other works. These works were not executed due to lack of planning in regard to arrangement of material.

(Rupees in lakh)

Name of circle	Name of work	Physical provision	Financial provision	Expenditure	Non-utilisation of provision	Percentage completion
Hamirpur	Computerised billing, Computerised data loggers, LT to HT conversion	79 Nos. 15 Nos. 413 KM	83.40 45.00 478.57	4.88 Nil Nil	78.52 45.00 478.57	5.85 0 0
Bilaspur	Computerisation	Lumpsum	70.00	0.92	69.08	0
Kullu	11 KV ring main Computerisation	5 Lumpsum	30.15 70.00	Nil 2.23	30.15 67.77	0 0
Mandi	DTR control & Protection Computerisation	Job Job	49.50 70.00	5.37 5.14	44.13 64.86	10.85 7.34
Solan	Protection devices Computerised billing	Job Lumpsum	134.95 59.40	32.04 40.00	102.91 19.40	23.74 67.34
Shimla	1x3.15 MVA sub station at Summer Hill with 4 outgoing feeder	Lumpsum	41.27	Nil	41.27	0
Total:			**1132.24**	**90.58**	**1041.66**	**8.00**

Source: Compiled from relevant DPRs and records of the Board.

The Government stated (August 2007) that funds were placed with the CE (P&M) for computerisation. The execution of Summer Hill sub-station was not required due to system improvement. Conversion of LT line into HT line was also not required. The reply brings out the fact that the provisions in the schemes were made without proper and careful study of the data submitted by the field units.

Deviation during execution of work provided in the DPR

3.2.11 Hamirpur circle completed (March 2007) re-conductoring of 159.212 Km LT line with higher size (7/4.26 mm) of conductor having current carrying capacity of 189 Ampere at a cost of Rs.2.51 crore without any provision in the

* *Hamirpur, Bilaspur, Kullu, Mandi, Solan and Shimla*

DPR. It was observed that the existing AAAC conductor of 7/3.10 mm and 7/2.21 mm size having current carrying capacity of 107 to 139 Ampere was sufficient to cater the present requirement of 50 Ampere current of the area and there was no justification for replacement of existing conductor with conductor of higher current carrying capacity of 189 Ampere. Thus, the expenditure of Rs.2.51 crore incurred on the above work without any provision in the DPR was irregular and unfruitful. There were no reasons on record for replacement of existing conductor with higher size of conductor.

The Government stated (August 2007) that the existing conductor was very old and damaged at many places which caused disruption of power. The reply is not tenable as this work was not included in the DPR of the circle and no justification for using higher size of conductor was on record.

Funding pattern

An amount of Rs.1.96 crore received (2000-01) under APDP was neither utilised nor refunded to the MOP.

3.2.12 APDP: Himachal Pradesh being a special category state was entitled to 100 *per cent* finance (90 *per cent* grant and 10 *per cent* loan at interest rate of 12 *per cent per annum*) from the MOP. During 2000-01, the Board received Rs.25.32 crore (Grant: Rs.22.79 crore and Loan: Rs.2.53 crore). The amount was kept in the current account of the Board where other funds were also being kept in contravention of MOP orders. Out of the above amount, the Board utilised Rs.23.23 crore (2001-02). An amount of Rs.2.09 crore (Rs.1.88 crore as grant and Rs.0.21 crore as loan) remained un-utilised which was neither transferred for utilisation for the APDRP schemes nor refunded to the MOP.

The Government stated (August 2007) that Rs.13 lakh had been adjusted by the CE (South) and Central Zone. The fact remains that Rs.1.96 crore remained unutilised/unadjusted as of September 2007.

3.2.13 APDRP: For all the 12[&] projects in the State, the MOP sanctioned (August 2002 to May 2003) Rs.322.78 crore of which 90 *per cent* (Rs.290.50 crore) was to be released by way of grant and 10 *per cent* (Rs.32.28 crore) by way of loan. The MOP, however, released the funds to the State Government as detailed below:

(Rupees in crore)

Year	Grant released	Loan released	Total
2002-03	38.74	4.30	43.04
2003-04	108.78	12.09	120.87
2004-05	-	-	-
2005-06	78.41	--	78.41
2006-07	64.55	--	64.55
Total	**290.48**	**16.39**	**306.87**

Source: Compiled from the relevant records of the Board.

& *Shimla, Solan, Nahan, Rohroo, Rampur, Kangra, Dalhousie, Una, Mandi, Kullu, Bilaspur and Hamirpur*

Against the loan component of Rs.32.28 crore, the MOP disbursed Rs.16.39 crore only as the loan facilities were dispensed with by the MOP with effect from November 2005. With the result the Board had to arrange the remaining amount of loan (Rs.15.89 crore) from the REC at interest rate of 6.75 *per cent per annum*. The amount was received by the Board in October 2006 (Rs.14.30 crore) and March 2007 (Rs.1.59 crore).

Delay in release of funds by the State Government to the Board

The State Government delayed release of funds to the Board by 7 to 637 days, which made it liable to pay Rs.9.09 crore as penal interest to the GOI.

3.2.14 According to the APDRP guidelines, the State Government shall release funds to the Board within a week of their receipt from the MOP. Failure to do so was to be deemed as diversion of funds and the MOP was to adjust an equivalent amount along with 10 *per cent* penal interest against subsequent instalments of assistance. It was noticed that the State Government delayed the release of funds aggregating Rs.228.46 crore (grant:Rs.212.07 crore and loan:Rs.16.39 crore) to the Board by 7 to 637 days, thereby making itself liable to pay Rs.9.09 crore as penal interest to MOP. Besides, the Board also had to bear the burden of Rs.1.01 crore on account of interest at the rate of 12 *per cent* on loan component of Rs.16.39 crore for the period of delay in release of the same by the State Government to the Board as tabulated below:

(Rupees in crore)

Funds released by the GOI to the State Government			Released by the State Government to the Board		Delay in days after allowing seven days grace allowed by GOI	10 *per cent* penal interest	Extra burden of interest on loan at the rate of 12 *per cent*
Date	Amount of Grant	Amount of loan	Date	Amount			(Rs.in lakh)
4.4.02	12.00	1.33	28.5.02	13.33	47	0.17	0.02
28.1.03	17.74	1.97	27.3.03	19.71	51	0.28	3.30
31.3.03	9.00	1.00	29.5.03	4.00	47	0.05	0.62
			19.6.03	3.00	72	0.06	0.71
			4.7.03	3.00	87	0.07	0.86
23.10.03	108.78	12.09	13.1.04	58.00	74	1.18	14.11
			30.1.04	3.98	91	0.10	1.20
			3.7.04	30.00	245	2.01	24.16
			31.3.05	10.34	516	1.46	17.47
			30.7.05	18.55	637	3.24	38.95
19.9.06	35.39		7.11.06	35.39	42	0.41	
14.3.07	29.16		28.3.07	29.16	7	0.06	
Total:	**212.07**	**16.39**	--	**228.46**	-	**9.09**	**101.40**

It was also observed that the Board had not claimed reimbursement of the above interest of Rs.1.01 crore from the State Government so far (August 2007). No reasons were on record for delay in release of funds to the Board by the State Government.

The Board stated (August 2007) that the reply in regard to delay in release of funds would be given by the State Government and claim for reimbursement of interest of Rs.1.01 crore would be lodged with the State Government. The State Government endorsed the reply of the Board without offering any comments.

Non-maintenance of a separate account and diversion of APDRP funds

3.2.15 The general terms and conditions for utilisation of funds issued by the MOP, *inter alia*, include that:

- the utilities shall open a separate bank account in the first instance itself in a scheduled/nationalised bank for the purpose of implementing the Schemes under APDRP. Funds from the Government/internal resources or loans from REC earmarked for the purpose shall be credited to this account.
- The funds received under APDRP shall not be diverted for other purposes either by the State Government or utilities.

Audit scrutiny revealed the following:

3.2.16 The Board did not open separate bank account for APDRP funds as required. The funds were kept in the existing current account of the Board.

The Government admitted (August 2007) the fact of routing the transaction through the existing current account without intimating the reasons for the same.

APDRP funds of Rs.8.76 crore were diverted for execution of works not provided in the DPRs of seven circles.

3.2.17 The DPR of each circle provided for component-wise physical and financial targets. During scrutiny of records, it was noticed that in nine cases pertaining to seven circles, APDRP funds of Rs.8.76 crore were utilised on the execution of works not provided in the DPRs resulting in diversion of APDRP funds to that extent without concurrence/approval of the MOP. Such cases are detailed in **Annexure-XXVIII**. The cases of deviation were not reported to the MOP separately for information and approval.

Non-receipt of incentive component

3.2.18 As per guidelines of APDRP, the Board would be eligible for incentive up to 50 *per cent* of the reduction in actual total loss taking 2000-01 as the base year. This incentive was to be utilised for improvement in the power sector only.

The details of loss reduction and eligibility for incentive on this account during the last five years ended on 31 March 2006 are given as under:

(Rupees in lakh)

Sr. No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
1	Surplus (+)/ deficit (-)	(-) 3,688.26	(-) 10,655.77	(-) 5,224.38	(-) 4,621.88	(-)3,724.64	(-) 2,047.56
2	Less increase in sundry debtors w.r.t. the base year (other than debtors of electricity dues)	(-) 604.31	(-) 94.14	(-) 195.53	(-) 468.58	(-) 921.91	(-) 1,572.31
3	Less qualifications of Auditors for the current year (qualification for the prior period not to be included)	(-) 6,498.70	(-) 82.23	(-) 3,181.62	(-) 782.00*	(+)3,233.00	(-) 2,645.00
4	Net eligible loss for the year	10,791.27	10,832.14	8,601.53	5,872.46	1,413.55	2,169.75
5	Eligibility for incentive	....	....	2,189.74	4,918.81	9,377.72	8,621.52
	Total reduction in loss						**25,107.79**

Source: Compiled from accounts of the Board.

The Board has not received the incentive of Rs.125.54 crore on account of reduction in cash loss during 2002-06 so far due to submission of incorrect claims.

It would be seen from the above table that the Board was eligible for incentive of Rs.125.54 crore (50 *per cent* of the cash loss reduction of Rs.251.08 crore during 2002-06) as compared to the base year 2000-01.

The Board's first claim of Rs.10.32 crore for 2002-03 was rejected (October 2003) by the MOP due to non-submission in the required format. The Board's subsequent claim of Rs.36.78 crore (December 2004) for 2002-03 to 2003-04 was pending with the MOP as on March 2007. The Board submitted (March 2007) the revised claim of Rs.253.58 crore for 2002-06 which has been overstated by Rs.2.50 crore. Submission of incorrect claim would result in further delay in receipt of claim from the MOP. Due to non-receipt of claim, the amount could not be utilised for making improvement in power sector.

The Government admitted (August 2007) non-receipt of incentive claims. In regard to submission (March 2007) of incorrect claim for 2002-06, it was stated that the Board had submitted the claim without waiting for the final comments of the Statutory Auditors. The reply is not tenable as the claim was lodged (March 2007) after finalisation of audit of accounts.

* *The qualification of Auditors for the year 2003-04 was Rs.782 lakh as per Balance Sheet. However, the Board in its claim had indicated it as Rs.532 lakh. As such, the qualification was understated to the extent of Rs.250 lakh. Consequently, the incentive claim was also overstated to that extent*

Execution of projects

Slow pace of execution

3.2.19 During the last five years ended March 2007, the expenditure incurred by the Board on APDRP projects *vis-à-vis* the funds sanctioned by the MOP was as under:

(Rupees in crore)

Sr. No	Name of circle	Funds sanctioned by MOP	Date of sanction	Expenditure ending March 2003	Expenditure ending March 2004	Expenditure ending March 2005	Expenditure ending March 2006	Expenditure ending March 2007
1	Shimla	23.00	25.8.02	3.30	5.51	13.80	20.83	24.21
2	Solan	20..59	25.8.02	2.95	4.53	7.29	19.76	24.41
3	Nahan	24.42	25.8.02	2.13	5.09	10.39	20.32	23.80
4	Rampur	38.08	26.5.03		2.30	10.20	26.34	42.19
5	Rohru	14.83	26.5.03		1.56	7.26	17.94	17.75
6	Kangra	27.24	26.5.03		1.49	7.12	23.60	29.50
7	Dalhousie	27.28	26.5.03		1.50	10.06	27.19	32.13
8	Una	22.02	26.5.03		2.21	6.38	18.44	23.16
9	Mandi	40.61	26.5.03		1.46	8.68	31.10	45.78
10	Hamirpur	32.47	4.12.02	1.46	6.77	18.16	28.64	30.43
11	Kullu	26.30	26.5.03		0.47	6.03	19.15	29.71
12	Bilaspur	25.94	26.5.03		0.78	7.38	15.23	20.05
	Total	**322.78**		**9.84**	**33.67**	**112.75**	**268.54**	**343.12***

Source: Compiled from relevant records of the Board.

It would be seen from the above, that utilisation of funds during the initial three years *i.e.* 2002-05 was very less. Had the works been executed equitably over the period of the scheme, the cost overruns in execution of the works (as mentioned in Paragraph 3.2.30 *infra*) could have been avoided to some extent.

The Government attributed (August 2007) the slow pace of execution in the initial years to delay in receipt of material, administrative approval and sanction for expenditure. The reply is not tenable as all these factors should have been kept in view at the planning stage itself.

Non-compliance with the MOU/MOA

3.2.20 As per MOU, the State Government was required to undertake computerised billing and put in place the system of accounting and audit of all consumers by March 2005. It was observed that out of 227 consumer sub-divisions having about 17.56 lakh consumers in the State, the Board had taken up computerisation of only 2.40 lakh consumers (13.67 *per cent*) in 49 consumer (21.59 *per cent*) sub-divisions up to 31 March 2007. Thus, even after two years from March 2005, the status of computerisation in the State was only 13.67 *per cent*. As against the total provision of Rs.12.20 crore for computerisation in all the 12 circles, the Board spent an amount of Rs.70.97 lakh (5.82 *per cent*) only up to March 2007. Due to non-computerisation of

* *The excess expenditure of Rs.20.34 crore was met by the Board from its own funds*

billing process, the Board was not able to bill the maximum consumers each month resulting in delay in receipt of revenue.

The Government stated (August 2007) that the computer cell of the Board had started (May 2005) the work of computerisation and packages of Rs.23.38 crore for the work had been awarded to a firm. The firm had assured to complete the work by November 2007. The reply is not acceptable as the work which was to be completed by March 2005 has been taken up only in May 2005 and only 13.67 *per cent* work has been completed by 31 March 2007. Hence, the question of completion by November 2007 does not arise. The excess cost involved in award of work and the source from which it was to be met was not made available to Audit.

3.2.21 As per MOA and MOU, the Board was required to undertake energy audit and commercial accounting at all levels to identify and reduce the transmission and distribution losses (T&D) by March 2005. To achieve this objective, Energy Audit and Energy Accounting (EAEA) for each 11 KV feeder and distribution transformer (DTRs) on actual meter reading basis was to be done.

The progress achieved in this regards by the Board is detailed below:

Sr. No.	Total numbers		Metering status		Energy accounting		Energy audit	
			No.	Per-centage	No.	Per-centage	No.	Per-centage
1	Feeders	1, 024	1,008	98.44	970	94.73	967	94.43
2	DTRs	18,860	18,325	97.16	18,325	97.16	16,703	88.56

Source: Compiled from relevant records of the Board.

In this regard, it was observed (March 2007) as under:

- The Board had not achieved *cent per cent* target of EAEA of all the feeders and DTRs.
- The Board had neither rescheduled the billing cycle for all the consumers fed from particular feeders/DTRs nor re-grouped the consumers as per billing cycle to locate the actual pockets of higher energy loss.
- In Parwanoo town under Solan circle, where the Board had installed electronic meters on 417 DTRs the percentage of T&D losses was recorded as (-) 2.32, (-) 0.82, (-) 9.00 and (-) 12.75 in March, July, October and November 2006 respectively. This was due to the fact that energy received and sold by the Divisions in a particular month was not recorded correctly and energy audit was not conducted *cent per cent.*
- The EAEA data was not being prepared strictly as per billing cycle (monthly, bi-monthly and tri-monthly) and compared with the consumption of energy in the DTR for the same period.
- The Board did not identify the accredited agencies for the purpose of EAEA, project formulation, turnkey implementation, project monitoring and project evaluation.

- The Board had reported to the MOP that EAEA in Solan circle has been done as 100 *per cent* and 99.38 *per cent* respectively whereas the actual achievement of EAEA was to the tune of 67.73 *per cent* only. Test check of records of Parwanoo and Solan divisions of Solan circle revealed that EAEA had not started in 224 out of 417 and 293 of 398 DTRs of Parwanoo and Solan divisions respectively. Thus, in these divisions, actual achievement of EAEA itself was only 36.56 *per cent* and the reporting by the Board to MOP was, thus, not correct.

The Government stated (August 2007) that in Solan circle as a whole, EAEA is close to target of 100 *per cent* whereas in Parwanoo and Electrical Division Solan, EAEA could not be completed due to shortage of staff and 100 *per cent* EAEA would be ensured with in one month time. The reply of the Government itself is contradictory and the fact remains that EAEA has not been done to that extent as reported to MOP.

3.2.22 As per MOA, the beneficiary (Board) should fix allocation of power to a circle at the point of import in the circle and evolve a mechanism of transfer pricing of energy to the circle within four months of the signing of the MOA. Mechanism for regulating over drawls and/or under drawls should also be put in place. The Board has not evolved any such mechanism so far (March 2007).

The Government stated (August 2007) that it was decided (September 2003) in the Ist Distribution Reforms Committee (DRC) meeting to restrict the activities to circle wise computation of T & D losses. The reply is not tenable as the DRC was not empowered to alter the conditions of MOA.

3.2.23 As per MOA, the Board has to adopt turnkey packaging concept or evolve a rate contract for procurement of equipment of repetitive nature, adopt the standard specifications so that the CEOs are able to operate the rate contract for procurement of equipments to meet the respective project implementation schedule. The standard specification for turnkey contract with reliability and quality norms and performance guarantee provisions as well as list of accredited contractors were to be in place within two months of signing of the MOA. The project execution mechanism was to be finalised by the Board and informed to the MOP within four months of signing of the agreement.

In this regard, it was observed (March 2007) as under:

- The Board floated tenders for procurement of material. Standard specifications were not evolved for procurement of equipment of repetitive nature resulting in incurring of avoidable extra cost of Rs.32.33 crore on purchase of different material from different suppliers (**Annexure-IV**) referred to in paragraph 3.2.30 *infra*.
- Rate contract system as envisaged had not been evolved so far (August 2007).
- The project execution mechanism had also not been evolved and intimated to the MOP as required (August 2007).

- The PGCIL (consultant) had also not prepared any model bidding document for use by the utility for awarding contracts (August 2007).

The Government stated (August 2007) that purchases were made according to the year-wise requirement, efforts were made to finalise rate contract in respect of non-critical items but the same could not materialise due to poor response from manufacturing firms/suppliers based in Himachal Pradesh, the mode of scheme execution was intimated to the MOP/DRC and standard bid document framed by the National Productivity Council in respect of three circles was forwarded to the CE (South). The reply confirms Audit contention.

3.2.24 The Board did not comply with the requirement of the MOA in regard to outsourcing of activities like consumers indexing, meter reading, billing, bill delivery and periodical maintenance of DTRs and sub-station equipments, lines, *etc*. It had also not declared the policy frame work for outsourcing of above activities so far (August 2007) though the same was required to be declared within six months of signing of the MOA.

The Government stated (August 2007) that outsourcing of such activities had not been considered as general policy in view of varying conditions in various areas. Need based outsourcing for bills distribution was, however, resorted to by Mandi, Hamipur, Una and Kangra circles partially. The reply is not tenable as the compliance with the requirement of the provisions/conditions of MOA was mandatory.

3.2.25 As per MOA, the CEO should be retained for a minimum period of three years irrespective of promotion. In Kullu circle, the CEO was, however, changed three times within a period of two years. There were no recorded reasons for these changes.

Further, the CEO should be allowed to open a separate account with a bank within a month of signing the MOA for depositing the increased revenue resulting as a consequence of investment made to assess benefits accrued in each circle in terms of revenue. This had not been done so far (August 2007) in any of the circles test checked.

3.2.26 The Board had not established the distribution circle as a profit centre and as an independent administrative unit with delegation of technical and financial powers for operation, maintenance, project implementation and outsourcing so far (August 2007).

In addition to above, the following conditions of the MOA were not complied with (August 2007) in any of the five circles test checked.

- Digital interface for automatic logging of data into a computer at the sub-stations to be provided within nine months.
- Necessary installations to be provided within two months of signing of the MOA for entering feeders outages in the computer, causes for the same and corrective and preventive action taken at the sub-stations.
- A system of recording consumer's complaints to be developed and the corrective and preventive action to be recorded along with maintenance of

monthly summary of such complaints. This would have assured better service to the consumers/increased consumers' satisfaction.

- The computerised billing centers were not established in each circle within one year from the date of agreement though this was required to be done as per the MOA.

The Government stated (August 2007) that computerised billing and EAEA would be completed by November 2007.

Delay in completion of turnkey projects

3.2.27 APDRP guidelines provide for adoption of turnkey contract system for completion of APDRP packages in time. Accordingly, the Board decided (March/August 2004) to award construction of 33/11 KV sub-station, 22 KV control point, 33 KV lines, remote metering, express feeders, re-conductoring of High Tension (HT) lines and Low Tension (LT) panels on turnkey basis. It was observed (March 2007) that in five[$] circles, the Board awarded (August 2004 to February 2007) 24 contracts on turnkey basis after a delay of about 6 to 28 months (March/August 2004) for Rs.32.78 crore against the provision of Rs.19.57 crore in the DPR. The awarded cost was 67.50 *per cent* higher than the provision in the DPR. The circles took 3 to 19 months in finalising the turnkey award. The award of turnkey projects was delayed due to the fact that the Board had made provision in the DPR on the lower side and the specific geographic locations/conditions and cost escalation due to delay in award were not taken into account.

The Government attributed (August 2007) delay to poor response of bidders, increased civil works, tough geographical conditions and difficulties in getting the site ready for construction. The cost overrun was due to hike in prices of steel and other related material. The reply is not tenable as initially the Board delayed the awarding of works on turnkey basis and after award, it was not ensured that contractors adhere to the prescribed time schedule. The factors like increased civil works, tough geographical conditions and difficulties in getting the sites ready for construction were not new to the Board and should have been managed by proper and timely planning.

Non-levy of penalty for delay in completion of turnkey projects

3.2.28 As stated in paragraph 3.2.23 *supra*, the Board should have adopted turnkey concept for execution of works. It was, however, observed that:

- Out of seven[#] circles, two[*] circles did not award any contract on turnkey basis.

- Five[@] circles awarded 15 contracts on turnkey basis during March 2005 to October 2006 and the completion of the same was delayed by six to 65 weeks.

$ *Kullu, Una, Mandi, Rampur and Solan*

\# *Solan, Una, Kullu, Rampur, Bilaspur, Mandi and Hamirpur*

* *Bilaspur and Hamipur*

@ *Solan, Una, Mandi, Rampur and Kullu*

- As per the standard terms and conditions of turnkey projects, the extension of time for completion was to be granted only if the delay was due to natural calamities or unavoidable circumstances. Without adhering to above criteria for granting extension of time, the Board granted extension in three out of 16 cases and recovered only Rs.18.58 lakh as penalty against the total recoverable penalty of Rs.1.36 crore. Thus, grant of extension without justifiable reasons and non-recovery of penalty resulted in extension of undue favour to the contractors and loss to the Board to the extent of Rs.1.17 crore.

Penalty of Rs.1.17 crore was not recovered from the contractors for delay in completion of works resulting in extending of undue favour to them.

The Government stated (August 2007) that the delay occurred due to miscellaneous site problems and the penalty was recovered wherever it was due. The reply is not tenable as the extensions were given to the contractors without justifiable reasons and penalty for delayed completion should have been recovered by the Board.

Loss of revenue due to delay/non-execution of works

Delay in completion/non-execution of targeted works resulted in loss of potential revenue of Rs.15.32 crore.

3.2.29 During scrutiny of records, it was noticed that work of construction of new sub-stations[$] was included in the annual working programme for 2002-05. The work of construction of new sub-stations at seven places[*] was included in the annual working programme for 2004-05. These works awarded to various contractors on turnkey basis were not completed within the annual working programme framed by the Board. In Bilaspur circle, the target of re-conductoring of lines was not achieved due to non-availability of conductor. Delay in completion/non-execution of targeted works resulted in loss of potential revenue of Rs.15.32 crore as envisaged in the schemes (**Annexure-XXIX**). In the cases of construction of new sub-stations the delay was attributable to contractors and in case of re-conductoring, the Board itself was responsible as the work was executed departmentally.

The Government stated (August 2007) that delay in execution/construction occurred due to miscellaneous reasons (geographical conditions, increased civil works *etc.*) as well as on the part of the contractors. Delay in reconductoring in Bilaspur circle was due to late receipt of requirement of material from the Bilapsur circle. The reply is not tenable as these issues were not new to the Board and could have been overcome through proper planning.

Avoidable extra expenditure

In six cases, avoidable extra expenditure of Rs.35.99 crore was incurred due to allotment of work at higher rates, failure to purchase material in bulk, *etc.*

3.2.30 It was noticed that in six cases (**Annexure-XXX**), the Board incurred avoidable extra expenditure of Rs.35.99 crore due to allotment of works at higher rates, failure to purchase the material in bulk, use of conductor of higher size, delay in completion of works, non-receipt of material, *etc.*

$ *Kharooni, Ramshehar, Subathu, Darlaghat and Nalagarh*

* *Nagwain, Sauli Khud, Baggi, Tikken, Makreri, Bhadarwar and Cholthra*

Un-utilised sub-standard cable

3.2.31 The Board purchased (February to December 2004) 2087 KM PVC cable valued at Rs.1.57 crore for replacement in various work of APDRP. Out of above, sub-standard cable valued at Rs.42.90 lakh was still lying in the stores awaiting replacement (September 2007).

The Government stated (August 2007) that the suppliers were requested to replace the cable from time to time and if the cable was not replaced within two months, the earnest money deposits would be forfeited. Further developments are awaited.

Undue benefit to the industrial consumers

3.2.32 There was provision in DPR of Una circle for construction of 2x3.15 MVA, 33/11KV manned sub-station at Tahliwala. The CE (Operation), North Zone, Dharamshala awarded (July 2005) the work to YGC Projects on turnkey basis for Rs.1.56 crore. The scope of work was subsequently (March 2006) changed due to increase in load demand of the area by increasing the capacity of the transformers from 2x3.15 MVA to 2x 6.30 MVA and the size of the conductor from 100 mm to 150 mm at an extra cost of Rs.86 lakh. The Tahliwala sub-station was commissioned in October 2006. As per the decision taken in the 35th meeting of Sub-Transmission Committee of the Board, the extra cost of Rs.86 lakh was to be recovered from the existing and the new industrial consumers as per HPERC regulations. Audit, however, observed (March 2007) that the excess cost was charged to APDRP, which tantamounts to extension of undue benefit to the industrial consumers to that extent and burdening and irregular utilisation of APDRP allotments. The Board issued (December 2006/January 2007) demand notices for recovery of excess cost of Rs.28.73 lakh to three existing consumers. But no effective steps were taken for recovery of the same. On this being pointed out, the Board, however, issued (January 2007) demand notices to the remaining consumers and Rs.50.80 lakh has been recovered from 20 consumers. The balance amount of Rs.35.20 lakh is still outstanding.

3.2.33 The Electrical Division at Parwanoo constructed (June to September 2006) 33 KV double circuit line from Baddi to Malpur under Solan circle through turn key contract awarded by the CE (Operation), South Shimla against which an expenditure of Rs.1.58 crore had been incurred though there was no provision for the same in the scheme. The line was required for fast developing industrial areas at Baddi and Barotiwala and 50 *per cent* of the cost of this line was to be recovered from the beneficiaries.

The Government stated (August 2007) that the Board had recovered Rs.1.80 crore from the consumers. The reply is, however, not correct as the Division had recovered/adjusted only Rs.32 lakh up to August 2007. Thus, balance expenditure of Rs.1.26 crore remained un-recovered from the concerned consumers (September 2007).

Un-fruitful investment

3.2.34 As mentioned in paragraph 3.2.8 *supra*, the DPRs were prepared without conducting proper survey and collection of complete information from the field. During scrutiny of records relating to execution of works in the field, it was noticed that in two cases (**Annexure-XXXI**), the Board incurred expenditure of Rs.1.10 crore on the works which were not being utilised as envisaged. This rendered the expenditure as unfruitful.

Incorrect reporting to the MOP

3.2.35 During scrutiny of records relating to furnishing of financial progress to the MOP, it was noticed that the Board did not take due care of the expenditure actually incurred by the field units. As detailed in **Annexure-XXXII**, the figure of financial progress intimated to the MOP was higher by Rs.6.67 crore in first three cases while in the fourth case, the incurring of expenditure of Rs.4.80 crore was not intimated at all.

Installation of old equipments

3.2.36 As per instructions for implementation of APDRP, only new equipment/material was to be utilised in APDRP projects. Audit, however, observed (March 2007) that old/dismantled equipments lying in stock having residual value of Rs.43.71 lakh as tabulated below were installed in violation of the instructions during 2005-07 in APDRP projects and the amount was booked to APDRP:

Sr. No.	Particulars of project	Residual value of old/dismantled equipment used (Rupees in lakh)	Remarks
1.	33/11 KV sub-station at Sundernagar	24.00	Two transformers dismantled from Rakkar sub-station
2.	33/11 KV sub-station at Swarghat	2.47	One dismantled transformer from Sundernagar
3.	33/11 KV sub-station at Jawalamukhi	12.30	Old HT Shunt Capacitor transferred from Transmission Division Tutu
4.	2x2.5 MVA sub-station at Beri	Without value	Dismantled transformers from Sundernagar were diverted to Beri Sub-station.
5.	2x2.5 MVA sub-station at Subathu	Without value	Dismantled transformers from Nalagarh were diverted to Subathu sub-station.
6.	63 KVA, 25 KVA, 100 KVA and 250 KVA (Una division)	4.94	Repaired transformer utilised/installed.
	Total	**43.71**	

Source: Compiled from relevant records of the Board.

The MOP has not been informed about installation of old equipments.

The Government stated (August 2007) that old equipments were installed due to non-availability of new equipments. The reply is not tenable as the instructions for implementation of APDRP prohibited installation of old equipments in APDRP works.

Non-achievement of objectives of APDRP

Against the target of AT & C losses of 15 *per cent*, the Board could achieve only 25.34 *per cent* up to 2006-07.

Higher Aggregate Technical and Commercial losses (AT&C)

3.2.37 Against the target of total AT&C losses of 15 *per cent* to be achieved by 31 March 2007, the Board could reduce AT & C losses to the extent of 25.34 *per cent* only up to 2006-07. Further, as on 31 December 2006, the AT & C losses in the circles test checked by Audit ranged between 23.21 and 75.16 *per cent* as detailed below:

Circle	2002-03	2003-04	2004-05	2005-06	2006-07
Una	66.89	46.70	34.90	41.11	30.00
Hamirpur	75.16	49.02	46.67	41.77	33.57
Kullu	43.57	44.25	43.24	42.68	46.62
Bilaspur	34.56	24.04	30.30	24.33	23.21
Rohru	-	61.55	68.38	70.43	65.91
Board as a whole	48.46	38.64	35.89	30.98	25.34

Source: Compiled from the relevant records of the Board.

The Government stated that there was no target for reduction of AT & C losses to 15 *per cent*. It was further stated that except for Rohru circle, losses had been reduced in other circles. The reply is not tenable as the ultimate objective of the scheme as per direction of the MOP was to bring down the AT & C losses to 15 *per cent*. Thus, non-reduction of AT & C losses as per targets resulted in potential loss of revenue of Rs.494.39 crore in the above five circles.

Reliability and quality of power

3.2.38 The main objective of APDRP was to increase the consumer satisfaction in respect of quality, reliability and cost of power. To achieve this objective, the MOA prescribed target/bench marks for strengthening of the system, achieving self sufficiency and interruption free power supply to the consumers. Audit scrutiny revealed that the Board failed to achieve these objectives in respect of DTRs failure rate, HT/LT line ratio and gap between average revenue realisation (ARR) and average cost of supply (ACS) as discussed below:

Excess failure rate of DTRs

3.2.39 With a view to increase the consumers' satisfaction and reliability of power, the PGCIL had fixed the benchmark of 1.5 *per cent* for failure of DTRs. The Board, however, fixed the bench mark of two to 4.5 *per cent* for failure of DTRs for six[&] circles and 1.5 *per cent* for the Board as a whole. It was observed that two (Kullu and Solan) out of five circles test checked could not achieve the fixed bench mark (in percentage) as detailed below:

Circle	Bench mark in percentage (up to 2006-07)	Achievement (in percentage)				
		2002-03	2003-04	2004-05	2005-06	2006-07
Una	3.38	4.34	3.48	3.89	3.45	2.65
Hamirpur	2.00	1.70	2.46	1.88	2.04	2.02
Kullu	4.50	6.04	4.91	6.85	4.94	6.31
Bilaspur	4.40	5.55	5.60	4.90	3.94	3.39
Solan	2.54	-	-	2.91	4.14	4.74

In almost all the circles, the Board attributed failure of DTRs to internal faults, areas being lightening prone and shortage of staff which led to inadequate maintenance without finding out the actual reason for failure of each DTR with a view to taking remedial action.

The Government stated (August 2007) that there were no specific target for reduction to 1.5 *per cent.* The reply is not tenable as the bench mark of 1.5 *per cent* was contained in the DPRs of the circles.

Non-reduction in HT/LT line ratio

3.2.40 Long distance LT lines without adequate spacing of transformers are the main cause for line losses, LT faults and failure of DTRs. The CEA recommended 1:1 ratio of HT/LT line as an ideal ratio for minimising the losses. As against the above ratio, the Board fixed the HT/LT ratio bench mark of 1:1.5 for the circles test checked as well as Board as a whole. The detail of bench mark actually achieved by the Board as a whole as well as by the circles test checked was as under:

Circle	Target	2002-03	2003-04	2004-05	2005-06	2006-07
Una	1:1.5	1:2.01	1:1.98	1:1.98	1:1.92	1:1.84
Hamirpur	1:1.5	1:1.86	1:1.84	1:1.77	1:1.72	1:1.72
Kullu	1:1.5	1:2.63	1:2.61	1:1.84	1:1.73	1:1.70
Bilaspur	1:1.5	1:2.17	1:1.86	1:2.57	1:2.51	1:2.60
Solan	1:1.5	-	-	1:2.28	1:2.19	1:2.17
Board	1:1.5	1:1.97	1:1.89	1:1.85	1:1.80	NA

Source: Compiled from the relevant records of the Board.

It can be seen from the above table that in none of the circles, the benchmark of 1:1.5 was achieved by the Board. The non-achievement was due to non-construction of adequate HT lines under APDRP and non-conversion of LT lines into HT lines.

[&] *Una, Hamirpur, Kullu, Bilaspur, Rohru and Solan*

The Government stated (August 2007) that there was definite improvement in the ratio of HT and LT lines and the Board had not fixed bench mark to achieve the above ratio because it required huge investment. The reply is not tenable as the Board had fixed the bench mark of 1:1.5 for circles test checked as well as for the Board as a whole.

Non-reduction of T&D losses

The T & D losses over and above the limits approved by the HPERC accounted for potential loss of 213.86 MUs valued at Rs.63.08 crore in four out of five circles test checked in audit.

3.2.41 Reduction of T & D losses is necessary to generate more revenue. The HPERC approved the T & D losses of 23.5 *per cent* with one *per cent* reduction per year for energy sold within the State in the tariff order approved (October 2001) by it. The losses beyond this limit were to be treated as inefficiency and were not to be passed on to the consumers through tariff. It was noticed that the Board failed to achieve the above targets during 2004-05 to 2006-07 (December 2006) in four out of five circles test checked, as the actual losses ranged between 25.82 and 40.25 *per cent* which accounted for potential loss of 213.86 MUs valued at Rs.63.08 crore as detailed below:

Name of circle	Year	Energy input (MUs)	Actual loss (percent-tage)	HPERC (percent-tage)	Excess loss (percent-age)	Loss (MU)	Rate (Rs.)	Revenue loss (Rs.in crore)
Una	2004-05	223.693	26.39	20.50	5.89	13.18	2.95	3.89
	2005-06	251.474	26.85	19.50	7.35	18.48	2.95	5.45
	2006-07	229.182	25.82	18.50	7.32	16.78	2.95	4.95
Hamirpur	2004-05	170.461	29.54	20.50	9.04	15.41	2.95	4.55
	2005-06	174.917	29.04	19.50	9.54	16.69	2.95	4.92
	2006-07	136.921	29.40	18.50	10.9	14.92	2.95	4.40
Kullu	2004-05	131.37	33.41	20.50	12.91	16.96	2.95	5.00
	2005-06	141.247	35.33	19.50	15.83	22.36	2.95	6.60
	2006-07	119.196	40.25	18.50	21.75	25.93	2.95	7.65
Bilaspur	2004-05	172.008	29.51	20.50	9.01	15. 50	2.95	4.57
	2005-06	188.077	29.54	19.50	10.04	18.88	2.95	5.57
	2006-07	189.225	28.42	18.5	9.92	18.77	2.95	5.54
Total						**213.86**		**63.08**

Source: Compiled from the relevant records of the Board.

There was nothing on record to show that the Board had taken any steps to reduce the T & D losses.

The Government stated (August 2007) that the target fixed by HPERC was for the Board as a whole and not for individual circles. The reply is not tenable as the targets were also fixed in the DPR of each circle. Further, the Government had stated in reply to paragraph 3.2.22 *supra* that it was decided in the first DRC meeting to restrict the activities to circle-wise computation of T&D losses.

3.2.42 Scrutiny of records also revealed that in the Hamirpur circle, power was being supplied to different 33/11 KV sub-stations from 16 MVA 132/66/33 KV sub-station at Anu. But due to overloading in winter, 33 KV sub-stations at Barsar and Galore were fed during 2003-04 to 2006-07 from sub-station at Rakkar (Una) through a lengthy HT line (Una-Barsar: 46 KM and Una-Galore: 57 KM) resulting in avoidable energy loss of 1.276 MUs valued at Rs.37.64 lakh. The Board should have augmented the sub-station at Anu to minimise energy losses by avoiding supply of energy through lengthy line.

The Government admitted (August 2007) the fact of incurring excess T&D losses due to supply of power to these sub-stations in winter through longer route owing to overloading of 16 MVA sub-station at Hamirpur. The Government further stated that the sub-station at Anu (Hamirpur) was being augmented shortly to obviate this problem.

Deficient monitoring and Internal audit system

3.2.43 Effective periodical monitoring is necessary for efficient and economical execution of projects. It helps in detecting deficiencies at different stages of execution and taking remedial measures in time. Effective monitoring is possible through strong management information system and internal control mechanism. Internal audit is the main tool of internal control of an organisation. In regard to monitoring, the following deficiencies were noticed:

- In terms of clause 6.1 (a) of the MOA, a State level Distribution Reforms Committee (DRC) was to be constituted by the Board within one month of signing of the MOA and the DRC was to meet once in three months to review the progress of APDRP schemes, compliance of conditions of the MOU/MOA and performance against APDRP targets and bench marks. The MOA was signed on 7 December 2002 and the DRC was constituted in February 2003. The DRC, however, held only five meetings till April 2007 as against 17 meetings required to be held.

- Clause 6.2 (d) of the MOA envisages that there shall be monthly monitoring and review of achievements in respect of technical and commercial bench marks by the CEO of the circle and the Advisor (PGCIL). The proposals for overcoming the shortfall noticed during monitoring/review were to be submitted to the MOP. This requirement was not complied with in the circles test checked during the period of review.

- The Board enhanced powers of the Chief Engineer/Superintending Engineer/Executive Engineer for making purchases for APDRP works for speedy execution of works. It was noticed that the material valued at Rs.69.08 lakh was purchased by Kullu, Una and Bilaspur circles under enhanced power but the same was utilised in works other than APDRP. Thus, the Board failed to monitor the utilisation of material purchased for APDRP works.

- The Board did not have system of internal audit for APDRP works. The already existing internal audit cell of the Board was not auditing the APDRP works.

- The implementation of APDRP works was discussed by the whole time members (WTMs) of the Board from time to time and delay in execution due to non-availability of material was noted. Though the WTMs directed the field staff to take remedial measures to speed up the works, compliance with the direction was not watched by the WTMs. Thus, the discussion at the level of WTMs did not prove fruitful.

The Government stated (August 2007) that despite holding of five DRC meetings, periodical meetings with the MOP and PGCIL were held from time to time which served the ultimate objective. The progress was also reviewed at the Board level and during reviews conducted by the MOP and necessary measures were also taken. The reply is not tenable as the Board neither complied with the terms and conditions of MOA nor monitored the implementation of schemes as envisaged.

Non-appraisal of performance

3.2.44 For assessing the usefulness of any project and ascertaining the benefits actually derived with reference to those envisaged in the DPRs, the system of appraisal of performance should be in place in an organisation. It was observed that the system of appraisal of performance was not in place in the Board. Out of 19 components of 12 projects, 14 components were completed by the Board at a cost of Rs.301.03 crore between 2002-03 and 2006-07. In the absence of system of appraisal of performance, the Board had not assessed the usefulness of execution of the above components. Thus, it could not be ascertained in audit as to whether the envisaged benefits had accrued.

Acknowledgement

3.2.45 Audit acknowledges the co-operation and assistance extended by the Board and officers of the State Government at various stages of conducting the performance audit.

Conclusion

The Board failed to prepare the DPRs for APDRP schemes/projects after keeping in view the requirements of the field units. It also failed to comply with the conditions of MOU/MOA. Consequently, there was delay in completion of projects and there were also deviations in execution resulting in time/cost overrun, diversion of APDRP funds, non-achievement of targets, etc. The monitoring was deficient due to weak management information/internal control system and absence of internal audit system for APDRP works. The system of appraisal of performance was also non-existent.

Recommendations

- The system of formulation of DPRs needs to be streamlined to prevent subsequent changes at execution stage, time and cost overrun and non-accrual of benefits.
- The monitoring should be strengthened to ensure detection of deficiencies and to ensure appropriate remedial action at proper time.
- System of performance appraisal should be put in place to evaluate the usefulness of execution of projects and utilise the feed back for preparation of DPRs properly for future projects.
- Clear title to site should be ensured before execution of contracts. Provision should be made for geographical conditions, weather, *etc. to* avoid delays in project execution.
- Time for execution and cost should be firmed in turnkey projects.

3.3 Information Technology Review of computerised booking in Himachal Road Transport Corporation

Highlights

The Corporation introduced (1995-96) in-house developed software for booking of tickets and loaded it on computers installed at 15 locations under eight Regional Offices at a cost of Rs. 15 lakh.

Important deficiencies noticed during audit scrutiny are given below:

During the last 11 years, the corporation had not formulated any strategic plan for computerisation.

(Paragraph 3.3.8)

There was neither any password policy nor the system of taking back ups regularly.

(Paragraph 3.3.9)

The System did not contain refund module for computerised cancellation of tickets, the depot codes were not fed correctly and the System accepted advance booking even after issuance of way bills.

(Paragraphs 3.3.12 to 3.3.14)

There was lack of consistency in executable programs working in different booking counters. Resultantly, leakage of revenue could not be ruled out.

(Paragraph 3.3.17)

Introduction

3.3.1 The Himachal Road Transport Corporation (Corporation) was established in September 1974, under Section 3 of the Road Transport Corporation Act, 1950. The Corporation introduced in-house developed software for booking of tickets in 1995-96 written in MS COBOL 85 running on SCO Unix 5.0.0.4 operating system. The software is individually loaded on each stand alone computer installed at 15 locations under eight Regional Offices and Workshops at a total cost of Rs.15 lakh (approximately).

Advance booking clerk sends the way bills[1] of advance booking to the Current Booking counter 15 minutes before the departure of the bus for current

[1] *Way bill shows the number of seats booked alongwith details of ticket numbers issued*

booking of vacant seats. Both the advance and current way bills are handed over to the conductor after current booking. The daily statement of booking (depot-wise) is sent to the accounts section for inter depot adjustment.

On line[2] booking was assigned (April 2006) to a private firm, Shogi Communication Limited (SCL), Shimla in respect of 10 seats of Volvo/Deluxe buses plying on Delhi-Shimla and Delhi-Manali routes. The SCL stops booking four days prior to date of journey and way bill of the concerned bus is faxed on the same day for advance booking to Head Office, Shimla and concerned Regional Managers.

Organisational set-up

3.3.2 The management of the Corporation vests in the Board of Directors. The Managing Director is the Chief Executive. He is assisted in his day to day activities by the Chief General Manager.

The operational area of the State has been divided into four divisions (Shimla, Mandi, Dharamshala and Hamirpur) which are headed by the Divisional Managers. The divisions were further divided into 23 Regional Offices (RO) which are headed by Regional Managers. There are four workshops (Taradevi, Parwanoo, Mandi and Jassur) for repair and maintenance of vehicles which are headed by the Managers (Technical).

The Divisional Manager (IT) is overall in charge of computerisation in the Corporation.

Objectives of computerised booking

3.3.3 The main objectives of switching over to computerised booking from the manual booking system were to:

- exercising effective monitoring control;
- increase computerised booking to control leakage of revenue; and
- provide facility of advance booking to general public.

Scope of audit

3.3.4 The IT Audit of computerised booking was conducted during January and March 2007. The test check of records for the period 2006-07 was carried out in seven[3] out of 15 computerised booking counters, selected on random basis.

Audit objectives

3.3.5 Objectives of the IT Audit were to evaluate:

- reliability, integrity and authenticity of the data;

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[2] *www.Himachal.nic.in/hrtc and www.himachalhotels.in*

[3] *Shimla, Manali, Palampur, Baijnath, Dharamsals, Chandigarh & Delhi*

- availability of the data;
- safety and security of data; and
- IT environment in various booking counters and availability of related documentation.

Audit criteria

3.3.6 The audit criteria used for the IT audit were :

- the IT best practices; and
- the business rules for the charging of fares.

Audit methodology

3.3.7 The methodology adopted for attaining audit objectives with reference to audit criteria was as under:

- review of agenda and minutes of meetings of the Board of Directors (BODs) and Committee constituted by the BODs; and
- study of the computerised system.
- Before commencing audit, the audit objectives, criteria and scope were discussed (February 2007) with the Divisional Manager (IT) in an entry conference. The audit findings were discussed (March 2007) with the Divisional Manager (IT) in an exit conference.

Audit findings

General controls

Absence of planning

Due to deficient planning, the Corporation could computerise advance booking only in eight out of 27 Regional Offices and Workshops in 11 years.

3.3.8 The Corporation had not formulated a strategic plan for computerisation. The Management stated (March 2007) that it had decided to computerise all the Regional/Divisional Offices in the first phase but no time schedule was fixed by the Management. In the second phase, it had planned to start Network Advance/ Current Booking through telephone lines. In the third phase, all the Divisional/ Regional Offices would be placed on WAN[3] and current reservation would be computerised at all the bus stands. The Corporation had computerised only advance booking at 15[4] locations in eight[5] out of 27 Regional Offices and Workshops in a span of 11 years.

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[3] *Wide Area Network*

[4] *Delhi, Himachal Bhawan - Delhi, Chandigarh, Chamba, Mclodganj, Dharamsala, Kangra, Palampur, Baijnath, Kullu, Manali, Lakkar Bazar- Shimla, The Mall- Shimla, ISBT- Shimla, Haridwar*

[5] *Kullu, Nahan, Parwanoo, Palampur, Baijnath, Dharamsala, Chamba, Shimla (Local)*

I T security policy and Business Continuity Plan

There was neither any password policy nor there was system of taking back up regularly.

3.3.9 No password policy has been framed by the Management. Passwords are not being changed by the users at a regular interval which may lead to risk of mis-use of password.

There is no system to take continuous back up of data which may lead to loss of data on sudden crash of the system.

Though the Management stated that weekly back ups were taken on floppy disks but the same did not support by the fact that the data could not be restored after a sudden crash of system at Dharamshala, Kangra, Mclodganj, and Palampur booking counters. The booking clerks of those locations deposited cash for that period either on the basis of manual records or on approximate basis without any detail of cash statement.

Documentation

3.3.10 Proper documentation helps in trouble free operation and maintenance of the system. The User Manuals, Operation Manuals and System Manuals are not available.

No documentation of the Feasibility Study Report, User Requirement Survey (URS), System Requirement Survey (SRS), System Design and Documentation (SDD) were available on record.

System shortcomings

Inability of the system to calculate fare as per distance

The system had shortcomings such as failure to calculate fare as per distance, absence of refund module, acceptance of advance booking even after issue of waybills, *etc*.

3.3.11 Fare between two places is levied on kilometers basis (except Chandigarh and Delhi). It is fixed by the concerned State Governments from time to time for their territory on the basis of hilly/plain areas and type of bus (Ordinary/Express/Semi Deluxe/Deluxe/AC, *etc.*).

It was noticed during audit that the provision for calculating the fare on the basis of distance had not been incorporated in the system and the fare was manually fed by the booking clerks. This resulted in disparity in fare charged between two stages ranging between Re. 1 and Rs. 70 on the same route[6].

Non-incorporation of refund module

3.3.12 In-charges of Unit Offices (UOs)/ Central Booking Agencies (CBAs) are entitled to refund the advance booking fare subject to the condition that when tickets are submitted prior to four hours, within four hours prior to departure of bus and within four hours after departure of the bus by deducting 10, 25 and 50 *per cent,* respectively of cost of the ticket.

Audit revealed that no module was incorporated in the system for computerised cancellation of tickets. It was noticed that refund amounting to

[6] *Shimla to Kangra: Advance booking, Bus No. 14 Rs 185 and Current Booking, Bus No. 1 Rs. 172*

Rs.1.19 crore (in five units[7] test checked) was made during the period from 2002-03 to 2006-07 (up to January 2007) on cancellation of advance booking/tickets by the concerned booking clerks manually without following the prescribed procedure. Further, in some cases time of refund was also not recorded on the refund application form to restrict the ceiling of refund admissible.

Wrong accountal of income due to incorrect depot codes

3.3.13 During test check of daily cash deposit schedule of Manali and Kullu booking counters, it was noticed that depot codes were not fed correctly by booking clerks due to which, the System generated faulty reports and all inter unit adjustments of computerised booking income was done manually by Accounts Section.

System accepts advance booking even after issuance of way bill

3.3.14 It was noticed that though the advance booking is stopped 15 minutes before departure of the bus, the System accepts booking till departure time of the bus and even after issuing of way bill. This may lead to issue of duplicate tickets against the same seat number which may not only result in chaos in the bus but also loss of business.

The Management stated that it was up to the booking officials to conduct the booking or not. Even if the booking official books the tickets, he has no other way except depositing the cash. The plea is not tenable as the System should not carry out booking after issue of way bill.

Non-updation of the System to provide free referral transport to the poor patients

3.3.15 The State Government introduced (January 2004) a scheme for free referral transport facility to the poor patients including an attendant. It was noticed in IT audit that the System had not been updated so far to accept booking in respect of such patients under this scheme depriving poor patients of the intended benefit.

Non-providing of discount for one month's advance booking through the System

3.3.16 The Corporation implemented (September 2004) the Government's decision (July 2004) for providing 25 *per cent* discount for one month's advance booking. It was noticed that the System was not updated for allowing such discount on advance booking resulting in non-extension of benefit to the consumers. Thus, the objective of attracting more passengers by allowing discount on one month's advance booking was not achieved.

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[7] *Regional Manager, Baijnath and CBAs: Kullu & Manali, Shimla, Chandigarh and Delhi*

System management

Lack of change management procedure

There was lack of consistency in executable programs working in different booking counters.

3.3.17 An organisation should ensure consistency in executable program used in different units especially for the Systems used to collect revenue. The same program should work at all places. Audit noticed lack of consistency in executable programs working in different booking counters. Resultantly, leakage of revenue could not be ruled out as different programs were running in different counters. In the absence of uniformity in program at all locations, the chances of a booking clerk clouting with a programmer to misappropriate revenue could not be ruled out. On change of fare by any State, the Systems at all the counters of the organisation are also not updated simultaneously leaving loopholes in revenue collection.

The System generates daily cash deposit schedule (Form B) that shows depot-wise fare collected in respect of each State distinctly to facilitate inter-unit booking and payment of passenger fare for those States in which tax is paid on the basis of passengers' income. It was noticed in IT audit of the computerised booking system at CBA, Kullu and Manali that the System had no field for charging Uttranchal State fare separately. The fare of Uttranchal State was being charged with the Uttar Pradesh fare. Thus, the System was generating wrong information and failed to deliver the desired results. The System not only fails to calculate the fare of Uttranchal State and Uttar Pradesh State separately but this may also lead to wrong payment of passenger tax as the passenger tax of Uttranchal State is paid on the basis of passenger income (*i.e.* 21 *per cent* of basic fare collected by the concerned unit) and Uttar Pradesh tax is paid on kilometers (kms) basis. The matter was reported to the Management (February 2007); their reply is awaited (August 2007).

To comply with Sub-section 3(C) of Section 146 of the Motor Vehicle Act, the BODs approved (May 2003) a scheme to create Passenger Accident Insurance Fund (PAIF) to meet out all expenses relating to bus accidents and this scheme was implemented with effect from 1 August 2003. For this purpose, additional charges were to be levied by issuance of separate tickets of the denomination of Re.1 and Rs.2 in respect of passengers traveling for 51 kms to 100 kms and more than 100 kms respectively. This was also to be ensured in the computerised booking.

Test check of records of Palampur booking counter revealed that the System was not levying additional charges in nine routes[8] on account of insurance of passengers who traveled more than 50 kms in the Corporation's buses. This resulted in recurring loss to the Corporation since August 2003.

[8] *Shimla:3 routes, Pathankot:3 routes; Nayagram:1route ; Katra: 1 route and Chamba:1 route*

Due to damage of Gagger bridge, the Corporation directed (August 2006) all the Divisional Managers to charge additional fare of Rs.4 per passenger with immediate effect for ordinary buses plying to and fro Delhi via Rajpura from different locations of the State. During test check of records of Baijnath unit, it was noticed that the unit failed to charge additional fare of Rs.4 per passenger for three buses plying for Delhi via Rajpura resulting in loss to the Corporation from 31 August 2006 to 15 February 2007.

Increment in bus fare by Uttaranchal Transport Department from 41.68 to 45 paise per passenger per km for plain area with effect from 8 July 2005 was made effective by the Corporation from 30 August 2005 resulting in less charging of enhanced fare.

The orders of Secretary, Transport, Government of Jammu & Kashmir (14 December 2005) levying 10.5 *per cent* surcharge in respect of High Speed Diesel (HSD) driven vehicles after merging the basic fare and surcharge in respect of the existing notified passenger fare subject to the rounding off to the nearest 25 paisa was circulated by the Management on 12 January 2006 resulting in less charging of enhanced fare.

The Corporation decided (December 2002) to impose user charges on passengers traveling in Corporation's buses operating on the National Highway-1 (NH-1) on the basis of Haryana Transport Department notification dated December 2002 with immediate effect. These charges were to be imposed in addition to the fare as per the rates detailed below:

Distance	Rupee/Rupees
1 Km to 15 Kms	Nil
16 Kms to 25 Kms	1
26 Kms to 75 Kms	2
76 Kms to 125 Kms	3
126 Kms to 175 Kms	4
176 Kms and above	5

Test check of records in three[9] booking counters revealed that these booking counters failed to impose user charges on the passengers in 23 routes plying on NH-I on Chandigarh - Delhi route at the rate of Rs.5 per passenger and Chandigarh - Haridwar (via Ambala) route at the rate of Rs.2 per passenger. This resulted in non-realisation of user charges and consequent loss to the

[9] *Kullu, Manali and Palampur*

Corporation from December 2002 to February 2007. The matter was reported to the Management (February 2007); their reply is awaited (August 2007).

Other points of interest

Excess payment of passenger tax

3.3.18 The Chandigarh Administration fixed (January 2006) the maximum rate of fare for stage carriages plying in the Union Territory of Chandigarh as Rs.5 per passenger per trip irrespective of the distance travelled. The passenger tax for Chandigarh area is paid to the Excise and Taxation Officer, Chandigarh, by the concerned units on the basis of passenger fare collected from Chandigarh area at the rate of 35 *per cent* of the basic fare.

It was observed that though the Corporation charged fare for Chandigarh area at the rate of Rs.5 per passenger through computerised booking, the fare had been charged at the rate of Rs.9 per passenger in manual booking due to non-availability of tickets of Rs.5 for Chandigarh area. Adjustment of total fare had been made by less charging of fare of Rs.4 per passenger from other States so that the total fare remains the same. During January 2006 to January 2007, 11,49,700 tickets of Rs.9 denomination for Chandigarh area were consumed by different units test checked in audit. On the total collection of Chandigarh fare of Rs.1.03 crore, the Corporation had to shell out 35 *per cent i.e.* Rs.26.83 lakh to the Excise and Taxation Officer, Chandigarh as tax.

Less charging of fare in comparison to Special Road Tax paid

3.3.19 It was observed that input controls were not ensured by the Corporation. For example, distances fed in the computer should be counter checked with the distance for which Special Road Tax (SRT) is to be paid. Lack of input control led to loss of Rs.1.88 lakh to the Corporation from May 2003 to January 2007 due to non-charging of fare as per distance on which SRT was payable as detailed below:

- During test check at Palampur unit, it was noticed that the unit paid SRT for two routes plying from Palampur to Shimla (via Mandi and via Panchrookhi) for 252 and 260 kms whereas through the booking system, it charged fare for only 243 and 251 kms respectively. Thus, the Corporation either suffered a loss of Rs. 6 per passenger on these routes or paid extra SRT of Rs.1.21 lakh from May 2003 to January 2007.

- During test check at Baijnath unit, it was noticed that the unit paid extra SRT for two routes plying from Baijnath to Shimla (via Bharol and via Hamirpur) for four and six kms respectively in comparison to the fare charged from the passengers. Due to non-realisation of fare on the basis of SRT paid, the Corporation suffered a loss of Rs.3 and Rs.5 per passenger on two routes respectively and or paid extra SRT of Rs.0.67 lakh from May 2003 to January 2007.

The matter was reported to the Corporation/Government in June 2007; their replies are awaited (September 2007).

Conclusion

Though the Corporation has done a commendable work in in-house development of this software, the System has certain limitations. Only major bus stands have been covered under this project though the System is in use for more than 11 years. There is no documentation of the source code/ program to ensure business continuity. Further, being operated on stand alone machines, the System is vulnerable to loss of data and cash on crash of machines. Operation of different programs at different locations also makes it vulnerable to misappropriation of funds. At certain places, the System failed to generate desired reports leading to non-achievement of desired objectives.

Recommendations

- **System should be reviewed with a view to incorporate all the business rules of the Corporation. Further, it may be ensured that same version of software is installed at all the locations.**
- **Organisation wide back up policy and password policy should be devised for ensuring IT security.**
- **Management Information System and reporting features of the System need to be strengthened for effective monitoring.**

CHAPTER IV

4 TRANSACTION AUDIT OBSERVATIONS

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

Government companies

Himachal Pradesh State Forest Corporation Limited

4.1 Avoidable loss

Non-acceptance of rate offered by a party for bulk purchase of turpentime oil despite known decreasing trend in rates resulted in a loss of Rs.18.04 lakh due to subsequent sale of turpentine oil at lower rates.

The Company sells Turpentine Oil Grade II (T.Oil) produced at its Rosin and Turpentine Factories through tenders on quarterly basis. The rates offered by the parties are approved by a Committee consisting of the Managing Director, Executive Director and the Additional Secretary (Forests). The rates approved remain in force till the approval of rates received in response to next tender.

It was noticed (June 2007) that the Company invited (April 2006) sealed tenders for sale of T.Oil. The offers received from four parties were opened on 5 May 2006. The tentative quantity of T.Oil which was likely to be available for sale was more than 3 lakh litres including opening stock in the beginning of May 2006 and expected production from May to July 2006. The rates offered by the four parties were as under:

Sr. No.	Name of the party	Rate per litre inclusive of all taxes and duties
1	Vikram Aromatics Pvt. Ltd., Mumbai	Rs.39.50 (for 11,000 ltrs)
2	Camphor & Allied Products Ltd., Bareilly	Rs.37.50 (for 3,50,000 ltrs)
3	Himachal Terpene Products (P) Ltd., Kala Amb	Rs.33.50 (for 3,00,000 ltrs)
4	Dujodwala Resins & Terpenes Ltd., Jammu	Rs.33.00 (for 55,000 ltrs)

The above rates were below the reserve price of Rs.40 per litre fixed by the Company. The Committee approved the highest rate of Rs.39.50 per litre offered by Vikram Aromatics Pvt. Ltd., Mumbai for meager quantity of 11,000 litres for all the parties. The second highest rate of Rs.37.50 per litre for bulk quantity of 3.50 lakh litres offered by Camphor & Allied Products Ltd., Bareilly was not considered. But no other party except the party which offered the highest rate came forward to purchase T.Oil at the rate of Rs.39.50 per litre on the plea that the rate fixed was on the higher side. The second highest party, however, requested (11 May 2006) the Company to reconsider their decision and to accept its realistic rate which was based on market condition. The Management submitted the proposal for considering the request of the party to the Board of Directors (BODs), but by the time the BODs decided (30 June 2006) to sell at his quoted rates, the party had already withdrawn (1 June 2006) its offer. Thereby, the Company lost an opportunity to sell the available T.Oil at the highest available rate for bulk purchase despite the fact that the Company itself was selling T.Oil at the rate of Rs.37.35 per litre with effect from 9 March 2006.

As such, the Company could sell only 11,000 litres of T.Oil at the rate of Rs.39.50 per litre (5 May 2006 to 28 July 2006) out of 3.39 lakh litres of T.Oil available during this period. The balance quantity of 3.28 lakh litres of T.Oil was thereafter sold at the rate of Rs.32 per litre as approved by the Committee on 28 July 2006. Thus, due to delay in taking decision to accept the realistic rates of second highest party, the Company suffered a loss of Rs.18.04 lakh.

The Management stated (July 2007) that the rate was approved by the Committee for all types of sales and more than one rate could not be fixed for open sale. By the time (30 June 2006) the approval of the BODs was obtained for negotiations with the second highest party, the party had withdrawn (1 June 2006) its offer.

The matter was referred to the Government in August 2007; the reply is awaited (September 2007).

Beas Valley Power Corporation Limited

4.2 Undue favour to a contractor

In addition to payment of price variation increase of Rs.42.19 lakh as per the standard price variation formula incorporated in the agreement, the Company paid further price variation increase of Rs.82.10 lakh to the contractor resulting in undue favour to him.

Himachal Pradesh State Electricity Board awarded (April 2003) the work of construction of modified horse shoe shaped Head Race Tunnel (8,477 metres long) for 100 MW Uhl Stage-III Hydro Electric Project to SSJV Projects Pvt. Ltd., Banglore (contractor). This work was later on transferred to the Himachal Pradesh Jal Vidyut Vikas Nigam Limited, a new Company (incorporated in March 2003) which has now been renamed (November 2006) as Beas Valley Power Corporation Limited. As per contractual agreement (April 2003), if during the currency of the contract there is an increase or decrease in the cost of material as reflected by the whole sale price index for all commodities including steel items (base 1993-94 = 100), a corresponding increase or decrease in the payment to the contractor shall be computed for each quarter on the basis of a formula stipulated in the contract. The contract further provided that no claim whatsoever for the price adjustment/variation other than those stipulated above would be entertained.

Scrutiny of records (November 2006) relating to price variation claims of the contractor revealed that the Company paid price variation increase of Rs.42.19 lakh under the stipulated price variation formula. On the request (May 2005) of the contractor that there was abnormal increase in the prices of steel items which was not covered in the formula stipulated in the agreement, the Company devised a new price variation formula for allowing additional price variation increase and worked out further increase of Rs.1.64 crore in the prices of steel items up to September 2006. Out of above increase of Rs.1.64 crore, the Company paid to the contractor Rs.82.10 lakh in addition to the payment of Rs.42.19 lakh already made under the formula stipulated in the agreement. This resulted in extension of an undue favour of Rs.82.10 lakh to the contractor.

The Company stated (March 2007) that during May 2003 to May 2005 there was abnormal price hike in steel items in the global market and the formula stipulated in the agreement did not neutralise the price increase. The new formula was devised on the request of the contractor in order to compensate him and the element of increase in prices was shared by the Company and the contractor in the ratio of 50:50. This was stated to have been done in the interest of work to avoid more expenditure, delay in completion of work and carrying out of codal formalities of rescinding the work/recalling of tenders again. The reply is not tenable as the increase in prices of all items was linked to whole sale price index and the standard price increase formula incorporated in the contract took care of price increase from time to time of all commodities including steel. It was the responsibility of the Company to enforce the terms and conditions of the contract. Moreover, the Audit has not come across any other case where the Board/Company had granted this type of additional increase for any other work executed during the same period through other contractors to compensate them by paying additional increase in the prices of steel items.

The matter was referred to the Government in August 2007; the reply is awaited (September 2007).

Himachal Pradesh State Civil Supplies Corporation Limited

4.3 Undue favour to the Panchayat

Instead of taking recourse to legal action to secure possession of land allotted to it by the State Government or selecting some other piece of land, the Company succumbed to undue pressure from the Panchayat and incurred an expenditure of Rs.13.07 lakh on the construction of 12 shops.

For construction of godowns for storage of food grains and office building for its area office Shimla, the Company selected and got allotted (May 2002) 3.02 *Bighas* of Government land at Bhattakuffar (District Shimla) on lease for 99 years and lease rent of Rs.36,683 *per annum*. The land was, however, in the possession of the Gram Panchayat, which demanded (October 2002) eight duly constructed shops on this land from the Company in lieu of handing over the possession of the land. Instead of taking recourse to legal action to secure possession of the land or selecting an alternative site, the Company entered into (May 2003) an agreement with the Panchayat to construct eight shops for the Panchayat free of cost. The Company constructed eight shops at a cost of Rs.8.62 lakh but the Panchayat refused to take over the shops on the plea that the shops were one step down to the road. Hence, after negotiations (July and September 2005), the Company paid (March 2006) to the Panchayat Rs.4.45 lakh for the construction of four more shops on the road side. The Company also took over (November 2006) from the Panchayat already constructed eight shops on monthly lease rent of Rs.15,700 with increase of 10 *per cent* after every five years.

Thus, the Company created a liability for itself, by extending undue favour of Rs.13.07 lakh to the Panchayat *i.e.* the cost of construction of 12 shops and the lease rent of Rs.1.47 lakh to the Panchayat, which should have gone to the State Government. Besides, there would be additional annual liability of Rs.1.88 lakh as lease rent of self constructed shops.

The Government stated (June 2007) that all issues were finalised with the approval of the Board of Directors. The eight shops were taken on rent keeping in view the storage requirement of the Area Manager, Shimla. The lease rent of land was being paid to the Panchayat on the condition that if the Government decided to charge lease rent of land, the same would be deducted from the rent payable to the Panchayat for its godowns taken on rent by the Company for storage of gas. The reply is not tenable as the Government did not give any justification for the selection of disputed land initially, subsequent failure of the Company to take legal action for taking possession of the Government land duly allotted to it and succumbing to undue pressure of the Panchayat.

Himachal Pradesh Tourism Development Corporation Limited

4.4 Unfruitful investment

Construction of a tourist complex at a place having negligible tourist potential without preparing feasibility report or conducting cost benefit analysis resulted in its leasing out immediately after construction and indecision of the Management to take action against the lessee though he did not make payment of lease rent since August 2005. This resulted in unfruitful investment of Rs.94.33 lakh on a tourist complex.

The Company constructed (1999-2004) a tourist complex (Complex) consisting of eight double bed rooms, a restaurant, a multipurpose hall, a gymnasium, a health club and a dormitory at Nurpur in Kangra District at a cost of Rs.94.33 lakh.

The salient features of construction, financing and running of the tourist complex are given below:

- The Company did not prepare feasibility report/ cost benefit analysis before obtaining grant for constructing the Complex. The justification given for constructing a tourist complex made a mention of a fort and two temples at Nurpur; a few temples around Kangra, a place about 75 Kms away from Nurpur and scenic beauty and pollution free atmosphere of the State. There was nothing on record to show that the place had enough tourist potential.
- Cost of construction was met out of grants of Rs.81.58 lakh (GOI: Rs.70 lakh, State Government: Rs.11.58 lakh) and Company's own funds of Rs.12.75 lakh.
- Decision to lease out the Complex was taken in August 2002 and it was leased out (September 2004) to Spain Electronics Corporation Limited, Delhi (SECL) for five years on lease rent of Rs.33.82 lakh (recoverable at incremental annual rent from Rs.6.12 lakh in the first year to Rs.7.44 lakh in the fifth year which was to be paid in advance on quarterly basis.
- SECL made (up to July 2005) payment of Rs.4.59 lakh being the three instalments only, thereafter no payment was made and the Company invoked the security deposit of Rs.3.31 lakh in November 2005 towards lease rent.
- The SECL filed (February 2006) a civil writ petition in the High Court, Shimla for restraining the Company from claiming lease rent or asking for fresh security.

Thus, investing the hard earned money of tax payers received by way of grant at a place without preparing feasibility report/cost benefit analysis reflects the Company's indifference to sound and prudent financial principles resulting in unfruitful investment of Rs.94.33 lakh.

The Government admitted (June 2007) that feasibility report/cost benefit analysis of the project was not prepared. It was further stated that the contract with SECL had been terminated (8 March 2007) and case for recovery of dues and eviction of lessee from the premises had also been filed (April 2007) in the court. The fact, however, remains that the tourist complex was constructed at a place having negligible tourist potential and the decision (August 2002) of the Company to lease out the complex even before the complex was constructed (August 2004) reflects the apprehension of the Company that running the complex on its own would have resulted in huge losses. So far as actions for recovery of dues and eviction of lessee are concerned, the same were taken after Audit pointed out (February 2007) lack of action on the part of the Management.

4.5 Avoidable extra payment

Entering into agreement for higher contract demand for electricity in two complexes resulted in avoidable extra payment of Rs 11.36 lakh to Himachal Pradesh State Electricity Board.

The Company entered into (September 2004 and April 2005) agreements with the Himachal Pradesh State Electricity Board (Board) for supply of power to Dharamshala Tourist Complex and Himachal Holiday Home, Shimla indicating contract demand of 30 to 200 KVA in respect of 10 connections.

The Board approved (July 2004) two part tariff structure. As per tariff, the consumers for commercial, non-commercial, non-domestic, water pumping, small, medium industrial supply and bulk supply consumers having connected load above 20 KW (22 KVA) were requested to declare their contract demand in KVA and enter into an agreement with the Board for the purpose of levy of demand charges with effect from 1 October 2004. As per the tariff order applicable with effect from July 2005, the demand charges were to be levied at the rate of Rs.125 per KVA per month for connected load of 20 KW (22 KVA) to 100 KW (111 KVA) and Rs.175 per KVA per month for connected load above 100 KW (111 KVA) which were subsequently (July 2006) reduced to Rs.75 and Rs.100 respectively.

The agreements for contract demand for power supply entered into by the Company were on higher side as the maximum power consumption of 18 to 104.47 KVA was recorded by the Board in the above two complexes between July 2005 and February 2007. Though the Company had the option to revise the contract demand, it failed to review the requirement of electricity and get the contract demand reduced resulting in avoidable extra payment of Rs 11.36 lakh to the Board for these two complexes from July 2005 to February 2007.

The Government stated (June 2007) that contract demand was made after assessing tourist occupancy and over all trend of consumption of electricity though subsequently electricity consumption remained comparatively less. The contract demand has now been reduced as advised by Audit. The fact, however, remains that the Company failed to review the contract demand *vis-à-vis* consumption of electricity for two/three years till higher contract demand was pointed out (February 2007) by Audit.

Himachal Pradesh State Handicrafts and Handloom Corporation Limited

4.6 Diversion of grant-in-aid

The Company diverted grant-in-aid of Rs.17.15 lakh received for purchase of handlooms for imparting training to the prospective weavers for payment of salary and wages of regular staff.

The Company has been conducting various training programmes for handloom and carpet weavers under different grant-in-aid (GIA) schemes of the State and the Central Government. The funds are released to the Company by the Government based on schemes formulated by the Company, which includes provision for expenditure on account of cost of looms required for imparting training to the prospective weavers besides other expenses for running the schemes.

The Company received GIA of Rs.3.90 crore (State: Rs.3.73 crore and Centre: Rs.0.17 crore) during the last five years ended 31 March 2006. Despite repeated verbal and written requests, the Company did not produce records to show the amount of GIA received for the purchase of looms during these years. Scrutiny of records (February 2007) revealed that the Company did not purchase new looms during 2001-06 for imparting training and gave training to the prospective weavers on the already existing handlooms. These looms were acquired out of GIA received during the earlier years. In order to show utilisation of GIA received for this purpose, the Company revalued the existing looms having book value of Rs.7.64 lakh as Rs.24.79 lakh and charged the difference of Rs.17.15 lakh as tabulated below to GIA received during these years without actually spending any amount.

The said amount of Rs.17.15 lakh was utilised by the Company for payment of salary and wages to the staff during the last five years ending 31 March 2006.

(Rupees in lakh)

	2001-02	2002-03	2003-04	2004-05	2005-06	Total
Book value of looms revalued	0.98	2.95	0.33	2.80	0.58	7.64
Value after revaluation of looms	5.37	8.32	2.31	6.05	2.74	24.79
Difference- amount charged to GIA but used for payment of salary and wages	4.39	5.37	1.98	3.25	2.16	17.15

Source: Compiled from the relevant records of the Company.

Audit pointed out (December 2003 and June 2005) the aforesaid diversion of GIA during transaction audit of the Company for 2002-03 and 2003-05. Instead of refunding the above amount of GIA to the Government, the Company continued the practice during 2005-06 also. Thus, the Company diverted GIA of Rs.17.15 lakh for purposes other than those specified in the sanction for grants during the last five years ended 31 March 2006.

The Government admitted (June 2007) that the training was imparted on old looms but stated that the expenditure was rightly charged to GIA as it was no where mentioned in the scheme that the training should be imparted on newly purchased looms. The reply is not tenable as the Company had been given GIA by the State and Central Governments for buying new looms on the basis of the Company's own proposals. Therefore, diverting the money for another purpose and showing it as utilised on the purchase of new looms tantamounts to mis-utilisation of GIA.

Statutory corporations

Himachal Pradesh State Electricity Board

4.7 Avoidable payment of interest

Failure of the Board to exercise the option available for redemption of bonds of Rs 58.44 crore after five years resulted in avoidable payment of interest of Rs.6.89 crore for the period beyond fifth year.

For financing its requirement of capital expenditure, the Board raised (January to March 1999) funds of Rs.58.44 crore (Rs.28.44 crore from the Kangra Central Co-operative Bank Limited (KCCBL), Dharamsala and Rs.30 crore from the H.P. State Co-operative Bank Limited (HPSCBL), Shimla) at an interest rate of 14.48 *per cent per annum* payable half yearly through issue (January 1999) of Non-SLR Bonds-2006. The period of bonds was seven years with the option for redemption after five years.

It was observed (April 2006) that the interest rate on borrowings decreased from 14.48 *per cent* in 1999 to 11.30 *per cent* in 2002 and 8 *per cent* in 2004. Despite the decreasing trend in the interest rate on borrowings, the Board did not exercise the option of redemption of bonds after five years (27 March 2004). Instead, it requested (August 2004) the concerned Banks to restructure their interest with current lending rate of interest. While KCCBL (which had sold in July 2005 bonds of Rs.5.20 crore to Poonawalla Investment and Industries Pvt. Ltd., Pune) agreed (July 2005) to reduce the rate of interest to 10 *per cent* from August 2005 on the bonds of Rs.23.24 crore, HPSCBL refused (November 2004) to reduce the rate of interest. Consequently, the Board paid interest at 14.48 *per cent per annum* on Rs.58.44 crore beyond the fifth year from 28 March 2004 to 31 July 2005 and on Rs.35.20 crore from 1 August 2005 to 27 March 2006 and at 10 *per cent per annum* on Rs.23.24 crore from 1 August 2005 to 27 March 2006. Had the Board exercised the option available for redemption of bonds after five years and repaid Rs.58.44 crore to the banks after five years on 27 March 2004 (by arranging funds from the market at the then prevailing interest rate of 8 *per cent per annum),* it could have avoided payment of interest of Rs.6.89 crore from 28 March 2004 to 27 March 2006.

The Government stated (August 2007) that the financial position of the Board was not favourable and did not permit the Board to exercise redemption option. Besides, for availing loan from the financial institutions for refund of the amount to above banks, Government gurantee was required whereas the State Government was reluctant to furnish gurantee to the Board. Thus, the Board was left with no alternative but to pay interest on the balance unstructured amount of loan at the rate of 14.48 *per cent per annum*. The reply is not tenable as the Board had neither considered the option for redemption of bonds nor approached the State Government for giving guarantee to mobilise funds (available at lower rate of interest for redemption of above bonds) from the market.

4.8 Undue favour to supplier

The merger of excise duty in the ex-works rates, though the supplier was exempted from payment of the same, resulted in extending of an undue favour of Rs.1.29 crore to the supplier on the purchase of conductor.

The Board placed (July 2004) two supply orders on Durable Conductors, Solan for the supply of 5,417.75 Km ACSR/AAA conductors of various types valuing Rs.14.32 crores. The purchase orders clearly indicated per Km ex-works prices, 16 *per cent* Excise Duty (ED), freight and insurance, *etc.* for each type of conductor. As per the terms and conditions of the *ibid* purchase order, the ED was to be paid to the supplier against documentary proof of payment of the same by him.

After receipt of orders, the firm informed the Board (August 2004) that due to substantial expansion, it was exempted from payment of ED as per the GOI notification (June 2003) and requested the Board to merge 16 *per cent* exempted ED component in the ex-works rates. The SPC in its meeting (June 2005) decided to merge ED component in the ex-works rates and the purchase orders were revised accordingly. Thus, on purchase of 3,215.50 Km conductor, total ED exemption benefit of Rs.1.29 crore (**Annexure-XXXIII**) was passed on to the firm. This resulted in extending of an undue favour to the supplier and consequent loss to the Board to that extent.

The matter was referred to the Government/Board in August 2007; their replies are awaited (September 2007).

4.9 Avoidable overpayment

Failure of the Board to fix rates for supply of conductors as per instructions contained in the tender document resulted in avoidable overpayment of Rs.78.64 lakh.

The Board floated (February 2004) tender enquiries for procurement of different type of ACSR/AAA* conductors. After opening (March 2004) of the bids received thereagainst, the following firms emerged as L-1 for various types of conductors:

Sr. No.	Name of the firm	Type of conductor	L-1 ex-works rate (Rs. Per Km)	L-1 FOR rate (Rs. Per Km)	FOR Rates of local firms			
					Durable conductors	Percentage of excess of quoted rates *w.r.t* L-I	Nu-Line Industires	Percentage of excess of quoted rates *w.r.t* L-I
	(a)	(b)	(c)	(d)	(f)	(g)	(h)	(i)
1.	New India Wire & Cable Industries, Jammu	ACSR Weasel	10,871.00	12,760.00	13550	6.19	13442	5.34
2.	Ritco Automotive's (India) Pvt. Ltd. Bhiwadi, Rajasthan	ACSR Rabbit	18,500.00	20,981.00	21320	1.62	21550	2.71
		ACSR Raccon	27,300.00	30,981.00	-	--	32500	4.90
3.	Venkateshwara Wires Pvt. Ltd., Jaipur	AAA Squirrel	6,757.04	8,294.93	8850	6.69	8819	6.32
		AAA Weasel	10,509.18	12,934.46	13600	5.15	13515	4.49
		AAA Rabbit	16,553.28	20,385.84	21299	4.48	21295	4.46

Source: Compiled from the relevant records of the Board.

* *ACSR-Aluminium Conductor Steel Reinforced/AAA-All Aluminium Alloy*

As per instructions[&] contained in the tender document, the manufacturing units located in the State of Himachal Pradesh (HP), whose rates fall within 17.5 *per cent* over the overall FOR comparable rates of the outside lowest eligible tenderer may be given order for purchase at the comparable lowest ex-works rate of L-1 firm. In their case, payment on account of duties and taxes applicable in HP are to be paid on actual basis on production of documentary proof of evidence of payment of the duties and taxes or the total FOR rates of L-1 firm whichever is on the lower side.

As all the L-1 firms were from outside the State, the Board placed (July 2004, January and July 2005) supply orders on the L-1 firms and also on two H.P based firms (Durable Conductors, Solan and Nu-Line Industries Pvt. Ltd., Parwanoo) who participated in the tender. But while fixing the rates for H.P. based firms, the Board considered L-1 FOR rates which were higher when compared to the L-1 ex-works rates with applicable duties and taxes. This was in violation of the above mentioned condition of the tender document for fixation of rates, which resulted in avoidable overpayment of Rs.78.64 lakh to these firms as detailed in the **Annexure-XXXIV**. There were no reasons on record for not fixing the rates as per the conditions of the tender document.

The matter was referred to the Board/Government in May 2007; their replies are awaited (September 2007).

4.10 Avoidable payment of excise duty

Failure of the Board to obtain documentary evidence of payment of excise duty from the supplier before releasing the payment resulted in avoidable payment of excise duty of Rs.73.48 lakh.

The Board placed (19 July 2004) two purchase orders for supply of 2,405 Kms AAA[*] conductors and 347.50 Kms AA/ACSR[*] conductors respectively on Bharat Electrotech Pvt. Ltd., Damtal. The Board also placed (3 January 2005) additional purchase orders for supply of 601.50 Kms AAA conductors and 86.50 Kms AA/ACSR conductors on the same supplier. The FOR destination consignee store rates of the supplier were inclusive of excise duty (ED) at the rate of 16 *per cent*. As per the terms and conditions of the, *ibid,* purchase orders, the ED was to be paid to the supplier against documentary proof of payment of the same by him.

& *Instruction No. 16.2 of the tender document*
* *AAA -* *All Aluminium Alloy*
AA/ACSR- *All Aluminium/Aluminium Conductor Steel Reinforced*

The supplier informed (November 2004) the Board that his firm was exempted from the payment of ED in terms of the Government of India Notification of June 2003 vide which all industrial units existing before 7 January 2003 which had undertaken substantial expansion by way of increase in installed capacity by not less than 25 *per cent* on or after 7 January 2003 were exempt from payment of ED. In view of above, the supplier was not entitled to the payment of ED and thus, the Board should not have released the same to him. The Board, however, released ED of Rs.73.48 lakh to the supplier on receipt of conductors without obtaining documentary proof of payment of the same. This resulted in avoidable payment of ED of Rs.73.48 lakh to the supplier and consequent loss to the Board to that extent.

The Government stated (June 2007) that no communication regarding exemption from payment of ED to Bharat Electrotech Pvt. Ltd., Damtal was available in the record. The supplier had indicated serial number and date of RG (Part-II) in each invoice on the basis of which the payment of ED was made to him by treating the same as documentary proof of having paid ED. The reply is not tenable as the supplier had requested (November 2004) the Board to amend the purchase orders placed on him suitably treating his unit as exempted from payment of ED in terms of Government of India notification of June 2003. Further, as per terms and conditions of purchase orders, ED was to be paid only on production of documentary proof of payment to the Government and invoices of material supplied is not an acceptable proof.

4.11 Loss on sale of surplus land

The Board sold its surplus land at Barmana having market value of Rs.1.17 crore to a private party for Rs.47.87 lakh resulting in loss of Rs.69.13 lakh coupled with interest loss of Rs.13.32 lakh due to accepting the total agreed cost after 22 months from the date of agreement.

The Board commissioned (December 1998) 220 KV single circuit line from Dehar to Kangoo along with 220/132/33 KV sub-station at Kangoo. With the commissioning of this line, the existing 132/33 KV sub-station at Barmana from where power to ACC Barmana (Company) was being supplied became idle. Thus, the Board dismantled (1999-2000) the sub-station at Barmana and 19.3 *bigha* of land at which the sub-station was built became surplus. As the land was originally purchased by the Board from the Company, the Company desired (February 2003) to buy back the said land. The Land Acquisition Officer (LAO) of the Board assessed (June 2003) the present market value of land at Rs.1.17 crore. The value of immovable assets on the surplus land was assessed at Rs.33.99 lakh, the total value of land and immovable assets worked out to Rs.1.51 crore. In spite of this, the Board agreed (May 2004) to sell this land to the Company for Rs.81.86 lakh (Land: Rs.47.87 lakh, on the basis of assessment made by the Patwari of the area and immovable assets: Rs.33.99 lakh) and agreement signed (June 2004).

The Board received (April 2006) Rs.81.86 lakh *i.e.* after a delay of 22 months. The sale deed was executed (May 2006) when the current market rate of this land for the purpose of stamp duty and registration fee was assessed as Rs.1.44 crore by the same Patwari. This indicated that the assessment of Rs.47.87 lakh made earlier by the Patwari was not correct. By ignoring the assessment made by its own LAO and not getting the assessment of Patwari reviewed from the Senior Officer of the Revenue Department, the Board extended undue favour to the Company and loss of Rs.69 lakh by selling the land at much below the prevailing market rate. The Board also suffered loss of interest of Rs.13.32 lakh (7 July 2004 to 27 April 2006 at the rate of 9 *per cent per annum,* which was the rate at which the Board was borrowing funds) by accepting the sale proceeds after 22 months from the date of signing the agreement.

The Board also failed to safeguard its interest by not incorporating a suitable clause for charging the cost of the land at the rate prevailing when final payment is made. Before execution of sale deed, the Finance and Accounts wing of the Board, *inter alia,* opined (November 2005) that the LAO of the Board and the Patwari were both from the Revenue Department and the Board should have considered the assessment as made by LAO (a senior officer). Based on the market value of land as assessed by the Patwari at the time of execution of sale deed, the loss worked out to Rs.96 lakh (Rs.1.44 crore-Rs.47.87 lakh).

The Government admitted (September 2007) that the value of land was assessed at Rs.1.17 crore by LAO in July 2003 after the committee of the Board recommended (June 2003) to sell the land at market price. It further stated that the value of land was got re-assessed (February 2004) from the Patwari at the time of finalisation of decision when it was assessed at Rs.47.87 lakh. The reply is not tenable as the Government did not assign any reason for not accepting the value of land as assessed by the LAO in July 2003 and why it went for re-assessment. Further, it was also decided to receive the sale value at the time of execution of sale deed on the basis of assessment made by the Patwari earlier. As the Board agreed for execution of sale deed at a later date, it could have asked for the value of the land as at the time of execution of sale deed which was assessed by the Revenue Department as Rs.1.78 crore (including value of immovable assets: Rs.33.99 lakh).

4.12 Undue favour to supplier

Due to non-enforcement of risk and purchase clause of the supply order, the Board extended undue favour to the supplier and thereby suffered a loss of Rs.11.82 lakh.

The Board placed (July 2004) two purchase orders on Bharat Electro Tech Private Limited, Damtal for supply of 2,752.500 Km conductor of various types for Rs.8.61 crore for delivery within six months from the date of issue of purchase orders. As per terms and conditions of the purchase order, the Board also placed (January 2005) two additional purchase orders for supply of 688 Km conductor for Rs.2.15 crore on the same terms and conditions. The Board had bank guarantees from the firm for Rs.48.94 lakh.

Against the total ordered quantity of 3,440.500 Km conductor, the supplier delivered (March 2005) only 1,982.732 Km at a cost of Rs.5.97 crore and the balance quantity of 1,457.768 Km conductor was purchased by the Board during 2005-06 at higher rates from other suppliers at an extra cost of Rs.26.78 lakh. The Board was entitled to recover this amount from the original supplier as risk purchase cost as per terms and conditions of the purchase orders. The Board, however, recovered (February 2006) only Rs.14.96 lakh by encashing bank guarantee of Rs.39.78 lakh, being the risk purchase cost of 769.768 Km conductor against the first order and suspended business dealing with the supplier for five years. The balance amount of Rs.11.82 lakh remained un-recovered as the Board refunded the balance amount of Rs.24.82 lakh of the bank guarantee encashed by it to the supplier. The Board also did not enchash the remaining bank guarantee of Rs.9.16 lakh.

The matter was referred to the Board/Government in May 2007; their reply is awaited (September 2007).

Himachal Road Transport Corporation

4.13 Loss due to injudicious decision and its improper implementation

Injudicious decision to provide free traveling facility to the cancer/spinal injury patients in its buses and its improper implementation resulted in loss of Rs.49.23 lakh.

The State Government (Department of Transport) decides from time to time to allow free/concessional traveling facility to certain categories of passengers such as students, Government employees, police persons, handicapped persons, Members of Parliament and State Legislatures, *etc.* in the buses of the

Corporation. The loss on this account is reimbursed as subsidy by the State Government to the Corporation. The State Government makes budget provision to this effect each year and the amount is released to the Corporation in installments.

It was observed (June 2007) that the Transport Minister of the State, without the approval of the State Government, extended (October 2003) free traveling facility to people of the State suffering from cancer/spinal injury for undergoing treatment in the Government hospitals within and outside the State. Thereafter, the Corporation requested (October 2003) the State Government to accord necessary approval for providing such facility and make budgetary provision to meet the financial liability on this account. In response, the State Government stated (December 2003) that there was neither any need to obtain State Government approval nor any budgetary support as only small number of patients of cancer/spinal injury would be involved. The State Government also recommended (December 2003) the inclusion of multiple fracture/kidney patients and stated (December 2003) that the Corporation may obtain approval of its Board of Directors (BODs). The State Government further directed that the concession be extended only to such patients (along with one attendant) who are referred for treatment to other Government Hospitals by an officer of the Health Department not below the rank of Chief Medical Officer (CMO).

The BODs discussed (July 2004) the response of the State Government and without making efforts to ascertain the likely number of such patients from the Health Department or the State level hospital at Shimla, approved (July 2004) the proposal. The Management also did not approach the State Government again to provide budgetary support though its accumulated losses stood at Rs.307.68 crore as on 31 March 2003 thereby eroding its paid-up capital of Rs.213.51 crore. This indicates that the decision of the BODs was neither well thought of nor based on prudent and sound commercial and financial principles. The Management had also circulated (January 2004) the proposal to the Divisional Managers for compliance *i.e.* even before the proposal was approved by the BODs.

During the period January 2004 to June 2007, the Corporation allowed the concession of Rs.49.23 lakh. The implementation of the decision was test checked in the office of Regional Manager (local) Dhalli, Shimla and it was noticed that the officers concerned who was empowered to issue passes to the patients along with one attendant for free travel in the buses, did not verify the papers of even a single patient (out of 10,516 patients to whom concession of Rs.28.57 lakh was given) to ascertain as to whether the patient was referred by a Health Officer, not below the rank of CMO. Even after coming to know the quantum of loss being suffered, the Management had not taken up the matter with the State Government for reimbursement of such loss or discontinuation of the concession. Thus, implementation of the decision of the Minister without approval of the State Government resulted in non-reimbursement of the amount of Rs.49.23 lakh and for subsequent years also the Corporation would have to bear the cost which would further adversely affect the poor financial position of the Corporation.

The matter was referred to the Government/Corporation in August 2007; their replies are awaited (September 2007).

General

4.14 Follow-up action on Audit Reports

Explanatory Notes outstanding

The Comptroller and Auditor General of India's Audit Reports represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various Public Sector Undertakings. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Himachal Pradesh issued (February 1994) instructions to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 2002-03, 2003-04, 2004-05 and 2005-06 were presented to the State Legislature in February 2004, April 2005, April 2006 and April 2007 respectively, two departments did not submit explanatory notes on 44 out of 59 paragraphs/reviews, as on August 2007, as indicated below:

Year of Audit Report (Commercial)/ Commercial Chapter	Total paragraphs/reviews in Audit Report/Commercial Chapter	Number of paragraphs/ reviews for which explanatory notes were not received
2002-03	12	6
2003-04	15	12
2004-05	13	9
2005-06	19	17
Total	**59**	**44**

Department wise analysis is given below:

Name of department	2002-03	2003-04	2004-05	2005-06
Power department	6	9	5	9
Horticulture department	-	-	-	2
Tourism department	-	-	-	1
Industries department	-	-	-	1
Transport department	-	-	-	1
Finance department	-	3	4	3
Total	**6**	**12**	**9**	**17**

The department largely responsible for non-submission of explanatory notes was the Power department. It did not submit explanatory notes to 29 out of 44 paragraphs/reviews. It did not respond to even reviews highlighting important issues like system failures, delay in procurement of material, loss of interest, excess inventory holding, short recovery, underbilling, mismanagement, extra/overpayments, undue favour, non-recovery of interest on advance given to contractors, *etc*.

Compliance to Reports of Committee on Public Undertakings (COPU)

The Action Taken Notes to the recommendations of COPU are required to be furnished within six months from the presentation of the Reports. Replies to 41 paragraphs pertaining to 10 Reports of the COPU, presented to the State Legislature between March 2005 and March 2007, had not been received as on August 2007, as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where replies not received
1998-99	2	12
1999-2000	3	13
2000-01	1	11
2002-03	1	1
2003-04	1	2
2004-05	2	2
Total	**10**	**41**

Action taken on persistent irregularities in Audit Reports

With a view to assist and facilitate discussion of the paras of persistent nature by the State COPU, an exercise was carried out to verify the extent of corrective action taken by the concerned auditee organisation and results thereof are indicated in **Annexure-XXXV**.

A review of persistent irregularities included in **Annexure-XXXV** would reveal that though the irregularities relating to excess inventory holding (ranging between Rs.6.30 crore and Rs.13.35 crore), non-recovery of advance consumption deposits (Rs.3.84 crore), loss due to wrong application of tariff (Rs.0.14 crore), short recovery of peak load exemption charges (Rs.1.51 crore), undue favour to consumers (Rs.7.42 crore) etc. pertaining to Himachal Pradesh State Electricity Board were included in the Audit Reports (Commercial)/Commercial Chapter of Audit Report (Civil) of the Comptroller and Auditor General of India- Government of Himachal Pradesh for the years 1994-95 to 1996-97, 1998-99, 2000-01, 2002-03, 2003-04 and 2005-06, these irregularities continued to persist, as the Government/Board had not taken corrective action.

The matter was reported to the Government (September 2007); the reply is awaited (September 2007).

4.15 Response to inspection reports, draft paras and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of the Public Sector Undertakings (PSUs) and departments of the State Government concerned through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to February 2007 pertaining to 21 PSUs disclosed that 3,351 paragraphs relating to 943 inspection reports remained outstanding at the end of August 2007. Department-wise break-up of inspection reports and audit observations outstanding as on 31 August 2007 is given in **Annexure-XXXVI.**

Similarly, reviews and draft paragraphs on the working of Public Sector Undertakings are forwarded to the Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that eight draft paragraphs and three reviews forwarded to the five departments between May and September 2007 as detailed in **Annexure-XXXVII** had not been replied to so far (September 2007).

It is recommended that (a) the Government should ensure that procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/Action Taken Notes on the recommendations of COPU as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayments is taken within prescribed time schedule, and (c) the system of responding to audit observations is revamped.

The matter was reported to the Government (September 2007); the reply is awaited (September 2007).

Shimla
The 26 DEC 2007

(SUMAN SAXENA)
Accountant General (Audit)
Himachal Pradesh

Countersigned

New Delhi
The 28 दिसम्बर DEC 2007

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India

ANNEXURES

Annexure-I

(Refer paragraphs 1.3, 1.4 and 1.5)

Statement showing particulars of up-to-date paid-up capital, budgetary outgo, loans given out of budget and loans outstanding as on 31 March 2007 in respect of Government companies and Statutory corporations

(Figures in columns 3(a) to 4(f) are Rupees in lakh)

Sr. No.	Sector and name of the company/corporation	Paid-up capital as at the end of 2006-07					Equity/loans received out of Budget during the year		Other loans received during the year@	Loans **outstanding at the close of 2006-07			Debt equity ratio for 2006-07 (Previous year) 4(f)/3(e)
		State Government	Central Government	Holding Companies	Others	Total	Equity	Loans		Government	Others	Total	
1	2	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	5
A	**Working Government companies**												
	AGRICULTURE AND ALLIED												
1	Himachal Pradesh Agro Industries Corporation Limited	984.08	196.00	-	-	1180.08	-	-	-	150.87	-	150.87	0.13:1 (0.13:1)
2	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	1023.50	150.00	-	607.00	1780.50	-	-	-	1212.92	104.00	1316.92	0.74:1 (0.68:1)
3	Agro Industrial Packaging India Limited	1675.00	-	-	97.00	1772.00	-	-	-	2212.83	-	2212.83	1.25:1 (1.25:1)
	Total	**3682.58**	**346.00**	**-**	**704.00**	**4732.58**	**-**	**-**	**-**	**3576.62**	**104.00**	**3680.62**	**0.78:1 (0.76:1)**
	INDUSTRY												
4	Himachal Pradesh State Small Industries and Export Corporation Limited	246.08	-	-	-	246.08	-	-	-	-	-	-	-
5	Himachal Pradesh General Industries Corporation Limited	703.96	-	-	12.31	716.27	-	-	-	297.46	-	297.46	0.42:1 (0.42:1)
	Total	**950.04**	**-**	**-**	**12.31**	**962.35**	**-**	**-**	**-**	**297.46**	**-**	**297.46**	**0.31:1 (0.31:1)**

1	2	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	5
	ELECTRONICS												
6	Himachal Pradesh State Electronics Development Corporation Limited	371.67	-	-	-	371.67	-	-	-	194.66	-	194.66	0.52:1 (0.52:1)
	Total	**371.67**	**-**	**-**	**-**	**371.67**	**-**	**-**	**-**	**194.66**	**-**	**194.66**	**0.52:1 (0.52:1)**
	HANDLOOM AND HANDICRAFTS												
7	Himachal Pradesh State Handicrafts and Handloom Corporation Limited	411.16	3.00	-	-	414.16	-	-	-	197.61	-	197.61	0.48:1 (0.48:1)
	Total	**411.16**	**3.00**	**-**	**-**	**414.16**	**-**	**-**	**-**	**197.61**	**-**	**197.61**	**0.48:1 (0.48:1)**
	FOREST												
8	Himachal Pradesh State Forest Corporation Limited	1208.06	-	-	-	1208.06	-	-	-	-	16075.00	16075.00	13.31:1 (13.31:1)
	Total	**1208.06**	**-**	**-**	**-**	**1208.06**	**-**	**-**	**-**	**-**	**16075.00**	**16075.00**	**13.31:1 (13.31:1)**
	DEVELOPMENT OF ECONOMICALLY WEAKER SECTIONS												
9	Himachal Pradesh Mahila Vikas Nigam	287.32	9.60	-	-	296.92	40.00	-	-	-	-	-	-
10	Himachal Backward Classes Finance and Development Corporation Limited	749.59	-	-	-	749.59	120.00	-	-	-	724.18	724.18	0.97:1 (1.19:1)
11	Himachal Pradesh Minorities Finance and Development Corporation	332.62	-	-	18.42	351.04	46.15	-	-	-	-	-	
	Total	**1369.53**	**9.60**	**-**	**18.42**	**1397.55**	**206.15**	**-**	**-**	**-**	**724.18**	**724.18**	**0.52:1 (0.64:1)**
	PUBLIC DISTRIBUTION												
12	Himachal Pradesh State Civil Supplies Corporation Limited	351.50	-	-	-	351.50	-	-	-	46.61	-	46.61	0.13:1 (015:1)
	Total	**351.50**	**-**	**-**	**-**	**351.50**	**-**	**-**	**-**	**46.61**	**-**	**46.61**	**0.13:1 (0.15:1)**

1	2	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	5
	TOURISM												
13	Himachal Pradesh Tourism Development Corporation Limited	1229.86	-	-	-	1229.86	-	-	-	-	62.79	62.79	0.05:1 (0.07:1)
	Total	**1229.86**	**-**	**-**	**-**	**1229.86**	**-**	**-**	**-**	**-**	**62.79**	**62.79**	**0.05:1 (0.07:1)**
	FINANCE												
14	Himachal Pradesh State Industrial Development Corporation Limited	2959.40***	-	-	-	2959.40***	-	-	-	-	-	-	-
	Total	**2959.40*** **	**-**	**-**	**-**	**2959.40*** **	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	POWER												
15	Himachal Pradesh Power Corporation Limited	0.30	-	-	40.00*	40.30*	0.30	-	-	-	-	-	-
	Total	**0.30**	**-**	**-**	**40.00***	**40.30***	**0.30**	**-**	**-**	**-**	**-**	**-**	**-**
	CONSTRUCTION												
16	Himachal Pradesh Road and Other Infrastructure Development Corporation Limited	2500.00	-	-	-	2500.00	-	-	-		45058.69	45058.69	18.02:1 (26.82:1)
	Total	**2500**	**-**	**-**	**-**	**2500.00**	**-**	**-**	**-**	**-**	**45058.69**	**45058.69**	**18.02:1 (26.82:1)**
	Total-A (All Sector-wise Government Companies)	**15034.10#**	**358.60**	**-**	**774.73**	**16167.43#**	**206.45**	**-**	**-**	**4312.96**	**62024.66**	**66337.62**	**4.10:1 (1.58:1)**
B	**Working Statutory corporations**												
	POWER												
17	Himachal Pradesh State Electricity Board	28211.18	-	-	-	28211.18	-	-	22056.07	2013.04	209830.18	211843.22	7.51:1 (9.30:1)
	Total	**28211.18**	**-**	**-**	**-**	**28211.18**	**-**	**-**	**22056.07**	**2013.04**	**209830.18**	**211843.22**	**7.51:1 (9.30:1)**

1	2	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	5
	TRANSPORT												
18	Himachal Road Transport Corporation	26166.31	1544.45	-	-	27710.76	1230.00	793.00	-	-	15996.06	15996.06	0.58:1 (0.09:1)
	Total	**26166.31**	**1544.45**	**-**	**-**	**27710.76**	**1230.00**	**793.00**	**-**	**-**	**15996.06**	**15996.06**	**0.58:1 (0.09:1)**
	FINANCING												
19	Himachal Pradesh Financial Corporation	2197.79	-	-	659.32	2857.11	-	-	2780.00	-	19508.77	19508.77	6.83:1 (6.06:1)
	Total	**2197.79**	**-**	**-**	**659.32**	**2857.11**	**-**	**-**	**2780.00**	**-**	**19508.77**	**19508.77**	**6.83:1 (6.06:1)**
	Total-B (All sector-wise Statutory corporations)	**56575.28**	**1544.45**	**-**	**659.32**	**58779.05#**	**1230.00**	**793.00**	**24836.07**	**2013.04**	**245335.01**	**247348.05#**	**4.21:1 (4.90.1)**
	Grand Total (A+B)	**71609.38**	**1903.05**	**-**	**1434.05**	**74946.48#**	**1436.45**	**793.00**	**24836.07**	**6326.00**	**307359.67**	**313685.67**	**4.19:1 (4.28:1)**
C	**Non-working companies**												
	INDUSTRY												
20	Himachal Worsted Mills Limited	-	-	47.00	45.00	92.00	-	-	-	-	-	-	-
	Total	**-**	**-**	**47.00**	**45.00**	**92.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	ENGINEERING												
21	Nahan Foundry Limited	387.00	-	-	-	387.00	-	-	-	-	-	-	-
	Total	**387.00**	-	-	-	**387.00**	-	-	-	-	-	-	-
	Grand Total-C	**387.00**	-	**47.00**	**45.00**	**479.00**	-	-	-	-	-	-	-
	Grand Total (A+B+C)	**71996.38**	**1903.05**	**47.00**	**1479.05**	**75425.48#$**	**1436.45**	**793.00**	**24836.07**	**6326.00**	**307459.67**	**313685.67**	**4.16:1 (4.98:1)**

Note:- *Except in respect of companies and corporations which finalised their accounts for 2006-07 (Sr. No.5,6,7,12,14,15,16,17,18,19 & 21) figures are provisional and as given by the companies/corporations*

@ *Includes bonds, debentures, inter corporate deposits, etc.*

** *Loans outstanding at the close of 2006-07 represents long-term loans only*

*** *Includes share application money of Rs. 2.00 lakh*

$ *State Government's investment in all PSUs was Rs783.22 crore (others: Rs3108.89 crore). Figure as per Finance Accounts 2006-07 is Rs.742.92 crore. The difference is under reconciliation*

Includes share application money of Rs. 41.80 lakh

* *includes share application money of Rs.39.80 lakh*

Annexure-II

(Refer paragraphs 1.6, 1.7, 1.13 and 1.19)

Summarised financial results of Government companies and Statutory corporations for the latest year for which accounts were finalised

(Figures in columns 7 to 12 & 15 are Rupees in lakh)

Sr. No.	Sector and name of company/corporation	Name of Department	Date of incorpora-tion	Period of accounts	Year in which accounts finalised	Net Profit (+)/ Loss(-)	Net impact of Audit comments	Paid-up capital	Accumulated profit(+)/ loss(-)	Capital employed (A)	Total Return on capital employed	Percentage of total return on capital employed	Arrears of accounts in terms of years	Turn over	Man-power (No. of emp-loyees)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
A	**Working Government companies**														
	AGRICULTURE AND ALLIED														
1	Himachal Pradesh Agro Industries Corporation Limited	Horticulture	September 1970	2005-06	2006-07	(-)194.51	General Comments	1180.08	(-)799.57	25.81	(-)167.01	-	1	2106.50	244
2	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	Horticulture	June 1974	2005-06	2006-07	(-)480.27	Nil comments	1780.50	(-)3275.67	175.14	(-)475.55	-	1	3415.08	484
3	Agro Industrial Packaging India Limited	Horticulture	February 1987	2005-06	2006-07	(-)643.61	Nil comments	1772.00	(-) 5729.14	(-)1607.70	(-) 138.46	-	1	488.93	188
	Total					**(-)1318.39**		**4732.58**	**(-)9804.38**	**(-)1406.75**	**(-)781.02**	-	-	-	-
	INDUSTRY														
4	Himachal Pradesh State Small Industries and Export Corporation Limited	Industries	October 1966	2005-06	2006-07	(+)56.02	Nil comments	246.08	(-)128.44	215.10	(+)56.02	26.04	1	928.97	27
5	Himachal Pradesh General Industries Corporation Limited	Industries	November 1972	2006-07	2007-08	(-)85.24	Under audit	716.27	(-)132.20	641.99	(-)66.49	-	-	1503.62	220
	Total					**(-) 29.22**		**962.35**	**(-)260.64**	**857.09**	**(-)10.47**	-	-	-	-

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	ELECTRONICS														
6	Himachal Pradesh State Electronics Development Corporation Limited	Industries	October 1984	2006-07	2007-08	(+)127.54	Under audit	371.67	(-)214.84	545.44	(+)127.97	23.46	-	1509.77	74
	Total					**(+)127.54**		**371.67**	**(-)214.84**	**545.44**	**(+)127.97**	**23.46**	**-**	**-**	
	HANDLOOM AND HANDICRAFTS														
7	Himachal Pradesh State Handicrafts and Handloom Corporation Limited	Industries	March 1974	2005-06	2006-07	(-) 112.72	Nil comments	414.16	(-)1084.97	(-)449.75	(-)84.73	-	-	1000.01	
				2006-07	2007-08	(-)44.07	Under audit	414.16	(-)1129.05	(-)565.79	(-)21.55	-	-	923.61	143
	Total					**(-)44.07**		**414.16**	**(-)1129.05**	**(-)565.79**	**(-)21.55**	-	-	-	-
	FOREST												-		-
8	Himachal Pradesh State Forest Corporation Limited	Forest	March 1974	2002-03	2006-07	(-)1990.35	Understatement of loss by Rs.87.12 lakh	1208.06	(-)2918.14	53635.03	(-)1758.88	-	-	11682.78	
				2003-04	2007-08	(-)1144.63	Under audit	1208.06	(-)4062.78	38941.46	(-)883.83	-	3	12614.37	3973
	Total					**(-)1144.63**		**1208.06**	**(-)4062.78**	**38941.46**	**(-)883.83**	**-**	**-**	**-**	**-**
	DEVELOPMENT OF ECONOMICALLY WEAKER SECTIONS														
9	Himachal Pradesh Mahila Vikas Nigam	Welfare	April 1989	2005-06	2007-08	(-)8.37	Not reviewed	256.92	(-)14.68	145.40	(-)8.37	-	1	9.53	6
10	Himachal Backward Classes Finance and Development Corporation	Welfare	January 1994	2004-05	2007-08	(+)54.81	Not reviewed	579.59	(+)227.95	1683.29	(+)95.97	5.70	2	128.18	22
11	Himachal Pradesh Minorities Finance and Development Corporation	Welfare	September 1996	2005-06	2006-07	(-)29.65	Not reviewed	293.11	(-)176.31	752.72	(-)17.37	-	1	27.70	14
	Total					**(+)16.79**		**1129.62**	**(+)36.96**	**2581.41**	**(+)70.23**	**2.72**	**-**	**-**	**-**
	PUBLIC DISTRIBUTION														
12	Himachal Pradesh State Civil Supplies Corporation Limited	Food & Supplies	September 1980	2006-07	2007-08	(+)113.09	Nil comments	351.50	(+)1236.02	2004.90	(+)137.60	6.86	-	56865.96	743
	Total					**(+)113.09**		**351.50**	**(+)1236.02**	**2004.90**	**(+)137.60**	**6.86**	**-**	**-**	**-**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	TOURISM														
13	Himachal Pradesh Tourism Development Corporation Limited	Tourism and Civil Aviation	September 1972	2005-06	2006-07	(+)37.51	Nil Comments	1229.86	(-)807.20	1964.85	(+)49.75	2.53	1	3602.61	1683
	Total					**(+)37.51**		**1229.86**	**(-)807.20**	**1964.85**	**(+)49.75**	**2.53**	-	-	-
	FINANCING														
14	Himachal Pradesh State Industrial Development Corporation Limited	Industries	November 1966	2006-07	2007-08	(+)617.35	Understatement of current liabilities and current assets by Rs 2.46 crore	2959.40	(-) 211.36	3668.34	(+)617.35	16.83	-	1317.75	198
	Total					**(+)617.35**		**2959.40**	**(-) 211.36**	**3668.34**	**(+)617.35**	**16.83**		-	-
	POWER														
15	Himachal Pradesh Power Corporation Limited	MPP & Power	December, 2006	2006-07	2007-08	(-)5.31	Under audit	40.30	(-)5.31	13.99	(-)5.31	-	-	-	-
	Total					**(-)5.31**		**40.30**	**(-)5.31**	**13.99**	**(-)5.31**	-	-	-	-
	CONSTRUCTION														
16	Himachal Pradesh Road and Other Infrastructure Development Corporation Limited	Public works	June 1999	2006-07	2007-08	**	Nil comments	2500.00	-	48002.81	-	-	-	-	-
	Total							**2500.00**		**48002.81**					
	Total-A (All sector-wise Government companies)					**(-)1629.34**		**15899.50**	**(-)15222.58**	**96607.75**	**(-)699.28**	-	-	-	-
B	**Working Statutory corporations**														
	POWER														
17	Himachal Pradesh State Electricity Board	MPP & Power	September 1971	2006-07	2007-08	(+)188.14	Under audit	28211.18	(-)23728.36	264190.60	(+)14009.37	5.30	-	191770.30	25969
	Total					**(+)188.14**		**28211.18**	**(-)23728.36**	**264190.60**	**(+)14009.37**	**5.30**	-	-	-

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
	TRANSPORT														
18	Himachal Road Transport Corporation	Transport	October 1974	2005-06	2006-07	(-)3821.71	Overstatement of loss by Rs. 52.96 lakh	26480.76	(-)40534.43	(-)1347.26	(-)3034.06	-	-	21649.33	
				2006-07	20078-08	(-)3260.76	Under audit	27710.76	(-)43795.19	6526.39	(-)2810.64	-	-	24227.99	8484
	Total					**(-)3260.76**	-	**27710.76**	**(-)43795.19**	**6526.39**	**(-)2810.64**	-		-	-
	FINANCING														
19	Himachal Pradesh Financial Corporation	Industries	April 1967	2006-07	2007-08	(-)1266.64	Being finalised	2857.11	(-)10225.86	22247.07	(+)184.20	0.83	-	1526.72	106
	Total					**(-)1266.64**		**2857.11**	**(-)10225.86**	**22247.07**	**(+)184.20**	**0.83**	-	-	-
	Total-B (All sector-wise Statutory corporations)					**(-) 4339.26**		**58779.05**	**(-)77749.41**	**292964.06**	**11382.93**	**3.89**	-	-	-
	Grand Total (A+B)					**(-)5968.60**		**74678.55**	**(-)92971.99**	**389571.81**	**10683.65**	**2.74**	-	-	-
C	**Non-working companies**														
	INDUSTRY														
20	Himachal Worsted Mills Limited	Industries	October 1974	2000-01	2001-02	(-) 0.94	Not reviewed	92.00	(-)544.32	(-)63.82	(-)0.06	-	Under liquidation since 2000	-	-
	Total					**(-) 0.94**		**92.00**	**(-)544.32**	**(-)63.82**	**(-)0.06**				
	ENGINEERING														
21	Nahan Foundry Limited	Industries	October 1952	2006-07	2007-08	(+)0.67	Not reviewed	387.00	(-)449.35	(-)63.25	(+)0.67	-	-	-	11
	Total					**(+)0.67**		**387.00**	**(-)449.35**	**(-)63.25**	**(+)0.67**	-	-	-	-
	Total C					**(-)0.27**		**479.00**	**(-)993.67**	**(-)127.07**	**(+)0.61**	-	-	-	-
	Grand Total (A+B+C)					**(-)5968.87**		**75157.55**	**(-)93965.66**	**389444.74**	**10684..26**	**2.74**	-	-	-

(A) Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in cases of finance companies/corporations where the capital employed worked out as a mean of the aggregate of opening and closing balances of paid-up capital, free reserves, bonds and borrowings (including refinance)

***Excess over expenditure is reimbursable by the State Government*

Annexure-III

(Refer paragraph 1.5)

Statement showing subsidy received, guarantees received, waiver of dues, loans on which moratorium allowed and loans converted into equity during the year and subsidy receivable and guarantees outstanding at the end of March 2007

(Figures in columns 3 (a) to 7 are Rupees in lakh)

Sr. No.	Name of the Public Sector Undertaking	@ Subsidy and grants received during the year				Guarantees received during the year and outstanding at the end of the year**					Waiver of dues during the year				Loans on which morato-rium allowed	Loans converted into equity during the year
		Central Government	State Government	Others	Total	Cash Credit from banks	Loans from other sources	Letters of credit opened by banks in respect of imports	Payment obligation under agreement with foreign consultants or contracts	Total	Loans repayment written off	Interest waived	Penal interest waived	Total		
1	2	3(a)	3(b)	3(c)	3(d)	4(a)	4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)	6	7
A	**Working Government companies**															
1	Himachal Pradesh Agro Industries Corporation Limited	-	52.00	-	52.00	-	- (40.00)	-	-	- (40.00)	-	-	-	-	-	-
2	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	-	-	-	-	- (99.83)	- (37.00)	-	-	- (136.83)	-	-	-	-	-	-
3	Agro Industrial Packaging India Limited	-	22.00	-	22.00	-	-	-	-	-	-	-	-	-	-	-
4	Himachal Pradesh State Handicrafts and Handloom Corporation Limited	122.71	86.88	-	209.59	60.00 (-)	-	-	-	60.00 (-)	-	-	-	-	-	-
5	Himachal Pradesh State Forest Corporation Limited	-	-	-	-	-	- (16075.00)	-	-	- (16075.00)	-	-	-	-	-	-

1	2	3(a)	3(b)	3(c)	3(d)	4(a)	4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)	6	7
6	Himachal Backward Classes Finance and Development Corporation	-	-	-	-	-	- (724.18)	-	-	- (724.18)	-	-	-	-	-	-
7	Himachal Pradesh Minorities Finance and Development Corporation	-	-	-	-	-	1000.00 (746.02)	-	-	1000.00 (746.02)	-	-	-	-	-	-
8	Himachal Pradesh Tourism Development Corporation Limited	240.54	375.37	-	615.91	-	-	-	-	-	-	-	-	-	-	-
9.	Himachal Pradesh Road and Other Infrastructure Development Corporation	-	88.66	-	88.66	-	- (45058.69)	-	-	- (45058.69)						
	Total-A	**363.25**	**624.91**	**-**	**988.16**	**60.00 (99.83)**	**1000.00 (62680.89)**	**-**	**-**	**1060.00 (62780.72)**	**-**	**-**	**-**	**-**	**-**	**-**
B	**Working Statutory corporations**															
10	Himachal Pradesh State Electricity Board	7268.65	270.00	160.87	7699.52	-	20000.00- (168123.15)	-	-	20000.00- (168123.15)	-	-	-	-	-	-
11	Himachal Road Transport Corporation	-	4800.00	-	4800.00	- -	- -	-	-	-	-	-	-	-	-	-
12	Himachal Pradesh Financial Corporation	-	2.22	3.87	6.09	-	2780.00 (10270.00)	186.73 -	-	2966.73 (10270.00)	-	-	-	-	-	-
	Total-B	**7268. 65**	**5072.22**	**164.74**	**12505.61**	**-**	**22780.00 (178393.15)**	**186.73**	**-**	**22966.73 (178393.15)**	**-**	**-**	**-**	**-**	**-**	**-**
	Grand Total (A+B)	**7631.90**	**5697.13**	**164.74**	**13493.77**	**60.00 (99.83)**	**23780.00 (241074.04)**	**186.73**	**-**	**24026.73 (241173.87)**	**-**	**-**	**-**	**-**	**-**	**-**

Note: Except in respect of companies and corporations which finalised their accounts for 2006-07 (Sr. No. 4,9,10 and 12), figures are provisional and as given by the companies/corporations

@ *Subsidy includes subsidy receivable at the end of year which is also shown in brackets*

** *Figures in brackets indicate guarantees outstanding at the end of year*

Annexure-IV

(Refer paragraph 1.7)

Statement showing financial position of Statutory corporations

(Rupees in crore)

1	**Himachal Pradesh State Electricity Board**			
	Particulars	**2004-05**	**2005-06**	**2006-07** (Provisional)
A	**Liabilities**			
	Equity capital	282.11	282.11	282.11
	Loans from Government	18.71	20.13	20.13
	Other long-term loans (including bonds)	2533.86	2634.93	2098.30
	Reserves and surplus	958.28	1126.12	1261.36
	Current liabilities and provisions	1145.95	1497.16	2341.99
	Total-A	**4938.91**	**5560.45**	**6003.89**
B	**Assets**			
	Gross fixed assets	2192.58	2322.34	3556.07
	Less: Depreciation	354.38	408.07	464.98
	Net fixed assets.	1838.20	1914.27	3091.09
	Capital works-in-progress	1730.61	2070.20	1108.16
	Deferred cost	62.54	65.93	81.92
	Current assets	640.58	849.42	784.64
	Investments	402.62	416.75	695.18
	Miscellaneous expenditure	4.72	4.71	5.62
	Deficits	259.64	239.17	237.28
	Total-B	**4938.91**	**5560.45**	**6003.89**
C	**Capital employed#**	**3063.44**	**3336.73**	**2641.90**
2	**Himachal Road Transport Corporation**			
	Particulars	**2004-05**	**2005-06**	**2006-07** (Provisional)
A	**Liabilities**			
	Capital (including capital loan & equity capital)	252.51	264.81	277.11
	Borrowings (Government) (Others)	- 46.60	- 110.78	- 159.96

Capital employed represents net fixed assets (including works-in-progress) plus working capital. While working out working capital the element of deferred cost and investments are excluded from current assets

	Funds=	-	16.28	66.14
	Trade dues and other current liabilities (including provisions)	136.70	106.98	93.81
	Total-A	**435.81**	**498.85**	**597.02**
B	**Assets**			
	Gross block	151.45	158.78	177.80
	Less: Depreciation	108.20	112.38	119.30
	Net fixed assets	43.25	46.40	58.50
	Capital works-in-progress (including cost of chassis)	2.88	4.07	2.00
	Investments	-	-	-
	Current assets, loans and advances	22.55	43.04	98.57
	Deferred cost	-	-	-
	Accumulated losses	367.13	405.34	437.95
	Total-B	**435.81**	**498.85**	**597.02**
C	**Capital employed***	**(-)68.02**	**(-)13.47**	**65.26**
3	**Himachal Pradesh Financial Corporation**			
	Particulars	**2004-05**	**2005-06**	**2006-07 (Provisional)**
A	**Liabilities**			
	Paid-up capital(including share application money)	28.17	28.57	28.57
	Reserve funds and other reserves and surplus	4.97	4.97	4.97
	Borrowings:	-	-	-
	Bonds and debentures	93.10	89.75	102.70
	Fixed deposits	-	-	-
	Industrial Development Bank of India and Small Industries Development Bank of India	49.44	70.19	85.89
	Reserve Bank of India	-	-	-

= *Excluding depreciation funds*

* *Capital employed represents net fixed assets (including works-in-progress) plus working capital*

	Loan towards share capital: (a) State Government (b) Industrial Development Bank of India	-	-	-
	Others (including State Government)	24.78	22.03	7.29
	Other liabilities and provisions	70.20	71.12	79.66
	Total-A	**270.66**	**286.63**	**309.08**
B	**Assets**			
	Cash and Bank balances	7.81	7.86	12.91
	Investments	0.01	0.01	0.01
	Loans and Advances	172.96	185.04	190.08
	Net fixed assets	1.23	1.20	1.09
	Dividend deficit account	0.79	0.79	0.79
	Other assets	2.87	2.14	1.95
	Profit and loss account	84.99	89.59	102.25
	Total-B	**270.66**	**286.63**	**309.08**
C	**Capital employed**@	**186.05**	**207.20**	**222.47**

@ *Capital employed represents the mean of the aggregate of opening and closing balances of paid-up capital, loans in lieu of capital, seed money, debentures, reserves (other than those which have been funded specifically and backed by investments outside), bonds, deposits and borrowings (including refinance)*

Annexure-V

(Refer paragraph 1.7)

Statement showing working results of Statutory corporations

(Rupees in crore)

1	**Himachal Pradesh State Electricity Board**			
	Particulars	**2004-05**	**2005-06**	**2006-07 (Provisional)**
1	(a) Revenue receipts (b) Subsidy/Subvention from Government **Total**	1282.45 – **1282.45**	1694.09 76.85 **1770.94**	1962.19 96.08 **2058.27**
2	Revenue expenditure (net of expenses capitalised) including write off of intangible assets but excluding depreciation and interest	1170.29	1539.54	1784.34
3	Gross surplus (+)/deficit (-) for the year (1-2)	(+)112.16	(+)231.40	(+)273.93
4	Adjustments relating to previous years	(+)20.14	(-)35.24	(-)76.70
5	Final gross surplus(+)/deficit(-) for the year (3+4)	(+)132.30	(+)196.16	(+)197.23
6	Appropriations:			
	(a) Depreciation (less capitalised)	44.05	53.84	57.14
	(b) Interest on Government loans	1.88	2.23	2.33
	(c) Interest on others, bonds, advances etc. and finance charges	233.41	241.14	233.01
	(d) Total interest on loans and finance charges (b+c)	235.29	243.37	235.34
	(e) Less: Interest capitalised	109.79	121.53	97.13
	(f) Net interest charged to revenue (d-e)	125.50	121.84	138.21
	(g) Total appropriations (a+f)	169.55	175.68	195.35

7	Surplus(+)/deficit(-) before accounting for subsidy from State Government {5-6 (g)-1(b)}	(-)37.25	(-)56.37	(-)94.20
8	Net surplus(+)/deficit(-) {5-6(g)}	(-)37.25	(+)20.48	(+)1.88
9	Total return on capital employed*	88.25	142.31	140.09
10	Percentage of return on capital employed	2.88	4.27	5.30
2	**Himachal Road Transport Corporation**			
	Particulars	**2004-05**	**2005-06**	**2006-07 (Provisional)**
	Operating (a) Revenue	251.84	272.09	301.65
	(b) Expenditure	274.68	303.64	331.57
	(c) Surplus(+)/Deficit(-)	(-)22.84	(-)31.54	(-)29.92
	Non-operating (a) Revenue	1.03	1.95	1.82
	(b) Expenditure	10.08	8.62	4.50
	(c) Surplus(+)/Deficit(-)	(-)9.05	(-)6.67	(-)2.68
	(a) Revenue	252.87	274.04	303.47
	(b) Expenditure	284.76	312.26	336.07
	(c) Net profit (+)/Loss (-)	(-)31.89	(-)38.22	(-)32.60
	Interest on capital and loans	9.63	7.87	4.50
	Total return on Capital employed	(-)22.26	(-)30.35	(-)28.10
	Percentage of return on capital employed	-	-	-

* *Total return on capital employed represents net surplus/deficit plus total interest charged to profit and loss account (less interest capitalised)*

3	**Himachal Pradesh Financial Corporation**			
	Particulars	**2004-05**	**2005-06**	**2006-07 (Provisional)**
1	**Income** (a) Interest on Loans (b) Other income	 18.05 0.62	 18.70 0.24	 15.48 0.27
	Total-1	**18.67**	**18.94**	**15.75**
2	**Expenses** (a) Interest on long-term and short-term loans (b) Other expenses	 13.32 7.85	 15.12 9.86	 14.51 13.91
	(c) Provision for non-performing assets	2.24	-	-
	Total-2	**23.41**	**24.98**	**28.42**
3	Profit(+)/loss (-) before tax (1-2)	(-)4.74	(-)6.04	(-)12.67
4	Provision for tax	-	-	-
	Profit(+)/Loss(-) after tax (3-4)	(-)4.74	(-)6.04	(-)12.67
5	Other appropriations (special reserve for the purpose of Section 36 (I) (viii) of the Income Tax Act, 1961 and general reserve)	-	-	-
6	Amount available for dividend	-	-	-
7	Dividend paid/payable	-	-	-
8	Total return on Capital employed@	8.58	9.08	1.84
9	Percentage of return on Capital employed	4.61	4.38	0.83

@ *Total return on capital employed represents profit (+)/loss (-) after tax and provision for non-performing assets, plus interest on long-term and short-term loans*

Annexure-VI

(Refer paragraph 1.12)

Statement showing operational performance of Statutory corporations

1	**Himachal Pradesh State Electricity Board**			
	Particulars	**2004-05**	**2005-06**	**2006-07 (Provisional)**
	Installed capacity		(MW)	
	(a) Thermal	-	-	-
	(b) Hydro	329.20	328.95	466.95
	(c) Gas	-	-	-
	(d) Other (Diesel and Micro Hydel)	0.13	0.13	0.13
	Total	**329.33**	**329.08**	**467.08**
	Normal maximum demand	671.00	768.00	611.00
	Power generated:		(MKWH)	
	(a) Thermal	-	-	-
	(b) Hydro	1295.41	1332.37	1432.37
	(c) Gas	-	-	-
	(d) Other	-	-	-
	Total	**1295.41**	**1332.37**	**1432.37**
	Less: Auxiliary consumption			
	(a) Thermal (Percentage)	-	-	-
	(b) Hydro (Percentage)	4.30 (0.33)	5.02 (0.38)	6.08 (0.42)
	(c) Gas (Percentage)	-	-	-
	(d) Other (Percentage)	-	-	-
	Total (Percentage)	**4.30 (0.33)**	**5.02 (0.38)**	**6.08 (0.42)**

	Net power generated	1291.11	1327.35	1426.29
	Power purchased:	4763.53	4918.95	5056.95
	Total power available for sale	6054.64*	6246.30*	6483.24*
	Power sold:	5062.67	5291.22	5555.70
	Transmission and distribution losses	991.97**	955.08**	887.07**
	Load factor (Percentage)	45.20	46.24	42.55
	Percentage of transmission and distribution losses to total power available for sale	16.38	15.29	13.77
	Number of villages/town electrified	16897	16915	17169
	Number of pump sets/wells energised	9196	10010	11659
	Number of sub-stations (distribution)	16931	18255	18319
	Transmission/distribution lines (in Kms)			
	(a) High/medium voltage	26638.00	28012.17	25678.14
	(b) Low voltage	49213.00	50435.09	48350.66
	Connected load (in MW)	3249.09	3531.30	2948.33
	Number of consumers	1710818	1755751	1799263
	Number of employees	31365	31204	25969
	Consumer/employees ratio	55:1	56:1	69:1
	Total expenditure on staff during the year (Rs. in crore)	372.91	412.76	471.69
	Percentage of expenditure on staff to total revenue expenditure	27.63	23.59	26.43

* *Sale and purchase of power include 449.52 MUs (2004-05), 306.72 MUs (2005-06) and 562.30 MUs (2006-07) which actually was neither purchased nor sold but was wheeled through HPSEB transmission system*

** *Transmission and Distribution losses worked out to 17.70 per cent (2004-05), 18.05 per cent (2005-06) and 14.98 per cent (2006-07) instead of 16.38 per cent, 15.29 per cent and 13.77 per cent, if the power wheeled on the Board's system is excluded from sale and purchase of power*

	Units sold	MKWH		
	(a) Agriculture (Percentage share to total units sold)	25.27 (0.55)	24.73 (0.47)	26.40 (0.48)
	(b) Industrial (Percentage share to total units sold)	1762.37 (38.20)	2284.41 (43.17)	2878.40 (51.81)
	(c) Commercial (Percentage share to total units sold)	224.00 (4.86)	218.23 (4.12)	225.80 (4.06)
	(d) Domestic (Percentage share to total units sold)	809.79 (17.55)	866.59 (16.38)	948.30 (17.07)
	(e) Others (Percentage share to total units sold)	1791.72 (38.84)	1897.26 (35.86)	1476.81 (26.58)
	Total	**4613.15**	**5291.22**	**5555.71**
		(Paise per KWH)		
	(a) Revenue (excluding subsidy from Government)	259.00	335.00	370.00
	(b) Expenditure*	267.00	331.00	369.00
	(c) Profit(+)/Loss (-)	(-)08.00	(+)04.00	(+)1.00
	(d) Average subsidy claimed from Government (in Rupees)	-	-	-
	(e) Average interest charges	24.79	23.02	24.88
2	**Himachal Road Transport Corporation**			
	Particulars	**2003-04**	**2004-05**	**2005-06**
	Average number of vehicles held	1718	1652	1645
	Average number of vehicles on road	1696	1678	1627
	Percentage of utilisation of vehicles	99	98	99
	Number of employees	8394	7973	7628
	Employee vehicle ratio	5:1	5:1	5:1
	Number of routes operated at the end of the year	1767	1824	1829
	Route kilometres (in lakh)	2.11	2.11	2.14
	Kilometres operated (in lakh)			
	(a) Gross	1433.61	1421.34	1495.14

* *Revenue expenditure includes depreciation but excludes interest on long-term loans*

	(b) Effective	1410.29	1396.88	1470.42
	(c) Dead	23.32	24.46	24.72
	Percentage of dead kilometers to gross kilometres	1.63	1.72	1.65
	Average kilometres covered per bus per day	231	240	252
	Average operating revenue per kilometre (Paise)	1663	1744	1756
	Increase in average operating revenue per kilometre over previous year income (Paise) (*per cent*)	(-)3 {(-)0.18}	81 (4.87)	12 (0.69)
	Average expenditure per kilometre (Paise)	1855	1972	2020
	Increase in operating expenditure per Km over previous years expenditure (Paise) (*per cent*)	(-)21 {(-)1.12}	117 (6.31)	48 (2.43)
	Profit (+)/Loss (-) per kilometer (Paise)	(-)192	(-)228	(-)48
	Number of operating depots	23	23	23
	Average number of break-down per lakh kilometres	0.03	0.03	0.02
	Average number of accidents per lakh kilometres	0.12	0.10	0.08
	Passenger kilometres operated (in crore)	648.73	642.56	676.39
	Occupancy ratio (percentage)	50	51	51
	Kilometres obtained per litre of:			
	(a) Diesel Oil	3.63	3.64	3.60
	(b) Engine Oil	1408	1425	1600

(Amount: Rupees in crore)

3	Himachal Pradesh Financial Corporation						
	Particulars	**2004-05**		**2005-06**		**2006-07 (Provisional)**	
		Number	Amount	Number	Amount	Number	Amount
	Applications pending at the beginning of the year	13	7.29	24	43.21	33	33.60
	Applications received	179	217.83	130	193.44	93	109.94
	Total	**192**	**225.12**	**154**	**236.65**	**126**	**143.54**
	Applications sanctioned	99	95.52	52	45.51	43	41.95
	Applications cancelled/with-drawn/rejected/re-duced	69	69.56	69	149.99	72	92.13
	Applications pending at the close of the year	24	43.21	33	33.60	11	9.46
	Loans disbursed	-	45.37	-	36.19	-	41.45
	Loans outstanding at the close of the year	-	172.98	-	185.05	-	190.08
	Amount overdue for recovery at the close of the year						
	(a) Principal	-	28.37	-	24.59	-	20.59
	(b) Interest	-	55.82	-	36.93	-	37.85
	Total	**-**	**84.19**	**-**	**61.52**	**-**	**58.44**
	Amount involved in recovery certificate cases	129	13.78	141	17.83	133	17.39
	Total	**129**	**13.78**	**141**	**17.83**	**133-**	**17.39**
	Percentage default to total loans outstanding	-	48.67	-	33.25	-	30.74

Annexure-VII

(Refer paragraph 1.28)

Statement showing resume of major recommendations/comments made by Statutory Auditors on possible improvement in the internal audit/internal control system

Sr. No.	Name of the Company	Area for improvement
1..	**Himachal Pradesh State Forest Corporation (2002-03)**	(a) Internal control with regard to purchase of timber from Government and private parties needs to be strengthened. (b) There was no system of obtaining balance confirmation from the debtors. (c) There was no system of monitoring claims with outside parties. (d) The fixed assets register was not maintained properly.
2.	**Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited (2005-06)**	(a) There was no system of monitoring timely recovery of outstanding dues. (b) There was no system of obtaining balance confirmation from the debtors. (c) The fixed assets register was not maintained properly. (d) The Company has not prescribed maximum and minimum limits of stores and spares and economic order quantity for procurement of stores. (e) Internal audit system was not commensurate with the size and nature of business.
3.	**Himachal Pradesh Agro Industries Corporation Limited (2005-06)**	a) There was no system of timely monitoring of outstanding dues. (b) There was no system of obtaining balance confirmation from debtors. (c) No norms have been fixed for storage losses.
4.	**Himachal Pradesh State Electronics and Development Corporation Limited (2005-06)**	(a) Property and assets register was not maintained. (b) There was no system of obtaining balance from debtors. (c) No maximum and minimum limit of inventory was fixed. (d) Internal Audit reports were submitted after 4-5 months after the close of financial year.
5.	**Himachal Pradesh State Handicrafts and Handloom Corporation Limited (2005-06 and 2006-07)**	(a) There was no system of obtaining balance confirmation from debtors. (b) The fixed assets register has not been maintained in most of the units. (c) Internal audit is conducted at the end of the year which defeats the very purpose of the internal audit. (d) No maximum, minimum and economic order quantity level of stores and spares was fixed.

6.	**Himachal Pradesh Minorities Finance and Development Corporation 2005-06**	(a) The fixed assets register has not been maintained. (b) The system of monitoring and recovery of outstanding loans was not adequate. (c) There was no system of obtaining confirmation from the parties.
7.	**Himachal Pradesh Tourism Development Corporation Limited (2005-06)**	(a) The fixed assets register was not maintained properly. (b) Internal audit coverage and scope of work needs to be enlarged. (c) Internal control with regard to purchases of provision and repairs of vehicles needs to be strengthened. (d) There was no system of obtaining balance confirmation from the debtors. (e) No economic order quality for procurement of stores was prescribed.
8.	**Himachal Pradesh State Civil Supplies Corporation Limited (2005-06 and 2006-07)**	(a)There was no system of obtaining balance confirmation from debtors. (b) The fixed assets register has not been maintained properly. (c) No maximum, minimum and economic order quantity for stores and spares were fixed. (d).The scope of internal audit needs to be enlarged and strengthened.
9.	**Himachal Pradesh Mahila Vikas Nigam(2005-06)**	(a) There was no system of obtaining confirmation from the debtors. (b) The Company has no internal audit system (c) There was no system of identifying loans and advances.

Annexure-VIII

(Refer paragraph 1.31)

Statement showing paid-up capital, investment and summarised working results of 619-B companies as per their latest finalised accounts

(Figures in column 5 to 19 are in Rupees in lakh)

Sr. No.	Name of company	Status (working/ non-working)	Year of account	Paid-up capital	Equity by			Loans by			Grants by			Total investment by way of equity, loans and grants			Profit(+)/ loss (-)	Accumulated profit (+)/ accumulated loss (-)
					State Govt.*	State Govt. companies/ corporation*	Others*	State Govt	State Govt. companies	Central Govt. and their companies/Corporation	State Govt.	State Govt. companies	Central Govt. and their companies	State Govt.	State Govt. companies/ corporation	Others		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
1	Beas Valley Power Corporation Limited (Previously Himachal Pradesh Jal Vidyut Vikas Nigam Limited)	Working	2004-05	1582.76	-	1582.76 (100)	-	-	2338.67	-	-	-	-	-	4321.43	-	**	**
2	Pabbar Valley Power Corporation Limited	Working	2005-06	1277.85	-	1277.85 (100)	-	-	-	1500.00	-	-	-	-	2777.85	-	**	**
3.	Kinner Kailash Power Corporation Limited	Working	First Accounts awaited															

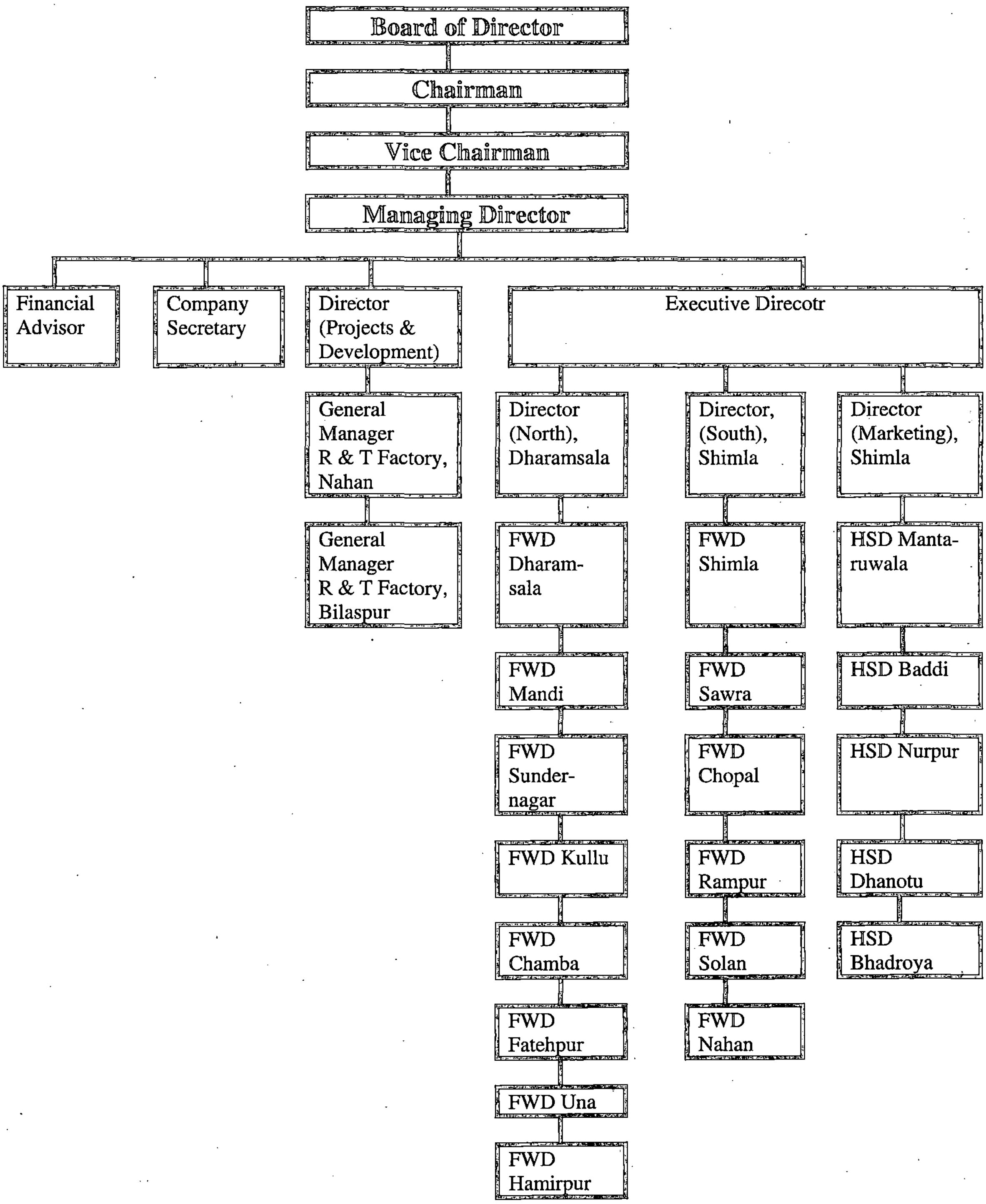
* *Figures in brackets indicates percentage*

** *Statement of pre-operative expenditure prepared*

Annexure-IX

(Refer paragraph 2.1.1)

ORGANISATIONAL CHART



Annexure-X

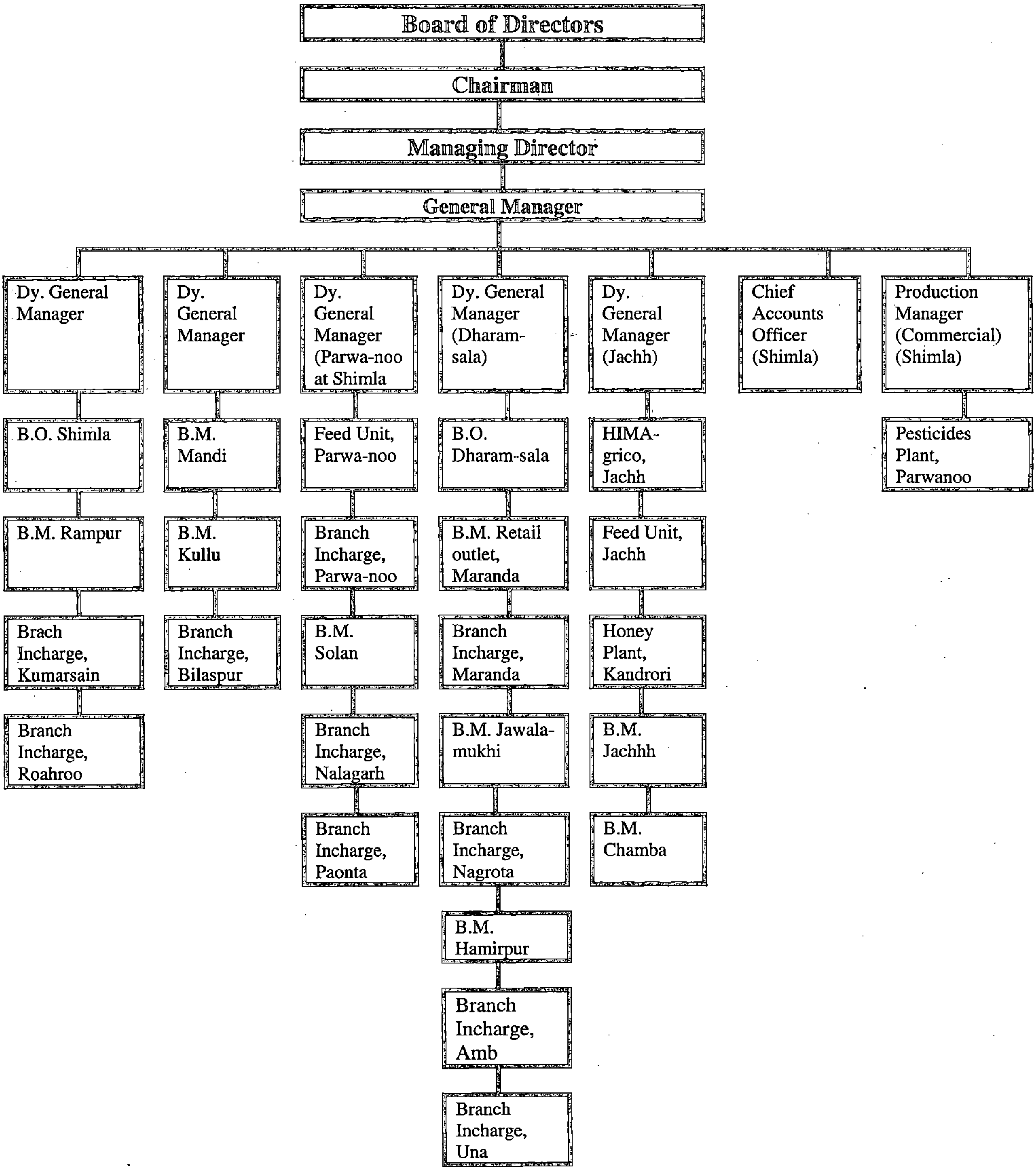
(Refer paragraph 2.1.9)

Working results of timber extraction works

(Rupees in lakh)

Year	2001-02	2002-03	2003-04 (Provisional)	2004-05 (Provisional)	2005-06 (Provisional)
Expenditure					
I. Direct Expenditure					
Royalty & Sales Tax	3273.76	5344.55	2346.58	4353.25	5227.82
Extraction, carriage & Transportation	2594.17	2945.08	2680.11	2809.37	3183.09
Sub Total	**5867.93**	**8289.63**	**5026.69**	**7162.62**	**8410.91**
II. Indirect Expenditure					
Employees remuneration	2576.81	2752.55	2908.68	3251.32	3381.10
Administration expenses	548.93	510.44	986.10	500.45	631.13
Trade discount	359.67	377.20	427.50	423.02	386.87
Interest	108.63	247.82	407.16	184.84	194.82
Depreciation	45.68	43.71	49.42	44.33	43.22
Sub total-II	**3639.72**	**3931.72**	**4778.86**	**4403.96**	**4637.14**
III Increase (+)/Decrease(-) in stock	(+)90.90	(-)175.66	(+)2342.78	(-)389.46	(-)1566.16
Other expenses					
Cost of production (I+II+III)	9598.55	12045.69	12148.33	11177.12	11481.89
Sale	**9132.60**	**9640.02**	**10528.25**	**11025.42**	**10543.76**
Loss	**465.95**	**2405.67**	**1620.08**	**151.70**	**938.12**
Percentage by which cost of production was higher than sales	5.10	24.96	15.39	1.38	8.90
Profit(+)/Loss(-) of the Company as a whole	**(+)20.87**	**(-)1990.34**	**(-)1144.63**	**(-)129.01**	**(-)87.92**

Annexure-XI
(Refer paragraph 2.2.1)
ORGANISATIONAL CHART



Annexure-XII

(Refer paragraph 2.2.11)

Statement showing financial position of the Company for the last five years ending 2006-07

(Rupees in crore)

		2002-03	2003-04	2004-05	2005-06	2006-07 (Provisional)
	Liabilities					
(a)	Paid up capital (including share application money	11.80	11.80	11.80	11.80	11.80
(b)	Reserve and surplus	0.68	0.77	0.78	0.73	0.68
(c)	Borrowings	3.19	3.23	3.17	3.24	3.89
(d)	Trade dues and other current liabilities and provisions#	15.73	18.35	20.03	26.37	19.09
	Total	**31.40**	**34.15**	**35.78**	**42.14**	**35.46**
	Assets					
(a)	Gross block	4.37	4.64	4.61	4.59	4.60
(b)	Less depreciation	2.94	3.05	3.14	3.23	3.36
(c)	Net fixed assets	1.43	1.59	1.47	1.36	1.24
(d)	Capital work-in-progress	0.20	0.01	-	-	-
(e)	Investments	7.46	7.46	7.44	7.44	7.45
(f)	Current assets, loans and advances	17.65	20.28	20.76	25.27	17.48
(g)	Intangible assets: (i) Miscellaneous expenditure	0.05	0.10	0.06	0.07	0.04
	(ii) Accumulated loss	4.61	4.71	6.05	8.00	9.25
	Total	**31.40**	**34.15**	**35.78**	**42.14**	**35.46**
(a)	Working capital*	1.92	1.93	0.73	(-)1.10	(-)1.61
(b)	Capital employed**	3.55	3.53	2.20	0.26	(-)0.37
(c)	Net worth***	7.82	7.76	6.47	4.46	3.19

Grant and subsidies of Rs.30.38 lakh (Rs.22.38 lakh in 2002-03 and Rs.8.00 lakh in 2003-04) have been shown under trade dues and other current liabilities

* *Working capital represents current assets, loans and advances minus trade dues and other current liabilities and provisions*

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

*** *Net worth represents paid –up capital plus reserve less intangible assets*

Annexure –XIII

(Refer paragraph 2.2.14)

Statement showing the working results of the Company for the last five years ending 2006-07

(Rupees in crore)

		2002-03	2003-04	2004-05	2005-06	2006-07 (Provisional)
	A- Income					
(i)	Sale	19.12	17.75	16.58	21.06	24.94
(ii)	Interest	0.29	0.22	0.23	0.25	0.14
(iii)	Rent	0.16	0.20	0.23	0.22	0.21
(iv)	Other revenues	1.99	2.86	1.31	1.71	1.83
(v)	Accrention (+) Decretion (-) in stock	(-)0.31	(-)0.12	(+)0.24	(-)0.24	(+)0.29
	Total-A	**21.25**	**20.91**	**18.59**	**23.00**	**27.41**
	B- Expenditure					
(i)	Raw material consumed (including trading)	16.32	15.09	14.28	18.66	23.50
(ii)	Other expenses	1.51	1.39	1.01	1.02	0.10
(iii)	Establishment and administrative expenses	3.43	4.00	4.14	4.83	4.59
(iv)	Finance charges	0.28	0.27	0.27	0.28	0.30
(v)	Selling and distribution expenses	0.13	0.26	0.23	0.16	0.18
	Total –B	**21.67**	**21.01**	**19.93**	**24.95**	**28.67**
	Profit (+)/Loss (-)	(-)0.42	(-)0.10	(-)1.34	(-)1.95	(-)1.26
	Less grant *	0.03	0.08	-	0.15	-
	Operating loss (-)	(-)0.45	(-)0.18	(-)1.34	(-)2.10	(-)1.26
Total operating loss during the five years:						**5.33**

* *Represents grant received from the State Government for voluntary retirement scheme*

Annexure -XIV

(Refer paragraph 2.2.19)

Statement showing the installed capacity, actual production there against, percentage utilisation of installed capacity of Implements factory and targeted and actual sales during the last five years

Particulars	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07** **(Provisional)**
Installed capacity/single shift (MT)	525	525	525	525	525
Actual production (MT)	169.125	100.735	48.107	38.683	37.444
Percentage utilisation	32.21	19.19	9.16	7.37	7.13
Sales	**(Rupees in lakh)**				
Target	90.00	90.00	90.00	90.00	50.00
Actual (including transfer to own units)	53.97	40.93	29.44	18.81	26.64
Short fall	36.03	49.07	60.56	71.19	23.36
Percentage of shortfall	40.03	54.52	67.29	79.10	46.72
Sales to :					
Govt departments	21.60	7.64	1.96	1.51	3.56
Private	2.43	4.72	1.31	2.28	1.61
Transfer to trading units	29.94	28.57	26.17	15.02	21.47
Expenditure on					
Pay and allowances	9.77	16.07	15.71	13.23	16.26
Other (Rev. expenditure)	7.63	6.84	5.83	4.98	6.11
Total loss of the unit	**16.45**	**32.59**	**34.36**	**32.59**	**35.29**

Annexure-XV

(Refer paragraph 2.2.21)

Statement showing the installed capacity, utilisation of capacity and performance of Honey Processing Plant

	2002-03	2003-04	2004-05	2005-06	2006-07 (Provisional)
Installed capacity (Kgs)	120000	120000	120000	120000	120000
Projected utilisation as per revised TEFR*	96000	96000	96000	96000	96000
Projection made by the Company					
Production (Kgs)	17800	17800	17800	5600	8600
Sales (Rupees in lakh)	26.25	26.25	26.00	8.50	13.50
Percentage of process loss as per revised Project Report	10	10	10	10	10
Profit (+)/Loss (-) (Rupees in lakh)	(-) 13.75	(-) 13.75	(-) 13.75	(-) 4.95	(-)12.69
Actuals					
Production (Kgs)	2047	1568	1869	3687	6488
Sales (Rupees in lakh)	1.79	2.29	2.04	3.45	5.59
Process loss (Kgs)	215	77	199	315	414
Percentage of process loss	9.50	4.68	9.62	7.87	6.00
Profit (+)/Loss (-) (Rupees in lakh)	(-) 11.91	(-) 7.39	(-) 3.81	(-)7.23	(-) 16.00
Plant utilisation (Percentage)					
Against projected in the TEFR	2.13	1.63	1.95	3.84	6.76
Against projected production	11.50	8.81	10.50	65.84	75.44
Against installed capacity	1.71	1.31	1.56	3.07	5.41
Shortfall in sales (Rupees in lakh)	24.46	23.96	23.96	5.05	7.91

* *Techno Economic Feasibility Report*

Annexure-XVI

(Refer paragraph 3.1.1)

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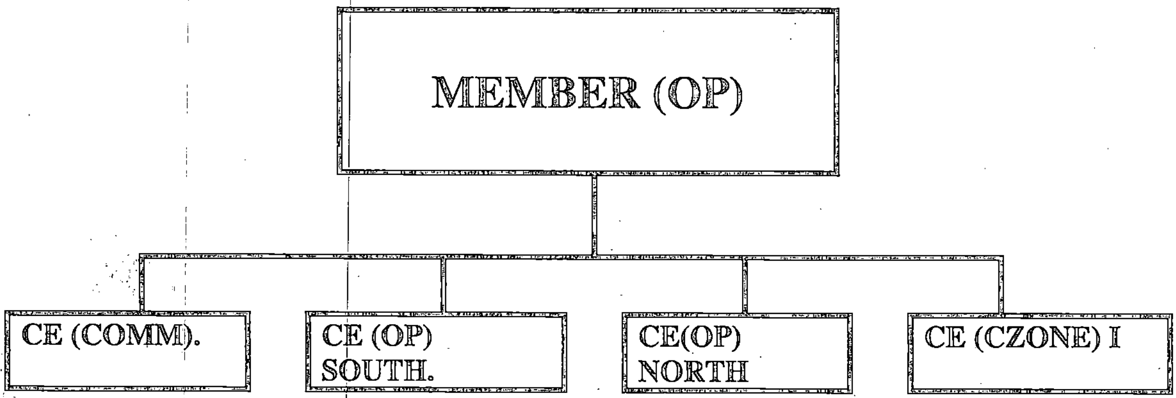


Annexure-XVII
(Refer paragraph 3.1.15)

Statement showing the details of percentage of energy sold to revenue assessed and positive (+)/negative (-) contribution of consumers during the period 2002-03 to 2006-07

	2002-03		2003-04		2004-05		2005-06		2006-07	
Description	**Percentage of energy sold/revenue assessed**	**Positive/ negative (-) contribution**	**Percentage of energy sold/revenue assessed**	**Positive/ negative (-) contribution**	**Percentage of energy sold/revenue assessed**	**Positive/ negative (-) contribution**	**Percentage of energy sold/revenue assessed**	**Positive/ negative (-) contribution**	**Percentage of energy sold/revenue assessed**	**Positive/ negative (-) contribution**
Domestic	27.97/14.79	(-)13.18	28.22/14.60	(-)13.62	27.41/14.26	(-)13.15	24.28/15.90	(-)8.38	21.79/16.28	(-)5.51
N.D.N.C.	0.45/0.56	0.11	0.55/0.61	0.06	0.69/1.04	0.35	1.31/2.42	1.11	1.51/2.54	1.03
Commercial	7.42/10.77	3.35	7.58/10.73	3.15	7.58/11.17	3.59	6.12/9.37	3.25	5.19/8.44	3.25
Bulk supply	5.22/5.61	0.39	1.27/1.35	0.08	3.33/3.91	0.58	2.97/2.99	0.02	2.93/3.08	0.15
Govt. irrigation and water supply scheme	0.78/0.91	0.13	0.71/0.67	(-)0.04	0.86/0.89	0.03	0.69/1.02	0.33	8.07/8.23	0.16
Public lighting	0.38/1.01	0.63	0.37/0.51	0.14	0.37/0.51	0.14	0.33/0.39	0.06	0.26/0.36	0.10
Others (SM, MS & LS)	57.78/66.35	8.57	58.30/68.53	10.23	59.76/68.22	8.46	64.30/67.91	3.61	60.25/61.07	0.82

Annexure-XVIII

(Refer paragraph 3.1.19)

Detail showing non-recovery of peak load exemption/violation charges

Sr. No.	Name of sub-division	Amount (Rupees in lakh)	Remarks
1	Parwanoo, Kala Amb, Paonta, Daulakuan, Barotiwala	37.72	In case of eight consumers, the energy consumption during peak hours was much higher than the permissible limit based on total sanctioned load during Nov. 2004 to August 2006. Action to detect the violation on the basis of the load survey from meter reading instrument was not taken. This resulted in non-recovery of Rs.37.72 lakh. The Government stated (August 2007) that in one out of eight cases correct bills were raised to the consumer. In seven cases, the peak load consumption was within the peak load allowed. As such, no violation charges were recoverable. The reply is not tenable as no justification for consumption higher than the permissible limit based on total peak hours during the month had been furnished.
2	Kala Amb	44.53	A consumer (Ruchira Paper Mills) was allowed (January 2005) peak load exemption for additional 800 KW load during July 2005 to August 2006 which was physically not found connected with the system. This resulted in non-recovery of Rs.44.53 lakh on account of peak load violation charges. The Government stated (August 2007) that the additional 800 KW load to be used during peak hours did not relate to additional 800 KW load which was sanctioned in September 2006. The reply is not acceptable as the documents collected from CE (Comm) revealed that during December 2004, the consumer himself had disclosed the connected load of 4800 KW against the sanctioned load of 4000 KW. This clearly indicated that the consumer was unauthorisedly using the power till September 2006 when it was actually sanctioned in his favour by the Board.

3	Kala Amb, Nalagarh	38.91	The Board sanctioned peak load exemption to five industrial consumers with retrospective effect date in April and May 2005 just to regularise the load unauthorisedly drawn by these consumers during peak hours. This resulted in revenue loss of Rs.38.91 lakh. The Government stated (August 2007) that the sanction was allowed by the competent authority. The reply is not tenable as the sanction with retrospective effect were given just to regularize the violations for peak hours for which there was no provision in the rules.
4	Satuan	24.35	Consequent upon the revision of minimum power factor from 0.85 to 0.90, the Chief Engineer (Comm.) revised (May 1996) peak load hours exemption from 3.4 MW to 3.6 MW (4 MVA) in favour of CCI. Rajban. Instead of recovering demand charges on 4000 KVA, the Board recovered the same on 3778 KVA (i.e. 3400 KW) which resulted in undercharging of Rs.24.35 lakh during May 1996 to June 2004. The Government stated (August 2007) that the amount of Rs.19.53 lakh would be recovered from the consumers after observing codal formalities.
5	Solan No-1, Barotiwala	195.33	In six cases, the consumers were found using power during peak hours. Since the energy meters installed on their premises were not compatible with meter reading instruments (MRI), they should have been charged at specified rates for 50 *per cent* consumption. In three cases, the meters were compatible with MRI but action to retrieve that data was not taken. The consumers were billed for violation on average basis instead of 50 *per cent* of the consumption. This resulted in revenue loss of Rs.195.33 lakh during April 2005 to December 2006. The Government stated (August 2007) that in most of the cases the meters had been replaced and on the basis of MRI data, 25 *per cent* of the total consumptions was being charged from the consumers. The reply is not tenable as tariff provides for levy of violation at the rate 50 *per cent* of total energy consumption in cases where meters were not compatible to record peak load consumption instead of 25 *per cent* being charged by the Board.

6	Paonta, Damtal, Dhaulakuan, Solan No-1, Nalagarh	83.28	In 17 cases, the consumers who had drawn power in excess of the restricted load without sanction and during peak load hours in anticipation of sanction of load were not billed for violation/infringement. In Dhaulakuan sub-division, a consumer premises was reconnected after a gap of eight months of permanent disconnection order but he was un-authorisedly allowed to draw power during peak hours on the basis of old sanction. Action to recover the peak load violation charges was not taken by the Central billing cell/field units. This resulted in non-recovery of Rs.83.28 lakh. The Government stated (August 2007) that accounts of consumers had been overhauled and the amount stand, recovered. In the case of BCC Fuba, the case is sub-judice in respect of Chambal Agro, peak load sanction was available and the premises of Him Neel Breweries was reconnected after observing all codal formalities. The reply is not tenable as no details of amount recovered after overhauling the accounts were furnished to audit. Further as regards Him Neel, the reconnection was done after a period of eight months. As such it should have been treated as new connection.
	Total:	**424.12**	

Annexure-XIX

(Refer paragraph 3.1.21)

Detail showing non-billing of consumers for consumption recorded at the sub-stations

Sr. No.	Name of circle	Amount of short-billing (Rupees in lakh)	Remarks
1	Nahan	161.85	In two[#] cases under Nahan circle, the orders of the Board to raise bills on the basis of energy consumption recorded at the sub-station were not implemented. In these cases, there was a total variation of 63.50 lakh units between the units recorded by the meter at the sub-station and meter installed at the consumers' premises resulting in short billing of Rs.1.62 crore during October 2002 to September 2006. The Government stated (August 2007) that the readings were being regularly compared with reading of sub-station and higher consumption was taken into account. The condition is applicable to the consumers after 1.4.2003. No extra charges were recoverable from these consumers as these were connected well before 1.4.2003. The reply is not tenable as there can not be different procedure for those who have been connected after 1.4.03 and for those connected before 1.04.2003. Moreover, Audit has noticed that in Kala Amb sub-division under the same circle, the consumers were being billed on the basis of higher consumptions irrespective of period of release of connection to the consumers.
2	Nahan	38.66	In Kala Amb sub-division, due to defective current transformer installed at consumer premises (Pashupati Spinning Mills) during September 2004 to June 2005, the billing was done on the basis of energy consumption recorded in Kwh at 132/33/11 KV sub-station at Kala Amb. In order to implement the Kvah based tariff, the energy recorded in Kwh was converted into Kvah by applying the power factor of .98 against the actual power factor of 0.89 to 0.92 of the sub-station. This resulted in under billing of 17.42 lakh Kvah valued at Rs.38.66 lakh. The Government stated (August 2007) that the power factor of sub-station which was low could not be taken as power factor of consumer premises as various inductive loads were also fed from the sub-station. The reply is not tenable as the billing of the consumer was being done from the sub-station. As such, the Kvah reading should have been calculated by applying the power factor of sub-station.

C.C.I. Rajban and Malwa Cotton

3	Solan and Una	84.64	In three[$] cases under Barotiwala, Amb and Mehatpur sub-stations, huge variation in contract demand recorded through energy meters installed at consumers' premises and the sub-station during normal and peak hours was noticed. The Board neither investigated the reasons for variation nor billed the consumers on the basis of demand recorded at the sub-station resulting in short billing of Rs.84.64 lakh during March 2006 to January 2007. The Government stated (August 2007) that in two cases the maximum demand was taken on the basis of MRI data. The Meter records maximum demand if the same persists for more than five minutes whereas the reading of Amp meter at the sub-station is taken instantly. Moreover the consumer had installed induction furnace which takes load with jerk shooting up the needle of Amp meter at sub-station. The reply is not tenable as no copy of load survey to verify the time of start of furnace was produced to Audit for verification of factual position and in case of SK Manganese, no reduction in demand had been noticed after operation of furnace.
	Total:	**285.15**	

$ *S.K. Magnise, Him Alloys and R.M. Minerals*

Annexure-XX

(Refer paragraph 3.1.23)

Detail showing cases where delay/non-issuance of bills in respect of temporary connections resulted in non-recovery of revenue

Sr. No.	Name of sub-division	Amount of revenue not recovered (Rupees in lakh)	Remarks
1	Barotiwala	51.28	In five[@] temporary cases under Barotiwala sub-division, regular readings were not taken during January 2005 to August 2006. The energy bills were issued after a gap of 7 to 16 months. In four cases, the bills were issued after effecting (November 2005 and August 2006) permanent disconnection orders and recovery of energy charges of Rs.51.28 lakh was still awaited (March 2007).
2	Barotiwala	22.90	Out of 15 temporary connections released in Barotiwala sub-division during January 2004 and November 2006, the accounts of three consumers were not found opened in the ledgers. In 13 cases, readings of energy consumption were not found recorded. This resulted in non-recovery of Rs.22.90 lakh as per information collected by the filed unit at the instance of audit.
3	Barotiwala	24.04	Out of 20 connections released by Barotiwala sub-division during August 2004 to October 2006, the bills for demand charges were raised only to five consumers. In remaining 15 cases, though monthly energy consumption was recorded, yet no energy bills were raised as the accounts of consumers were not found opened in the ledgers. The delay in billing ranged between 2 and 29 months. This also resulted in non-recovery of Rs.24.04 lakh.
	Total:	**98.22**	

[@] *A/C Number SUR-33, KTC-66, KTC-70, MS-166 and 4HB-1*

Annexure-XXI

(Refer paragraph 3.1.24)

Detail showing cases where the Board failed to down load data from Meter Reading Instruments (MRIs)

Sr. No.	Name of circle	Amount short recovered (Rupees in lakh)	Remarks
1	Solan and Dalhousie	33.86	In Arki (except in three cases), Nurpur and Damtal sub-divisions, though the meters compatible for MRI were installed (November 2001) yet no efforts were made to download the MRI data/take action on data retrieved in Damtal sub-division. The MRI data was down loaded (March 2007) at the instance of audit in case of 20 industrial/water pumping consumers where L& T and secure make meters were installed. An analytical study of data revealed that all these consumers were involved in drawal of power during peak hours without any sanction. The recovery on this account worked out to Rs.33.86 lakh. The quantum of loss/unbilled revenue during November 2001 to January 2007 could not be worked out in audit due to non-availability of data. The Government stated (August 2007) that after downloading data from MRI recovery of Rs.47.58 lakh had been made from the consumers. No details in support of recovery had, however, been furnished. Thus, it was not clear as to whether the recovered amounts included the consumers pointed out in the para.
2	Nahan and Solan	192.45	An analytical study of load survey in respect of three* consumers under Nahan and Solan operation circles revealed that proper checks to ascertain the drawl of power in accordance with the sanctioned contract demand and infringement, if any, during peak hours were not exercised. In these cases, there was difference of 40 to 71 minutes in actual time and time set in meter watch. The consumers were found using power during peak hours when load survey was studied with actual time on that day. In case of Saboo Ispat under Kala Amb sub-station, the consumer had drawn load in excess of sanctioned load in anticipation of sanction for additional load. The energy meter installed on his premise had recorded drawal of power up to 1919 KVA during the period September 2004 to December 2004 whereas in load survey, the drawal of power was recorded up to 2585 KVA which was indicative of the fact that the maximum demand was reset prior to recording of the readings and load

* *Saboo Ispat, Black Board Rubber and Jai Jawala Alloys*

			survey data was not properly scrutinised. This resulted in short recovery of Rs.1.92 crore. The Government stated (August 2007) that Rs.13.43 lakh on account of excess drawal of load during normal hours had been debited to Saboo Ispat. In respect of other consumers the Government stated that the consumers usually run their industries as per real time clock provided in the energy meters. The time difference in the real time clock had, however, been set right. The reply is not tenable as no justification for charging full amount in respect of Saboo Ispat had been furnished. Moreover as per tariff orders the restriction for peak hours during summer and winter months was between 6.00 PM and 9.00 PM and 5.30 PM and 8.30 PM respectively. Since the consumers had run their units during these hours, they were liable to pay PLVC of Rs.192.42 lakh.
3	Una	Not-ascertained	In Una circle, the MRIs on electronic energy meters on the premises of medium supply and water pumping consumers were installed during July 2006 though the two part tariff was implemented from April 2005. On the basis of data of six months from July 2006, penalty charges of Rs.41.93 lakh were levied. The loss for April 2005 to June 2006 could not be ascertained in audit due to non-availability of data. The Government stated (August 2007) that there were 1998 small, medium and large supply consumers. At the time of implementation of two part tariff, only 10 MRIs were with the circle, which were not enough to take data of all connections. Thereafter, more MRIs were arranged, defected MRIs were got repaired and staff was imparted training to use MRIs. This exercise took some time and MRI could be started late. The Government, however, did not reply in regard to loss of revenue suffered by the Board due to delay of 15 months in down loading the data.
	Total:	**226.31**	

Annexure-XXII

(Refer paragraph 3.1.25)

Detail showing cases of un-authorised use of power

Sr. No.	Name of circle	Amount short recovered (Rupees in lakh)	Remarks
1	Nahan and Solan	1594.89	In case of 32 industrial consumers under Nahan and Solan circles, neither the consumers at their own complied with the condition of sanction order regarding depositing additional security to avail peak load exemption nor was action in this regard taken by the Board. In two cases under Solan circle, the security amount demanded by the Board was not deposited timely by the consumer, which amounted to an infringement of condition of sanction order. As such, in these cases sanctions should have been treated as cancelled. Despite the infringement of condition of sanction order, the consumers were allowed peak load exemption to draw power unauthorisedly during peak hours without levy of infringement charges. This resulted in non-recovery of Rs.15.95 crore.
2	Solan	65.61	Bank Guarantees (BG) of Rs.36 lakh and Rs.59.39 lakh furnished in lieu of security deposits by two consumers (S.R.Forgings and Winsome Textile) under Barotiwala sub-division were valid up to September and November 2006 respectively. Both these consumers failed to renew the BGs which was an infringement of sanction orders issued by the Board for peak hour exemption. As such, the sanction accorded for peak load should have been treated as cancelled. The consumers were, however, allowed to draw power during peak hours without payment of peak load violation charges of Rs.65.61 lakh. In respect of Sr. no. 1&2, the Government stated (August 2007) that the sanction orders provided that non-remittance of ACD would amount to infringement and subsequent intimation of cancellation of load was to pressurize the consumer and guarding the organization. It would not be desirable to resort to the extreme harsh step. The audit was assured that the matter of amending the provision of sanction letters would be considered in the larger perspective. The facts, however, remained that the non-implementation of the provisions of then sanction resulted in revenue loss to the Board.

3	Solan	22.20	Eight[@] industrial consumers under Solan operation circle to whom connections were released with power restrictions to draw load during night hours only and up to some specified quantum of load, had infringed the restrictions imposed by the Board by drawing power during day time and beyond specified quantum of load. Action for levy of enhanced charges for un-authorised use of power and violation charges was not taken resulting in short recovery of Rs.22.20 lakh during April 2005 to January 2007. The Government stated (August 2007) that due to load constraint, load to certain industries were released for running their industrial units from 22.00 hrs to 6.00 hrs. Further, in the case of one consumer, the restriction was wrongly imposed for which necessary amendment was issued. The reply is not tenable as these consumers had run their industries during day time also for which they were not authorised.
4	Nahan and Una	672.75	In nine sub-divisions, the connected load of 23 industrial, water pumping and bulk supply consumers was found extended unauthorisedly. Two consumers (Saboo Ispact and Neelkanth) falling under Kala Amb sub-division were served (March 2005) notices for unauthorised load of 651.600 and 924 KW respectively. One consumer (Him Alloys) under Amb sub-station himself intimated (January 2007) extension of load of 2000 KW. In four cases under Solan circle, the unauthorised extensions detected by meter inspector were stated (January 2006) to have been removed but action under Section 126 ibid (except charging the violation charges for over drawal) was not taken by the field units. This resulted in revenue loss of Rs.6.73 crore during June 2003 to February 2007. The Government stated (August 2007) that the matter was under investigation and the proportionate charges would be debited to the firm.

@ *Hindustan quality, Associate Biotech, Airon health, Indian Herbals, Flexolite Product, Foreg India, Emborse Metal and Mohan Mekin*

5	Dalhousie	40.46	Monthly energy consumption data for June 2003 to February 2007 of street light consumers in three sub-divisions under Dalhousie circle revealed that the connected load of street lights was unauthorisedly extended due to addition in number of light points. Action to enter into fresh agreements and charge the consumer under section 126 of the I E Act, 2003 was not taken. This resulted in loss of revenue due to short recovery of lamp renewal, maintenance and enhanced charges of Rs.40.46 lakh. The Government stated (August 2007) that in respect of Municipal Committee,. Chamba, an amount of Rs.6.10 lakh had been recovered and balance amount of Rs.8.51 lakh was not recoverable as load of 95 KW was erroneously entered in the ledger. As regards M.C. Dalhausie, the amount would be charged after receipt of reply of notice and in the case of M.C. Nurpur, the said authority had requested to review the amount in view of provision of Electricity Act, 2003, (Section 126 (5)) which provided for recovery for six months.
	Total:	**2395.91**	

Annexure-XXIII

(Refer paragraph 3.1.27)

Detail showing non/short levy of contract demand/violation charges

Sr. No.	Name of sub-division	Amount (Rupees in lakh)	Remarks
1	Bilaspur No-1, Sataun	166.48	In the case of two industrial consumers (C.C.I.- Rajban and A.C.C.- Barmana the contract demand sanctioned in KW was converted in KVA by taking into account the average power factor instead of required power factor of 0.90 as required under Clause P of General Condition of Tariff Notification effected from July 2005. This resulted in wrong calculation of contract demand and short recovery of demand charges of Rs.166.48 lakh during July 2005 to November 2006. The Government stated (August 2007) that the contention of audit that the contract demands should have been calculated on the basis of power factor 0.90 instead of average power factor was not relevant. The reply is not tenable as the tariff order of July 2005 clearly stipulated that in cases where the consumers had not entered in to contract demand in KVA, the connected load should be computed in KVA assuming 0.90 power factor.
2	Kala Amb, Solan No-1, Barotiwala, Damtal	78.61	Instruction No. 21 (iii) (d) of the Sales Manual provides that during the period of building up of load, the consumer is to be charged for the maximum demand/connected load calculated from month to month. Audit observed that in five cases under three sub-divisions, the required charges were not levied on the basis of contract demand sanctioned and load actually built up by the consumer. This resulted in short recovery of Rs.78.61lakh during June 2005 to November 2006. The Government stated (August 2007) that the demand charges had been levied during the load built up period for the load actually connected.

3	Parwanoo, Barotiwala, Dhaulakuan	138.93	As per instruction No. 39 of Sales Manual and sale circular of October 2005, the consumer was not to be allowed to revise the contract demand during the Ist year of release of connection. Contrary to above, in six cases under three sub-divisions, the contract demand of the consumers was revised during the first year of release of connection/extension of load resulting in revenue loss of Rs.138.93 lakh during March 2005 to February 2007. The Government stated (August 2007) that the reduction in contract demand in respect of Steel Strips was allowed by the competent authority. The reply is not tenable as the consumer was not entitled for the reduction in contract demand during 1st year of release of load.
4	Gagret	25.95	In Gagret sub-division, an industrial consumer (M.B.D. Printographic Ltd.) had failed to built up the sanctioned load with in the stipulated period of six months as provided in Instruction No. 21 (iii) (d) of Sales Manual. The load was retained by the consumer for 16 months from March 2005 to June 2006. Instead of charging the consumer on the basis of proportionate contract demand of 275 KVA and sanctioned contract demand of 809 KVA during the load built up period and thereafter respectively, the billing was done on the basis of revised contract demand of 150 KVA resulting in revenue loss of Rs.25.95 lakh. The Government stated (August 2007) that the field unit had worked out recovery of Rs.3.53 lakh which included an amount of Rs.1.13 lakh on account of load retention charges. The reply is not tenable as there is no authority under which the load could be extended after sixteen months from the date of release of connection. As per instructions in vogue the load should have been treated as cancelled after six months. The authority under which the SDO had revised the contract demand which was otherwise in the competency of Chief Engineer was also not shown to Audit.
5	Parwanoo	17.23	In Parwanoo sub-division, an industrial consumer (Indo Swift Ltd, Unit I and II) was being billed on the basis of contract demand set aside (August 2002) by the HPERC resulting in under charging of Rs.17.13 lakh during February 2004 to October 2006. The Government stated (August 2007) that Indo Swift Ltd. had extended load/revised contract demand during January 2004 which was sanctioned in October 2003. The reply is not tenable as the contract demand sanctioned during October 2003 was on shift basis which was set aside by the HPERC.

6	Barotiwala	44.54	As per schedule of tariff applicable from November 2001, demand charges on large supply consumers were to be levied on the actual maximum recorded demand or 80 *per cent* of the contract demand whichever was higher. A consumer (Vardhaman Spinning & General Mill Ltd., Baddi) was sanctioned (July 2002) connected load of 16472 KW with C D of 18302 KVA after applying 0.90 power factor. Since the actual recorded demand of the consumer during March 2003 to August 2004 was less than 80 *per cent* of C D, the consumer was required to be billed for 80 *per cent* of the C D. The Board March 2003 onward billed the consumer on the basis of demand which was sanctioned in September 2004. This resulted in under billing of Rs.44.54 lakh during the period from March 2003 to August 2004.
	Total:	**471.74**	

Annexure-XXIV

(Refer paragraph 3.1.28)

Detail showing short billing of energy charges attributable to various reasons

Sr. No.	Name of sub-division	Number of cases	Amount (Rupees in lakh)	Reasons
1	Barotiwala, Sataun, Solan No-1	100	15.73	Non -levy of low voltage supply surcharge as required under Section-I.I of Tariff notification effective from July 2005. The Government stated (August 2007) that the amount had been debited to the consumers accounts.
2	Sataun	1	3.75	Non-levy of meter equipment charges as required under Section-II of Tariff notification effective from November 2001. The Government stated (August 2007) that the amount had been debited to the consumers accounts.
3	Sataun, Solan No-1, Paonta, Kala Amb, Dhaulakuan	14700	3.90	Non-levy of stabilisation charges as required under Section-I.M of Tariff notification effective from July 2004. The Government stated (August 2007) that the amount had been debited to the consumers accounts.
4	Barotiwala, Damtal, Sataun, Solan No-1, Una, Nurpur, Dalhousie	44	49.91	Non-levy of demand charges/violation charges as required in Tariff notification effective from time to time. In reply the Government stated (August 2007) that in case of a consumer under Dalhausie Circle a sum of Rs.7.80 lakh had been debited to the consumer.
5	Parwanoo, Solan No-1, Nahan, Dalhousie, Mandi	8	7.54	Non-clubbing of load as required in Sales Circular No. 5/2001 dated 11.4.2001. The Government stated (August 2007) that the consumers had been served notices for clubbing the load and efforts were being made to regularise all these cases.
6	Darlaghat, Kala Amb	2	108.42	Non-recovery of re-validation charges as required in Sales Circular No. 219/95 dated 2.11.1995.

7	Barotiwala, Mandi, Solan No-1, Darlaghat	94	118.96	Non/delay in implementation of two part tariff as required under Tariff notification effective from July 2004. The Government stated (August 2007) that the amount had been debited to the consumers' accounts and in respect of Mandi circle, an amount of Rs.45 lakh out of Rs.78.96 lakh had been recovered. .
8.	Barotiwala, Damtal, Tahliwala, Solan No-1, Paonta, Nurpur, Manali, Mandi	41	138.34	Wrong-application of tariff/categorization of consumers as required under Tariff notifications effective from time to time.
9	Chamba	2	68.93	Non-application of commercial/temporary tariff for power connections released for the operation of Chamera Hydel Project as per tariff notifications issued from time to time. The Government stated (August 2007) that the supply was being used by NHPC at various residential and non-residential buildings. It admitted that the project was commissioned during March 2004 after completing the major components of the project. Remaining minor works were still under progress. The reply is not based on facts as in the A & A form and details of load requirement; the power was to be used for operation of 300 MW Hydel Project as auxiliary consumption which was not covered under bulk supply tariff. Moreover, the NHPC in May 2007 had conveyed that the period from March 2004 to March 2006 was covered under defect liability period of the project which was under commercial operation and did not involve any construction activities.
	Total:	**15008**	**515.48**	

Annexure-XXV

(Refer paragraph 3.1.30)

Detail showing the targets fixe d for checking by the flying squads and achievement there against

(In numbers)

Sr. No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
1	**Total connections**	**1584558**	**1646468**	**1710818**	**1755751**	**1799263**
2	Targets fixed for checking	3600	3600	3600	3600	3600
3	Connections checked	3503	3759	3786	3714	3796
4	**Percentage of connections checked**	**0.22**	**0.23**	**0.22**	**0.21**	**0.21**
5	**Categories checked :**					
	Domestic consumers	NA	NA	NA	1558	942
	Commercial consumers	NA	NA	NA	2026	2583
	Industrial consumers	NA	NA	NA	130	271
6	Theft cases detected	21	19	57	35	24
7	Total amount assessed (In lakh)	108.00	20.50	14.47	16.40	22.61
8	**Percentage achievement of total connection checked**					
	Domestic consumers	NA	NA	NA	41.95	24.82
	Commercial consumers	NA	NA	NA	54.55	68.05
	Industrial consumers	NA	NA	NA	3.50	7.14

Annexure-XXVI

(Refer paragraph 3.1.32)

Detail showing the balance outstanding for recovery at beginning of the year, revenue assessed during the year, revenue collected, balance outstanding at the end of the year, *etc.*

(Rupees in crore)

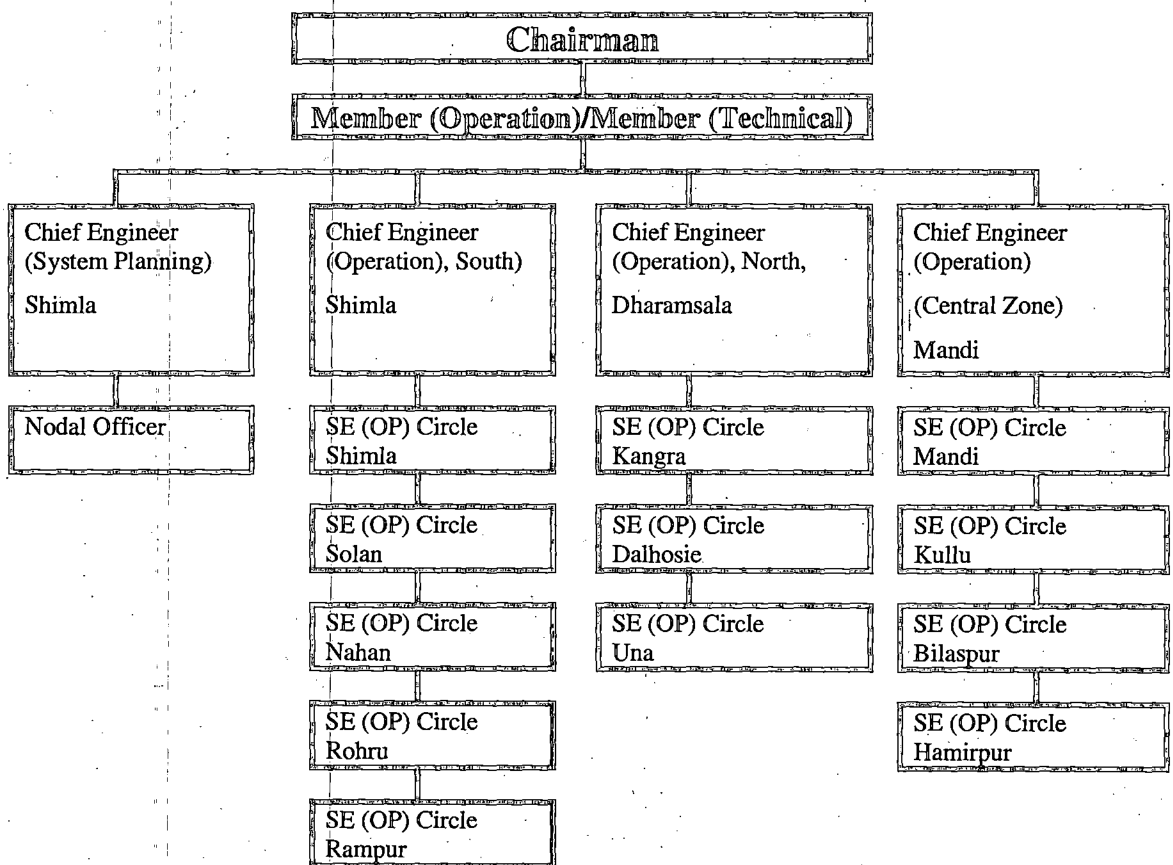
For sale within the State	2002-03	2003-04	2004-05	2005-06	2006-07
Balance outstanding for recovery at the beginning of the year	151.12	219.22	145.62	129.36	134.73
Revenue assessed during the year	603.22	653.83	797.57	1097.62	1361.45
Adjustment of past years	3.38	1.34	4.21	4.34	4.16
Total amount due for collection during the year	757.72	874.39	947.40	1231.32	1500.34
Amount collected during the year	538.50	728.77	818.04	1096.59	1392.47
Amount outstanding at the end of the year	219.22	145.62	129.36	134.73	107.87*
Percentage of collection to total dues for collection	71.07	83.35	86.35	89.06	92.81
Closing balance in terms of months demand	4.36	2.67	1.95	1.47	0.95
Permanent defaulters	**5.70**	**5.80**	**5.89**	**7.06**	**7.02**
Recoverable from IPH Department	184.18	105.35	76.31	65.80	28.82
NAC/MCs	3.74	5.40	7.35	9.23	10.92

* *This includes Rs.18.96 crore pertaining to 143 cases pending for decision in various courts/dispute settlement committees*

Annexure-XXVIII

(Refer paragraph 3.2.1)

ORGANISATIONAL CHART



Note: *All SEs (CEOs) are assisted by the Executive Engineers in the execution of the schemes*

Annexure-XXVIII

(Refer paragraph 3.2.17)

Detail of cases indicating diversion of APDRP funds

Sr. No.	Name of circle	Particulars of work done with APDRP funds	Expenditure without provision in the DPR (Rupees in crore)	Remarks
1	Solan	Installation of two 2x3.15 MVA transformers at Nalagarh	0.21	The Board debited (August 2005) Rs.21.08 lakh to the cost of two 2x3.15 MVA transformers to be installed at 33/11 KV sub-station at Subathu as per APDRP scheme. Subsequently, these transformers were diverted to Nalagarh for works not covered under the APDRP scheme and two dismantled 2x2.5 MVA transformer without any value were installed at the sub-station at Subathu. The expenditure was, however, not withdrawn from the APDRP. The Government stated (August 2007) that the power transformers were transferred temporarily and ultimately these would be brought back. The reply is not tenable as the expenditure had been charged to the 13/11 KV sub-station at Subathu, which was constructed under the scheme.
2	Solan	Installation of 150 modems at the premises of consumers at Solan, Kasauli, Dharampur, Parwanoo and Kandaghat	0.22	Solan circle installed 330 modems (remote metering equipments) during January 2006 at a total cost of Rs.48.96 lakh. Out of these, 180 modems valued at Rs.26.71 lakh were installed in the industrial area at Baddi and Barotiwala as per the scheme but 150 modems valued at Rs.22.25 lakh were provided to the industrial consumers of Solan, Kasauli, Dharampur, Parwanoo and Kandaghat not covered in the scheme. Thus, the APDRP funds of Rs.22.25 lakh were diverted to other areas. The Board admitted (August 2007) the Audit observation.

3	Hamirpur	Installation of one HT shunt capacitor at 33 KV sub-station at Jawalamukhir	0.12	In the approved DPR for Hamirpur circle, there was provision of Rs.41.57 lakh for installation of LT switched capacitors on the distribution transformers. The Board, however, installed (March 2006) one HT shunt capacitor at 33 KV sub-station at Jawalamukhi at a cost of Rs.12.30 lakh without any provision and no capacitor was installed on the LT side as provided in the DPR. The Government admitted (August 2007) the installation of HT capacitor but attributed the same to non-availability of LT capacitors.
4	Hamirpur	Construction of 3 KM line in Electrical Division at Nadaun.	0.09	Electrical Division at Nadaun constructed (October 2006) 3 KM line at a cost of Rs.9.41 lakh out of APDRP funds without any provision in the scheme. The Government stated (August 2007) that the construction of line was necessary to maintain regular supply. The reply is not tenable as there was no provision for the same in the scheme.
5	Solan	Construction of 33 KV double circuit line from Baddi to Malpur	1.87	Electrical Division Parwanoo constructed (September 2006) 33 KV double circuit line from Baddi to Malpur on turnkey basis for Rs.186.52 lakh without any provision.
6	Mandi and Hamirpur	Construction of manned sub-stations in Mandi and Hamirpur Circles	0.76	Against the provision for construction of five un-manned sub-stations at a cost of Rs.2.97 crore, the Board constructed manned sub-stations in Mandi and Hamirpur circle resulting in diversion of APDRP funds of Rs.76.25 lakh. Besides, the Board also incurred recurring liability of Rs.16.57 lakh per annum on account of wages/salary of manpower to be deployed for the maintenance of these sub-stations The Government stated (August 2007) that the Sub-Transmission Committee had accorded approval for above works. The reply is not tenable as the approval was required from the MOP.

7	Kullu	Construction of un-manned sub-station with SCADA system	1.51	Against the provision Rs.1.62 crore for construction of 33/11 KV 2x3.15 MVA manned sub-station at Nagwain (Kullu), the Board constructed un-manned sub-station with SCADA system at a cost of Rs.3.13 crore resulting in diversion of APDRP funds of Rs.1.51 crore). The Government stated (August 2007) that the Sub-Transmission Committee had accorded approval for above works. The reply is not tenable as the approval was required from the MOP.
8	Kullu, Bilaspur, Rampur and Mandi	Replacement of excess LT and HT wooden poles	3.73	The Board replaced 7895 LT and 5647 HT wooden poles in Kullu, Bilaspur, Rampur and Mandi circles during 2004-05 and 2005-06 against the provision of 5300 LT and 2400 HT wooden poles. This resulted in excess replacement of 2595 LT and 3247 HT poles resulting in diversion of APDRP funds to the extent of Rs.3.73 crore. The Government stated (August 2007) that at time of formulation of the scheme, only very damaged poles were identified for replacement and during actual execution, more poles had to be replaced. The reply indicated that the schemes were prepared without adequate study of exiting infrastructure.
9	Una	Construction of 10 KM long 33 KV HT line from Una to Basal	0.25	In Una circle, the Board incurred an expenditure of Rs.75.39 lakh during 2004-05 against the awarded cost of Rs.50.59 lakh on the construction of 10 KM long 33 KV HT line from Una to Basal due to subsequent increase in pole structures from six to 12 not provided in the scheme resulting in diversion of funds of Rs.24.80 lakh. The Government stated (August 2007) that the length of line increased from 10 KM to 11.122 KM and more poles had to be erected for adequate ground clearance as the line passed through plain area. The reply was indicative of the fact that a schemes were prepared without proper study.
	Total:		**8.76**	

Annexure-XXIX
(Refer paragraph 3.2.29)
Detail of cases indicating loss of revenue due to delay/non-execution of works

Sr. No.	Name of Circle	Name of work	Amount (Rupees in crore)	Remarks
1	Solan	Sub-stations at Kharooni, Ramshehar, Subathu, Dharalghat, Nalagarh	10.78	The work relating to construction of new sub-stations at Kharooni, Ramshehar, Subathu, Darlaghat and Nalagarh included in the annual working programme for 2002-03 to 2004-05 was completed after a delay ranging between 22 and 46 months during the period between June 2006 and January 2007. The delay in completion attributable to delay in awarding the work by the Board and delay in completion by the contractor resulted in loss of potential revenue due to non-achievement of projected energy saving of 36.55 million units (MUs) valued at Rs.10.78 crore as envisaged in the scheme
2	Kullu and Mandi	Sub-stations at Nagwain, Saulikhud, Baggi, Tikken, Makreri, Bhadarwar and Cholthra	3.59	The work relating to construction of new sub-stations at Nagwain, Sauli Khud, Baggi, Tikken, Makreri, Bhadarwar and Cholthra was included in the annual working programme of the Board for 2004-05. The above works were completed after a delay of 16 to 24 months during July 2006 to January 2007. The delay in completion attributable to delay in awarding the work by the Board and delay in completion by the contractor resulted in loss of potential revenue due to non-achievement of additional sale of 12.18 MUs energy valued at Rs.3.59 crore as envisaged in the scheme. The Government admitted (August 2007) the delay in taking decision, calling of tenders and subsequent delay in completion of work by the contractors.
3	Bilaspur	Re-conductoring of 1018.21 KM HT/LT lines	0.95	The work of re-conductoring of 1018.21 KM HT/LT lines in Bilaspur circle was included in the working programme for 2003-04 and 2004-05 but the same could not be executed within the working programme due to non-supply of conductor of required size (7/3.15mm, 7/3.81mm and 7/4.26mm) to the CEO by the Chief Engineer (MM) of the Board even though the requirement of 3292 KM conductor was sent (October 2003 and February 2005) to the Board. Due to non-receipt of conductor, re-conductoring of 106.05 KM HT and 257.97 KM LT lines only could be completed. Thus, due to non-achievement of reconductoring target, the Board was deprived of projected saving of 3.227 MUs valued at Rs.95.20 lakh from April 2005 to January 2007. The Government admitted (August 2007) that the requirement from the CEO Bilaspur was received very late which resulted in delay in awarding and completion of work.
	Total:		**15.32**	

Annexure-XXX
(Refer paragraph 3.2.30)
Detail of cases indicating avoidable extra expenditure

Sr. No.	Name of Circle	Particulars of work	Avoidable extra expenditure (Rupees in crore)	Remarks
1	Rampur	22 KV single circuit transmission line on 66 KV towers from Akpa to Pooh	2.94	The DPR of Rampur circle contained provision for construction of 22 KV single circuit transmission line on 66 KV towers from Akpa to Pooh. On the basis of tenders floated in April 2004 and opened in June 2004, the work was executed on turnkey basis. Though, the per KM cost on the basis of cost data of 2002 was Rs.13.75 lakh and the justified rate for the year 2004 was Rs.19.86 lakh, the lowest offer received from Power Trans. Engineers was for Rs.35.43 lakh per KM. Without considering the justified cost, the above work was awarded (April 2005) for Rs.9.89 crore which was higher by Rs.2.94 crore as compared to the justified cost. The Government stated (August 2007) that offer of the lowest contractor was brought down from Rs.12.40 crore to Rs.9.89 crore, which was quite reasonable. The reply is not tenable as the Director (Design) Transmission (Hamirpur) had justified the rate of only Rs.19.86 lakh per Km. after taking all factors into consideration.
2	All circles	Purchase of material in piecemeal instead of purchase in bulk.	32.33	All the projects under operation in the State were sanctioned between August 2002 and May 2003. The component wise requirement of material was assessed by the units and forwarded to the Chief Engineer (Material Management). On the basis of requirement, the Chief Engineer (Material Management) placed the supply orders. The MOP had released Rs.163.91 crore to the State Government during 2002-03 and 2003-04 out of which the Board could utilise only Rs.33.68 crore during this period. Instead of placing supply orders for purchase of material in bulk, the Board placed supply orders in piecemeal despite availability of funds. This resulted in avoidable extra expenditure of Rs.32.33 crore on the purchase of different material. The Government stated (August 2007) that the material was purchased on the basis of annual requirement, availability of funds and position of inventory. The reply is not tenable as the purchase of material in bulk would have been economical and there was also no shortage of funds.

3	Solan	Primary control system for DTRs	0.15	In order to have better control on DTRs, provision of Rs.50.72 lakh for installation of primary control system ar an average cost of Rs.4000 per DTR for 1268 DTRs was made in the DPR of Solan circle. Instead of providing primary control system, Electrical Divisions at Nalagarh and Parwanoo provided LT Panel Boards on 10 DTRs only at a total cost of Rs.15.29 lakh against the provision of Rs.40,000 for primary control system on 10 DTRs resulting in extra expenditure of Rs.14.89 lakh. The Government stated (August 2007) that the provision in the scheme was meager and LT Panels were replaced on need basis. The reply is not tenable as it indicated that the provision in the scheme was made without considering the actual requirement.
4	Solan	33 KV line from Baddi to Malpur	0.44	As per APDRP guidelines, use of maximum size of conductor i.e. ACSR Dog, Raccoon or equivalent AAAC 7/4.26mm (100 mm^2) for 33 KV lines should be preferred. The Board sanctioned the work of construction of 33 KV line from Baddi (Katha) to Malpur on turnkey basis for which Wolf conductor of higher size (150 mm^2) was provided. The rate of 100 mm^2 size AAAC conductor (7/4.26mm) issued to the same work earlier was Rs.48.55 per meter including erection charges whereas the contractual rate including erection charges for Wolf conductor was Rs.135 per meter. Thus, the use of higher size of conductor resulted in excess expenditure of Rs.44.18 lakh on the construction of 51.110 KM line. The Government stated (August 2007) that the extra expenditure had been recovered from the consumers. The reply is not tenable as according to the decision of Sub-Transmission Committee of the Board, 50 *per cent* of the expenditure was to be recovered from the consumers whereas the Board had recovered only Rs.8.95 lakh resulting in excess booking of Rs.13.14 lakh to the APDRP Scheme.

5	Una	2x3.15 MVA power transformers	0.13	The construction of 33/11 KV 6.30 MVA sub-station at Tahliwal was awarded (July 2005) on turnkey basis to a contractor. After award of work, the Board decided (May 2006) to upgrade this sub-station to 12.60 MVA. The transformers for upgradation were supplied departmentally and the two transformers of 3.15 MVA capacity purchased by the contractor were taken by the Board at the cost of Rs.16.88 lakh per transformer though the Board had purchased the transformers of this capacity for other APDRP works at a cost of Rs.10.48 lakh per transformer. The procurement of two transformers from the contractor at higher rates resulted in avoidable extra expenditure of Rs.12.80 lakh. Out of these two transformers, one transformer was booked to 33/11 KV sub-station at Basal in December 2006 and the other was still lying idle (March 2007). The Government stated (August 2007) that the transformers purchased for turnkey projects were costly as the same were purchased at a later date. The reply is not tenable as the Board itself was responsible for delay in award of turnkey projects.
	Total:		**35.99**	

Annexure-XXXI

(Refer paragraph 3.2.34)

Detail of cases indicating unfruitful expenditure

Sr. No.	Name of circle	Particulars of work	Unfruitful expenditure (Rupees in crore)	Remarks
1	Shimla	Construction of 33/11 KV 1x1.6 MVA sub-station at Dhami along with 33 KV line (15.260 KM)	0.89	The DPR of Shimla circle contained the provision for construction of 33/11 KV 1x1.6 MVA sub-station at Dhami along with 33 KV line (15.260 KM) at a cost of Rs.36.75 lakh. The tenders for design, manufacture, erection, testing and commissioning of this sub-station were invited in May 2005 and opened in October 2005 but the work has not been awarded to date (March 2007) due to proposed change in the scope of work. Due to non-construction of sub-station, the 33 KV line from Jutog to Dhami constructed (November 2006) at the cost Rs.48.65 lakh could not be commissioned and was lying idle. Further, the Board had also incurred an expenditure of Rs.17.03 lakh on the development of site and Rs.23.50 lakh on purchase of terminal equipment for construction of this sub-station which was also lying idle. Thus, due to improper planning, the investment of Rs.89.18 lakh was rendered unfruitful. The Government stated (August 2007) that the completion had been re-scheduled and the work would be completed as and when the funds would be available.
2	Hamirpur	11 KV express feeder from Chabutra to Patlandhar	0.21	Electrical Division Hamirpur constructed (June 2005) 11 KV express feeder from Chabutra to Patlandhar at a cost of Rs.20.54 lakh. As this feeder was not required for immediate use in view of already existing 11 KV Sujanpur–Patlander transmission line re-conductoring of which was done at a cost of Rs.9.19 lakh under APDRP, the Board has not put load on this new feeder so far (March 2007) and it was lying idle. The Government stated (August 2007) that the existing 11 KV line was quite old and new feeder would provide alternate source of supply to the consumers. This had also reduced the T & D losses to 3.6 *per cent*. The reply is not tenable as the old feeder had also been reconductored at a cost of Rs.9.19 lakh. New feeder remained idle for two years and only insignificant load had been put on the feeder in May 2007 which cannot reduce the T & D losses to 3.6 *per cent*.
	Total:		**1.10**	

Annexure-XXXII
(Refer paragraph 3.2.35)
Detail of cases indicating incorrect reporting to the MOP

Sr. No.	Name of circle	Amount (Rupees in crore)	Remarks
1	Shimla and Una	4.16	Shimla and Una circles debited overhead charges (storage, contingency and establishment charges) at the rate of 21.56 *per cent* on cost of material against 11 *per cent* approved (August 2004) by the Board for works undertaken under APDRP. Consequently, overhead charges of Rs.4.16 crore were over charged up to November 2006 and intimated to the MOP. The Government stated (August 2007) that the overhead charges were levied at the rate of 10 and 11 *per cent*. The reply was not tenable as in the circles test checked in Audit, the overhead charges were levied at the rate of 21.56 *per cent*.
2	Bilaspur (ED Sundernagar)	0.19	Electrical Division at Sundernagar completed (February 2005 and February 2006) augmentation of two 33 KV sub-stations at Sundernagar and Nerchowk at a cost of Rs.30.58 lakh but in the financial progress reported to the MOP, the same was indicated as Rs.49.53 lakh resulting in overstatement of financial achievement by Rs.18.95 lakh.
3	Hamirpur, Dalhousie, Bilaspur and Kullu	2.32	Electrical Division at Hamirpur, Dalhousie, Bilaspur and Kullu afforded 3 *per cent* salvage value instead of 25 *per cent* provided in the DPR resulting in affording of less credit of Rs.2.32 crore in case of re-conductoring of HT/LT lines and replacement of wooden poles. Thus, the expenditure figures and the adjustment of grant were overstated to that extent. The Government stated (August 2007) that the credit of salvage at the rate of 25 *per cent* was given on the cost of new conductor. The reply is not tenable as the DPR provided for giving credit on the entire cost of reconductoring.
4	Rampur	4.80	The Board awarded (April 2005) construction of 22 KV Akpa –Pooh transmission line under APDRP and incurred an expenditure of Rs.4.80 crore between May 2005 and March 2007. The CEO concerned failed to monitor the physical and financial progress of this work and consequently the expenditure cases not intimated to the MOP so far (March 2007) The Government Stated (August 2007) that the expenditure of Rs.5.71 crore was incurred out of which Rs.4.80 crore was chargeable to APDRP. The reply is no tenable as the amount had not been charged to the APDRP so far (August 2007).
	Total:	**11.47**	

Annexure-XXXIII

(Refer paragraph 4.8)

Statement showing the impact of merger of ED component in ex-works rates of the firm

Sr. No.	Purchase order number and date	Type of conductor purchased		Ex-works per Km rates		Difference in rates	Total increase in ex-works rates after merging ED
				before merger of ED	after merger of ED		
		Type	Quantity in Km.	(in rupees)			
1	9337-9374 - 19.7.2004 & RO/23784 -831- 3.1.2005	ACSR - Gnat	50.00	8373.16	**9581.05**	1207.89	60394.50
		ACSR Ant -	158.00	15747.70	**18123.89**	2376.19	375438.02
2	9490 -9533 - 19.7.2004 & RO /24068-24117- 3.1.2005	AAA - Raccoon	1652.50	25679.42	**29396.60**	3717.18	6142639.95
		AAA - Dog	1355.00	31341.76	**35979.55**	4637.79	6284205.45
	Total		**3215.50**				**1,28,62,677.92**

Annexure-XXXIV

(Refer paragraph 4.9)

Statement showing avoidable payment due to incorrect fixation of rates

(In Rupees)

Conductor	ACSR								AAAC					
Name of the Firm	New India Wire and Cable, Jammu (Out side firm)	Ritco, New Delhi (Out side firm)		Durable Conductors, Solan (Local firm)		Nu -Line Industries, Parwanoo (Local firm)			Venketswara, Jaipur (Out side firm)			Durable conductors, Solan (Local firm)		
Type of ACSR conductor	Weasel	Rabbit	Raccon	Weasel	Rabbit	Weasel	Rabbit	Raccon	Squirrel	Weasel	Rabbit	Squirrel	Weasel	Rabbit
Ex works rates	10871	18500	27300	10871..00	18500	10871	18500	27300	6757.04	10509.18	16553.28	6757.04	10509.18	16553.28
ED	1739	1776	2620.80	0	0	0	0	0	1081.13	1681.47	2648.52	0	0	0
CST	0	40.55	59.84	108.71	185.00	217.42	370.00	546.00	156.76	243.81	384.04	67.57	105.09	165.53
F&I	0	0	0	0	0	109	194	292	300	500	800	0	0	0
Unloading	150	664.45	1000.36	0	0	0	0	0	0	0	0	0	0	0
Total cost per Km	**12760**	**20981**	**30981**	**10979.71**	**18685.00**	**11197.42**	**19064.00**	**28138**	**8294.93**	**12934.46**	**20385.84**	**6824.61**	**10614.27**	**16718.81**
Actually awarded	**12760**	**20981**	**30981**	**12618.54**	**20794.56**	**12760**	**20981.00**	**30981.00**	**8294.93**	**12934.46**	**20385.84**	**8185.88**	**12764.42**	**20135.38**
Difference in rates per Km	nil	0	nil	1638.83	2109.56	1562.58	1917.00	2843				1361.27	2150.15	3416.57
Total Km purchased			187.50	116	225	338	225	187.50				125	312.50	1423.75
E extra payment			**Nil**	**190104.28**	**474651.00**	**528152.04**	**431325.00**	**533062.50**				**170158.75**	**671921.88**	**4864341.54**
Total extra payment													**7863716.99**	

Annexure-XXXV

(Refer paragraph 4.14

Statement showing persistent irregularities pertaining to Statutory corporations appeared in the Reports of the CAG of India (Commercial)-Government of Himachal Pradesh

Sr. No.	Gist of persistent irregularities	Year of Audit Report/Para No.	Money value (Rs. in crore)	Gist of audit observations	Actionable points/Action to be taken	Details of actions taken
1	2	3	4	5	6	7
1	**Himachal Pradesh State Electricity Board**					
(i)	Excess inventory holding	1994-95/ 3A.6.1.3	Between Rs. 0.31 and Rs. 2.39	Inventory holding at the close of each year from 1989-90 to 1993-94 ranged between Rs. 0.31 crore and Rs. 2.39 crore.	COPU had recommended that the Board should not make purchases more than the requirements.	No action has been taken on the recommendations of COPU.
		2000-01/ 3.5.1	Between Rs. 5.99 to Rs. 10.96. Interest loss of Rs. 1.15 crore per year	Board held inventory excess than the norms during 1996-97 to 2000-01 resulting in loss of interest.	Responsibility is required to be fixed because the Board has not complied with the recommendations of the COPU.	The Board has intimated (August 2004) that inventory holding limit has been re-fixed. However, review is to be discussed by COPU.
(ii)	Non-recovery of Advance Consumption Deposit (ACD)	1995-96/ 4B.1.8	0.27	The Board failed to recover advance consumption deposits from consumers	Responsibility for non-recovery of ACD is required to be fixed on the delinquent officials.	One consumer has deposited the enhanced ACD. Compliance by other consumers is awaited.
		1998-99/ 4B.1.5	1.02	By not recovering ACD of Rs. 0.82 crore, the Board has also suffered a loss of interest of Rs. 0.20 crore.	Responsibility for non-recovery of ACD is required to be fixed on the delinquent officials.	Compliance is awaited.

		2003-04/ 3.4	2.55	The Board did not recover ACD of Rs. 2.55 crore resulting in loss of interest of Rs. 0.36 crore per annum.	Responsibility for non-recovery of ACD is required to be fixed on the delinquent officials.	Suo-motu reply has not been received.
(iii)	Loss due to wrong application of tariff	1994-95/ 4B.1.3	0.03	The consumers were not charged for supply of power at commercial rates as applicable. This resulted in short realisation.	Responsibility for wrong application of tariff is to be fixed.	The case is pending with the Dispute Settlement Committee.
		1998-99/ 4B.1.7	0.11	Incorrect categorisation of consumer and application of tariff at the rate applicable to old category resulted in under-charging.	Responsibility for wrong application of tariff is to be fixed.	Compliance is awaited.
(iv)	Short recovery of peak load exemption charges	1998-99/ 4B.1.9	0.29	The Board had short recovered peak load exemption charges leviable for non-adherence to the peak load hour restrictions.	Responsibility for short recovery of peak load exemption charges is to be fixed.	Compliance is awaited.
		2002-03/ 4.8	1.22	The Board did not realise peak load exemption charges from the consumer	Responsibility for short recovery of peak load charges is to be fixed.	Suo-motu reply has not been received.

(v)	Undue favour to consumer	1996-97 3A.12(ii)	7.16	The Board charged the consumer at lower rate due to splitting up of connected load by releasing two connections in the same premises.	Besides, fixing responsibility for sanctioning two connections in the same premises, action for clubbing the load and making recovery of Rs. 30.09 lakh for April 1997 to April 2000 was to be taken.	Compliance is awaited.
	Loss due to incorrect billing	2005-06 4.8	0.26	The billing for power consumption recorded at the premises of consumers instead of consumption recorded at grid sub-station resulted in a loss.	Besides, fixing responsibility for taking recording at the premises, amount is to be recovered from the consumers.	Compliance is awaited.

Annexure-XXXVI

(Refer paragraph 4.15)

Statement showing the department wise outstanding Inspection Reports (IRs) and paragraphs

Sr. No.	Name of Department	No. of PSUs	No. of outstanding I.Rs.	No. of outstanding paragraphs	Years from which outstanding
1	Horticulture	3	13	39	1996-97
2	Industries	8	20	57	1992-93
3	Forest	1	6	26	1998-99
4	Health	1	1	1	2006-07
5	Welfare	3	7	12	2002-03
6	Food and Supplies	1	2	11	2003-04
7	Tourism and Civil Aviation	1	2	4	2003-04
8	MPP and Power	2	794	2,925	1995-96
9	Transport	1	98	276	1992-93
	Total	21	943	3,351	

Annexure-XXXVII

(Refer paragraph 4.15)

Statement showing the department wise draft paragraphs/reviews replies to which are awaited

Sr. No	Name of Department	No. of draft paragraphs	No of reviews	Period of issue
1	Forest	1	1	June and August 2007
2	M.P.P. & Power	4	-	May and August 2007
3	Transport	1	1	June and August 2007
4	Finance	2	-	September 2007
5	Tourism and Civil Aviation	-	1	July 2007
	Total	8	3	