सत्यमेव जयते

Report of the
Comptroller and Auditor General of India
on
Public Sector Undertakings
(Economic Sector)
for the year ended 31 March 2015

भारतीय लेखा एवं लेखा परीक्षा विभाग ✦ INDIAN AUDIT AND ACCOUNTS DEPARTMENT

सत्यमेव जयते

हिमाचल प्रदेश सरकार

Government of Himachal Pradesh

Report No. 2 of the year 2016

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PREFACE

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

The accounts of the Government Companies (including deemed to be Government companies as per provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act 1956 and Sections 139 and 143 of the Companies Act, 2013 and in respect of Statutory Corporations as per provisions of their respective legislation.

Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by CAG for laying before State Legislature of Himachal Pradesh under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. In respect of Himachal Road Transport Corporation which is a Statutory corporation, the CAG is the sole Auditor. In respect of Himachal Pradesh Financial Corporation, he has the right to conduct the audit of accounts in addition to the audit conducted by the Chartered Accountants appointed by the Corporation. The Separate Audit Reports on the Annual Accounts of all these Corporations are forwarded separately to the State Government.

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

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

Overview

OVERVIEW

This Report contains 12 paragraphs (including two thematic paragraphs), one IT Audit of HT / LT billing system of Himachal Pradesh State Electricity Board Limited and one Performance Audit of Himachal Pradesh State Forest Development Corporation Limited involving a financial effect of ₹ 241.75 crore relating to non / short recovery due to non compliance of rules / regulations and terms & conditions of the contract agreements, non / short levy of fixed demand charges, non payment of instalments of royalty on due dates, shortfall of resin *etc*. Some of the major findings are mentioned below:

1 Functioning of State Public Sector Undertakings

The State of Himachal Pradesh had 19 working PSUs (17 companies and two Statutory corporations) and two non-working companies which employed 34,675 employees. As on 31 March 2015, the investment (capital and long-term loans) in 21 PSUs was ₹ 9,872.17 crore. The total investment in State PSUs, 99.20 *per cent* was in working PSUs and the remaining 0.80 *per cent* in non-working PSUs. The thrust of PSU investment was mainly in power sector which increased from 80.18 *per cent* to 86.82 *per cent* to the total investment during 2010-11 (₹ 4,600.27 crore) to 2014-15 (₹ 8,571.20 crore). The total investment consisted of 33.47 *per cent* as capital and 66.53 *per cent* as long-term loans. The budgetary outgo which stood at ₹ 685.40 crore in 2010-11 increased to ₹ 1,018.60 crore in 2012-13, but decreased to ₹ 728.81 crore in 2013-14 and again increased to ₹ 1,189.98 crore in 2014-15.

(Paragraphs 1.1, 1.6, 1.7 and 1.8)

Arrears in finalisation of accounts

Eighteen working PSUs had arrears of 26 accounts as of September 2015. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus Government's investment in such PSUs remained outside the control of State Legislature.

(Paragraphs 1.10 and 1.11)

Performance of PSUs as *per* their latest finalised accounts

The turnover of working PSUs decreased from ₹ 4,969.59 crore in 2010-11 to ₹ 4,945.29 crore in 2012-13 due to less turnover in respect of HPSEBL and HPMC and again increased from ₹ 5,952.79 crore in 2013-14 to ₹ 6,536.34 crore in 2014-15.

During the year 2014-15, out of 19 working PSUs, seven PSUs earned profit of ₹ 13.97 crore and 10 PSUs incurred loss of ₹ 469.97 crore which includes three PSUs which prepared their accounts on a 'No profit no loss basis'. One working Government company (Beas Valley Power Corporation Limited) has not prepared its profit and loss account whereas in respect of one working PSU *viz.*, Himachal Pradesh Road and Other Infrastructure Development Corporation Limited, excess of expenditure over income is reimbursable by the State Government. Out of seven PSUs earned profit, only one company *viz.*, Himachal Pradesh State Civil Supplies Corporation Limited declared / paid a dividend of ₹ 0.35 crore at the rate of 10 *per cent* of its paid up capital (₹ 3.51 crore) during 2013-14.

(Paragraphs 1.15, 1.16 and 1.18)

Disinvestment, Restructuring and Privatisation of PSUs

During the year 2014-15, there was no case of privatisation of Government companies and Statutory corporations, however, one PSU (HPPCL) had disinvested ₹ 550.00 crore equity to Himachal Pradesh Infrastructure Development Board.

(Paragraph 1.28)

2.1 Performance audit of Himachal Pradesh State Forest Development Corporation Limited

The Himachal Pradesh State Forest Development Corporation Limited was incorporated (March 1974) under the Companies Act, 1956. The Company is extracting timber / resin, selling timber and finished products extracted from resin besides running Rosin and Turpentine (R&T) factories, wood based industries and has also ventured into Eco tourism.

(Paragraph 2.1.1)

The Company incurred continuous losses during the last four years ended March 2015 and its accumulated loss increased from ₹ 31.66 crore in 2010-11 to ₹ 52.75 crore in 2014-15.

(Paragraphs 2.1.7.1 and 2.1.7.2)

Felling and conversion of trees

Taking over of uneconomical lots which were in difficult areas in contravention to the guidelines resulted in avoidable loss of ₹ 1.52 crore on account of interest on royalty, extension fees, royalty paid on rotten trees *etc.*

(Paragraph 2.1.10.2)

Failure in getting the extraction work completed even after expiry of four to eight years from scheduled completion period resulted in loss of ₹ 1.28 crore on account of non-recovery of extension fee from contractor and loss of interest on royalty paid besides deterioration of quality of extracted timber lying in the forest for the past many years.

(Paragraph 2.1.10.3)

Payment of royalty

Due to non-payment of instalments of royalty on due dates, the Company had to pay interest of ₹ 6.85 crore to the DoF during 2010-15.

(Paragraph 2.1.12.1)

Sale of timber

The comparison of rates of timber obtained in auction *vis a vis* market rates during 2010-2015 showed the difference ranging between 60 and 105 *per cent* which indicated that the Company is not receiving competitive rates in auction and bidders are getting huge margin either due to limited competition or cartel formation. Had the attempts been made to realise better sale rates through wide publicity the Company could have earned additional revenue of around ₹ 18.00 crore on sale of deodar timber only (which constitutes 8.62 *per cent* of total volume) after allowing a margin of 50 *per cent* to cover the selling expenses and profit.

(Paragraph 2.1.13.1)

Grading of timber was being done at Sale Depots. Only 0.5 *per cent* was graded 'A'. There were no checks on the process of classification and potential revenue loss assuming 25 *per cent* wrong classification works out to ₹ 71.64 crore.

(Paragraph 2.1.13.2)

Supply of fuel wood to tribal areas

Non-adjustment of ₹ 12.01 crore due from DoF on account of supply of fuel wood out of royalty payable to DoF despite recommendations of the COPU resulted in interest loss of ₹ 2.04 crore.

(Paragraph 2.1.14.1)

Extraction of resin

Against the targets of 2.78 lakh quintals, actual extraction of resin was 2.55 lakh quintals resulting in shortfall (ranging between 6.77 *per cent* and 9.60 *per cent*) of 0.23 lakh quintals of resin valued at ₹ 11.99 crore during the last five years ending March 2015.

(Paragraph 2.1.15)

Disposal of arbitration cases

Failure in deciding 77 pending cases in a time bound manner by the officers of the Company who were the arbitrators in these cases resulted in locking up of Company's funds amounting to ₹ 4.82 crore which included one recovery case of ₹ 1.18 crore pending before the MD since September 2006.

(Paragraph 2.1.18.1)

2.2 IT Audit of HT / LT Billing System of Himachal Pradesh State Electricity Board Limited

The IT Package awarded (May 2006) under Accelerated Power Development Reform Programme (APDRP) with 90 *per cent* grant on turnkey basis was to be completed by April 2008, however, the same was still under implementation (March 2015). Meanwhile the APDRP was closed in March 2009 and before closure, the Company could spend only ₹ 3.22 crore and was deprived from availing GoI grant amounting to ₹ 4.71 crore. Further, for delay in completion the firm was liable to pay liquidated damages of ₹ 1.32 crore, but the Company recovered only ₹ 0.55 crore resulting in short-recovery of ₹ 0.77 crore.

{Paragraphs 2.2.5 (i) and 2.2.5 (iv)}

Master data of consumers was incorrectly fed in the billing software resulting in inadmissible allowance of Higher Voltage Supply Rebate (HVSR) amounting to ₹ 40.63 lakh in 45 cases.

{Paragraph 2.2.5 (iii)}

Deficiencies in mapping of business rules resulted in revenue loss of ₹ 5.26 crore due to non-recovery, short recovery and incorrect assessment of various energy charges from consumers.

{Paragraphs 2.2.6 (i), 2.2.6 (iii) and 2.2.6 (iv)}

The delay in implementation of application software in all the Electrical Sub-divisions also resulted in revenue loss of ₹ 2.48 crore on account of non-recovery / short recovery of Late Payment Surcharge, Low Voltage Supply Surcharge and Demand charges from consumers due to non-detection / calculation errors through manual process.

{Paragraphs 2.2.10 (ii) (a to c)}

3. Audit of Transactions

Transaction audit observations included in the Report highlight deficiencies in the management of State Government Companies, which had serious financial implications. Gist of the important audit observations is given below:

Failure of **Himachal Pradesh State Electricity Board Limited** to consider the quantity of meters to be installed under RAPDRP works awarded on turnkey basis before placement of purchase orders for other works not only resulted in blockade of borrowed funds of ₹ 3.39 crore but also interest loss of ₹ 50.85 lakh. Further non placement of orders for full required / entitled quantities of Steel Tubular Poles resulted in extra expenditure of ₹ 0.80 crore on subsequent purchase at higher rates. Surplus and unserviceable store valued at ₹ 5.84 crore stores was pending for final disposal due to non-formation of condemnation committee in the respective circles.

(Paragraph 3.3)

The **Himachal Pradesh State Electricity Board Limited** extended undue favour to its employees by contributing matching grant of ₹ 7.33 crore from time to time towards employees benevolent fund though Employees Benevolent Fund Rules does not provide for the same.

(Paragraph 3.4)

The **Himachal Pradesh State Electricity Board Limited** extended undue favour to supplier by waving off LD of ₹ 0.97 crore out of ₹ 1.22 crore deducted from his running bills as *per* the terms and conditions of the purchase order and incurred an additional expenditure of ₹ 4.26 crore on supply of diesel generated power.

(Paragraph 3.5)

The Himachal Pradesh Power Corporation Limited's investment in thermal power plant without any feasibility study coupled with selection of a JV partner for execution of this plant who lack technical competence and subsequent failure of the Company in initiating action as *per* the terms and conditions of the MoU resulted in unfruitful investment of ₹ 3.98 crore.

(Paragraph 3.11)

Chapter-I
Functioning of State Public Sector Undertakings

CHAPTER-1
FUNCTIONING OF STATE PUBLIC SECTOR UNDERTAKINGS

1.1 Introduction

The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy. As on 31 March 2015, in Himachal Pradesh, there were 21 PSUs. Of these, one company[1] was listed (April 1995) on the Delhi stock exchange. During the year 2014-15, no PSU was incorporated as well as closed down. The details of the State PSUs in Himachal Pradesh as on 31 March 2015 are given below.

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

Type of PSUs	Working PSUs	Non-working PSUs[2]	Total
Government Companies[3]	17	2	19
Statutory Corporations	2[4]	-	2
Total	**19**	**2**	**21**

The working PSUs registered a turnover of ₹ 6,536.34 crore as *per* their latest finalised accounts as of September 2015. This turnover was equal to 6.84 *per cent* of State Gross Domestic Product (GDP) for 2014-15. The working PSUs incurred aggregate loss of ₹ 456.00 crore as *per* their latest finalised accounts as of September 2015. They had employed 34,675 employees as at the end of March 2015.

As on 31 March 2015, there were two non-working PSUs existing from last seven to 15 years and having investment of ₹ 78.79 crore.

1.2 Accountability framework

The process of audit of Government companies is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, Government company means any company in which not less than fifty one *per cent* of the paid-up share capital is held by the Central Government, or by any State Government or

1 Himachal Pradesh General Industries Corporation Limited.
2 Non-Working PSUs are those which have ceased to carry on their operations.
3 Government PSUs includes other Companies referred to in Section 139 (5) and 139 (7) of the Companies Act, 2013.
4 Himachal Pradesh Financial Corporation & Himachal Road Transport Corporation.

Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

Further, as *per* sub-Section 7 of Section 143 of the Act, the Comptroller and Auditor General of India (CAG) may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if considers necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19 A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test Audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

1.3 Statutory Audit

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

Audit of Statutory corporations is governed by their respective legislations. Out of two statutory corporations[5], CAG is the sole auditor for Himachal Road Transport Corporation (HRTC). In respect of Himachal Pradesh Financial Corporation (HPFC), the audit is conducted by Chartered Accountants and supplementary audit by CAG.

1.4 Role of Government and Legislature

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

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

[5] Himachal Pradesh Financial Corporation and Himachal Road Transport Corporation.

submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

1.5 Stake of Government of Himachal Pradesh

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

- **Share Capital and Loans**- In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

1.6 Investment in State PSUs

As on 31 March 2015, the investment (capital and long-term loans) in 21 PSUs was ₹ 9,872.17 crore as *per* details given below.

Table 1.2: Total investment in PSUs

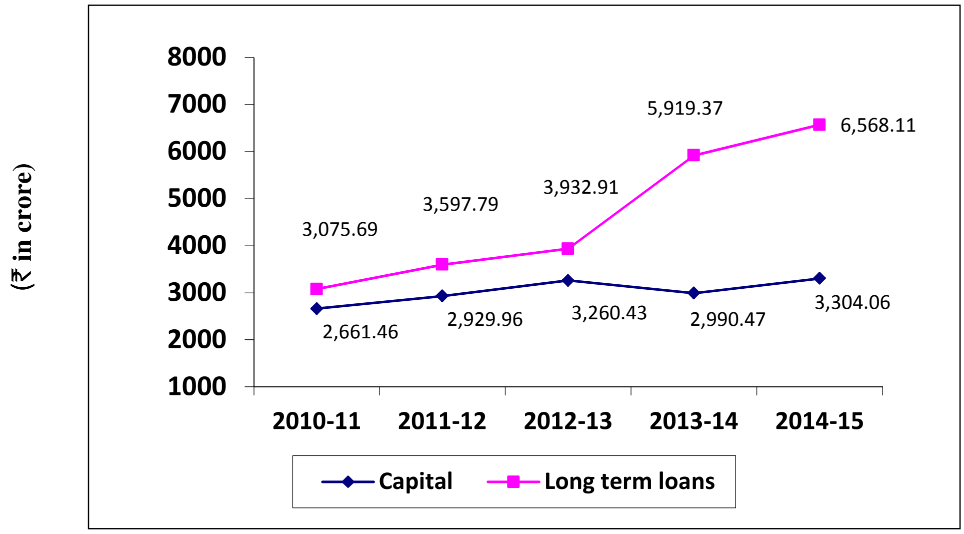
(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	2,601.56	6,286.92	8,888.48	683.86	221.04	904.90	9,793.38
Non-working PSUs	18.64	60.15	78.79	-	-	-	78.79
Total	**2,620.20**	**6,347.07**	**8,967.27**	**683.86**	**221.04**	**904.90**	**9,872.17**

As on 31 March 2015 of the total investment in State PSUs, 99.20 *per cent* was in working PSUs and the remaining 0.80 *per cent* in non-working PSUs. This total investment consisted of 33.47 *per cent* towards capital and 66.53 *per cent* in long-term loans. The investment has grown by 72.07 *per cent* from ₹ 5,737.15 crore (Capital: ₹ 2,661.46 crore and Long term loans: ₹ 3,075.69

crore) in 2010-11 to ₹ 9,872.17 crore (Capital: ₹ 3,304.06 crore and Long term loans: ₹ 6,568.11 crore) in 2014-15 as shown in the graph below.

Chart 1.1: Total investment in PSUs



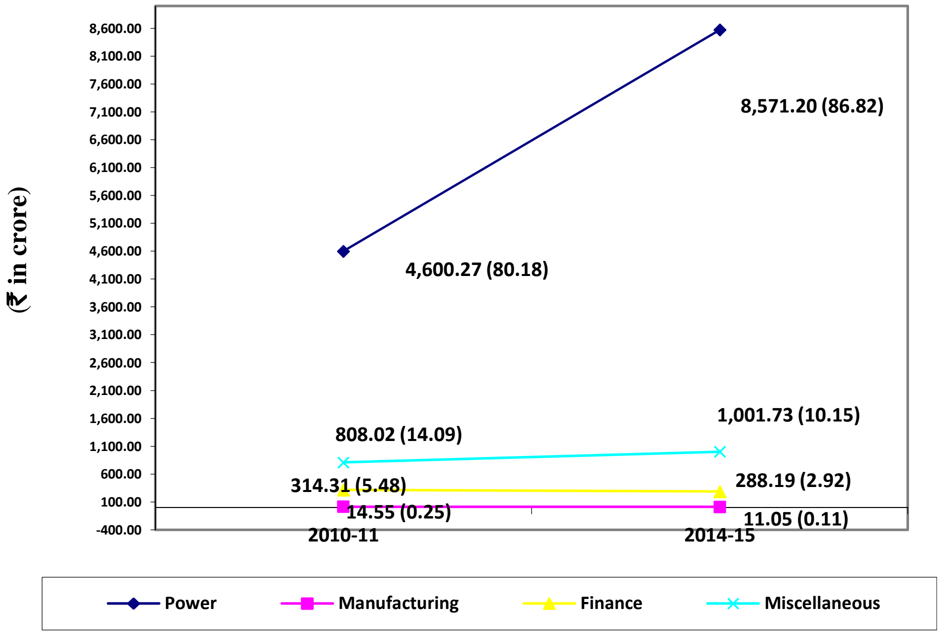
1.7 The sector wise summary of investments in the State PSUs as on 31 March 2015 is given below:

Table 1.3: Sector-wise investment in PSUs

Name of Sector	Government companies		Statutory corporations	Total	Investment
	Working	Non-Working	Working		(₹ in crore)
Power	4	-	-	4	8,571.20
Manufacturing	1	1	-	2	11.05
Finance	3	-	1	4	288.19
Service	4	-	1	5	717.92
Infrastructure	2	-	-	2	55.82
Agriculture & Allied	3	1	-	4	227.99
Total	**17**	**2**	**2**	**21**	**9,872.17**

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

Chart 1.2: Sector wise investment in PSUs



(Figures in brackets show the sector-wise percentage of investment to total investment)

The thrust of PSU investment was mainly in power sector which increased from 80.18 *per cent* to 86.82 *per cent* to the total investment during 2010-11 (₹ 4,600.27 crore) to 2014-15 (₹ 8,571.20 crore). However, the investment in manufacturing sector decreased from ₹ 14.55 crore to ₹ 11.05 crore and in finance sector from ₹ 314.31 crore to ₹ 288.19 crore as on March 2015 in comparison to March 2011.

1.8 Special support and returns during the year

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

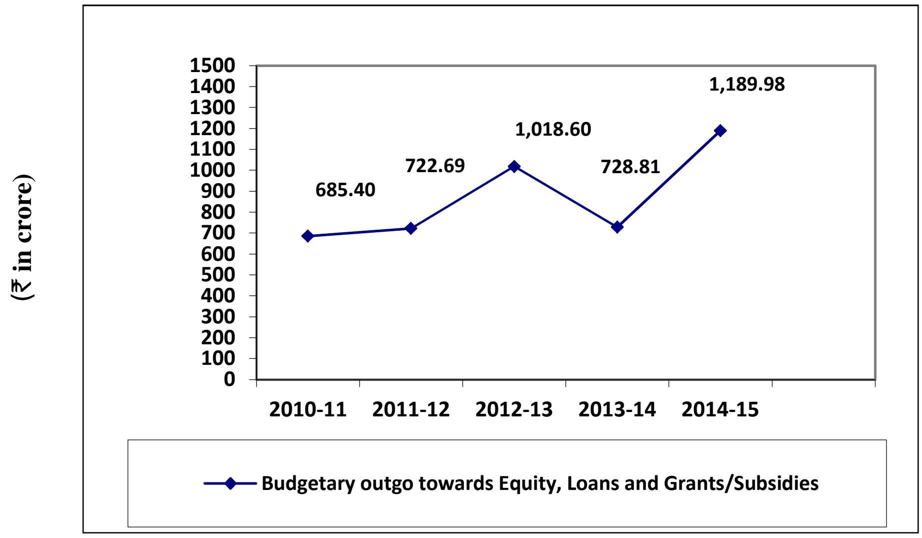
Table 1.4: Details regarding budgetary support to PSUs

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	6	303.23	6	261.77	7	283.38
2.	Loans given from budget	1	5.00	1	49.20	2	119.15
3.	Grants/Subsidy from budget	7	710.37	7	417.84	7	787.45
4.	**Total Outgo (1+2+3)**		**1,018.60**		**728.81**		**1,189.98**
5.	Waiver of loans/interest and loans converted into equity	1	0.50	1	7.05	1	19.11[6]
6.	Guarantees issued	7	1,567.31	9	2,332.54	9	4,919.21
7.	Guarantee Commitment	9	1,534.08	9	2,768.03	9	2,746.24
8.	Guarantee fee	2	0.07	2	0.09	2	0.09

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

Chart 1.3: Budgetary outgo towards Equity, Loans and Grants/Subsidies



The budgetary support in the form of equity, loans and grants / subsidies by the State Government during the years 2010-11 to 2014-15 showed a varying trend. The budgetary outgo which stood at ₹ 685.40 crore in 2010-11 increased to ₹ 1,018.60 crore in 2012-13, but decreased to ₹ 728.81 crore in

[6] The State Government has converted loans into equity during 2013-14 in respect HPSEBL, but the Company has not finalised its account for the year 2013-14.

2013-14 and again increased to ₹ 1,189.98 crore in 2014-15. The increase was mainly due to equity, loans and grants / subsidies invested / released to Himachal Pradesh Road and Other Infrastructure Development Corporation Limited (HPRIDC), Himachal Pradesh State Electricity Board Limited (HPSEBL), Himachal Pradesh Power Corporation Limited (HPPCL), Himachal Pradesh Power Transmission Corporation Limited (HPPTCL) and HRTC.

In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, State Government gives guarantee for which the guarantee fee is being charged from the PSUs. This fee varies from zero *per cent* (Welfare Companies) to one *per cent* as decided by the State Government depending upon the loanees. During 2014-15, the Government had guaranteed loans aggregating ₹ 4,919.21 crore obtained by nine PSUs. The guarantee commitment decreased to ₹ 2,746.24 crore (nine PSUs) in 2014-15 from ₹ 2,768.03 crore (nine PSUs) in 2013-14. Further, two PSUs[7] paid guarantee fee to the tune of ₹ 0.09 crore during 2014-15.

The increase in Grants / Subsidies during the year 2014-15 was mainly due to increase in grants / subsidies in respect of HPRIDC (₹ 41.44 crore), Himachal Pradesh State Electricity Board Limited (₹ 311.46), and HRTC (₹ 10.00 crore). The increase in equity during 2014-15 was mainly due to increase in equity in respect of HPPTCL (₹ 17.95 crore). Further, the increase in Guarantees issued / Guarantee commitment during 2014-15 was due to guarantees given by the State Government on loans raised by State PSUs.

1.9 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as *per* records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2015 is stated below.

Table 1.5: Equity, loans, guarantees outstanding as *per* finance accounts *vis a vis* records of PSUs

(₹ in crore)

Sr. No.	Outstanding in respect of	Amount as *per* Finance Accounts	Amount as *per* records of PSUs	Difference
1.	Equity	1,503.65	1,643.74	140.09
2.	Loans	423.68	2,226.43	1,802.75
3.	Guarantees	2,687.20	2,746.24	59.04

7 Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited and Himachal Pradesh State Handicrafts and Handloom Corporation Limited.

Audit observed that the differences occurred in respect of nine PSUs during 2014-15 and some of the differences were pending reconciliation since 2009-10 (HPFC). The difference in guarantees was also observed in respect of four PSUs *viz*., Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited (HPMC), Himachal Pradesh Minorities Finance and Development Corporation, Himachal Pradesh State Handicrafts and Handloom Corporation Limited (HPSH&HCL) and HPFC. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner. The concerned administrative departments, PSUs and Finance Department were requested (10 September 2015) to take necessary action to reconcile the differences.

1.10 Arrears in finalisation of accounts

The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year *i.e.* by September end in accordance with the provisions of Section 96 (1) of the Act. Failure to do so, may attract penal provisions under Section 99 of the Act. Similarly, in case of statutory corporations, their accounts are finalised, audited and presented to the Legislature as *per* the provisions of their respective Acts.

The table below provides the details of progress made by working PSUs in finalisation of accounts as of 30 September 2015.

Table 1.6: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1	Number of Working PSUs / other companies	19	19	19	19	19
2.	Number of accounts finalised during the year	21	15	15	16	16
3.	Number of accounts in arrears	12	16	20	23	26
4.	Number of Working PSUs with arrears in accounts	10	10	12	15	18
5.	Extent of arrears (numbers in years)	1 to 2 years	1 to 2 years	1 to 3 years	1 to 3 years	1 to 3 years

It can be observed that the number of accounts in arrears has increased from 12 in 2010-11 to 26 in 2014-15. The extent of arrears of accounts also increased from one to two years in 2010-11 to one to three years in 2014-15.

Similarly, out of two Statutory corporations, HPFC has finalised its accounts up to date whereas Himachal Road Transport Corporation has finalised its accounts up to 2013-14 as of 30 September 2015.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments were informed every quarter by Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up (October 2015) with the Chief Secretary / Director, Institutional Finance and Public Enterprises to expedite clearance of backlog of arrears in accounts in a time bound manner, however, no improvement has been noticed so far.

1.11 The State Government had invested ₹ 1,239.45 crore in 11 PSUs {equity: ₹ 330.78 crore (7 PSUs), loans: ₹ 102.62 crore (one PSU) and grants ₹ 806.05 crore (7 PSUs)} during the years for which accounts have not been finalised as detailed in **Appendix 1.1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus Government's investment in such PSUs remained outside the control of State Legislature.

1.12 In addition to above, as on 30 September 2015, there was arrears in finalisation of accounts by non-working PSUs. Out of two non-working PSUs, Himachal Worsted Mills Limited was in the process of liquidation whose accounts were finalised up to 2000-01 and the Agro Industrial Packaging India Limited had finalised its accounts up to 2013-14.

Table 1.7: Position relating to arrears of accounts in respect of non-working PSUs

Name of non-working company	Period for which accounts were in arrears	No. of years for which accounts were in arrears
Himachal Worsted Mills Limited	-	-
Agro Industrial Packaging India Limited	2014-15	1

1.13 Placement of Separate Audit Reports

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

Table 1.8: Status of placement of SARs in Legislature

Sl. No.	Name of statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government
1.	Himachal Pradesh Financial Corporation	2013-14	2014-15	29.09.2015
2.	Himachal Road Transport Corporation	2013-14	2014-15	Accounts yet to be finalised.

1.14 Impact of non-finalisation of accounts

As pointed out above (Para 1.10 and 1.12)**,** the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statues. In view of the above state of arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2014-15 could not be ascertained for which the accounts were in arrear (2012-13 to 2014-15) and their contribution to State exchequer was also not reported to the State Legislature.

It is, therefore, recommended that:

- The Government may set up a suitable monitoring mechanism to oversee the clearance of arrears and set the targets for individual companies.
- The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.

1.15 Performance of PSUs as *per* their latest finalised accounts

The financial position and working results of working Government companies and Statutory corporations are detailed in **Appendix 1.2.** A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSUs turnover and State GDP for a period of five years ending 2014-15.

Table 1.9: Details of working PSUs turnover *vis-a vis* State GDP

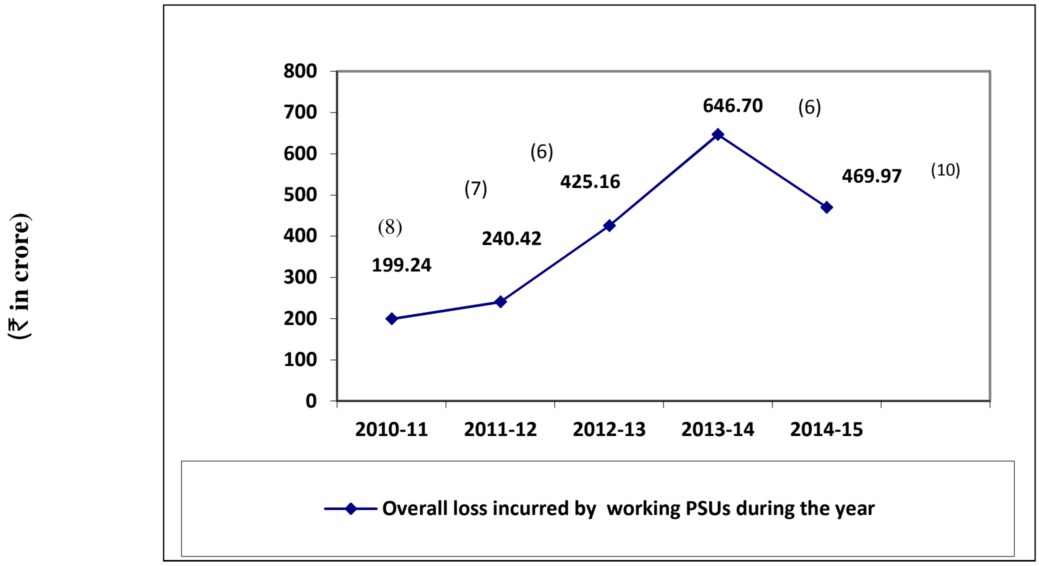
(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover[8]	4,969.59	4,990.22	4,945.29	5,952.79	6,536.34
State GDP	56,980	66,448	76,259	85,841	95,587
Percentage of Turnover to State GDP	8.72	7.51	6.48	6.93	6.84

The turnover of working PSUs decreased from ₹ 4,969.59 crore in 2010-11 to ₹ 4,945.29 crore in 2012-13 due to less turnover in respect of HPSEBL and HPMC and again increased from ₹ 5,952.79 crore in 2013-14 to ₹ 6,536.34 crore in 2014-15. The percentage of turnover to State GDP also decreased from 8.72 in 2010-11 to 6.84 in 2014-15.

1.16 Overall losses incurred by State working PSUs during 2010-11 to 2014-15 are given below in a bar chart.

Chart 1.4: Loss of working PSUs



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

During 2010-11 to 2013-14, overall losses incurred by the PSUs increased from ₹ 199.24 crore to ₹ 646.70 crore but slightly decreased to ₹ 469.97 crore in 2014-15. During the year 2014-15, out of 19 working PSUs, seven PSUs earned profit of ₹ 13.97 crore and 10 PSUs incurred loss of ₹ 469.97 crore

8 Turnover as *per* the latest finalised accounts as of 30 September.

which includes three PSUs[9] which prepared their accounts on a 'No profit no loss basis'. One working Government company (Beas Valley Power Corporation Limited) has not prepared its profit and loss account whereas in respect of one working PSU *viz*., Himachal Pradesh Road and Other Infrastructure Development Corporation Limited, excess of expenditure over income is reimbursable by the State Government. The major contributors to profit were made by Himachal Pradesh General Industries Corporation Limited (₹ 4.02 core) and Himachal Pradesh State Civil Supplies Corporation Limited (₹ 3.99 crore). The heavy losses were incurred by Himachal Pradesh State Electricity Board Limited (₹ 340.28 crore), Himachal Road Transport Corporation (₹ 83.27 crore), Himachal Pradesh State Forest Development Corporation Limited (₹ 9.11 crore) and Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited (₹ 6.96 crore).

1.17 Some other key parameters of PSUs are given below:

Table 1.10: Key Parameters of State PSUs

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Return on Capital Employed (*per cent*)	16.40	(-)25.17	(-)241.16	(-)342.76	17.77
Debt	3,075.69	3,597.79	3,932.91	5,919.37	6,568.11
Turnover[10]	4,964.59	4,990.22	4,945.29	5,952.79	6,536.34
Debt/ Turnover Ratio	0.62:1	0.72:1	0.80:1	0.99:1	1:1
Interest Payments	207.13	199.50	163.24	280.37	473.82
Accumulated Losses	1,286.19	1,360.75	1,875.73	2,492.97	2,951.26

Return on capital employed decreased from ₹ 16.40 crore in 2010-11 to (-) ₹ 342.76 crore in 2013-14 and increased to ₹ 17.77 crore in 2014-15. Debt-Turnover Ratio increased from 0.62:1 in 2010-11 to 1:1 in 2014-15 which further increased in interest burden as well as losses of PSUs. The accumulated losses which were ₹ 1,286.19 crore in 2010-11 increased to ₹ 2,951.26 crore in 2014-15.

1.18 The State Government had formulated (April 2011) a dividend policy under which all profit making PSUs (except those in welfare and utility sector) are required to pay a minimum return of five *per cent* on the paid up capital contributed by the State government subject to a ceiling of 50 *per cent* of profit after tax. As *per* their latest finalised accounts, seven PSUs earned an aggregate profit of ₹ 13.97 crore out of which only one company *viz*., Himachal Pradesh State Civil Supplies Corporation Limited declared / paid a

9 Himachal Backward Classes Finance and Development Corporation, Himachal Pradesh Mahila Vikas Nigam and Himachal Pradesh Minorities Finance and Development Corporation.

10 Turnover of working PSUs as *per* the latest finalised accounts as of 30 September.

dividend of ₹ 0.35 crore at the rate of 10 *per cent* of its paid up capital (₹ 3.51 crore) during 2013-14. A minimum dividend of ₹ 1.00 crore was not yet (September 2015) paid by the three PSUs (Himachal Pradesh State Electronics Development Corporation Limited, Himachal Pradesh General Industries Corporation Limited and HPSH&HCL).

1.19 Winding up of non-working PSUs

There were two non-working PSUs (Companies) as on 31 March 2015. Of these, one PSU has commenced its liquidation process. The numbers of non-working companies at the end of each year during past five years are given below.

Table 1.11: Non working PSUs

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
No. of non-working companies	3	3	2	2	2
No. of non-working corporations	-	-	-	-	-
Total	**3**	**3**	**2**	**2**	**2**

Since the non-working PSUs are not contributing to the State economy and meeting the intended objectives, therefore, these PSUs may be considered either to be closed down or revived. During 2014-15, one non-working PSU Agro Industrial Packaging India Limited (AIPIL) incurred an expenditure of ₹ 0.16 crore on employee benefits. Against above expenditure, the Company received grant-in-aid of ₹ 0.11 crore and ₹ 0.05 crore was met out of previous unutilised grant in aid.

1.20 The stages of closure in respect of non-working PSUs are given below.

Table 1.12: Closure of non working PSUs

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

During the year 2014-15, no company was finally wound up. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted / pursued vigorously. The Government may make a decision regarding winding up of one non-working PSU (AIPIL) where no decision about their continuation or otherwise has been taken after it has become non-working.

1.21 Accounts Comments

Fifteen working companies forwarded their audited 16 accounts to Principal Accountant General from October 2014 to September 2015. Of these, 15 accounts of 14 companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

Table 1.13: Impact of audit comments on working Companies

(Amount ₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	3	32.81	5	92.42	4	21.87
2.	Increase in loss	2	370.13	4	636.69	5	2,105.11
3.	Decrease in loss	1	0.63	-	-	2	2.22
4.	Increase in profit	2	1.06	1	0.85	-	-
	Total:	**8**	**404.63**	**10**	**729.96**	**11**	**2,129.20**
5	Non-disclosure of material facts	-	-	-	-	2	19.64
6	Errors of classification	-	-	-	-	2	4.47

It can be seen from above that impact of audit comments on 'increase in profit / loss' or 'decrease in profit / loss' increased from ₹ 404.63 crore in 2012-13) to ₹ 2,129.20 crore in 2014-15 which shows that quality of maintenance of accounts degraded year after year. The major impact of comments of the CAG and Statutory Auditors were on the accounts of the HPSEBL (2012-13) by ₹ 1,977.60 crore and decrease in profit by

₹ 12.62 crore in respect of Himachal Pradesh State Civil supplies Corporation Limited (2013-14). The audit reports of Statutory auditors appointed by the CAG and the supplementary audit of the CAG indicates that the quality of maintenance of accounts needs to be improved substantially.

Out of 16 accounts (15 companies) received for audit between October 2014 and September 2015, the Statutory Auditors had certified given adverse certificates (which means that accounts do not reflect a true and fair position) for five accounts and disclaimers (meaning the auditors are unable to form an opinion on accounts) for one account (HPSEBL). In addition to above, the CAG gave adverse comments on the accounts of HPSCSCL for the year 2013-14 and no disclaimer comments on accounts have been issued during supplementary audit. Further, qualified reports containing comments have been issued in respect of six companies, non-review certificate has been given in respect of one company and nil comments have been issued in respect of two companies. The compliance of companies with the Accounting Standards remained poor as there were 67 instances of non-compliance in 13 accounts during the year.

1.22 Similarly, two working Statutory Corporations forwarded their two accounts to PAG during the period from October 2014 to September 2015. Of these, one accounts of one Statutory Corporation pertained to sole audit by CAG which was completed. Of the remaining accounts, HPFC's accounts were selected for supplementary audit. The Audit Reports of Statutory Auditors and the sole / supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

Table 1.14: Impact of audit comments on Statutory Corporations

(Amount ₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Increase in loss	2	70.32	2	0.47	2	41.60
2	Non-disclosure of material facts	-	-	-	-	1	5.27

It can be seen that impact of audit comments on 'increase in loss' was ₹ 70.32 crore in 2012-13 and ₹ 41.60 crore in 2014-15. The audit reports of Statutory auditors and supplementary audit by the CAG indicates that the quality of maintenance of accounts needs to be improved.

During the period from October 2014 to September 2015, out of two accounts received, the Statutory auditors had given qualified certificates in respect of HPFC and in respect of HRTC, CAG is sole auditor.

1.23 Response of the Government to Audit

Performance Audits and Paragraphs

For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2015, one performance audit, one Information Technology (IT) Audit and 12 audit paragraphs involving ₹ 241.75 crore were issued to the Additional Chief Secretaries / Principal Secretaries of the respective Departments with request to furnish replies within six weeks. However, replies in respect of one Performance Audit, one IT Audit and six compliance audit paragraphs were awaited from the State Government (October 2015).

1.24 Follow up action on Audit Reports

Replies outstanding

The Report of the Comptroller and Auditor General of India (CAG) represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Himachal Pradesh issued (February 1994) instructions to all Administrative Departments to submit replies / explanatory notes to paragraphs / reviews included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Committee on Public Undertakings (COPU).

Table No.1.15: Explanatory notes not received as on 30 September 2015

Year of the Audit Report on PSUs (Economic Sector)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs / Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2012-13	February 2014	1	10	1	2
2013-14	April 2015	2	12	1	6
Total		**3**	**22**	**2**	**8**

From the above, it could be seen that out of 25 paragraphs / performance audits, explanatory notes to 10 performance audits / paragraphs in respect of two departments, which were commented upon, were awaited (September 2015).

1.25 Discussion of Audit Reports by COPU

The status as on 30 September 2015 of Performance Audits and paragraphs that appeared in Audit Reports on Public Sector Undertakings (Economic Sector) and discussed by the Committee on Public Undertakings (COPU) was as under.

Table No.1.16: Performance audits / Paras appeared in Audit Reports *vis a vis* discussed as on 30 September 2015

Period of Audit Report	Number of reviews / paragraphs			
	Appeared in Audit Reports		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2009-10	2	11	1	11
2010-11	1	15	0	15
2011-12	1	13	0	4
2012-13	2	12	0	2
2013-14	1	10	0	0
Total	**7**	**61**	**1**	**32**

1.26 Compliance to Reports of Committee on Public Undertakings (COPU)

Action Taken Notes (ATN) to 22 paragraphs (79 recommendations) pertaining to 16 Reports of the COPU presented to the State Legislature between April 2013 and March 2015 had not been received (September 2015) as indicated below:

Table No.1.17: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total no. of recommendations in COPU Report	Total number of COPU Reports	No. of recommendations where ATNs not received
2013-14	10	25	5	12
2014-15	13	69	11	67
Total	**23**	**94**	**16**	**79**

These Reports of COPU contained recommendations in respect of paragraphs pertaining to five departments, which appeared in the Reports of the CAG of India for the years 2005-06 to 2010-11.

It is recommended that the Government may ensure: (a) sending of replies to inspection reports / draft paragraphs / performance audits and ATNs on the recommendations of COPU as *per* the prescribed time schedule; (b) recovery of loss / outstanding advances / overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

1.27 Coverage of this Report

This Report contains one Performance Audit on the working of Himachal Pradesh State Forest Development Corporation Limited, one IT audit of HT / LT billing system of HPSEBL and 12 paragraphs including two thematic audit involving a financial effect of ₹ 241.75 crore.

1.28 Disinvestment, Restructuring and Privatisation of PSUs

During the year 2014-15, there was no case of privatisation of Government companies and Statutory corporations, however, one PSU (HPPCL) had disinvested ₹ 550.00 crore equity to Himachal Pradesh Infrastructure Development Board. The State Government has not prepared any policy to disinvest the Government equity invested in State PSUs.

Chapter-II
Performance Audit and Information Technology Audit

CHAPTER-II

Performance Audit and Information Technology Audit relating to Government Companies

2.1 Himachal Pradesh State Forest Development Corporation Limited

Executive Summary

Introduction

The Himachal Pradesh State Forest Development Corporation Limited was incorporated (March 1974) under the Companies Act, 1956. The Company is extracting timber / resin, selling timber and finished products extracted from resin besides running Rosin and Turpentine (R&T) factories, wood based industries and has also ventured into Eco tourism.

(Paragraph 2.1.1)

The Company incurred continuous losses during the last four years ended March 2015 and its accumulated loss increased from ₹ 31.66 crore in 2010-11 to ₹ 52.75 crore in 2014-15.

(Paragraphs 2.1.7.1 and 2.1.7.2)

Felling and conversion of trees

Taking over of uneconomical lots which were in difficult areas in contravention to the guidelines resulted in avoidable loss of ₹ 1.52 crore on account of interest on royalty, extension fees, royalty paid on rotten trees *etc*.

(Paragraph 2.1.10.2)

Failure in getting the extraction work completed even after expiry of four to eight years from scheduled completion period resulted in loss of ₹ 1.28 crore on account of non-recovery of extension fee from contractor and loss of interest on royalty paid besides deterioration of quality of extracted timber lying in the forest for the past many years.

(Paragraph 2.1.10.3)

Payment of royalty

Due to non-payment of instalments of royalty on due dates, the Company had to pay interest of ₹ 6.85 crore to the DoF during 2010-15.

(Paragraph 2.1.12.1)

Sale of timber

The comparison of rates of timber obtained in auction *vis a vis* market rates during 2010-2015 showed the difference ranging between 60 and 105 *per cent* which indicated that the Company is not receiving competitive rates in auction and bidders are getting huge margin either due to limited competition or cartel formation. Had the attempts been made to realise better sale rates through wide publicity the Company could have earned additional revenue of around ₹ 18.00 crore on sale of deodar timber only (which constitutes 8.62 *per cent* of total volume) after allowing a margin of 50 *per cent* to cover the selling expenses and profit.

(Paragraph 2.1.13.1)

Grading of timber was being done at Sale Depots. Only 0.5 *per cent* was graded 'A'. There were no checks on the process of classification and potential revenue loss assuming 25 *per cent* wrong classification works out to ₹ 71.64 crore.

(Paragraph 2.1.13.2)

Supply of fuel wood to tribal areas

Non-adjustment of ₹ 12.01 crore due from DoF on account of supply of fuel wood out of royalty payable to DoF despite recommendations of the COPU resulted in interest loss of ₹ 2.04 crore.

(Paragraphs 2.1.14.1)

Extraction of resin

Against the targets of 2.78 lakh quintals, actual extraction of resin was 2.55 lakh quintals resulting in shortfall (ranging between 6.77 *per cent* and 9.60 *per cent*) of 0.23 lakh quintals of resin valued at ₹ 11.99 crore during the last five years ending March 2015.

(Paragraph 2.1.15)

Disposal of arbitration cases

Failure in deciding 77 pending cases in a time bound manner by the officers of the Company who were the arbitrators in these cases resulted in locking up of Company's funds amounting to ₹ 4.82 crore which included one recovery case of ₹ 1.18 crore pending before the MD since September 2006.

(Paragraph 2.1.18.1)

2.1.1 Introduction

The Himachal Pradesh State Forest Development Corporation Limited was incorporated (March 1974) under the Companies Act, 1956. The Company is extracting timber / resin, selling timber and finished products extracted from resin besides running Rosin and Turpentine (R&T) factories, wood based industries and has also ventured into Eco tourism.

2.1.2 Organisational Set up

The affairs of the Company are managed by the Board of Directors (BoD) consisting of not less than two and more than fifteen (as *per* Companies Act, 2013) Directors including the Chairman, Vice Chairman and the Managing Director. The Managing Director (MD) is the Chief Executive of the Company who is assisted by the Executive Director, Financial Advisor, Company Secretary and three Directors (North, South and Marketing).

2.1.3 Audit objectives

Audit objectives of the Performance Audit were to assess whether:

- felling, conversion and transportation of converted timber are awarded and executed expeditiously;
- the payment of royalty has been computed and paid to the Government as *per* prescribed rates and time schedule;
- the extraction, processing and marketing of resins were done as *per* the prescribed time schedule and penalty recovered in cases of shortfall;
- marketing of timber and forest produce were arranged at competitive rates and collection of revenue was systematic;
- diversification of its activities were profitable;
- manpower deployment was managed efficiently; and
- there was effective internal control and monitoring system in place.

2.1.4 Scope of audit

Performance audit of felling and conversion of trees by the Company was included in the Audit Report (Commercial) for the year ended March 2007 (Para 2.1) which was discussed by the Committee on Public Undertakings in July 2013. The recommendations thereon were presented in the *Vidhan Sabha* vide its 26th Report on 8 December 2014 and action taken notes thereon were awaited (May 2015). The recommendations of the COPU have been taken into consideration while finalising this report.

The Company has 14 Forest Working Divisions[1](FWD), eight *Himkashth* Sale Depots (HSDs)[2] managed by the Divisional / Depot Managers, two wood based industries at Hamirpur and Shamshi (Kullu), Eco tourism unit at Narkanda besides two R&T factories[3] managed by the General Managers. The performance audit on the operations of the Company for five years from 2010-11 to 2014-15 was conducted between January and June 2015. The audit findings included test check of records of the corporate office, two Directorates (North and Marketing), seven[4] forest working divisions out of total 14, R&T Factory at Bilaspur, two sale Depots[5], eco-tourism unit, Narkanda and wood based industry at Shamshi. The sample selected for audit were based on random selection covering high & low lying areas of operation.

2.1.5 Audit Methodology

The audit objectives, audit criteria and scope of performance audit were discussed in an entry conference held on 07 May 2015 with the Deputy Secretary (Forests) Government of Himachal Pradesh, Managing Director of the Company and Additional Principal Chief Conservator of Forest (Pr. CCF). Audit findings were issued to the State Government / Management in the form of draft report for their comments on 10.08.2015. Exit conference was held on 02 November 2015 and the replies of the Management received on 6 and 23 October 2015 have been incorporated suitably.

2.1.6 Audit Criteria

The criteria adopted for achievement of audit objectives were derived from the following sources:

- action plan and guidelines issued by the Company;
- Procedure and Instructions for the Timber Extraction Works and Working of *HSD*;
- instructions and guidelines for the extraction of resin as laid down in Manual of Resin Tapping;
- Agenda / Minutes of BoD and Pricing Committee meetings; relating to payment of royalty and taxes to the Government;
- Indian Forest Act, 1927 and Himachal Pradesh Forest Produce (Regulation of Trade) Act, 1982;
- Companies Act, 1956; H.P. VAT Act, 2005 and Labour / Commercial Laws; and the Arbitration Act, 1940.

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1 FWDs: Shimla, Sawra, Chopal, Solan, Nahan, Rampur, Dharamshala, Chamba, Mandi, Sundernagar, Kullu, Fatehpur, Hamirpur and Una.

2 HSDs: Baddi, Mantaruwala, Dhanotu, Nurpur, Bhadroya, Swarghat, Udaipur and Shamshi.

3 Bilaspur and Nahan.

4 FWDs: Shimla, Chopal, Sawra, Kullu, Rampur, Sundernagar and Dharamshala.

5 HSDs: Baddi and Nurpur.

2.1.7 Financial Position and Working Results

2.1.7.1 Financial Position

The Company had finalised its accounts upto the year 2012-13, figures for the years 2013-14 and 2014-15 are provisional. Financial position of the Company for the five years ended March 2015 is given in **Appendix 2.1.1**. It would be seen from details given in the Appendix that accumulated loss increased from ₹ 31.66 crore in 2010-11 to ₹ 52.75 crore in 2014-15.

2.1.7.2 Working Results

The working results of the Company for the five years ended 31 March 2015 were as under:

Table-2.1.1

(₹ in crore)

Particulars	**2010-11**	**2011-12**	**2012-13**	**2013-14 Provisional**	**2014-15 Provisional**
Income					
Sale of material	164.23	142.52	139.96	178.13	168.42
Other income	12.52	13.67	14.20	11.46	11.14
Total income	**176.75**	**156.19**	**154.16**	**189.59**	**179.56**
Expenditure					
Cost of sales[6]	148.62	150.88	150.92	179.27	170.54
Administrative Expenses	13.88	9.48	12.35	14.03	13.11
Total expenditure	**162.50**	**160.36**	**163.27**	**193.30**	**183.65**
Profit(+)/Loss(-) before tax	**(+)14.25**	**(-)4.17**	**(-)9.11**	**(-)3.71**	**(-) 4.09**

The above working results showed that the Company had incurred continuous losses during the last four years ended March 2015 and total income of the Company decreased constantly from ₹ 176.75 crore in 2010-11 to ₹ 154.16 crore in 2012-13 which increased to ₹ 189.59 crore in 2013-14 and decreased to ₹ 179.56 crore in 2014-15. The increase in income during 2013-14 was mainly due to increase in sale of rosin and turpentine oil of ₹ 45.04 crore during 2013-14 as compared to previous year. Against this, total expenditure of the Company increased regularly from ₹ 160.36 crore in 2011-12 to ₹ 193.30 crore in 2013-14 mainly due to increase in extraction cost and employee cost and was reduced to ₹ 183.65 crore during 2014-15. The income earned during 2011-12 to 2014-15 was not sufficient to cover its expenditure, consequently the Company incurred losses during these years. Besides other reasons of losses as analysed during performance audit are discussed in audit findings given in the succeeding paragraphs.

6 Cost of sales include – expenses on Royalty, extraction, manual carriage, loading / unloading, stacking, transportation and salary / wages.

The Management stated (October 2015) that the efforts are being taken to improve the financial position and working results of the Company.

Audit Findings

2.1.8 Deficient budgetary control

The Company was required to prepare financial budget, its approval from BoD and despatch to field units well before the commencement of each financial year.

It was noticed (March 2015) that the Company did not prepare financial budget well before the commencement of each financial year. The delay in approval of budget by the BoD ranged between five to ten months from the commencement of the respective financial year. The budget approved by the BoD was also intimated to the units after delays ranging between 17 and 34 days after approval. Further, the budget allocations for the years 2012-13 to 2014-15 were sent to field units without the approval of the BoD.

There was no system of reviewing / reporting actual performance periodically with reference to targets and shortfall, if any and so as to take timely remedial measures. The table below indicates the budgeted and actual income and expenditure and variations noticed during last four years ending March 2014:

Table-2.1.2

(₹ in crore)

	2010-11	2011-12	2012-13	2013-14 (Provisional)	2014-15 (Provisional)
Budgeted					
Income	189.83	197.75	199.60	220.54	239.85
Expenditure	166.73	192.26	211.88	217.75	234.46
Actual					
Income	176.75	156.19	154.16	189.59	179.56.
Expenditure	162.50	160.36	163.27	193.30	183.65
Excess Budget provisions					
Income	13.08	41.56	45.44	30.95	60.29
Expenditure	4.23	31.90	48.61	24.45	50.81

The above table showed that there were excess budget provisions in all these years for both income and expenditure. This indicated that the budget estimates were not based on any scientific analysis of performance during earlier years.

The Management while admitting (October 2015) the delay in preparation of annual budget stated that they were in the process of evolving a mechanism so that required information were made available with the close of financial year so that the targets for 2016-17 could be conveyed to the field units well in time.

2.1.9 Taking over of forest lots

Delay in receipt of marking list and taking over of possession of lots

As *per* provisions of timber extraction manual, Department of Forest (DoF) has to identify each year trees for exploitation and to intimate the Company by 30th June every year. The marking list should reach the Company by 15th September in respect of low lying lots and by 15th December for high lying lots each year. No marking lists should be received without the approval of the MD after the above mentioned time schedule. The lots are to be taken over within one month from the receipt of marking list. During the period from 2010-11 to 2014-15 the Company received 173 road alignment lots (37,193 trees with 22,081.855 M^3 standing volume) and 2,210 salvaged lots (9,28,375 trees having 8,71,198.692 M^3 standing volume) from the DoF.

It was noticed that:

- Neither the DoF intimated the Company by 30th June about forests to be marked nor did the Company ever insist for timely intimation of details of trees identified each year. Consequently, all stages of extraction got delayed.

- In 10 FWDs[7] the marking lists of 693 lots (402 lots of low lying and 291 high lying) out of total 1,535 lots test checked were received after the prescribed time schedule (15th September and 15th December) that too without the approval of the MD.

- Out of these 1,535 lots, the possession of 449 lots were taken over by the Company after a delay ranging between 30 and 972 days from scheduled period of one month mainly due to non-settlement of issues noticed during joint inspections and their locations being in difficult areas.

The Management admitted (October 2015) the delay in receipt of marking lists and noted the observations for improvement in the system.

2.1.10 Felling and conversion of trees

The marking lists sent by the DoF and accepted by the Company indicate lease period of each lot determined on the basis of volume of marked trees and after lease period the forest has to be handed over to the DoF. If after lease period, the forest is not handed over to the DoF; the Company has to pay extension fee. To avoid this, the Company is required to plan its activities so as to complete the conversion / transportation work within lease period.

[7] FWDs: Chopal, Shimla, Hamirpur, Sundernagar, Sawra, Mandi, Kullu, Dharamshala, Rampur and Chamba.

It was noticed that the delay in taking over of possession further delayed finalisation of tender, award of work and completion of works by the Contractors resulting in loss of interest on payment of royalty, loss due to deterioration of quality, escalation in extraction cost *etc.* as discussed in the paragraphs *infra*.

The Management noted (October 2015) the audit observation for improvement of the system and also attributed the delay to various codal formalities required to be completed before finalisation of tenders. The reply was not acceptable as the required formalities should have been completed in a time bound manner.

2.1.10.1 Avoidable payment of extension fee

The Company is required to complete the extraction works within the working period allowed by the DoF. The Company can seek extension in working period on payment of extension fee for the extended period at the rate of 0.2 *per cent per* month of the total royalty whether paid or unpaid with effect from April 2007 onward.

In this regard, it was noticed that:

- Out of total 1,535 lots test checked, the company could complete only 360 lots (23.45 *per cent*) within lease period, 756 lots (49.25 *per cent)* were completed after (delay of one to 1,534 days) lease period and remaining 413 lots (26.90 *per cent*) were yet (March 2015) to be completed though lease period of 399 lots stand expired. 14 lots (0.91 *per cent*) were not due for completion by the end of March 2015 and remaining six lots relating to FWD Chamba were returned back to the DOF.

- Due to non-completion of extraction work in scheduled time in 1,155 lots the Company has to seek extension for which extension fee of ₹ 93.29 lakh was payable to the DoF up to 31st March 2015.

The Management stated (October 2015) that for delay attributable to Labour Supply Mate (LSM) penalty at the rate of one *per cent per* month of the left over work is recovered and the same is taken into account while making payment of extension fee to the DoF. The reply was not acceptable as the extension fee is paid on the full amount of the royalty of the lot and not for the left over work for which the amount is recovered from the LSM.

2.1.10.2 Loss due to taking over of non- working lots

As *per* the decision (September 2007) of the pricing committee, where despite best efforts of the Company (indicated by at least inviting tenders twice) if any lot could not be worked in full or in part for any *bonafide* reasons such as location of trees on steep slopes indicated by joint inspection, no royalty shall be payable by the Company.

It was noticed that 12,991 trees having standing volume of 32,551.45 M^3 in respect of ten lots[8]which were uneconomical[9] were taken over in contravention of above guidelines after payment of royalty of ₹ 2.05 crore during 2008 to 2012 to the DoF. Consequently, 4,894 trees having standing volume of 16,862.70 M^3 (51.80 *per cent*) were yet to be felled even after three to five years from the expiry of lease period (31st March 2015). Further, 15,688.75 M^3 which were felled / extracted were also lying at various stages in the forest and could not be carried over to the sale depots due to difficult topography (March 2015).

Thus, taking over of these lots in contravention to the guidelines *ibid* resulted in avoidable loss of ₹ 1.52 crore[10] on account of interest on royalty, extension fees, royalty paid on rotten trees *etc.*

The Management stated (October 2015) that as *per* the decision of the Pricing Committee joint inspection has been expedited to identify such un workable lots and joint inspection report was likely to be placed before the Pricing Committee very shortly for approval of deletion of these unworked lots.

2.1.10.3 Loss due to abnormal delay in working of lots by contractors

As *per* clause 12 (a) of the agreements for felling, conversion and carriage executed with the contractors, the extension in completion of works beyond one year can be granted by the Managing Director. If the contractors fail to complete the work during extended period; the agreement automatically will be treated as cancelled and the works be got done at their risk and cost. Extension shall be granted subject to payment of extension fee at the rate of one *per cent per* month on the left over work.

The Company received thirteen lots[11] having 15,660 trees (standing volume: 35,699.13 M^3) from the DoF between December 2004 and October 2009. The work of these lots was awarded to contractors with completion period between March 2007 and March 2011.

The status of completion of these works showed that even after expiry of more than four to eight years of the scheduled dates for completion, only 3,679.76 M^3 could be sent to respective sale depots (March 2015). The remaining works (1,705 trees: 5,011 M^3 for felling, 1,330 trees: 3,656.012 M^3 for conversion and 2,254.085 M^3 for transportation) were yet to be completed and 2,772.507 M^3 standing volume were found rotten. As these lots were salvaged lots and with the expiry of four to eight years after scheduled completion period of

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8 FWDs: Sawra:5, Chopal: 4 and Rampur: 1.

9 Lots in difficult locations / slops.

10 Interest on royalty: ₹ 56.96 lakh, extension fees: ₹ 15.19 lakh, royalty paid on rotten trees: ₹ 11.41 lakh, less recovery of security from contractor: ₹ 5.77 lakh and non-recovery of risk and cost: ₹ 62.96 lakh.

11 FWDs: Sawra: 2, Shimla: 1, Chopal: 1, Rampur: 2, Kullu: 3 and Dharamshala: 4.

extraction, the deterioration in quality of timber cannot be ruled out. Further, the Company had neither recovered the extension fee amounting to ₹ 34.44 lakh from these defaulting contractors nor cancelled these contracts so as to award them to other contractors at their risk and cost. Besides the company also incurred interest loss of ₹ 0.94 crore up to March 2015 on royalty of ₹ 1.71 crore paid in respect of these lots.

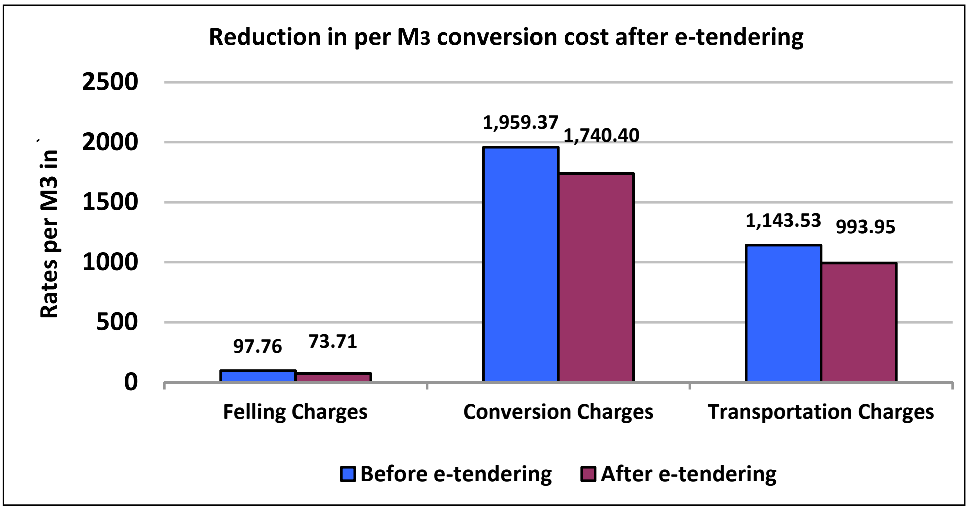
Thus, failure in getting the extraction work completed even after expiry of four to eight years resulted in loss of ₹ 1.28 crore to the Company besides loss on deterioration of quality of extracted timber lying in the forest for the past many years.

2.1.10.4 Non adoption of e-tendering for extraction works

The BoD in its meeting held on 18 September 2012 decided to introduce e-tendering *w.e.f.* January 2013 on trial basis and was to be made mandatory from April 2013 for all tenders valuing ₹ 2.00 lakh and above.

Audit scrutiny (March-May 2015) showed that e-tendering has not been adopted by the Director (North) in any of its eight FWDs under his jurisdiction where as the Director (South) has adopted e-tendering during 2014-15 for all six FWDs. On comparing the rates received (2014-15) after e-tendering in three FWDs (Shimla, Sawra and Chopal) with the rates received before e-tendering (2013-14) in respect of felling, conversion and transportation, it was noticed that there was substantial reduction in *per* M^3rates after e-tendering.

The reduction in *per* M^3 rates in respect of felling, conversion and transportation are mentioned in bar chart below:



Thus, failure in adopting e tendering in all FWDs despite BOD decision, the Company lost the opportunity to get the benefit of similar reduction in rates.

The Management stated (October 2015) that in the meeting held in August 2015 it had been emphasised to switch over to 100 *per cent* e-tendering in all the FWDs and to reject all manual tenders straightway.

2.1.10.5 Non-recovery of full security deposits

Condition no. 14 of tender document provides that the earnest money deposited (EMD) by the bidder would be converted into security and the security amount would be 10 *per cent* of the value of the contract or the EMD whichever is higher. In case the amount of EMD is short of the security, the balance amount would be deducted from the bills of the contractor so as to increase the security amount to 10 *per cent* of the contract value. Further, Condition no. 28 of the tender document provides that in case the contractor's fails to complete the work during the stipulated period including the extended working period if any the security deposit will be forfeited.

It was noticed that the required 10 *per cent* security is not being taken from the contractors immediately after signing the agreement and the difference after adjusting the EMD is recovered from bills submitted by the Contractors on start of work. In case the contractor fails to start the work or subsequently work is rescinded before recoupment of required 10 *per cent* security, the Company could not forfeit the full amount of the security deposits as *per* the conditions of the tender document *ibid*.

Audit noticed that in respect of six works rescinded under two FWDs Kullu and Chopal the company could recover only ₹ 3.86 lakh out of available EMD against the required security of ₹ 29.01 lakh. This resulted in short recovery of ₹ 25.15 lakh from six contractors. This loss was avoidable by taking full required amount of 10 *per cent* security immediately on signing of the contract. Thus, there is a need to revise the clause to ensure recovery of full security deposit at the time of signing of agreement to enable the Company to forfeit full amount as *per* the condition no. 28 of the tender document.

The Management stated (October 2015) that it was already seized of the situation and as such has revised the slab of EMD. This decision would mitigate the situation and will help to recoup the loss. The Management further added that in the cases pointed out by audit there was specific provision in the agreement to initiate arbitration proceedings or court case. The reply was not acceptable as this situation could have been avoided by taking full amount of security and forfeiting the same as *per* the condition no. 28 of the tender document.

2.1.11 Transportation of timber

After conversion, the timber is required to be transported to the nearest sale depots for auction. The volume of timber obtained after conversion of trees and volume transported to sale depots during the last five years ended March 2015 are shown in the bar chart below:

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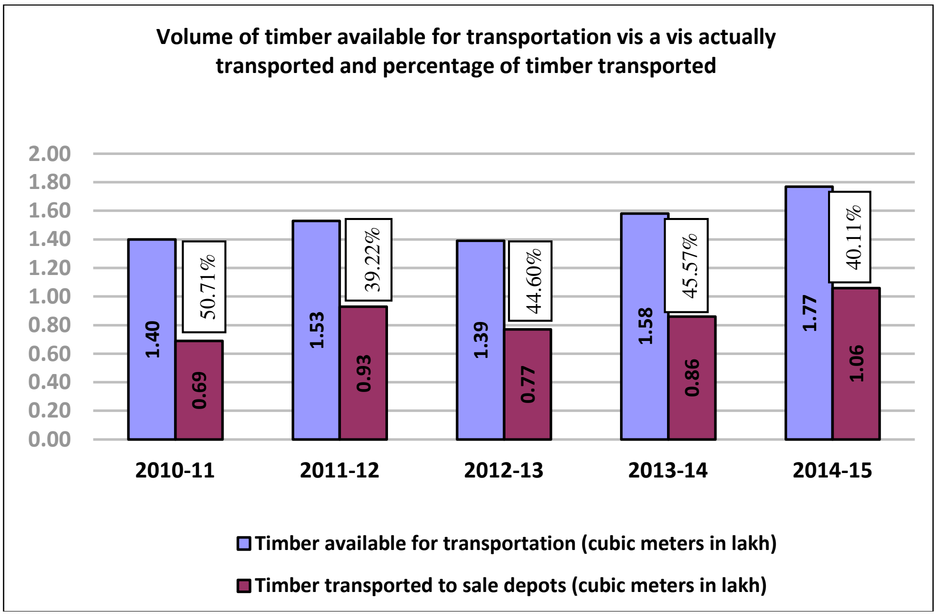


(Source: Data supplied by the Company)

It would be seen from the above that shortfall in transportation of timber ranged between 39.22 and 50.71 *per cent* during 2010-15. The delayed transportation had resulted in delay in sale and realisation of sale proceeds. The reasons for this shortfall in transportation were asked for but not provided by the management.

2.1.12 Payment of royalty

The rates of royalty to be paid on timber and resin blazes are fixed by the Pricing Committee constituted by the State Government on the basis of average sale rate of timber / rosin obtained in previous years. The table below indicates the volume of timber received, royalty due / paid during last five years ended

31st March 2015 (excluding FWD, Chamba):

Table 2.1.3

Year	Timber Volume received (in M^3)	Royalty paid (₹ in crore)
2010-11	2,14,496.847	18.14
2011-12	1,25,777.377	14.10
2012-13	1,72,977.200	18.26
2013-14	2,00,395.217	17.48
2014-15	1,79,633.906	22.15
Total	**8,93,280.547**	**90.13**

The scrutiny of records relating to the payment of royalty by the Company to State Government showed cases of avoidable payment of interest and non-adjustment of royalty amounting to ₹ 7.90 crore as discussed below:

2.1.12.1 Avoidable payment of interest

Royalty for trees taken over by the Company is required to be paid to the DoF in two to ten instalments depending upon the working period of lots. Delay in payment of instalments attracts interest at the rate of 9 *per cent per annum w.e.f.* April 2004.

Audit noticed (May 2015) that the Company did not pay the instalments of royalty on due dates in respect of 700 lots and had to pay interest of ₹ 6.85 crore to the DoF during 2010-15 on account of delay ranging between 11 days and 2,211 days in payment of instalment as tabulated below:

Table 2.1.4

Sr. No.	Year	Number of lots	Delay range (in days)	Interest on delayed payment of royalty (₹ in lakh)
1	2010-11	9	90 to 248	13.65
2	2011-12	487	11 to 1153	483.12
3	2012-13	101	11 to 798	108.91
4	2013-14	58	62 to 2211	21.15
5	2014-15	45	30 to 169	58.50
	Total	**700**		**685.33**

The above table showed that there was delay in releasing payment of royalty to the DoF in all the years.

2.1.12.2 Avoidable loss of interest on royalty paid in advance

As *per* notification issued by the State Government (October 2003) the minimum working period in respect of lots consisting of *Deodar, Kail,* Fir / Spruce species shall be two years and in respect of other species, it shall be one year from the date of issue of felling order. The royalty for one year period is to be paid in two instalments and for two years lease period in four equal instalments.

Scrutiny of records relating to six FWD[12]showed that during 2011-15, 288 lots (98,453 trees of Deodar, Kail, Fir / Spruce having standing volume of 1,28,141.273 M^3) were designated one year lease period and on these lots the Company paid royalty amounting to ₹ 14.01 crore to the DoF in two instalments. As these lots were having Deodar, Kail, Fir / Spruce species for which the working period should have been treated two years and royalty on these was payable in four instalments as *per* the notification *ibid.* On advance payment of royalty the Company incurred interest loss of ₹ 0.63 crore besides payment of extension fee of ₹ 0.34 crore for second year as the Company could not complete these lots in one year.

Thus, treating two year lots as one year, the Company incurred avoidable loss of ₹ 0.97 crore.

2.1.12.3 Non adjustment of royalty

As *per* the decision (September 1999) of the Pricing Committee, royalty 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 DoF within two months of felling of trees. It was noticed that in four lots allotted to FWD, Chopal and two lots to FWD, Kullu, the joint inspection of lots were not got conducted within stipulated period of two months and no efforts were made to ensure the presence of the officials of the DoF to verify the rotten volume of 2,279.953 M^3 (FWD, Chopal: 355.183 M^3 and FWD, Kullu: 1,924.770 M^3). In absence of joint inspection royalty amount of ₹ 8.10 lakh paid for the above rotten volume remained unadjusted so far (June 2015).

2.1.13 Sale of timber

Himachal is a timber surplus State. It exports timber to near-by States. It does not import any timber (deodar, kail, rai / fir and chil) as it will not be cost effective preposition. So, all timber which is available at retail depots is procured from Himachal Pradesh State Forest Development Corporation

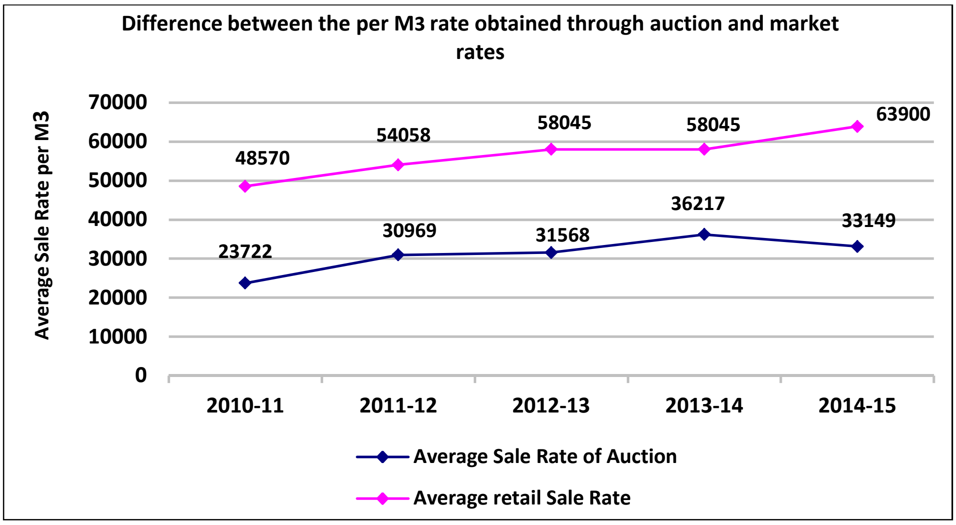
[12] FWDs: Chopal, Sawra, Rampur, Kullu, Mandi and Sundernagar.

Limited. The Company sells its timber through five[13]major Himkashth Sale Deports (HSDs) and three[14] small Himkashth Sale Deports (HSDs). The company sold 2.76 lakh $M^3$of timber of different specie out of total 4.31 lakh M^3 received at these Sale Depots during the last five years ending March 2015. The sale of timber is made through open auction. In auction procedure adopted by the Company following deficiencies were noticed:

2.1.13.1 Limited publicity for auction

The advertisement of auction is given only in two local newspapers (The Tribune and *Divya* Himachal) on quarterly basis 25 days before the scheduled date of first auction in that quarter. There is no practice to give wide publicity in national newspapers, radio, television, e- auction *etc.* Due to limited publicity, the Company deprived itself from getting the competitive rates for timber.

The comparison of average market rates of *deodar*[15] species (only 8.62 *per cent* of total volume sold in the State is of this variety) which fetches the highest rates amongst all the species with the rates obtained during auction during the last five years ending March 2015 are given in the line chart below:



The analysis by Audit showed that:

- against constant increase in retail sale rates (during 2013-14 the rates were not revised by the Company) the rates obtained during auction decreased during 2014-15 as compared to the 2013-14.

13 Baddi, Mantaruwala, Dhanotu, Nurpur and Bhadroya.
14 Swarghat, Udaipur and Shamshi.
15 These species can be grown at an altitude of 1,800 meters and above and hence all the wood of these species available in the market is from Himachal only as it would not be cost effective to bring it from near-by States.

- The comparison of rates obtained in auction *vis a vis* retail sale rates[16] showed that the retail sale rates were 60 to 105 *per cent* higher. This showed that there was scope for getting higher rates provided due publicity was given.

- There was no system in place to pre-qualify the prospective bidders and verify their credentials. Further, the reasons for not receiving the competitive rates during auction were less participation of bidders owing to limited publicity of auction besides, cartel formation between the bidders also cannot be ruled out.

Failure in getting the competitive rates during auction, the Company is incurring huge losses in sale of timber. In case attempts were made to realise the retail sale rates through wide publicity at national level, the Company lost the opportunity to earn additional revenue of around ₹ 18.00 crore[17] on the sale of 18,338.768 M^3 of deodar timber sold during the last five years.

The Management stated (October 2015) that the suggestions / recommendations made by the audit, have been noted for further formulation of policy of marketing of timber and bringing improvements.

2.1.13.2 Grading of timber at sale depots

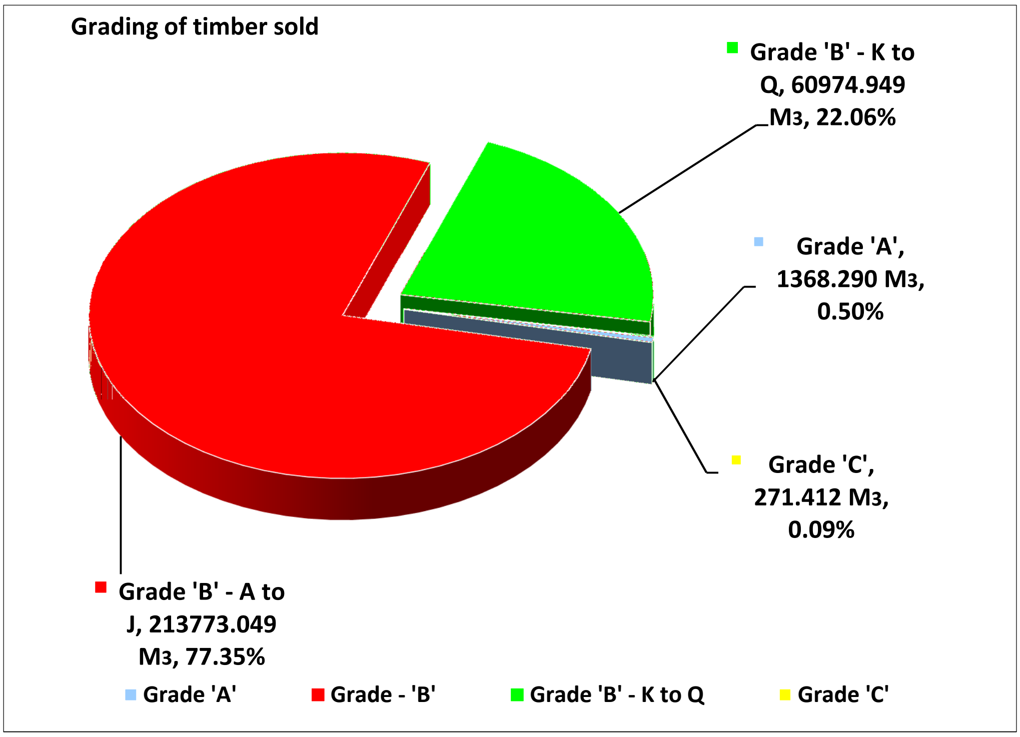
As *per* instructions for sale of timber (B-Grading of timber only after unloading) for grading of timber the Assistant Manager/ Deputy Ranger of sale depots will classify the timber and the Deputy Ranger deputed from the field will actively associate during classification / grading to avoid any subsequent dispute.

During audit, it was noticed (May 2015) that the classification of timber was being done by Guard/ Deputy Ranger at sale depot and no Deputy Ranger from the field, which supplied the timber to sale depots has attended / was associated in classification of timber thereby deviating from the instructions *ibid*. Leaving this work at the sole discretion of sale depot officials was prone to error. This fact is evident from the fact that the percentage of Grade B timber was 99.41 *per cent* which included 22.06 *per cent* B grade (K to Q having more defects) and 77.35 *per cent* B grade (A to J less defects), Grade A was only

16 Since timber sold in the whole sale market only by the Company and the same is sold at retail depots in totality, no other whole sale rates are available for comparison, the comparison has been made after allowing a margin of *50 per cent.*

17 Worked out after allowing 50 *per cent* (20 *per cent* for profit, 10 *per cent* for transportation and 20 *per cent* for difference in quality of timber).

0.50 *per cent* out of total timber sold during the period from April 2010 to March 2015 as shown in the pie chart below:



The difference in realisation of sale of timber between the grade A and B of different species of wood is given in **Appendix 2.1.2**. The scrutiny of Appendix showed that wrong classification would result in less realisation of *per* M^3 ranging between ₹ 21,828 and ₹ 30,751 for Deodar, ₹ 25,471 and ₹ 31,839 for Kail, ₹ 8,116 and ₹ 14,726 for Rai / Fir and ₹ 4,024 and ₹ 7,319 for Chil. It was observed that timber being sold at Retail Sale Depots (RSD) was mostly of Grade 'A' classification and this was extracted by the Himachal Pradesh State Forest Development Corporation Limited only as no wood is imported in the State. Since, the provisions of the instructions for sale of timber (B-Grading of timber only after unloading) for gradation were not being followed and the quantum of Grade 'A' timber was unusually low, it is evident that the quality of wood was not classified properly. It is also apparent that timber classified as Grade 'B' or lower by HPSFDC was being sold as Grade 'A' in the retail depots as no wood is imported in the State. Since there is a huge difference in price between the Grade 'A' and other grades of timber, huge loss has actually been incurred by the HPSFDC due to wrong classifications of timber.

In order to quantify the extent of potential revenue lost by Forest Corporation we have to make certain assumptions regarding the extent of error in the classification of wood. The less realisation from timber would be to the tune of ₹ 71.64 crore, if the volume of wrong classification was 25 *per cent* on total sale of 2,12,840.466 M^3 of four species made by the Company during the last five years ending March 2015.

The Management stated (October 2015) that due to frequent retirement of staff, the FWDs are sometimes unable to depute their representative to the HSDs, however, it will be ensured that the field representatives are invariably deputed to the HSDs.

2.1.13.3 Undue favour to bidders

Condition for auction sale of timber (no. 8.1) provides that earnest money deposit (EMD) payable by the highest bidder shall be 10 *per cent* (reduced to 8.5 *per cent* from August 2011) of the total purchase price. Condition 8.3 further provides that the EMD shall be deposited at the fall of hammer.

There was no practice to obtain required EMD from the successful bidder at the fall of hammer. In case the successful bidder did not turn up, the Company could not forfeit his EMD except eligibility deposit of ₹ 10,000 (₹ 5,000 up to January 2014) which is obtained from all the participants before start of auction.

During audit it was noticed that in 14 cases under HSD Baddi, the bidders did not honour their bids during the period from August 2011 to January 2015. Due to non-obtaining of required amount of EMD of ₹ 3.06 lakh at the fall of hammer from them, the Company could forfeit only ₹ 0.90 lakh (eligibility deposit) and the amount of ₹ 2.16 lakh remained unrecovered.

2.1.13.4 Non recovery of ground rent from private owners

The Company is also selling timber on behalf of the private parties through auction. For this activity the Company is also charging 18 *per cent* handling charges on the amount of sale. The dates of holding auction for sale of timber at each HSD in respect of private lots are announced in one month advance. Instructions are also issued to all private owners to be present on the date of auction and the sale of private timber cannot be made without the written consent of the owner. However, there is no provision of charging the ground rent in case the timber of private parties is not sold for long. Where as in case the auctioned timbers are not lifted by the successful bidder within 40 days the depot rent at the rate of 22 *per cent per annum* is recovered from them.

It was noticed in audit that 230.252 M^3 timber relating to private parties were lying unsold at three HSD[18] for two months to 38 months after allowing 40 days due to the reason that the concerned owners did not give their consent for its sale. In absence of any provision for charging of ground rent, the Company could have charged the ground rent amounting to ₹ 10.02 lakh[19].

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[18] Baddi: 137.999M^3, Nurpur: 73.996M^3 and Badroya:18.257M^3.

[19] Calculated at the rate of 22 *per cent per annum* on the basis of approved upset price of this timber.

The Management stated (October 2015) that the suggestions made by the audit will be considered positively in the best interest of the Company.

2.1.13.5 Non-clearance of suspense head

The cases of loss of timber due to flood, fire, *ghall,* theft, shortages in transportation *etc.* are shown under the head stock suspense pending enquiries / recoveries / settlement / write off *etc.*

Audit noticed (June 2015) that timber valuing ₹ 3.40 crore was kept under suspense head as on March 2014. This included 7,267.968 M^3 timber valuing ₹ 1.02 crore in respect of three FWDs (Shimla, Sawra and Sundernagar) was pending for clearance though more than eight years had elapsed from the date of last entry in the account. The reason for non-settlement of this amount as ascertained in audit was that the Company had no details which were necessary for its settlement.

2.1.14 Supply of fuel wood to Tribal areas

2.1.14.1 Non adjustment of fuel wood charges

The Company is supplying fuelwood to the DoF since September 1992 for further distribution to tribal areas at the rates fixed by State Government from time to time. These rates of fuel wood were lesser for the local inhabitants as compared to the rates applicable for the government offices located in the tribal areas. The payment for the fuel wood so supplied is given by the DoF to the Company.

The matter regarding delay in realisation of fuel wood charges from the DoF was commented in the Audit Report (Commercial) for the year 2006-07 (Para no. 2.1.21). The COPU in its recommendations (26th Report) presented to the State Legislature in December 2014 had recommended that the amount due from the DoF should be adjusted out of royalty.

It was noticed that despite these recommendations the Company neither adjusted the payments from the royalty nor the DoF is releasing full payment to the Company. Further the DoF charges interest from the Company at the rate of 9 *per cent per annum* on belated payment of royalty. The details of fuel wood supplied, payment received there against and the amount outstanding during the period from 2010-11 to 2014-15 is tabulated below:

Table -2.1.5

Sr. No.	Year	Opening Balance	Supplied during the year	Total	Amount recovered/ adjusted	Balance recoverable	Loss of interest
		(₹ in crore)					
1	2010-11	4.39	5.29	9.68	6.05	3.63	0.33
2	2011-12	3.63	5.17	8.80	4.52	4.28	0.33
3	2012-13	4.28	4.87	9.15	4.33	4.82	0.39
4	2013-14	4.82	6.18	11.00	4.76	6.24	0.43
5	2014-15	6.24	5.79	12.03	0.02	12.01	0.56
	Total:						**2.04**

Scrutiny of details given in the table showed that recoverable amount on March 2015 has increased to ₹ 12.01 crore from ₹ 3.63 crore in 2010-11. Further, on late payment of fuel wood charges by the DoF, the Company has incurred interest loss of ₹ 2.04 crore during the above mentioned period.

Thus, non-adjustment of full amount of fuel wood from the royalty paid to the DoF despite recommendations of the COPU resulted in interest loss of ₹ 2.04 crore during the period mentioned above.

The Management stated (October 2015) that the Company is well aware of the financial burden and losses on account of fuel wood supplied to tribal areas, the matter is being pursued vigorously with the State Government as well as with Forest Department even highlighting the observations made by the Audit. The reply was not acceptable as the amount recoverable from the DoF should have been adjusted out of royalty as *per* the recommendations of the COPU.

2.1.15 Resin

Resin extraction is an important activity and for extraction of resin, the DoF hands over resin lots to the Company. The yield *per* section[20] is fixed in view of the past yield, health / condition of trees *etc*. The schedule for marking resin extraction is given for each lot. The extraction process involves three stages *i.e*. Enumeration, Crop Setting and Tapping. Enumeration work is to start from 15th of November and to be completed by 31st December each year. The work for Crop setting is to be taken in hand on 15th February and completed by 15th March. After crop setting, the work of resin extraction is to start from 15th March and ends on 15th October in colder and 15th November in warmer locations.

[20] One Section consists of 1,000 blazes.

The details of resin blazes received, royalty paid, target of yield fixed, yield obtained and shortfall in extraction for the last five years ending 31 March 2015 (except FWD, Chamba) are mentioned in **Appendix 2.1.3.**

The details given in the Appendix showed that against the targets of 2.78 lakh quintals actual extraction of resin was 2.55 lakh quintal resulting in shortfall (ranging between 6.77 *per cent* and 9.60 *per cent*) of 0.23 lakh quintals valued at ₹ 11.99[21] crore during the last five years ending March 2015.

Audit analysis of reasons for shortfall showed that:

(i) Extraction works in most of the areas were started in April and May instead of scheduled date of 15 March each year; thereby reducing the extraction span.

(ii) Targets (ranging between 34 and 42 quintal *per* section) fixed and actual yield (ranging between 32 and 39 quintals) for warmer areas were lower as compared to the targets for colder locations such as Chopal and Kullu (ranging between 36 and 47 quintals) and actual yield (ranging between 42 and 49 quintals) *per* section. Thus, there is a need to investigate the reasons for less extraction in warmer areas where the target / yield should normally be on higher side as compared to the colder areas.

(iii) Further targets for Sundernagar and Dharamshala FWDs (warmer locations) were fixed on lower side (ranging between 36.25 and 42.49 quintals *per* section) as compared to Chopal (colder location ranging between 46.73 and 48.16 quintals *per* section) during the period from 2010-11 to 2014-15. Even the reduced targets could not be met and the shortfall in comparison to the targets (reduced) there was a shortfall of 1,686.09 quintals (up to 10 *per cent*) in 119 cases relating to Sundernagar and Dharamshala FWDs. These shortages were recommended to the Director (North) for waiver, stating reasons such as excess rainfall (59 cases), short deployment of labour (3 cases), without any reason (41 cases) and late crop setting (16 cases). The Director (North) waived off this shortfall without any verification as a matter of routine, resulting in a loss of ₹ 0.97 crore during 2011 to 2015.

2.1.16 Rosin and Turpentine (R&T)

2.1.16.1 Processing of Resin

The Company had two R&T factories at Bilaspur and Nahan, which were transferred (1974) by the DoF. The installed capacity of R&T factory, Bilaspur is 74,000 quintals and R&T factory Nahan is 37,000 quintals *per annum*. The resin is processed into rosin and turpentine oil in these factories. The details of

[21] Calculated by applying transfer price as fixed by the Management during the respective years.

resin processed and percentage of capacity utilisation of both the factories during last five years ending March 2015 is tabulated below:

Table-2.1.6

Year	R&T factory, Bilaspur			R&T factory, Nahan		
	Installed Capacity (in Qtls.)	Resin processed (in Qtls.)	Percentage Capacity Utilisation	Installed Capacity (in Qtls.)	Resin processed (in Qtls.)	Percentage Capacity Utilisation
2010-11	74,000	60,297.89	81.48	37,000	21,152.02	57.17
2011-12	74,000	28,026.73	37.87	37,000	16,407.93	44.35
2012-13	74,000	40,551.33	54.80	37,000	24,840.56	67.14
2013-14	74,000	47,157.26	63.73	37,000	20,193.10	54.58
2014-15	74,000	33,995.29	45.94	37,000	16,638.47	44.97

The capacity utilisation of both the factories remained low during these years. The reason for less capacity utilisation was continuous reduction in allotment of resin blazes (15.16 lakh blazes in 2010-11 to 13.74 lakh in 2014-15) to the Company by the DoF. The Company had not taken up the matter with the DoF for allotment of required number of blazes so as to increase the capacity utilisation.

The Managing Director during exit conference held in November 2015 attributed low utilisation of capacity to reduction in allotment of blazes by the DoF besides old machinery of these factories.

2.1.16.2 Excess Process loss

While processing Resin into Rosin certain process loss is incurred in R&T Factories. The Management has not fixed any norms for this process loss so as to control excess process losses.

Audit analysis of the R&T Factory, Bilaspur showed that the process loss during 2003-04 to 2007-08 ranged between 6.35 and 6.50 *per cent*, whereas the percentage of process loss continuously increased from 6.51 to 7.05 *per cent* during 2012-13 to 2014-15. On comparing the process loss with 6.50 *per cent* being the highest percentage achieved during 2003-04 to 2007-08 there was excess process loss of 735 quintals valued at ₹ 35.82 lakh during the last five years ends March 2015 as shown in the **Appendix 2.1.4.** The management has neither fixed the norms for process losses nor investigated the reasons for this excess loss so as to exercise control in future.

The Managing Director during exit conference held in November 2015 stated that necessary action to fixed the norms will be initiated.

2.1.16.3 Loss due to excess consumption of furnace oil

The R&T Factory, Bilaspur uses Furnace Oil (FO) while processing resin into rosin and Turpentine oil. Scrutiny of records showed that the management has not fixed any norms for consumption of FO based on past experience so as to exercise control over its consumption. The details of furnace oil consumed during the last five years ending March 2015 are mentioned in **Appendix 2.1.5.**

The details mentioned in the Appendix showed that the consumption of FO on processing *per* quintal remained below 11 litres during the 2010-11, 2012-13 and 2013-14 but it was above 11 litres during 2011-12 (11.47 litres) and 2014-15 (12.24 litres). In absence of any norms fixed by the Company actual loss on excess consumption could not be worked out in audit. However, on comparing the lowest consumption of 10.65 litre achieved during the year 2008-09, the excess consumption of FO during the past five years ending March 2015 works out to 1,07,450 litres valued at ₹ 44.43 lakh.

The Management stated (October 2015) that if the factory runs in three shifts, then the consumption of oil get reduced, but in case the number of shifts get reduced, the consumption of furnace oil increases. During the period under audit the factory ran in single or two shift basis which resulted in excess consumption of oil. The reply was not acceptable as the Management should have fixed the norms for consumption of oil considering the number of shifts so as to exercise control over the consumption of oil.

2.1.17 Diversification of activities

Company had also diversified its activities into Eco Tourism and Wood based industry. Audit scrutiny of these activities showed that the Company had incurred losses on running these activities since inception as discussed below:

2.1.17.1 Eco-Tourism Nature Camp, Narkanda

Keeping in view the tremendous scope of eco-tourism in the State, the Company had setup a nature camp (Six Log Huts and 10 tents) at Dhomri, Narkanda during 2009-10 at a total cost of ₹ 47.63 lakh.

Audit scrutiny showed that the Company is incurring losses every year on running this nature camp. The loss of ₹ 15.03 lakh in 2010-11 increased to ₹ 32.68 lakh in 2013-14 and reduced to ₹ 27.21 lakh during 2014-15. Against total expenditure of ₹ 1.79 crore (includes expenditure of ₹ 0.91 crore on pay and allowances), the Company could earn an income of ₹ 0.59 crore only during the period from 2010-11 to 2014-15 as detailed below:

Table – 2.1.7

Year	Total Expenditure	Total Income	Loss	Number of guests stayed	Percentage of occupancy
	(₹ in lakh)				
2010-11	23.17	8.14	15.03	1,913	14.46
2011-12	34.38	12.08	22.30	1,816	14.06
2012-13	34.27	11.78	22.49	1,559	14.75
2013-14	45.76	13.08	32.68	1,605	13.17
2014-15	41.46	14.25	27.21	2,211	19.38
Total	**179.04**	**59.33**	**119.71**	**9,104**	

The above table showed that there was total loss of ₹ 1.20 crore during the period from 2010-11 to 2014-15. The reason for losses were posting of one Area Manager, two Forest Guards and three chowkidars against the sanctioned strength of two chowkidars, two part time cleaner & washer boys in the camp. Further, lack of proper publicity also contributed to low occupancy which ranged between 13.17 and 19.38 during the period *ibid.*

The Management stated (October 2015) that the proposal to hand over the unit to DoF was under active consideration to avoid further losses.

2.1.17.2 Wood Based Industry, Shamshi

The Company took over possession of Joinery Unit, Shamshi from the DoF in June 2010 and started (September 2010) the joinery work (floor tiles / panelling and joinery articles *etc.*). The joinery work was allotted to a contractor through tender under which the unit has to provide facilities to local people of surrounding areas at reasonable rates.

The working results of the industry during the period from 2010-11 to 2014-15 are tabulated below:

Table-2.1.8

Year	Direct [22]Cost	Total Expenditure	Total Income	Loss
	(₹ in lakh)			
2010-11	19.76	25.07	14.51	10.56
2011-12	35.94	46.41	33.46	12.95
2012-13	27.37	37.87	30.12	7.75
2013-14	24.81	35.81	22.32	13.49
2014-15	14.80	26.80	19.86	6.94
Total	**122.68**	**171.96**	**120.27**	**51.69**

The above table showed that the unit was incurring losses since inception and during the past five years ending March 2015 the unit incurred total loss of ₹ 51.69 lakh. The main reasons for losses were huge wastage of raw material which ranged between 36 *per cent* and 60 *per cent.* The Management has not fixed any norms for wastage of raw material and due to high percentage of wastage, the unit was not even able to meet its direct cost.

2.1.18 Arbitration cases

In terms of Clause 27 of the standard agreement deed executed with the contractors, disputes shall be referred to the MD for appointment of Arbitrator. In all cases, the Arbitrators were officers of the Company. Audit scrutiny

[22] Direct cost includes the cost of raw material, labour, electricity and rent charges.

showed abnormal delays in disposal of arbitration cases and non-recovery of awarded amount as discussed below:

2.1.18.1 Delay in disposal of Arbitration cases

Out of total pending 82 cases involving recovery of ₹ 4.85 crore, only 5 cases were decided (2011-12:1 and 2014-15:4) in favour of the Company and the amount of ₹ 3.31 lakh involved in these cases had been recovered from the concerned contractors. Remaining 77 cases involving ₹ 4.82 crore were pending for decision for three months to 13 years. Moreover, the Company has not framed any guidelines for distribution of cases among the Arbitrators (*i.e.* Managing Director or Executive Director or Directors). In respect of seven cases under FWD, Dharamshala involving recovery of ₹ 11.23 lakh the arbitrators were appointed (March 2015) by the Company after a delay[23] of 487 days and 851 days after completion of resin extraction works by the contractors.

Failure to decide the cases in a time bound manner was a matter of concern especially when the officers of the Company were arbitrators in all the cases. Out of these one case involving recovery of ₹ 1.18 crore was pending before the MD since September 2006.

Thus, failure in deciding arbitration cases in a time bound manner resulted in locking up of Company's fund amounting to ₹ 4.82 crore.

The Management attributed (October 2015) the delay to non-submission of claims / counter claims by the parties in time, non-appearance of witnesses / advocates on scheduled dates. The reply was not acceptable as the delay was avoidable by adopting strict time schedule by the arbitrators who were the officers of the Company so as to safeguard own financial interests.

2.1.18.2 Non-recovery of awarded amount

In two cases in FWD, Shimla involving recovery of ₹ 6.98 lakh on account of less extraction of resin, the contractors filed civil suits against the decision of the Arbitrator in May 2003 and July 2003. The concerned courts in one case dismissed the case of the contractor in December 2013 and in another case the matter was referred back to the arbitrator in September 2009 to reconsider after affording opportunity of being heard to the party. The said case was again decided by the arbitrator in favour of the company in November 2014. After this no efforts have been made by the Company for recovery of ₹ 6.98 lakh (May 2015).

2.1.19 Manpower deployment

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

The COPU in its 26th Report presented before the State Legislature on 08 December 2014 (Para 2.1.32) of the Report of the Comptroller and Auditor General of India (Commercial) for the year 2006-07 has recommended that the

23 Delay of 487 days in three cases and 851 days in four cases.

staff of the Company cannot be posted on permanent basis with the State Government, however, as and when a specific demand of staff is received, the Company can provide them but not on permanent basis.

It was noticed that the Company had not complied with these recommendations and seven employees of the Company (two PAs, one Sr. Stenographer, one Junior Assistant, two peons, and one *Chowkidar*) are still working with H.P. Secretariat for the last nine months to more than 16 years and the Company was regularly reimbursing their pay and allowances from the date of their posting. This deployment has been made despite shortages in the categories of staff so deputed.

The Company did not initiate any remedial action to withdraw these employees as *per* the recommendations *ibid* and has paid wages amounting to ₹ 1.73 crore during August 1998 to March 2015.

The Management stated (October 2015) that the Company can depute the officials in the office of the Hon'ble Forest Minister, Additional Chief Secretary (Forests), Chief Parliamentary Secretary (Forests) who are the Directors and overall deciding authorities of the Company. The reply was not acceptable as the deployment were being made in contraventions to the recommendations of the COPU *ibid*.

2.1.20 Internal control

Internal control is an important management tool and comprises all the methods and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring orderly and efficient conduct of its business, including adherence to policies, prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information. A well-defined monitoring mechanism and Management Information System (MIS), reflect the existence of systems to make available timely, adequate and accurate information to the relevant authority in the organisation.

Audit noticed that internal control mechanism was weak and was required to be strengthened as would be evident from the following instances:

2.1.20.1 Management Information System

With a view to strengthen internal control system, the Company decided (June 2010) to install Tally software in all its units. This work was awarded to M/s Him Productivity Institute of Education (HPIE) in September 2010 for ₹ 55.39 lakh with completion period of six months from the date of award. The work was to be completed in two phases. In the first phase the firm has to provide and install software at 25 locations and to provide training to two persons at each location for 18 days besides carrying out data entry for six months at five locations. Thereafter, in second phase the firm has to customize the modules, synchronize and integrate the data at head office and unit level.

It was noticed that the firm completed first phase and also imparted training to two persons each at 25 locations after incurring an expenditure of ₹ 23.41 lakh but failed to complete the II[nd] phase. The Company instead of rescinding the agreement had allowed the staff of the firm to continue to carry out data entry work up to September 2012, though the scheduled time of six months expired in March 2011. During the period from April 2011 to September 2012 the Company paid ₹ 55.47 lakh to the firm for data entry work which could have been got done from those 50 employees to whom 18 days training was provided. Further, due to non-completion of 2[nd] phase the very purpose of developing / training the staff after incurring an expenditure of ₹ 78.88 lakh remained unachieved.

2.1.20.2 Non-updating of Manuals

The present manual *viz*. Procedure and instructions for the timber extraction work and working of HSDs was prepared long back in 1988, manual of resin tapping and accounting system manual prepared in 2003 have not been updated by incorporating all important instructions issued from time to time.

2.1.20.3 Deficiency in maintenance of cash books

The procedure laid down in the Himachal Pradesh General Financial Rules regarding maintenance of cash book was not being followed in many units of the Company.

In R&T Factory, Bilaspur one official was entrusted duties of both cashier and accountant. The Drawing and Disbursing Officer also failed to authenticate entries made by him in the cash book on daily basis as *per* the requirement. Due to non-following the prescribed guidelines in this regard, Audit detected misappropriation of cash of ₹ 1.60 lakh[24] by cashier who was performing the duties of cashier and accountant. On this being pointed out, the concerned employee deposited the amount on 25 May 2015 after keeping the amount for about two years.

Further, the same employee also allowed various advances, released payments to employees of the factory / private parties of ₹ 1.92 lakh without sanctions / supporting documents during the years 2013-14 and 2014-15. Though the *ex post facto* sanctions for the same were obtained after issue of audit comment but in absences of any records, the recoveries of these advances and legitimacy of payments could not be verified.

2.1.20.4 Internal Audit

The Company did not possess separate Internal Audit wing. Internal Audit was being conducted by the firms of Chartered Accountants on annual basis. The Company had not prepared any internal audit manual / guidelines. The reports

[24] ₹ 20,000 misappropriated on 31.05.2013; ₹ 10,000 on 31.07.2013 and ₹ 1,30,000 on 31.08.2013.

furnished by the Internal Auditors did not envisage the scope of assignments besides the internal audit reports were not being put up to the BoD.

2.1.20.5 Absence of MIS Evaluation Mechanism

Evaluation Mechanism of different activities at different stages of operation was not in place in the Company as would be evident from the following:

- There was no system of comparing the actual financial figures with the budget estimates of the Company, unit wise, activity wise;
- Monthly progress data compiled on the basis of information received from the units were being put up to the BoD from which it was not possible to evaluate lot wise performance.
- There was no system of grading the timber in the field in the manner in which it was being sold in the sale depots.
- The Company has not created accounts cadre so as to post qualified accountant in each unit / office to have a better financial control. This has also delayed the preparation of annual accounts. Consequently, annual accounts of the Company remained in arrears for two to three years for the past many years.

In absence of effective evaluation mechanism, the Management was not in a position to assess the impact of its initiatives on the working of the Company for taking necessary remedial actions.

2.1.21 Corporate Governance

Corporate Governance is a 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, better and timely financial reporting. As on 31st March 2015, the BODs had 15 Directors – 7 Government Directors and 8 Non-government Directors including Chairman and Vice-Chairman of the Company.

In this regard, the following deficiencies were noticed:

- Nominee of the Finance Department did not attend 15 meetings out of total 22 meetings held during 2011-15.
- The agenda papers, attendance register of members and minutes book in respect of sub-committees constituted for (i) Budget Proposal (ii) Service Committee and (iii) Pricing Committee are not prepared and maintained for permanent record as *per* requirement of Company's Amendment Act, 2013.
- As the Managing Director is a nominee of the BOD who manages the Company and executes the decisions of the BOD as such the tenure should be for a reasonable period. During 2011-15, six Managing Directors were posted in the Company having duration of six months to one and a half year.

Conclusions and Recommendations

The Company is the only agency which has been authorised to extract and sale of forest produce in the State. Despite enjoying monopoly in extraction and sale of timber, the Company was incurring huge financial losses year after year. The main reasons for losses as analysed in audit were delay in receipt of marking lists, taking over of lots and delay in extraction and transportation of timbers which increases cost of extraction due to non-completion of works in time and payment of extension fee besides deterioration of quality of timber.

The Company should ensure receipt of marking lists from the DoF as per prescribed schedule and close monitoring on contractors with a view to complete extraction and transportation work with in lease period.

Non-payment of royalty as *per* the prescribed schedule resulted avoidable payment of interest for delay.

The Company should ensure payment of royalty as per the prescribed schedule so as to avoid payment of interest for delay.

Defective classification system of timber before auction and non-getting of competitive rates during auction due to limited publicity was the major contributors of losses.

The Company may review system of classification of timber besides adoption of e auction to attract more bidders to rule out any chances of cartel formation during auction of timber at its various sale depots.

The capacity utilisation of its both R&T factories were very low. Further there were no norms fixed for process losses and utilisation of furnace oil by these two factories during processing of resin in to rosin.

The Company should make efforts to improve capacity utilisation of R&T factories and to fix norms for the process losses and consumption of furnace oil.

The diversification of its activities in to wood based industry and eco-tourism also proved loss making propositions to the Company since inception.

The Company may analyse the reasons for continuous losses being incurred by these units so as to initiate appropriate action to improve their performance.

Management Information System and Internal control mechanism were also found deficient.

The Company should strengthen MIS and internal control mechanism.

The above points were reported to the Government in August 2015; the reply was awaited (December 2015).

2.2 IT Audit of HT / LT Billing System of Himachal Pradesh State Electricity Board Limited

Executive Summary

The IT Package awarded (May 2006) under Accelerated Power Development Reform Programme (APDRP) with 90 *per cent* grant on turnkey basis was to be completed by April 2008, however, the same was still under implementation (March 2015). Meanwhile the APDRP was closed in March 2009 and before closure, the Company could spent only ₹ 3.22 crore and was deprived from availing GoI grant amounting to ₹ 4.71 crore. Further, for delay in completion the firm was liable to pay liquidated damages of ₹ 1.32 crore, but the Company recovered only ₹ 0.55 crore resulting in short-recovery of ₹ 0.77 crore.

{Paragraphs 2.2.5 (i) and 2.2.5 (iv)}

Master data of consumers was incorrectly fed in the billing software resulting in inadmissible allowance of Higher Voltage Supply Rebate (HVSR) amounting to ₹ 40.63 lakh in 45 cases.

{Paragraph 2.2.5 (iii)}

Deficiencies in mapping of business rules resulted in revenue loss of ₹ 5.26 crore due to non-recovery, short recovery and incorrect assessment of various energy charges from consumers.

{Paragraphs 2.2.6 (i), 2.2.6 (iii) and 2.2.6 (iv)}

The delay in implementation of application software in all the Electrical Sub-divisions also resulted in revenue loss of ₹ 2.48 crore on account of non-recovery / short recovery of Late Payment Surcharge, Low Voltage Supply Surcharge and Demand charges from consumers due to non-detection / calculation errors through manual process.

{Paragraphs 2.2.10 (ii) (a to c)}

2.2.1 Introduction

For computerisation of High Tension (HT) / Low Tension (LT) consumers billing, the Himachal Pradesh State Electricity Board Limited (Company) spent ₹ 1.26 crore under Phase I and II of the "Computer Master Plan" completed prior to 2005. The Information Technology (IT) audit report of the system was included in C&AG's report for the year ended 31 March 2006 (refer Para 3.3). Subsequently, to ensure accurate assessment of energy bills and commercial losses, improve revenue realisation, to improve the customer relationship the Company decided to develop a new IT application to computerise activities like billing, cash collection, customer complaint handling, energy accounting, load flow and network analysis under the Accelerated Power Development Reform

Programme (APDRP). The Company awarded (May 2006) a new IT Package for "Computerisation of Billing and Management Information System (MIS)" with complete system integration and Data Centre at Shimla for ₹ 23.22 crore to M/s HCL Info Systems Limited, Noida (HCL) on turnkey basis. The package was further revised (December 2009) to ₹ 30.51 crore due to changes in the scope of work. As *per* award the whole package was to be completed by April 2008, however, the same was still under implementation as on March 2015.

2.2.2 Salient features of the billing software

The Billing Software was developed by HCL, on Oracle10g at backend and ELP soft as front end tool under multi user requirement. The data entry and printing of bills were being done by field units while the preparation of bills and online consumers' complaints were being handled by HCL at Data Centre of the Company at Shimla.

The system has been devised for preparation of monthly bills of consumers, besides accounting of revenue and issue of receipts to them. Data input is done manually by the designated staff of the concerned Electrical Sub-Division (ESD).

2.2.3 Scope of audit

Audit of HT / LT billing software covers System Development, Implementation and Application Controls of the software and was conducted by examining the data / records pertaining to the period from April 2010 to March 2015 of 21 ESDs out of total 124 ESDs of the Company, three[25] Central Billing Cells out of 12 and IT Cell at corporate office selected randomly. The audit was carried out between May-June 2015.

2.2.4 Audit findings

Audit scrutiny of implementation of IT package and working of billing software showed the following:

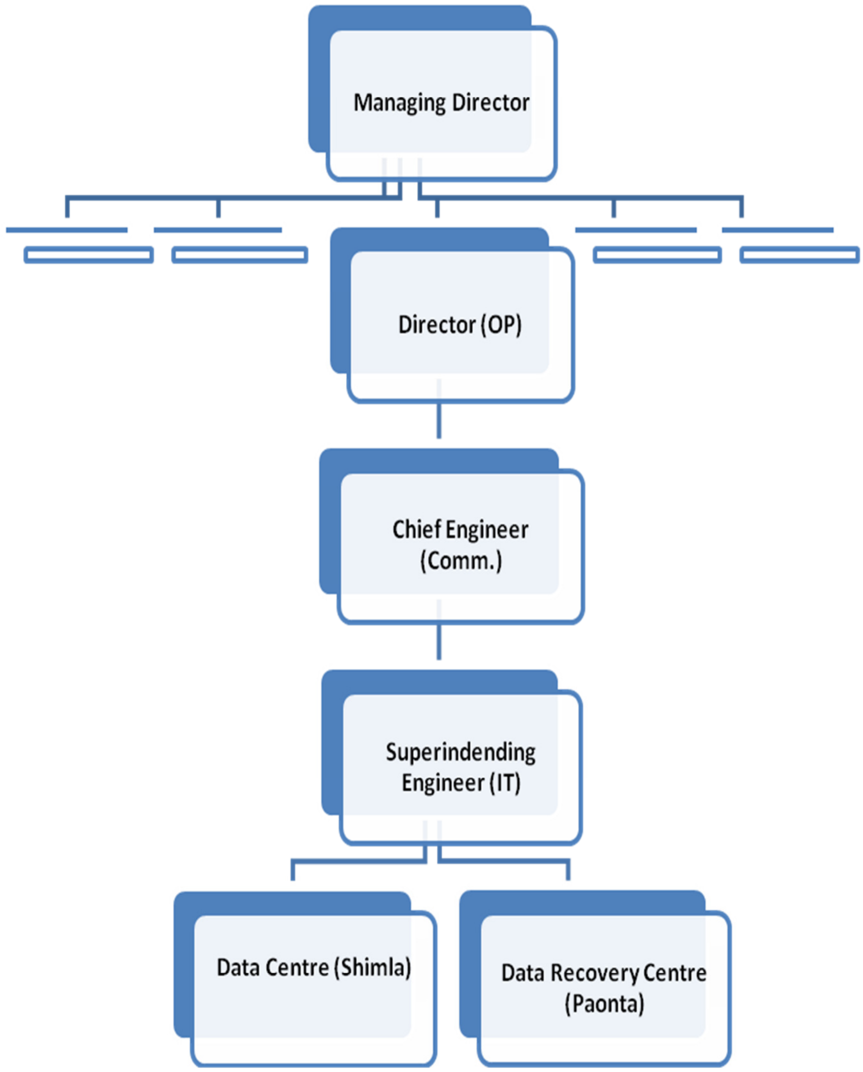
2.2.5 System acquisition and implementation

As *per* award the computerisation programme was to be implemented in only urban divisions of all the circles.

The Superintending Engineer (IT) as head of the IT cell was responsible for implementing the computerisation. The hierarchy for decision making in this regard in the company was as shown below:

[25] Nahan, Solan and Kullu.

Fig 2.2.1 Hierarchy for decision making



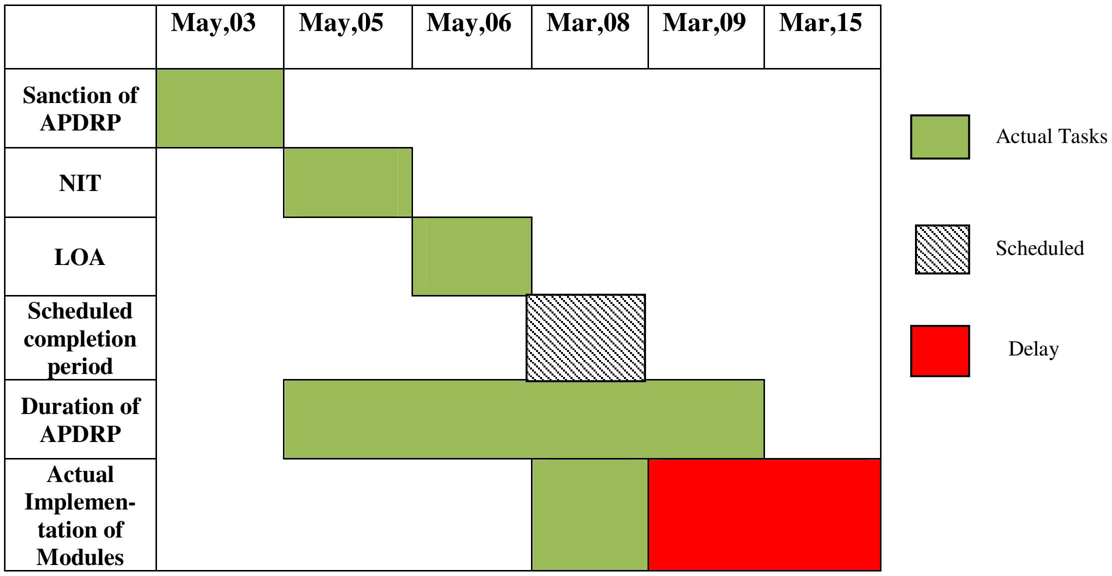
No dedicated project management team with involvement of various user groups was created for implementation of the new application.

(i) Delay in implementation

The Computer Master Plan under Accelerated Power Development Reforms Project (APDRP) was sanctioned by Government of India during 2002 and 2003 for all 12 operation circles in the State. In the sanctioned scheme there was provision of ₹ 8.45 crore with 90 *per cent* grant for computerised billing.

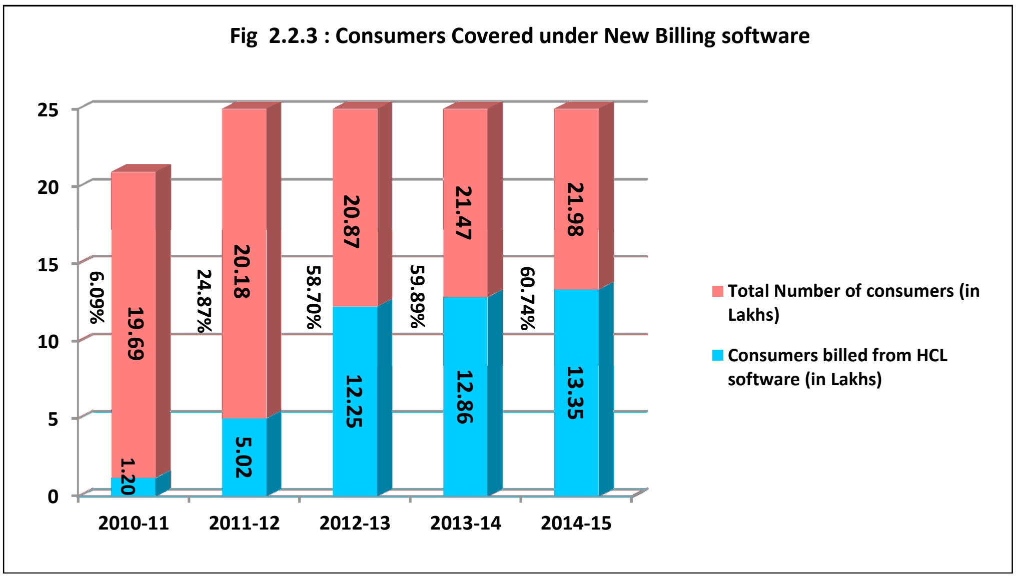
Audit noticed (May & June 2015) inadequacies in project management leading to delays in several segments of implementation, right from the stage of initiation of tenders as shown below:

Fig 2.2.2 Progress of IT Package Implementation



The notice inviting tender (NIT) for IT package under the scheme was issued by the Company during May 2005 after a delay of 24 months from the date of sanction. The Letter of Award was issued during May 2006 to HCL for ₹ 23.22 crore after a delay of 12 months from opening of the bids. The APDRP scheme was closed in March 2009 and before closure, the Company could spent only ₹ 3.22 crore due to non-completion of work by HCL. As there was 90 *per cent* grant under APDRP and due to non-completion of works in time, the Company failed to avail the grant amounting to ₹ 4.71 crore and had to meet the remaining expenditure from its own resources.

The package was further revised (December 2009) to ₹ 30.51 crore due to changes in the scope of work. The whole package was to be completed in two parts as *per* contract award i.e. 1st part for Shimla Circle by 28 April 2007 and 2nd part for remaining 11 circles after 12 months of completion of Part-I. The new application was launched in August 2008 in 10 Electrical Sub-Divisions (ESDs) and gradually extended to124 ESDs up to March 2015 against the total provision of 132 ESDs under the package. The project was still (March 2015) under implementation and electricity bills were being prepared partly on this software, partly on the old software and partly manually. At the time of award, the whole package was planned to be completed within the operation period of APDRP *i.e.* by April 2008. Audit noticed (May 2015) that HCL had completed Part-I (Shimla Circle) of the package in August 2009 after a delay of 28 months and part-II of the contract was to be completed by August 2010 (12 months after completion of Part-I) and the same was still incomplete (March 2015). So far only 60 *per cent* of the consumers could be covered under the scheme as evident from the table below:



The main reasons for delay in implementation of the package were inadequate monitoring in the absence of any dedicated project management group, delay in supply of hardware and connectivity problem in few ESDs. During the period of delay bills of few categories of consumers were being prepared from the old software and of some categories were being prepared manually. Due to continuation of old software and manual preparation of bills, accuracy in preparation of bills and efficiency in collection of revenue suffered resulting in short recovery of revenue as discussed in paragraph 2.2.6 *infra.*

(ii) Poor documentation and internal control: Overpayment

Part-I of the package (revised) was to be completed within ₹ 7.55 crore (including taxes and duties). Audit noticed (June 2015) that against this, HCL had submitted invoices for ₹ 8.84 crore and the Company released ₹ 8.43 crore resulting in excess payment of ₹ 0.88 crore. The excess payment was due to lack of internal control as neither the SE (IT) nor accounts wing of the Company had maintained proper bill register / ledger to keep control over the payments for the package.

(iii) Inadequate control on master data entry: Loss of revenue

As *per* chapter 1 (J) of schedule of tariff applicable from time to time, consumers availing electricity supply at a voltage higher than the "Standard Supply Voltage" (SSV) as specified under the relevant category shall be given a 'Higher Voltage Supply Rebate (HVSR)' at the specified rates only on the billed amount of energy charges.

Correct implementation of this rule required correct feeding of master data relating to the consumers. In few cases master data of consumers was incorrectly fed in the billing software leading to risk of revenue loss. Audit found 45 cases where this risk materialised in four[26] ESDs resulting in inadmissible allowance of HVSR amounting to ₹ 40.63 lakh for the period between August 2013 to June 2014 to those consumers who were availing supply at standard voltage of 11 KV for which no HVSR was applicable. Further, in five other cases under above three ESDs availing supply at 33 KV against the standard voltage of 11KV were allowed HVSR ranging between four to eight *per cent* against three *per cent* admissible which resulted in payment of extra rebate of ₹ 4.05 lakh. This resulted in non-recovery of ₹ 44.68 lakh from the consumers *ibid*.

(iv) Recovery of Penalty from vendor

As *per* terms of the award the vendor (M/s HCL) was also liable to pay liquidated damages (LD) for delay amounting to ₹ 37.75 lakh[27] at the rate of five *per cent* for part-I, but the Company had recovered only ₹ 33.21 lakh from HCL at the rate ranging between three *per cent* and five *per cent*. Similarly, LD amounting ₹ 21.36 lakh only was recovered from the bills of HCL in respect of part-II against the recoverable amount of ₹ 94.25 lakh[28]. Thus, there was short-recovery of LD of ₹ 77.43 lakh from HCL till March 2015.

2.2.6 Deficient mapping of business rules

As the billing system is the core application for revenue realisation for the Company, it is imperative that the business rules are mapped completely. Audit observed deficiencies in mapping of business rules leading to business risks as discussed in following paragraphs:

(i) Fixed demand charges

Clause 3.9 of Electricity Supply Code (May 2009) issued by the Himachal Pradesh Electricity Regulatory Commission stipulates that where the licensee has completed the work required for supply of electricity to the HT / Extra High Tension (EHT) applicant but the applicant is not ready or delays in receiving the supply or does not avail the full contract demand, the licensee shall, after a notice of 60 days, charge on *pro-rata* basis, fixed demand charges on the sanctioned contract demand as *per* the relevant tariff order**.** Rules in the billing software of the HCL were not mapped to link the completion of work for release of supply to that consumer so as to issue required 60 days' notice immediately after completion of work. In absence of mapping of rules in this regard in the application, compliance of this rule was being ensured through manual control by issuing notices to such consumers manually after reviewing

[26] ESDs :Baddi, Barotiwala, Manali-II and Paonta.

[27] At the rate of 5 *per cent* of the total value of the contract of ₹ 7.55 crore as *per* Special Conditions of the Contract (No.9.1 & 9.2).

[28] At the rate of 5 *per cent* of the total value of the contract of ₹ 18.85 crore as *per* Special Conditions of the Contract (No.9.1 & 9.2).

the load sanctioned cases and progress of the related works. The manual control was found to be weak resulting in non-recovery of ₹ 26.53 lakh for the period from August 2010 to March 2014 in three such cases noticed (March 2014) during audit under two ESDs Baddi and Manali-II. The possibilities of non-recovery of demand charges in ESDs not covered in audit resulting in similar loss cannot be ruled out.

(ii) Treatment of Defective Energy Meters

As *per* instruction No. 4.4.8 (ii) of the Supply Code, 2009, when the energy meter of the consumer becomes defective the same should be replaced immediately. Further, the consumers' account should be overhauled for the period during which the meter remained defective and be charged on the basis of average monthly consumption recorded through the correct energy meter installed.

Audit noticed that this business rule was not mapped correctly in the software and in case of defective meters the system calculates the average consumption by applying LDHF[29] formula instead of calculating the average on the basis of energy recorded during the period for which correct meter remained installed.

(iii) Application of wrong multiplying factor

As *per* prevalent practice in case the Current Transformer / Potential Transformer and energy meter installed at the premises of the consumer are of different ratio, for arriving at correct energy consumption of the consumer, energy recorded through meter is multiplied by a certain Multiplying Factor (MF).

It was imperative that the new application was to be designed in a manner that the MF would be applied automatically on the basis of parameter recorded in MRI[30]. Audit noticed that such provision was not designed into the application and MFs were being worked out separately & entered in the master data. This carried the risk of errors & miscalculation of energy consumed. Audit found, in four[31] ESDs, multiplying factors for ten consumers were incorrectly worked out which resulted in short recovery of ₹ 3.04 crore. The short-recovery was due to non-provisions for automatic calculation of multiplying factor directly on the basis of parameter recorded in MRI.

(iv) Non assessment of enhanced energy charges

The Company simplified (March 2012) the procedure for assessing the unauthorised use of power under Section 126 of the Electricity Act, 2003. The procedure prescribes for ignoring up to 20 *per cent* violation over and above the

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[29] Load, Days in a month, Hours *per* day & Demand factor.

[30] Meter Reading Instrument.

[31] ESDs: Kala Amb, Paonta, Baddi and Manali-II.

sanctioned load and thereafter the consumer was to be assessed under Section 126 of the Electricity Act, 2003.

Audit noticed (June 2015) that the billing software being used by the Company had no provision for automatic assessment of such defaulting consumers under Section 126 of the Act *ibid*. In absence of the provision in the application the assessment is to be done manually leaving the risk of errors and manual discretion. An illustration of the risk being substantiated is included in the text box below:

Illustration: A consumer having account no. BHT-61 (connected load of 459.25 KW) under ESD Baddi had availed load of 628.36 KW (683 KVA with average Power Factor of 0.92) during July 2013. Load availed by the consumer was in excess of 20 *per cent* of connected load. Thus, the consumer was required to be charged energy charges on double rates as *per* above provisions. However, due to non-provision for the same in the new application enhanced energy charges of ₹ 38.30 lakh could not be levied / recovered as the compensatory manual control was less stringent.

Similar errors were noticed in 20 cases resulting in non-assessment / recovery of ₹ 1.95 crore in ten[32] ESDs on account of enhanced energy charges from the defaulting consumers for the period from March 2011 to October 2014.

(v) Clubbing of load

As *per* sales circular No 5/2001 of the Company regarding clubbing of loads, in case of any industrial consumer running more than one connection in the same premises, the loads of all such connections should be clubbed against one account and the remaining accounts / meters should be permanently disconnected. This provision had not been mapped correctly in the billing software and in case of clubbing of consumers' connections, system generates Meter Change Order against the connection for which clubbing of load is registered and for remaining connections the system does not accept the PDCO[33] request which has to be registered manually. Therefore in absence of the provisions in the application, the officials were resorting to manual methods which makes the process time consuming and leaving the risk of manual discretion.

[32] ESDs :Kala Amb, Paonta, Barotiwala, Manali-II, Baddi, Mandi-II, Manali-I, Dulehar, Reckong Peo, and Sataun.

[33] Permanent Disconnection Order.

(vi) Security deposit

As *per* orders of the State Regulatory Commission security deposits of the consumers should be reviewed annually on the basis of average energy bills of the consumer and should be revised accordingly so as to safe guard the one month's energy bill of that consumer.

Audit noticed that the shortfall in security deposit of the consumers was being calculated manually as there were no provisions for the same in the software. Therefore there was scope of manual errors**.** The financial implication in three test checked ESDs[34] worked out to ₹ 1.13 crore.

(vii) Non linking of master data

For installation of energy meters in the premises of new consumer erection charges are recovered from the consumer at different rates based upon the category of the consumer. These rates for different categories of consumers appear in SDO modules. Audit noticed that access to this master data table had not been linked to the actual operational module (Junior Engineer module) that could have simplified the process for applying correct rates to different categories of consumers while preparing service estimates for new connections. This carried the risk of dependence on manual processes.

2.2.7 Inadequacies in application functionality

Audit noted the following design deficiencies in the application for supporting some business functional requirements:

(i) Tariff data updation : short recovery of peak load demand charges

Tariff master table should have been so designed in the billing application that whenever there is any change in the tariff rates the same may be made applicable from the date of its revision by updating the master data. Audit noticed that in case of Peak Load Demand Violation Charges (PLDVC) the issue was hard coded in the application design resulting in dependence on the developer for revision of rates, risk of delay in revision of rates and consequential revenue loss.

Audit noted that the rates of PLDVC were revised from ₹ 300 *per* KVA to ₹ 600 *per* KVA *per* month as *per* schedule applicable from 1st April 2013. However, it was found (February 2014) that the revision could not be done due to the fact that this variable was hard coded in the application design and the change could not be implemented appropriately. Thus, due to non-updation of the master data, PLDVC in respect of Large Supply Consumers was recovered at the old rates. This had resulted in short recovery of PLDVC amounting to

[34] ESDs : Manali-1, Kangra and Mandi II.

₹ 2.61 crore from 442 consumers in five[35] ESDs during the period from April 2011 to August 2014.

(ii) Revenue received from non-consumers

Legal and Vigilance Modules of the application have provision for adjustment of assessed amount for theft of power by consumers only. In case of any recovery / adjustment for theft by non-consumer there was no provision for generation of receipt from the designed application.

Similarly in case of permanent disconnection for default in payment of dues and the payment received from a person after PDCO[36] no cash receipt can be generated and the receipt has to be issued manually, due to the fact that after PDCO system application does not recognise the person as consumer.

Therefore, due to above the revenue assessment does not tally with the monthly revenue receipt. Provision for issue of receipt even to the non-consumer should also have been made in the application.

(iii) In certain cases one domestic consumer is linked to multiple energy meters in his / her premises and in such cases when consumer makes payment of more than one bill through single cheque, pay-in-slip generated shows the same cheque number against all the bills thereby making it difficult for the bank as well as to the Company to tally the actual number of cheques and entries in the pay-in-slip. The pay-in-slip indicates the name of the bank against the column for depositors and there was space only to insert bank account number up to 14 digits, though certain banks have account numbers with more than 14 digits.

(iv) As *per* Instruction No. 7.1.2 of the Supply Code 2009, if the consumer fails to clear the amount of energy bill within 15 days after due date mentioned in the bill, connection of the consumer should be temporarily disconnected. Thereafter, if the default continues for another six months the connection may be disconnected permanently. Audit noticed that the procedure for issue of TDCO[37] and PDCO was very lengthy which requires seven steps and number of entries to be fed in the system before generating the required orders. Audit noted that the process could have been automated by linking the due date of energy bill and receipt of actual payment there against available in the other modules of the application.

2.2.8 IT Security

IT Audit scrutiny (May-June 2015) showed that the system installed in the 21 ESDs test checked was not secured properly and was vulnerable to

[35] ESDs :Paonta, Baddi, Barotiwala, Mandi-II and Sataun.
[36] Permanent Disconnection Order.
[37] Temporary Disconnection Order.

unauthorised use due to inadequate access controls. Some instances are provided below:

(i) The access to different user privileges was possible from any nodes and user authentication was not linked to assigned work terminals. Thus, new connections can be entered in the system through ID of the Assistant Executive Engineer (AEE) by passing all the required steps *i.e.* Junior Engineer and Commercial modules. Even sundry credits can be posted in the account of consumers by any employee through the access credentials of AEE. In one case under ESD-II, Nahan ₹ 3.70 lakh was embezzled by using the ID & password of AEE, which indicates the practice of sharing of credentials.

(ii) Audit noticed that there is no procedure of review of user logs and sessions. Further, on transfer of employee, there is no procedure to block his / her ID allocated to him / her in the previous office so as to prevent him from accessing the data.

(iii) MRI data downloaded from the meters has to be converted into text file at ESD / CBC before transmitting the same to Data Centre (DC), Shimla which includes operator's intervention. This process of manual intervention is not in compliance with the APDRP guidelines on use of MRI instruments and upload of data to the server of the billing application. The conversion of data into text file at the CBC / ESD carries the risk of data manipulation prior to generation of energy bills.

2.2.9 Business Continuity Planning

The billing system is a critical system as it has a direct impact on the revenue realisation of the Company. In case of any untoward incident or disaster, the consumers' bills are not generated in time or done incorrectly, earnings of the Company may be substantially affected and also can cause lot of inconvenience to the consumers. It is, therefore, essential for the entity to have a well-documented disaster recovery and business continuity plan to be implemented such that information processing capability can be resumed at the earliest in case of any disaster.

It was noticed that the Company had established its Data Centre (DC) at Shimla and Data Recovery Centre (DRC) at Paonta. Both these centres are located in the same seismic zone (Zone IV) as *per* Global Seismic Hazard Assessment Programme map for Himachal Pradesh. Thus, by establishing both centres at the same seismic zone, the business risk of severe disruption is not appropriately mitigated, even after incurring an expenditure of ₹ 10.36 crore on establishment of the DRC.

In addition, it was also noticed that as *per* specifications / requirements supplied to the contractor, the software should maintain Recovery Point Objective

(RPO)[38]at less than 15 minutes for all application and data at primary site and Recovery Time Objective (RTO)[39] was between six and 36 hours for different applications such as metering, billing and collection, new connection, disconnection, meter data acquisition *etc.*

Audit noticed (April 2014) that as *per* inspection carried out (4 to 7 February 2014) by the inspection committee of the Company, RPO and RTO could not be verified as the contractor had not submitted the business continuity plan and drill in this regard had not been conducted till June 2015.

In reply the Company stated (May 2014) that the Power Finance Corporation had given consent (December 2009) for establishment of DC and DRC in the same seismic zone. The reply was not acceptable as the consent was applicable for states having only one seismic zone, whereas Himachal Pradesh falls under two seismic zones and the centres could have been established in separate zones.

2.2.10 Miscellaneous

(i) Non recovery of demand charges

In the billing software there was programming error due to which the demand charges were not computed correctly as *per* the tariff resulting in short recovery of demand charges amounting to ₹ 75.29 lakh up to April 2010 (Para 2.14.8 of the C&AG's Report for the year ended March 2011). Though this error in programming was subsequently corrected, the recoveries had not been made from the consumers so far (June 2015). Thus, non-recovery of demand charges of ₹ 75.29 lakh from the consumers had further resulted in interest loss of ₹ 38.90 lakh[40] up to June 2015.

(ii) Consequences of delay in implementation

The software was to be implemented to ensure accurate assessment of energy bills, to improve revenue realisation, but due to delay in implementation the company had to continue with the old system of preparing bills through deficient old billing software involving risk of loss of revenue. Test check of records relating to 7 ESDs showed that there was loss of revenue as discussed below:

(a) Late Payment Surcharge

If the consumer fails to clear his bill by due date as indicated on the energy bills, he was liable to pay surcharge at the rate of 2 *per cent per* month or part thereof, on the outstanding amount excluding electricity duty / taxes. Further, the payment through cheque was required to be made two days prior to the due date for payment by cash.

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38 Maximum amount of time lag between Primary and Secondary storages.

39 Maximum elapsed time allowed to complete recovery of application processing at DR site.

40 Calculated at the rate of 10 *per cent per annum* for the period from May 2010 to June 2015.

Audit noticed (June 2015) that in respect of industrial consumers who had deposited their energy bills through cheques after due date of payment by cheque, the late payment surcharge amounting to ₹ 58.62 lakh could not be recovered from 108 consumers for the period from April 2011 to December 2013 in three [41] ESDs through manual process due to delay in implementation of application software in these ESDs.

(b) Non / short- recovery of Low Voltage Supply Surcharge

As *per* chapter 1 (I) of schedule of tariff applicable from time to time, consumers availing electricity supply at a voltage lower than the "Standard Supply Voltage" as specified under the relevant category shall, in addition to other charges be also charged a Lower Voltage Supply Surcharge (LVSS) at the prescribed rates.

During audit (June 2015), it was noticed that in 30 cases (under seven[42] ESDs) of large supply consumers (availing supply on voltages lower than the standard supply voltage) LVSS was not charged or short charged due to calculation error as the same was being calculated manually on the old software. This had resulted in non / short recovery of ₹ 1.39 crore.

(c) Short recovery of demand charges

As *per* two part tariff (July 2005), the consumers having connected load in excess of 20 KW shall be billed for demand charges in addition to energy charges at the rate specified. The bills of the Large Industrial Supply consumers were being prepared by the concerned Central Billing Cells (CBC) through old software which could not generate the bills directly by downloading data from meter reading instruments (MRI). The bills were being prepared in excel sheets by feeding data manually by taking readings from MRI data due to delay in implementation of new software.

Audit noticed (June 2015) that in 65 cases (test checked) demand charges of ₹ 50.56 lakh were short levied due to calculation mistakes during the period from April 2009 to March 2015 in seven ESDs[43].

(d) Short recovery of average charges

As *per* instruction No. 4.4.8 (ii) of the Supply Code, 2009, when the energy meter of the consumer becomes defective the same should be replaced immediately. Further, the consumers' account should be overhauled for the period during which the meter remained defective and be charged on the basis of average monthly consumption recorded through the correct energy meter installed.

[41] ESDs: Baddi, Barotiwala and Manali-II.
[42] ESDs: Baddi, Barotiwala, Kala Amb, Manali-II, Paonta, Mandi-II & Sataun.
[43] ESDs: Kala Amb, Paonta, Manali-II, Baddi, Kangra-I, Sataun, and Reckong Peo.

Test check of records during audit (June 2015) showed that after replacing defective meters of ten consumers (Five[44] ESDs) with new meters, their accounts were not overhauled due to non-existence of such provision in the old billing software. In absence of which energy charges amounting to ₹ 52.68 lakh were short recovered during the period from September 2011 to August 2014.

(e) Short-recovery due to Non-levy of revised tariff

Energy bills of small industrial consumers having connected load of less than 20 KW (single part tariff) were being generated by the ESD, Baddi through old billing software.

Audit noticed (March 2014) that after revision of tariff in April 2012, the billing software could not be modified due to some technical reasons. Consequently, the consumers of this category continued to be billed at old rates up to July 2013. It was only after switching over (July 2013) to new billing software provided by the HCL the deficiency was removed but no recoveries on account of difference in rates were made for the period prior to July 2013.

Thus, due to technical problem in the software, an amount of ₹ 20.65 lakh was short recovered from 295 consumers during the period from April 2012 to July 2013.

Conclusions and Recommendations

The Computer Master Plan under APDRP sanctioned by GoI during 2002 and 2003 and awarded in May 2006 was still under implementation. Consequently the Company had to prepare the energy bills manually which resulted in non / short-recovery of revenue on account of Late Payment Surcharge, Low Voltage Supply Surcharge, application of incorrect rates of High Voltage Supply Rebate and Demand Charges *etc.*

The Company should expand coverage of the new application to other ESDs for its complete implementation to eliminate manual preparation of bills.

The software which was made operational in 124 sub divisions out of total awarded 132 was also deficient in mapping of business rules which resulted in revenue loss due to non / short-recovery of Fixed Demand Charges, application of wrong multiplying factor and non assessment of enhanced energy charges *etc*. Besides, the Data Centre and Data Recovery Centre established in connection with this IT package had been established in the same seismic zone which defeated the very purpose of establishing the Data Recovery Centre.

[44] ESDs: Kala Amb, Barotiwala, Baddi, Kangra-I and Reckong Peo.

The Company should initiate action to rectify deficiencies in mapping of business rules as pointed in audit so as to avoid recurring loss of revenue. Access controls and data security controls may be strengthened to mitigate risk of data manipulation.

The above points were reported to the Government / Company in August 2015; their reply was awaited (December 2015).

Chapter-III
Audit of Transactions

CHAPTER-III
AUDIT OF TRANSACTIONS

Important audit findings emerging from test check of transactions made by the State Government companies are included in this Chapter.

GOVERNMENT COMPANIES

Himachal Pradesh Agro Industries Corporation Limited

3.1 Avoidable payment

Failure to deposit Employees Provident Fund contribution as *per* the provisions of the Employees Provident Fund Scheme, 1952 resulted in avoidable extra payment of ₹ 0.93 crore besides imposition of damages and penal interest of ₹ 1.45 crore for delay in depositing EPF contribution.

(i) Section 38 of the Employees Provident Fund Scheme, 1952 (Scheme) provides that the employer shall, before paying the member his wages in respect of any period for which contributions are payable, deduct the employees' contribution from his wages together with his own contribution and shall pay the same to the fund within fifteen days of the close of every month. Failure to pay attracts payment of simple interest at the rate of twelve *per cent per annum* or at such higher rate as may be specified in the scheme on the amount due under the Act[1] from the date on which the amount has become due till the date of actual payment besides recovery of damages[2] from the employer by way of penalty, not exceeding the amount of arrear.

Himachal Pradesh Agro Industries Corporation Limited (Company) is deducting from its employees' salary and contributing employer share under the Scheme at the rate of 12 *per cent per* month. The contribution for the period from July 2007 to February 2011 amounting to ₹ 2.53 crore was not deposited with the Employees Provident Fund Organisation (EPFO) within the prescribed time of within fifteen days of the close of every month. For delay in deposit, the EPFO initiated proceeding under Section 7A of the Employees Provident Funds and Miscellaneous Provisions Act, 1952 (Act) and passed an assessment order to deposit ₹ 2.53 crore in October 2011. Despite this order, the Company failed to deposit the said amount within the stipulated time. Consequently, the EPFO passed an order for attachment of bank accounts of

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1 Section 7Q of the Employees Provident Fund and Miscellaneous Provision Act, 1952.

2 Section 14 B of the Employees Provident Fund and Miscellaneous Provision Act, 1952.

the Company and recovered ₹ 0.43 crore. Further, on the request of the Company the balance amount was, however, allowed to be deposited in instalment after receiving revolving bank guarantee and furnishing the undertakings to abide by the terms and conditions governing the grant of instalments. One of the conditions governing the grant of instalments was that the employer should undertake to pay such damages on all belated payments as may be levied by the Regional Provident Fund Commissioner (RPFC) in accordance with the provisions of the Act (Section 14 B). The Regional Provident Fund Office (RPFO) vide its orders dated 26 December 2014 directed the Company to deposit ₹ 1.45 crore (*i.e.* ₹ 0.98 crore on account of damages and ₹ 0.47 crore as interest) for this default in deposit of EPF contribution in time. The company has deposited ₹ 41.78 lakh on account of interest with RPFC between January 2015 and April 2015.

The Management stated (September 2015) that Company filed an appeal against these orders before Appellate Tribunal of RPFC, Delhi. The Appellate tribunal ordered (4 June 2015) that the appellant is supposed to deposit assessed amount under section 7 Q of the Act as order under 7 Q is not appealable.

The company accordingly deposited ₹ 47.28 lakh (June 2015) with RPFC on account of interest on delayed deposit which was avoidable by deducting and depositing the EPF contribution in time.

(ii) Further, as *per* Employees' Provident Fund Scheme *ibid* the rate of contribution is 10 *per cent* instead of 12 *per cent* for any establishment which had at the end of any financial year, accumulated losses equal to or exceeding its entire net worth.

Audit scrutiny showed (September 2014) that the Company was incurring heavy losses and its accumulated losses had already exceeded its entire net worth in the year 2005-06. Therefore, the rate of EPF contribution applicable for the Company was 10 *per cent* instead of 12 *per cent* contribution being made by the Company. During the period from 2005-06 to 2013-14, a total amount of ₹ 5.57 crore was paid / payable by the Company towards employer share at the rate of 12 *per cent per* month. This resulted in an avoidable extra payment of ₹ 0.93 crore during the same period.

The Management while admitting (March 2015) deduction / contribution of 12 *per cent* share and also having accumulated losses in excess of its net worth further stated that the Company had number of properties / assets which are enough for increasing its net worth, if revalued as *per* procedure.

The reply was not acceptable as the rate of contribution applicable for the Company was 10 *per cent* and contributing at the rate of 12 *per cent* was in violation of the provisions *ibid*.

The matter was reported to the Government (March 2015); the reply was awaited (December 2015).

Himachal Pradesh State Civil Supplies Corporation Limited

3.2 Distribution of LPG Cylinders

3.2.1 Introduction

Himachal Pradesh State Civil Supplies Corporation Limited (Company) was incorporated to strengthen public distribution system in the State of Himachal Pradesh. Besides distribution of other commodities, the Company is also procuring Liquefied Petroleum Gas (LPG) from three oil companies[3] for distribution to 6.18 lakh domestic & 10,868 commercial consumers[4] through its 53 LPG retail agencies[5]. The total turnover of the Company on account of sale of LPG cylinders increased from ₹ 97.71 crore in 2010-11 to ₹ 161.79 crore in 2014-15.

Thematic audit of distribution of LPG cylinders of the Company from 2010-11 to 2014-15 was conducted between March 2015 to June 2015 through test check of records of the Corporate Office, three[6] out of seven Area Offices, both Divisional offices at Solan and Dharamsala and 25 LPG agencies out of total 53. Audit findings are discussed in the succeeding paragraphs:

3.2.2 Non-conducting of Mandatory Inspection

As *per* the instructions issued by the IOCL from time to time mandatory check of LPG installation at the consumer's premises is required to be carried out every two years.

Scrutiny of records in audit (May 2015) showed that no mechanic has been provided / deputed in any LPG agency of the Company and in the absence of mechanic, the compliance of above instructions could not be ensured. There by compromising the safety of the LPG consumers.

The Government stated (August 2015) that the comments / suggestions have been invited from the field offices to outsource the services of mechanics to avoid any financial loss to the Company as well as to meet the mandatory requirement.

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3 Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL).
4 Average during the last five years ending March 2015.
5 IOCL: 49, HPCL: 02 and BPCL: 02.
6 Shimla, Solan and Nahan.

3.2.3 Storage of LPG

Gas Cylinder Rules (GCR), 2004 prescribes certain conditions for grant of license for storage of LPG. These conditions were not being followed by the Company as would be evident from the following:

- Mastic flooring in the godowns of all the audited LPG agencies to keep the cylinder safe from damage and also to control fire had not been provided (condition no. 6).
- In ten[7] cases LPG agency godowns were constructed near the residential locations (condition no. 5).
- The godown of LPG agency, Rajgarh was constructed on the road side surrounded by commercial shops, petrol pump, HRTC bus stand *etc.* (condition no. 5).
- The size and material used in the construction of ventilators installed in 25 inspected LPG agencies godowns were not as *per* the requirement (condition no. 3).
- In the case of LPG Agency, Kaza, the Company has obtained license from Chief Controller of Explosive for one godown only whereas the LPG Cylinders were being stored at four locations. Thus, cylinders at three godowns were being stored un-authorisedly (Rule 51 (2).
- Fire extinguishers were not found installed / refilled in six LPG agencies[8] (Condition no. 16).

The Government stated (August 2015) that necessary instructions have been issued to the field offices besides admitting the facts that in some places local people have constructed the houses for which the Company had no control.

3.2.4 No documentary proof to verify the rates fed in the System

The revision of rates of LPG Cylinders (domestic and commercial) is received from IOCL by the respective incharge of the agencies on their personal mobile through Short Message Services (SMS). However, there exist no provision in the Company to record the messages and even no documentary evidences were available with the respective agency in case SMS got deleted from the mobile phone (in the LPG agency, Pooh all the previous SMSs were deleted by the in charge). In absence of any visible and authenticated proof of rates, correctness of rates being charged from the consumers could not be verified in audit.

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[7] Nahan-I, Rajgarh, Haripurdhar, Solan, Bhatta Kuffer, Nalagarh, Narkanda, Sangla, Reckong Peo and Pooh.

[8] Kaza, Reckong Peo, Pooh, Rajgarh, Sangla and Bhatta Kuffer.

The Government stated (August 2015) that the field offices have been directed to ensure availability of documentary evidence regarding revision in rates.

3.2.5 Non posting of Chowkidar / Godown keeper

No chowkidars / godown keepers were posted in any LPG Godowns for watch and ward of the stock. Resultantly, there have been instances of theft during 2010-11 to 2014-15 at seven[9] LPG agencies leading to a loss of ₹ 6.31 lakh to the Company.

The Government stated (August 2015) that most of the LPG agencies godowns are situated outside the towns / villages at secluded places and at such lonely places deployment of chowkidar was not expedient and practical. The reply was not acceptable as lonely and secluded places are more prone to theft.

3.2.6 Loss on sale of LPG cylinders at a lower rate

The GoI introduced (June 2013) DBTS with the facility of transfer of subsidy directly in their accounts. The scheme was later suspended (March 2014) due to difficulties faced by the consumers, especially in those areas where *Aadhaar* Card (AC) access was low. Due to sudden suspension of DBTS, the cylinders supplied for *Aadhaar* Card linked consumers at higher rates remained unsold. The agencies were also not empowered to adjust the DBTS stock by selling to other categories of consumers. The DBTS was re-launched (November 2014) after a gap of more than eight months and with the passage of time, the Retail Selling Price of these cylinder was reduced and the Company had to sell them at a lower rates. Though the IOCL had requested (September 2014) the Company to provide the details of such cylinders and assured to resolve the issue, but the same had not been furnished by the Company so far (July 2015).

However, the details compiled by audit (May 2015) showed that there were 6,672 such cylinders in 30 agencies of the Company which were sold at lower rates. Thus, failure in compiling the details required for lodging the adjustment claim, the Company could not recover ₹ 20.00 lakh from IOCL on account of differential amount of cylinders sold at lower rates during the period from March 2014 to April 2015.

The Government stated (August 2015) that the Area Managers have been given directions to reconcile the accounts with the IOCL.

3.2.7 Non recovery of differential cost from consumers

The GoI decided (September 2012) to cap the number of subsidised cylinders *per* consumer and instructed the IOCL to introduce the quota period with

[9] Theog, Bhabha Nagar, Damtal, Nahan-II, Darlaghat, Baddi, and Jhandutta.

immediate effect. Accordingly, the IOCL decided (September 2012) that the Non Domestic Exempt Customers (NDEC) shall also be given only three subsidised cylinders *with effect from* 14th September 2012 and extra cylinders over and above will be issued at the non-subsidised rates. However, rates in respect of non-subsidised cylinders were not intimated. Consequently, it was decided that supply of cylinder in excess of three be made only after taking undertaking from them to pay differential cost after receipt of revised rates.

Scrutiny of records showed (May 2015) that 43 LPG agencies failed to take such undertakings from the customers and distributed cylinders on non-subsidised rates during the period from 18 September 2012 to 30 September 2012. The IOCL debited (November 2012) ₹ 19.66 lakh differential cost in respect of these cylinders to the accounts of the Company. However, in absence of any undertaking the said amount remained unrecovered from them.

The Government stated (August 2015) that the information are being collected from the field offices.

Himachal Pradesh State Electricity Board Limited

3.3 *Material Management and Inventory control in Himachal Pradesh State Electricity Board Limited*

3.3.1 Introduction

The Himachal Pradesh State Electricity Board Limited (Company) is engaged in generation, transmission and distribution of power in the State of Himachal Pradesh. The total average annual outgo on purchase of store items by the Company during the three years ended 2013-14[10] was ₹ 181.51 crore for the capital works and O&M of 22 Generating Stations (487.45 MW), 93,943 circuit kilometres transmission & distribution network and its 21.98 lakh consumers. The thematic audit of the Material Management and Inventory Control of the Company conducted between March 2015 and June 2015 showed cases of purchases made without requirement, non-placement of purchase orders for full required quantity in time, non-initiating any action against the defaulting suppliers, delay in procurement and blockade of funds on non-disposal of obsolete stores as discussed in the succeeding paragraphs:

3.3.2 Material Management

Material Management is an integrated approach to the planning, procurement and utilisation of material inputs with a view to control material cost,

[10] Figures for 2014-15 were not available as the accounts for the year are yet to be finalised by the company.

inventories and to ensure availability of materials at right time in right place, with minimum storage cost.

The details of purchases / consumption of Electronic Meters, Steel Tubular Poles (STP), Distribution Transformers (DTRs) & Conductors *etc.* during the three years ended 31 March 2014 are given in **Appendix 3.1**. From the Appendix it may be seen that the stock at the close of each year represented five to eight months' consumption for the respective years. The management has not fixed any stock holding limit, however taking three months'[11] consumption as stock holding limit, the excess investment in stock ranged between ₹ 40.24 crore and ₹ 57.57 crore during 2011-12 to 2013-14 on which the Company sustained interest loss of ₹ 12.07 crore[12] **.**

3.3.2.1 Budget allocation

There was no system in the Company to prepare any Material Budget for the purchases to be made during the year. However, the year-wise allocation of funds and actual purchases of material *viz.* Electronic Meters, ST Poles, DTRs & Conductors *etc.* made thereagainst during the last three years ending March 2014 is tabulated below:

(₹ in crore)

Year	Funds allocated for purchases	Actual purchases	Excess purchases	Percentage of excess purchases
2011-12	5.25	208.09	202.84	3,864
2012-13	10.76	194.97	184.21	1,712
2013-14	15.69	141.48	125.79	802

From the above it could be seen that the Company did not have a proper system of preparing budgetary estimates for the procurement of material as *per* requirement. Consequently, the actual procurement during the period was affected by allocating additional funds from 2011-12 to 2013-14 had exceeded by 802 *per cent* to 3,864 *per cent* of the funds originally budgeted.

3.3.2.2 Purchase procedure

The procedures for the purchase of the material are laid down in its Purchase Manual. Regulation 1 (3), Chapter III of the Purchase Manual of the Company provided that purchases should be planned so as to ensure regulated supply as *per* requirement to avoid blocking up of Company's borrowed funds.

[11] Three months consumption as stock holding limit has been taken considering average time required for procurement of material.

[12] Calculated at the rate of 10 *per cent per annum* on minimum excess inventory of ₹ 40.24 crore for three years.

Audit scrutiny (May 2015) showed that the working programme of the field units for the year was being finalised in the month of April whereas, the units are supposed to furnish their next year's requirement in advance during May and November every year. Non-adherence to the instructions / guidelines relating to purchases resulted in avoidable and extra expenditure as discussed in the following paragraphs:

(i) Generation loss due to delay in procurement of runners

Bhaba Hydro Electric Project (BHEP) of the Company with three generating machines and one spare runner was commissioned during 1989. Thereafter three additional runners were procured between 1998 and 2008. During June 2009 the Company decided to procure two spare runners keeping in view the fact that the original runners had completed 70,000 running hours and had lost their original profile and metallurgy. Bharat Heavy Electric Limited (BHEL) team also declared two runners out of three additional runners beyond repair during inspection. Accordingly, the Company invited bids for procurement of two additional runners in December 2009 which were opened in July 2010. The company could not complete the procurement process within the prescribed period (29 months) mainly due to delay in finalisation of tenders and arrangement of funds. The runners were actually received (November 2013) after 47 months from invitation of bids which indicated that the Company did not had concrete inventory management system in place. Due to non-availability of runner the BHEP had to be run without spare runner till receipt of new additional runners in November 2013. In between, old runner (machine No. II), got damaged on 12 January 2012 and remained off the bar up to 23 February 2013. Consequently, the generation was stopped due to non-availability of spare runner. Had the spare runners been procured in time the generation loss of 95.70 MUs valued at ₹ 32.84 crore reported by the BHEP could have been avoided.

(ii) Procurement of LT Energy Meters without requirement

The Company procured 34,001 L&T and Secure make LT meters[13]during 2011-12 and 2012-13. Test check of their utilisation in audit (May 2015) showed that these meters were purchased much in excess of the requirement. The Management failed to consider / deduct the quantities of meters to be replaced on turnkey basis under Restructured Accelerated Power Development and Reforms Programme (RAPDRP), as provided in the Detailed Project Reports (DPRs) prepared by the Company in October and November 2010. Consequently, out of these 9,734 energy meters valuing ₹ 3.39 crore were lying un-utilised in nine units[14] of the Company test checked in audit. The

[13] 10-60 Amp. Device Language Metering System with Metallic Box.

[14] Operation Circle, Shimla (₹ 0.92 crore), Solan (₹ 0.42 crore), Nahan (₹ 0.87 crore), Rampur (₹ 0.11 crore), Rohroo (₹ 0.07 crore), Electric Division, Chamba (₹ 0.13 crore), ED, Sundernagar (₹ 0.05 crore), M&T, Solan (₹ 0.45 crore) and M&T Sundernagar (₹ 0.37 crore).

position of similar unutilised meters in other stores of the Company is also not ruled out.

This not only resulted in blockade of borrowed funds of ₹ 3.39 crore but also in interest loss of ₹ 50.85 lakh for the period from October 2013 to March 2015.

(iii) Non-placement of supply order for required quantity

Against the requirement of 14,580 Steel Tubular Poles (STPs) of 9 meter length received from the field units for 2011-12, Company after obtaining approval from Store Purchase Committee for 12,200 STPs opened tenders (May 2011) with option of placing orders for 40 *per cent* additional quantity on same terms & conditions. However, supply orders were placed on the L1 firm (M/s Jindal Industries, Hissar) for 5,540 STPs (November 2011: 3,350, May 2012: 1,340 and December 2012: 850). As there was increasing trend in the rates of steel in the market which was evident from the lowest rates for similar size of STPs (₹ 9,119.62 *per* pole) received (May 2012) against tender enquiry No. 5/2012. In view of this the Management should have placed order for full approved quantity of 12,200 STPs on M/s Jindal Industries, Hissar. Thus, failure in placing the orders for full required quantities resulted in extra expenditure of ₹ 0.80 crore on the purchase of 6,660 STPs against the tender enquiry No.5/2012 from M/s Gaurang Products Private Limited.

(iv) Undue favour to suppliers

Purchase orders (PO) for supply of 820[15] (11/0.4 KV) Distribution Transformers (DTRs) were placed by the CE (MM) to M/s J.K. Transformers & Switchgears and M/s Swasca Industries on 6 January 2010. As *per* clause 13.0 of the PO, supply was to be completed up to 5 July 2010. Further, as *per* Clause 2.0 of the PO, the Company had an option to cancel the PO, if the supply was not made within three months after the scheduled delivery period. Both the firms failed to complete the supply, the DTRs even after expiry of three months from the scheduled delivery period of July 2010 and supplied only 595 DTRs out of total ordered quantity of 820 DTRs up to 5 October 2010.

Meanwhile another Tender Enquiry for similar DTRs was opened on 28th April 2010 in which the rates quoted by above mentioned firms were lower by ₹ 1,604.41 (25 KVA), ₹ 2,683.40 (63 KVA) and ₹ 3,916.90 (100 KVA) *per* DTR. Despite knowing that the rates of earlier PO issued in January 2010 were higher as compared to rates received in April 2010, the Company did not cancel the POs after expiry of three months from the scheduled date of completion of supply and allowed to complete the supplies by both the firms up to April 2011.

[15] 25 KVA: 489, 63 KVA: 311 and 100 KVA: 20.

Thus, failure to cancel the orders as *per* the terms and conditions of purchase orders resulted in an extra expenditure of ₹ 4.62 lakh[16] on purchase of 225 DTRs received after three months of schedule supply date.

3.3.2.3 Loss due to delay in implementation of scheme

System Improvement Schemes for procurement of Electronic Energy Meters for the years 2011-12 and 2012-13 were sanctioned by M/s REC amounting to ₹ 56.62 crore and ₹ 64.38 crore respectively. As *per* approved schemes 10.38 lakh single phase and 27,319 three phase meters were to be replaced by the end of March 2014 and in this process increase in billed energy of 2.77 crore units valued at ₹ 10.58 crore *per* month was envisaged. Against the above targets, Company could replace only 5.15 lakh single phase and 6,472 three phase meters only. However, the company had not assessed the actual increase in billed energy after replacement of these meters.

Audit noticed (April 2015) that the Company could achieve only 49 *per cent* of the targeted replacement of electro-mechanical energy meters up to July 2014.

3.3.3 Inventory Control

3.3.3.1 Non-moving store

Test check of records relating to 13 stores of the Company revealed that stock comprising cables, conductor, DTRs etc. valuing ₹ 3.90 crore was lying in the stores for more than five years which was indicative of the fact that the store items were purchased in excess of the actual requirement. On these excess purchases, the Company had suffered interest loss of ₹ 1.95 crore[17] up to March 2015.

3.3.3.2 Obsolete store

Stock verifier of the Company are required to indicate in their physical verification reports (PVR) the duration of each item kept in store. The Executive Engineers in charge of the store are required to supplement the PVRs by classifying the disposable material as surplus, obsolete, unserviceable and scrap. The same is also required to be got declared condemned by the circle level condemnation committee within 45 days of finalisation of above classification by the Executive Engineer. Test check of 10 stores in audit (April / May 2015) revealed that surplus and unserviceable store comprising mainly of old & used machinery of completed projects and scrap valued at ₹ 5.84 crore was pending for final disposal due to non-formation of condemnation committee in the respective circles.

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16 ₹ 1,604.41 x 154 + ₹ 2,683.40 x 51 + ₹ 3,916.90 x 20 = ₹ 4.62 lakh.

17 Calculated at the rate of 10 *per cent per annum* for five years.

3.3.3.3 Surplus store

As *per* the instructions issued by the erstwhile Board in July 2005, the material should be procured only for immediate requirement and should be utilised within six months from its receipt. In case material remained un-utilised even after six months, the value of the same should be placed in the Personal Ledger Account of the procuring / erring officer besides initiating disciplinary action against him.

Audit noticed (April 2015) that material such as Cable & DTRs *etc*. valuing ₹ 1.80 crore was purchased / procured by the concerned divisional in charge between March 2004 and April 2013 in excess of the requirement and could not be used till March 2015. The Company had not initiated any action against the erring officer as *per* instructions *ibid*. On purchase of these items the Company had not only blocked the funds amounting to ₹ 1.80 crore but also suffered interest loss of ₹ 1.23 crore as detailed in the **Appendix 3.2.**

3.4 Injudicious contribution towards Employees' Benevolent Fund

The Company extended undue favour to its employees by contributing matching grant of ₹ 7.33 crore from time to time towards employees benevolent fund though Employees Benevolent Fund Rules does not provide for the same.

The Himachal Pradesh State Electricity Board (now Company) notified Himachal Pradesh State Electricity Board Employees Benevolent Fund Rules in June 1974 (Rules). The objective of creation of Benevolent Fund (Fund) was to provide financial assistance to its employees, widows and dependents of the deceased employees. All the employees of the Board including those who were on deputation with other organisations were eligible to become members of the fund by paying yearly subscription which was subsequently changed to monthly basis. The rate of subscription was increased from time to time and at present the rate of subscription was ₹ 50 *per* month. The affairs of the funds were to be managed by the Board of trustees. The Rules do not provide for any contribution by the employer towards this fund.

It was noticed in audit (September 2014) that the Company also contributed matching grant to this fund from time to time though there was no obligation for the same. The employees contribution up to March 2015 was ₹ 13.97 crore and against this, the Company had contributed ₹ 7.33 crore[18]. Since the Company was running in huge losses and its paid up capital of ₹ 446.64 crore up to March 2013 had been fully eroded by its accumulated losses of ₹ 1,738.63 crore and was meeting its working capital requirement by utilising

[18] Up to March 2006: ₹ 1.72 crore, 2006-07: ₹ 1.00 crore, 2009-10: ₹ 2.61 crore, 2011-12: ₹ 1.00 core and 2014-15: ₹ 1.00 crore.

overdraft[19] facilities from various banks so to release of matching grant towards this fund was neither justified nor a prudent financial decision. Thus, the Company extended undue favour to its employees by contributing matching grant of ₹ 7.33 crore from time to time towards employees benevolent fund though Employees Benevolent Funds Rules do not provide for the same.

The Government stated (July 2015) that being welfare issue, the Company has been granting the matching grant from time to time for making the payments as a financial assistance to the widows / dependents of deceased employees besides other welfare activities.

The reply was not acceptable as the contribution towards benevolent fund was not as *per* the Rules and should not have been extended keeping in view the fact that the Company had accumulated losses more than its share capital and was working on borrowed funds carrying heavy financial burden.

3.5 Undue favour to supplier

The Company extended undue favour to supplier by waiving off LD of ₹ 0.97 crore out of ₹ 1.22 crore deducted from his running bills as *per* the terms and conditions of the purchase order and incurred an additional expenditure of ₹ 4.26 crore to supply diesel generated power.

The Company invited expression of interest (EoI) in August 2009 for immediate supply and erection of 220 / 66 KV transformer at Baddi in place of damaged transformer due to fire. As the transformer was required for immediate restoration of power to industrial area, it was clearly mentioned in the notice inviting EoI that only those firms should submit their EoI, which have one such transformer either readily available or can manufacture and supply within a period of three months ensuring its running in parallel with existing transformer. In response to this, four firms submitted their EoI and out of these M/s Crompton Greaves Limited, Mumbai (CGL) in their offer stated that they had already an order in hand for supply of two similar specification transformers for Nalagarh Sub-station and they can divert one Transformer if an order for similar transformer is placed on them. Accordingly, the Company placed purchase order for the supply of one transformer at a total cost of ₹ 4.75 crore in September 2009 after settling the commercial and technical specifications with CGL on 27 August 2009. The firm was to complete supply and erection work by 20 November 2009.

In the purchase order it was also clearly mentioned that the transformer was to run parallel with the existing three phase 80/90/100 MVA, 220/66 kV BHEL make transformer. Further, as *per* clause 19 of the purchase order liquidated damages (LD) at the rate of 5 *per cent* of total contract price *per* week subject to maximum of 25 *per cent* of the contracted value was recoverable for delay

[19] As on 31 March 2015, the Company had availed overdraft of ₹ 1,068.77 crore from 11 different banks.

in commissioning. This clause was inserted as *per* the recommendations of the Board Level Negotiation Committee as approved by the BOD in August 2009 in view of emergent requirement.

It was noticed in audit (September 2014) that the transformer failed to run parallel with the existing transformers as claimed by the CGL and had to be redesigned to ensure its parallel running with the existing transformer. Consequently, the CGL requested for extension in time first up to December 2009 and subsequently up to July 2010. Meanwhile, the CGL to restore power supply to the Industrial Area of Baddi, diverted one of its transformers from Nalagarh and commissioned the same at their risk and cost at Baddi Sub-station on 12 February 2010 as time gap arrangement. The Company for the intervening period from September 2009 to 11 February 2010 had to supply costly diesel generated power to the industrial area involving total cost of ₹ 49.12 crore. After adjusting the amount received from sale of such power, cost shared by the Industries of the area and amount allowed as pass through by the Regulatory Commission, the Company had to bear the balance unrecovered amount of ₹ 4.26 crore[20].

The ordered transformer was received at site in June 2010 and commissioned by CGL in October 2010. Since there was delay of seven months up to delivery of transformer, the Company deducted 25 *per cent* LD from the running bills of the firm as *per* provisions of clause 19 of the purchase order. The firm while requesting the extension in time also requested the Company to amend the LD clause to ½ *per cent per* week subject to maximum of 5 *per cent*. The BOD in its 8th meeting held on 7 December 2011 decided to reduce the LD from 25 to 5 *per cent inter alia* due to site, design and shut down problems. Accordingly, out of total LD of ₹ 1.22 crore recovered from the bills of the CGL, the Company refunded ₹ 0.97 crore in March 2012.

The decision of the BOD is required to be viewed in the light that main condition of the notice inviting EoI was to ensure running of transformer parallel with the existing transformer for which site and design related issues were accepted by the CGL before placement of award. Further, the delay on account of non-arrangement of power shut down was after receipt of transformer at site in June 2010 to September 2010 for which no LD was imposed / recovered by the Company.

Thus, the Company extended undue favour to the supplier by waiving off the LD of ₹ 0.97 crore out of ₹ 1.22 crore deducted from running bills as *per* the terms and conditions of the purchase order. Moreover, the Company had to incur an additional expenditure of ₹ 4.26 crore for supplying diesel generated power.

The Management stated (September 2015) that in view of the initiative taken by the firm to restore power supply to Baddi Industrial area by diverting

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20 Total DG set generated Power supplied by the Company ₹ 49.12 crore less amount recovered / adjusted ₹ 44.86 crore (sale of power ₹ 20.50 crore, shared by the industries ₹ 14.31 crore and allowed as pass through in multi-year tariff for 2012-14 ₹ 10.05 crore).

transformer from Nalagarh sub-station to Baddi at their risk and cost, the BOD decided to reduce the LD charges. The reply was not acceptable as the transformer had to be shifted (February 2010) to restore the power supply as a temporary measure due to failure of the firm to commission the transformer even after the scheduled date (November 2009) and for this intervening period the Company had to bear additional cost on supply of diesel generated power.

The matter was reported to the Government (March 2015); the reply was awaited (December 2015).

3.6 Undue favour to contractor

The Company extended undue favour to the Contractor by not encashing the Bank Guarantee of ₹ 2.22 crore before its expiry and recession of the contract.

The Government of India launched (April 2005) *Rajiv Gandhi Grameen Vidyutikaran Yojana* (RGGVY) with an objective to attain national minimum programme goal of providing access to electricity to all rural households and electrification of all villages and habitations. To achieve this objective, Himachal Pradesh State Electricity Board Limited (Company) awarded the work relating to construction of 33 KV Khushinagar–Killar transmission line in Chamba District under RGGVY in March 2009 to M/s Eri-Tech Limited, Kolkata (Contractor) for ₹ 22.24 crore with completion period of September 2010. As *per* the terms and conditions of Letter of Award (LOA), the contractor was required to furnish Bank Guarantee (BG) equivalent of 10 *per cent* of contracted value for contract performance within 30 days from the issue of LOA. Accordingly the contractor furnished the BG of Axis Bank, Kolkata for ₹ 2.22 crore valid up to 31 December 2011.

The contractor failed to complete the work within the scheduled completion period of September 2010. The Company revised the completion period up to December 2012 and the BG was also extended by the contractor accordingly. Despite extension, the Contractor could not complete the work and the Company neither en-cashed the BG nor got it renewed from the contractor after 31 December 2012.

It was noticed in audit (February 2014) that after four months from the expiry of the validity period of the BG, the Company issued show cause notice to the contractor in May 2013. After rejecting the reply of the contractor to the said show cause notice, the contractor was again given the opportunity in June 2013 to review the decision of the Company if the fresh BG for ₹ 2.22 crore was furnished against the expired BG within ten days. As the contractor did not renew the BG, the contract was ultimately rescinded in June 2013 and the contractor was black listed (July 2013) for his failure to execute the awarded work. Before recession, the contractor was also paid an amount of ₹ 15.52 crore for completion of 24.098 Kms line out of total 60.611 Kms awarded transmission line. The balance work at the risk and cost of the contractor has not been awarded so far (January 2015).

Thus, the Company extended undue favour to the contractor by not encashing the BG of ₹ 2.22 crore before its expiry and lost the opportunity to recover the differential amount after awarding the balance work at his risk and cost in future. The Company had poor track record over timely renewal / encashing BGs furnished by consumers, suppliers and contractors. This is evident from the fact that loss sustained by the Company due to non-renewal of BG in time for ₹ 18 lakh and ₹ 58.67 lakh has also been commented in the Audit Report (Commercial) for the year 2008-09 (Para 3.9) and Audit Report on PSUs (Economic Sector) for the year 2013–14 (Para 3.7) respectively.

The Chief Engineer (Operation) North stated (September 2014) that apart from pursuing the matter for renewal of BG with the contractor from time to time, the Sr. Executive Engineer, Pangi Valley, Killar after having telephonic discussion with the Bank Authorities specifically issued directions to the Axis Bank, Kolkata in November 2013 not to release the BG and renew the same in favour of HPSEBL.

The reply is not acceptable as there was no justification to ask the Bank for not to release the BG and get it renewed after one year from its expiry. The Company should have either renewed the BG or encashed the same before its expiry in December 2012. As the terms and conditions of the BG are not binding on any party after its expiry, not taking action in advance has resulted in a situation whereby legal recourse cannot be taken now. This has amounted to giving undue favour of ₹ 2.22 crore to the contractor and foregoing the right to claim excess cost, if any while awarding the tender for the remaining work.

The matter was reported to the Government (March 2015); the reply was awaited (December 2015).

3.7 Undue favour to Industrial Consumer

Failure of the Company in timely detection of unauthorised use of electricity by the consumer coupled with unrealistic assessment under Section 126 of the Electricity Act, 2003 resulted in short assessment of ₹ 3.11 crore.

The explanation (b) (iv) to Section 126 of the Electricity Act, 2003 defines the "unauthorised use of electricity" as the usage of electricity for the purpose other than for which the usage of electricity was authorised. The assessment under this section for unauthorised use of electricity shall be made at the rate equal to twice the tariff applicable for the relevant category of services. Himachal Pradesh State Electricity Board Limited issued detailed guidelines for dealing with the cases of unauthorised use of electricity under Section 126 *ibid* in October 2011. Clause (iii) (c & d) of the said guidelines prescribes that for unauthorised use of electricity for a category different to the category of schedule of tariff for which the connection was obtained, the charges (higher of both) for the period of assessment under clause II (i) shall be at the rate equal to two time the tariff in vogue.

The Himachal Pradesh State Electricity Board Limited (Company) sanctioned temporary power connection to a Manufacturer of Tablet Capsules Granules & Powder under Electrical Division, Barotiwala[21], with connected load of 199 KW (Contract Demand of 150 KVA) in November 2009 for construction purposes. The consumer extended this load to 499 KW (CD 499 KVA) in September 2010 and finally to 899 KW (CD of 899 KVA) in January 2011. The temporary connection was disconnected in September 2012 when a permanent connection was sanctioned under Large Industrial Power Supply (LIPS) category.

Audit scrutiny (March 2013) of the test report verified during January 2011 by the Company for drawal of load and consumption pattern of Temporary Meter Supply (TMS) showed that the extension of load was mainly applied for operation of machinery / appliances[22] which were required for industrial production and not for construction. Further, the power consumption pattern of the TMS (from January 2011 to August 2012) was also comparable with the power consumption noticed after change of connection to LIPS in September 2012. This showed that the consumer had commenced commercial operation prior to January 2011 and utilised the TMS for industrial production (production of medicine). For this unauthorised use, the consumer was liable to be assessed under section 126 of the act *ibid*.

On this being pointed out in audit (May 2013) the Management stated (January 2015) that the provisional assessment notice for unauthorised use of power under Section 126 for ₹ 2.17 crore was issued to the consumer in May 2014 and final notice for ₹ 1.31 crore in July 2014. After this the consumer deposited ₹ 0.66 crore in August 2014 and filed petition before Appellate Authority in November 2014.

The scrutiny of assessment made by the Company in July 2014 further showed that the assessing officer of the Company treated only 38.69 *per cent* consumption as unauthorised and the remaining use of electricity was considered authorised. This type of bifurcation between authorised and unauthorised use of electricity in the cases of single metered supply was neither prescribed in the Electricity Act, 2003 nor in the guidelines issued by the Company.

Thus, treatment of 61.31 *per cent* use of electricity as authorised without any basis resulted in under assessment of ₹ 3.11 crore during the above period. Incidentally it may be added here that the Consumer had started manufacturing medicine prior to January 2011 as would be evident from the licence issued by the Drug Controller and sale booked by the consumer in March 2010. Therefore, considering use of electricity unauthorised only after January 2011 was also without any justification.

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21 M/s USV Limited (Unit II).

22 Such as air compressor, condensing units, cooling / chilled water pumps, hot water system, room heaters, dehumidifiers and water treatment *etc.* (rated capacity 392 KVA).

The matter was reported to the Government in June 2015; the reply was awaited (December 2015).

3.8 Non levy of Low Voltage Supply Surcharge

Failure of the Company in enforcing the terms and conditions of the Tariff orders as approved by the HPERC from time to time resulted in non-recovery of Low Voltage Supply Surcharge amounting to ₹ 49.13 lakh.

Himachal Pradesh Electricity Regulatory Commission (HPERC) in its tariff orders as approved from time to time has specified the 'Standard Supply Voltage (SSV)' in KV for supply of electricity under each category of consumers. It has also been provided that consumers availing electricity supply at a voltage lower than the SSV shall, in addition to other charges, be charged Low Voltage Supply Surcharge (LVSS), for each level of specified step down from the SSV to the level of actually availed supply voltage. The SSV for connected load between 2,000 KW and 10,000 KW has been prescribed as 33/66 KV by the HPERC in these tariff orders.

The Himachal Pradesh State Electricity Board (now Company) accorded sanction for additional load of 1,200 KW in favour of M/s Friends Alloys under Electrical Sub-division, Barotiwala in October 2006 bringing total load of the consumer from existing 1,999 KW to 3,199 KW. The additional load of 1,200 KW was sanctioned subject to the condition that this load would be released only after the consumer shifts its entire load on 66 KV supply voltage. However, the Company in March 2007 allowed the consumer to draw entire load on 11 KV up to August 2007 as an interim arrangement and thereafter entire load was to be shifted on SSV of 66 KV failing which the supply was to be disconnected.

Audit noticed (February 2015) that the Company initiated no action either to get the consumer shifted to 66 KV or to disconnect the supply except for issuing routine notices to the consumer from time to time. The consumer was still availing power supply on 11 KV which was lower than the SSV of 66 KV and as *per* the terms and conditions of tariff orders approved by the HPERC the consumer was liable to pay LVSS. The Company though charged the LVSS from the consumer for the period from July 2007 to May 2010, July 2010 to July 2011 and after December 2014 but the same was not recovered for the remaining months (April 2007 to June 2007, June 2010 and August 2011 to December 2014). The LVSS recoverable from the consumer for the above period works out to ₹ 49.13 lakh.

Thus, failure of the Company in enforcing the terms and conditions of the tariff orders as issued by the HPERC from time to time resulted in non-recovery of LVSS amounting to ₹ 49.13 lakh.

The matter was reported to the Government / Management (May 2015); their reply was awaited (December 2015).

3.9 Undue favour to the consumer

The company extended undue favour of ₹ 50.28 lakh to the consumer by not initiating timely action for reviewing the adequacy of the amount of security deposits of the consumers as *per* the provisions of the HPERC (Security Deposits) Regulations 2005.

The Himachal Pradesh State Electricity Regulatory Commission (HPERC) notified Himachal Electricity Supply Code in May 2009 (Supply Code). Para 7.1.2 of the said code *inter alia* stipulates that where a consumer fails to deposit the billed amount with the licensee by the due date mentioned in the bill, the licensee may, after giving not less than fifteen days clear notice in writing to such consumer, disconnect supply to the consumer temporarily.

The Himachal Pradesh State Electricity Board Limited (Company) installed power connection with connected load of 6,971.700 KW on the premises of M/s Saber Paper Limited (Consumer) in March 2010. Note number 1 to the energy bills issued every month to the consumer specifically mentioned that if the amount of the bill was not paid by due date, connection shall be disconnected after 15 days under clause 56 of the Electricity Act, 2003. The consumer failed to deposit his monthly energy charges within due date as mentioned on the bill since March 2013. The energy bills for the month from March 2013 to September 2013 were, however, paid partly by the consumer after a delay ranging between 15 days to 18 days from the due dates and no payment was made for the monthly bills issued from September 2013 to December 2013 as would be evident from the details given in the **Appendix 3.3.**

Audit scrutiny (February 2015) showed that despite this delay in payment of monthly bills by the consumer, the Company issued notice on 15 October 2013 to deposit outstanding amount within 15 days, failing which the power supply was to be disconnected on 30 October 2013. However, the licensee disconnected the power supply temporarily on 31 October 2013 and the permanent disconnection was made on 6 December 2013 at consumer's request. At the time of disconnection total outstanding amount had increased to ₹ 135.28 lakh and even after adjustment (December 2013) of security deposits (bank guarantee) of the consumer of ₹ 85.00 lakh, the balance amount of ₹ 50.28 lakh still remained unrecovered. This situation was avoidable by initiating timely action for reviewing the adequacy of the amount of security deposits as *per* the provisions of the HPERC (Security Deposits) Regulations 2005. Failure to take timely action resulted in extending an undue favour of ₹ 50.28 lakh to the consumer.

The Government stated (August 2015) that the energy bills for the period from March 2013 to August 2013 was not paid by the consumer by due dates, accordingly 15 days' notices were served from time to time and power was also temporarily disconnected and restored after payment of outstanding amount. Finally the BG was encashed timely and for recovery of balance amount recovery suit has been filed against the firm.

The reply was not acceptable as frequent defaults in depositing energy bills by the consumer ranging between ₹ 105.93 lakh and ₹ 164.50 lakh during the period from April 2013 to September 2013 (except August 2013) were in excess of the BG amount of ₹ 85.00 lakh. Therefore his credit rating for adequacy of the security deposits as *per* regulation *ibid* should have been assessed.

3.10 Interest loss due to delay in clearance of cheques

Delay in clearance of local cheques by the banks in respect of energy bills deposited by the industrial consumers resulted in interest loss of ₹ 17.89 lakh.

Clause 5.3.1 (i) read with Clause 5.3.5 of the Electricity Supply Code, 2009 provides that the payment of the bills of industrial consumers (Large, Medium and Small supply) will be effected within a period of ten days from the date of delivery of bills in cash, local cheques, demand draft, bank transfer, e-banking, credit / debit card or in such manner as the licensee may notify. General Condition- 'L' of Part-I of Schedule of tariff as approved by the Himachal Pradesh Electricity Regulatory Commission (HPERC) from time to time further provides for levy of late payment surcharge at the rate of 2 *per cent per* month and part thereof on energy charges. The due date for receipt of payment through cheques are fixed two days earlier to the due date for payment by cash / demand draft as *per* sales circular issued by the Board in August 1996 so that payment made through cheques could also be credited into Company's account together with the cash receipt.

The test check of monthly energy bills of Industrial Consumers having bills of ₹ 12.89 lakh and above under Electrical Sub-Division, Kala Amb of the Himachal Pradesh State Electricity Board Limited (Company) showed that the cheques were mostly received in the sub division on the last day of the due dates mentioned on the bills . These cheques were also deposited by the concerned sub division within a period of two days after receipt.

The audit scrutiny (February 2014) of receipt of payment in respect of these cheques into Company's account during the period from November 2010 to November 2013 showed that the amounts were credited by the banks in 240 cases into the account of the Company after a delay ranging between one and nine days after allowing four days for clearance by the bank from the date of deposit. As these cheques were received on due date, the Company could not recover the late payment surcharge from the consumers for late receipt of payments as would have been done in the cases of cash receipt. The delay in affording credits by banks in these 240 cases has resulted in interest loss of ₹ 17.89 lakh[23].

[23] Interest calculated at the rate of 9.57, 9.73, 9.77 and 10 *per cent per annum* as charged by the Himachal Pradesh State Co-operative Bank during the 2010-11, 2011-12, 2012-13 and 2013-14 respectively.

Audit further noticed that there was neither any system to record the date of delivery of the bills so as to check whether the payments have been effected within a period of ten days in compliance with the provisions of the Electricity Supply Code *ibid* nor any directions in line with the provisions were ever issued to the banks to clear the cheques and credit the amount to the accounts of the Company at the earliest. In absence of any specific instructions to banks similar interest loss in other sub-divisions of the Company cannot be ruled out. Also, the Company had never investigated the reasons for delayed clearance of the local cheques by the banks. Timely collection of payments are also essential in view of the facts that the Company is utilising cash credit limits from various banks to meet its day to day requirements.

The Government admitted (August 2015) that banks in some cases took five to six days or more for clearance of these cheques and stated that further directions in the matter have been issued to all the concerned to keep proper watch on clearing the cheques as early as possible.

Himachal Pradesh Power Corporation Limited

3.11 Unfruitful investment on shelved project

Investment in thermal power plant without any feasibility study coupled with selection of a JV partner for execution of this plant who lack technical competence and subsequent failure of the Company in initiating action as *per* the terms and conditions of the MoU resulted in unfruitful investment of ₹ 3.98 crore.

Himachal Pradesh Infrastructure Development Board (HPIDB) invited (September 2006) Expression of Interest (EoI) for setting up of pithead thermal power plant in joint venture (JV) as *per* the instructions of the State Government. The pre-qualification criteria for setting up of this plant *inter alia* prescribes that the interested parties must have experience / engaged in developing and setting up of similar projects besides having technical set up for planning and commissioning of power project.

In response to this six parties submitted their EoI and out of these only five parties made their presentations. After presentation only two parties[24] having experience in coal mining were considered qualified. Accordingly M/s Eastern Minerals & Trading Agency (EMTA) which has set up captive coal mines for state power utilities[25] was approved by the State Government in December 2006 for forming a JV.

The Memorandum of Understanding (MoU) between Himachal Pradesh Power Corporation Limited (Company) and EMTA for execution of 500 MW thermal power plant at Ranigunj, District Burdwan, West Bengal was signed in January 2007 without settling the power purchase modalities with the HPSEBL. Both parties agreed to contribute equity in the ratio of 50:50 for

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24 M/s Torent Power Limited and M/s Eastern Minerals & Trading Agency.

25 West Bengal and Punjab.

generation of coal based thermal power and development of coal mine on captive basis (Recital clause - J). The power project was to be commissioned within 48 months from the date of signing of the MoU (Article 5 clause 6). Besides the EMTA was to deposit Development Security of ₹ 2.00 crore with the Company and in case of delay in commercial operation, the Company have the right to realise the security (Article 5 clause 7).

The Government of India (GoI) allotted Gourangdih, ABC coal block to EMTA jointly with M/s JSW Steel Limited. To exploit coal from this mine a revised joint venture agreement between EMTA and M/s JSW Limited was signed in May 2009. However, the GoI de-allocated this allotment in November 2012. In view of this, the BODs of EMTA decided (December 2012) to avoid all expenses of the project except for statutory and legal expenses. Further, as *per* the decision taken by the BOD in its meeting held on 26 November 2014, the future course of action on this project was to be decided after settling the Power Purchase Agreement with HPSEBL. The HPSEBL, however, expressed its unwillingness (March 2015) to purchase power due to imposition of ban on purchase of thermal power by the State Regulator. Therefore, the fate of this project remained undecided even after more than eight years from signing of the MoU. The Company had invested total ₹ 3.98 crore on this project since May 2007 till March 2015.

Audit scrutiny (May 2015) showed that:

(i) There was no evidence on record to show as to whether any feasibility study was ever conducted to assess the commercial viability of this project.

(ii) The decision to entrust selection of JV partner to the HPIDB was also ill conceived as it had neither any familiarity nor technical competence to prepare and evaluate bids for setting up of thermal power project.

(iii) Main criteria of having technical set up for planning and commissioning of thermal power project was completely ignored during evaluation and giving more weightage to experience in coal mining resulted in selection of EMTA who have no experience in thermal power generation.

(iv) Though the Company had an option to realise the development security (₹ 2.00 crore) from EMTA in case of delay beyond 48 months but no action has been initiated so far. Not only this, the Company also released share capital of ₹ 60.50 lakh[26] to EMTA after 13 December 2012, when BOD of EMTA had already decided not to invest further on this project.

Thus, the decision to invest on Thermal Power Plant without any feasibility study coupled with selection of a JV partner who lack technical competence for execution of thermal power plant and subsequent failure of the

[26] ₹ 40.50 lakh released on 26.12.2012 and ₹ 20.00 lakh on 9.05.2013.

Company in initiating action as *per* the terms and conditions of the MoU resulted in unfruitful investment of ₹ 3.98 crore on this project.

The Government stated (September 2015) that the Company had put in sincere efforts for timely execution of thermal power plant and as such the expenditure has been made, keeping in view the importance of thermal plant for Himachal Pradesh in winter season for supply of base load. The reply was not acceptable as the investment decision should have been made after proper feasibility study and after signing of the Power Purchase Agreements with the State Distribution utility.

Himachal Pradesh Tourism Development Corporation Limited

3.12 Avoidable payment of Demand Charges

Failure in reducing the excess Contract Demand resulted in avoidable payment of demand charges of ₹ 17.24 lakh during the period from July 2011 to February 2015 in respect of Himachal Bhawan at New Delhi.

Delhi Electricity Supply Code and Performance Standards Regulations 2007 [Regulation 2 (1) (o)] *inter alia* provided that the contract demand shall not be less than 60 *per cent* of the sanctioned load. Regulation 21 of the said regulations further provided that the application for load reduction shall be accepted only after two years from original energisation in respect of connections above 100 KW by the licensee in the prescribed format.

The Himachal Pradesh Tourism Development Corporation Limited (Company) has obtained power connections from New Delhi Municipal Council for Himachal Bhawan, Mandi House, New Delhi (HB) with connected load of 681.54 KW. The Company is paying demand charges on full connected load.

Audit scrutiny (February 2014) of electricity bills of Himachal Bhawan showed that the maximum demand indicator recorded maximum demand of 264 KVA during the period from July 2011 to February 2015. Against this, the Company is paying demand charges on full connected load which ranged between 681.54 KVA and 828.12 KVA during the said period. As the Company had an option to reduce the contract demand up to 60 *per cent* of the sanctioned load which works out to 454.36 KVA[27]which was much higher as compared to the maximum demand of 264 KVA recorded during the above period. Therefore, the payment of demand charges on full connected load was not justified. On comparing the demand charged payable on 60 *per cent* load, there was avoidable payment of demand charges of ₹ 17.24 lakh during the period from July 2011 to February 2015 in respect of Himachal Bhawan at New Delhi as detailed in the **Appendix 3.4.**

[27] 60 *per cent* of the connected load converted in to KVA by using PF of .90.

Thus, failure in assessing the required demand to reduce the same so as to minimise the payment of demand charges resulted in avoidable payment of ₹ 17.24 lakh during the period mentioned above. The avoidable payment on this account was continuing and would increase further every month till the same is reduced.

The Government stated (September 2015) that the matter has been taken up with the concerned authority to issue no objection certificate for the existing electrical meters and cables so that necessary agreement to reduce the demand can be executed.

Shimla **(R. M. JOHRI)**
The 19 February 2016 **Principal Accountant General (Audit)**
Himachal Pradesh

Countersigned

New Delhi **(SHASHI KANT SHARMA)**
The 25 February 2016 **Comptroller and Auditor General of India**

Appendices

Appendix 1.1

(Referred to in paragraph 1.11)

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

(Figures in column 4 & 6 to 8 are ₹ in crore)

Sl. No.	Name of the PSU	Year up to which accounts finalised	Paid up capital	Period of accounts pending finalisation	Investment made by State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A	**Working Government Companies**						
1	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	2013-14	31.19	2014-15	-	-	8.34
2	Himachal Backward Classes Finance and Development Corporation	2012-13	10.28	2013-14 2014-15	0.72 0.80	- -	- -
3	Himachal Pradesh Mahila Vikas Nigam	2011-12	7.09	2012-13 2013-14 2014-15	- 0.60 0.65	- - -	- - -
4	Himachal Pradesh Minorities Finance and Development Corporation	2011-12	7.45	2012-13 2013-14 2014-15	0.64 1.30 0.53	- - -	0.02 0.12 0.11
5	Himachal Pradesh Road and Other Infrastructure Development Corporation Limited	2013-14	25.00	2014-15	-	-	278.64
6	Himachal Pradesh Power Corporation Limited	2013-14	532.68	2014-15	150.00	-	-
7	Himachal Pradesh Power Transmission Corporation Limited	2013-14	71.79	2014-15	25.95	102.62	-
8	Himachal Pradesh State Electricity Board Limited	2012-13	446.64	2013-14 2014-15	44.14 62.50	-	18.54 330.00
9	Himachal Pradesh State Handicrafts and Handloom Corporation Limited	2013-14	9.22	2014-15	-	-	4.98
10	Himachal Pradesh Tourism Development Corporation Limited	2013-14	12.30	2014-15	-	-	0.30
	Total A : (Working Government Companies)		**1153.64**		**287.83**	**102.62**	**641.05**
B	**Working Statutory Corporations**						
1	Himachal Road Transport Corporation	2013-14	525.90	2014-15	42.95	-	165.00
	Total B : (Working Statutory Corporations)		**525.90**		**42.95**	**-**	**165.00**
	Grand Total : (A + B)		**1679.54**		**330.78**	**102.62**	**806.05**

Appendix 1.2

(Referred to in paragraph 1.15)

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

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

Sl. No.	Sector/ Name of the company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year i.e., 31.03.2015	Accumulated profit (+)/ Loss (-)	Turnover	Net Profit(+)/ Loss(-)	Net impact of audit comments[1]	Capital [2] employed	Return on capital employed[3]	Percentage of return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
A.	**WORKING GOVERNMENT COMPANIES**												
AGRICULTURE AND ALLIED													
1	Himachal Pradesh Agro Industries Corporation Limited	2012-13	2015-16	18.85	6.29	(-)19.25	45.14	(-)1.88	(-)17.05	22.48	(-)1.81	(-)8.05	120
2	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	2013-14	2015-16	38.76	12.00	(-)70.36	60.45	(-)6.96	(-)11.94	50.76	(-)6.73	(-)13.26	238
3	Himachal Pradesh State Forest Development Corporation Limited	2012-13	2015-16	11.71	62.51	(-)44.94	146.05	(-)9.11	(-)64.39	113.54	(-)8.81	(-)7.76	2077
Sector-wise Total:				**69.32**	**80.80**	**(-)134.55**	**251.64**	**(-)17.95**	**(-)93.38**	**186.78**	**(-)17.35**	**(-)9.29**	**2435**
FINANCE													
4	Himachal Backward Classes Finance and Development Corporation	2011-12 2012-13	2014-15 2015-16	10.00 10.28	- 16.50	5.68 6.29	1.93 2.57	0.94 0.61	- 0.24	22.07 23.55	1.21 0.90	5.48 3.82	17
5	Himachal Pradesh Mahila Vikas Nigam	2011-12	2013-14	7.19	-	0.67	0.48	0.25	-	7.19	0.25	3.48	3

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

Sl. No.	Sector/ Name of the company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year i.e., 31.03.2015	Accumulated profit (+)/ Loss (-)	Turnover	Net Profit(+)/ Loss(-)	Net impact of audit comments[1]	Capital [2] employed	Return on capital employed[3]	Percentage of return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
6	Himachal Pradesh Minorities Finance and Development Corporation	2011-12	2015-16	7.45	24.42	(-)3.30	0.58	(-)0.18	0.64	15.82	0.20	1.26	14
Sector-wise Total:				**24.92**	**40.92**	**3.66**	**3.63**	**0.68**	**0.88**	**46.56**	**1.35**	**2.90**	**34**
INFARASTRUCTURE													
7	Himachal Pradesh Road and Other Infrastructure Development Corporation Limited	2013-14	2014-15	25.00	-	-	-	-[4]	-	25.00	-	-	2
8	Himachal Pradesh State Industrial Development Corporation Limited	2013-14	2014-15	30.82	-	16.08	9.41	(-)3.31	1.58	30.82	(-)3.31	(-)10.74	130
Sector-wise Total:				**55.82**	**-**	**16.08**	**9.41**	**(-)3.31**	**1.58**	**55.82**	**(-)3.31**	**(-)5.93**	**132**
MANUFACTURE													
9	Himachal Pradesh General Industries Corporation Limited	2013-14	2014-15	7.16	2.97	4.21	41.08	4.02	(-)4.89	11.57	4.23	36.56	102
Sector-wise Total:				**7.16**	**2.97**	**4.21**	**41.08**	**4.02**	**(-)4.89**	**11.57**	**4.23**	**36.56**	**102**
POWER													
10	Beas Valley Power Corporation Limited	2013-14	2014-15	300.00	588.00	-	-	-[5]	-	848.74	-		220
11	Himachal Pradesh Power Corporation Limited	2013-14	2014-15	1182.89	1846.68	(-)19.32	-	(-)19.32	-	2912.15	6.58	0.23	737
12	Himachal Pradesh Power Transmission Corporation Limited	2013-14	2015-16	180.48	253.02	2.88	8.77	2.88	-	330.88	2.89	0.87	108
13	Himachal Pradesh State Electricity Board Limited	2012-13	2014-15	446.64	3473.18	(-)1738.63	4221.67	(-)340.28	(-)1977.60	1953.98	89.18	4.56	19735
Sector-wise Total:				**2110.01**	**6160.88**	**(-)1755.07**	**4230.44**	**(-)356.72**	**(-)1977.60**	**6045.75**	**98.65**	**1.63**	**20800**

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

Sl. No.	Sector/ Name of the company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year i.e., 31.03.2015	Accumulated profit (+)/ Loss (-)	Turnover	Net Profit(+)/ Loss(-)	Net impact of audit comments[1]	Capital [2] employed	Return on capital employed[3]	Percentage of return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
SERVICE													
14	Himachal Pradesh State Civil Supplies Corporation Limited	2013-14	2014-15	3.51	-	28.72	1222.95	3.99	(-)15.10	3.51	4.11	117.09	878
15	Himachal Pradesh State Electronics Development Corporation Limited	2013-14	2014-15	3.72	1.35	2.11	41.15	0.91	(-)1.06	5.07	0.92	18.15	62
16	Himachal Pradesh State Handicrafts and Handloom Corporation Limited	2013-14	2014-15	9.25	-	(-)16.39	31.62	1.31	(-)0.82	9.25	1.31	14.16	66
17	Himachal Pradesh Tourism Development Corporation Limited	2013-14	2014-15	12.30	-	(-)23.68	77.12	(-)4.57	(-)34.12	12.30	(-)4.05	(-)32.93	1568
Sector-wise Total:				**28.78**	**1.35**	**(-)9.24**	**1372.84**	**1.64**	**(-)51.10**	**30.13**	**2.29**	**7.60**	**2574**
Total A (All sector-wise Working Government companies)				**2296.01**	**6286.92**	**(-)1874.91**	**5909.04**	**(-)371.64**	**(-)2124.51**	**6376.61**	**85.86**	**1.35**	**26077**
B.	**STATUTORY CORPORATIONS**												
FINANCING													
1	Himacal Pradesh Financial Corporation	2014-15	2015-16	99.57	117.54	(-)145.01	5.23	(-)1.09	(-)0.01	276.79	2.94	1.06	28
Sector-wise Total:				**99.57**	**117.54**	**(-)145.01**	**5.23**	**(-)1.09**	**(-)0.01**	**276.79**	**2.94**	**1.06**	**28**
SERVICE													
2	Himachal Road Transport Corporation	2013-14	2014-15	541.34	103.50	(-)847.67	622.07	(-)83.27	(-)41.59	1511.29	(-)70.98	(-)4.70	8569
Sector-wise Total:				**541.34**	**103.50**	**(-)847.67**	**622.07**	**(-)83.27**	**(-)41.59**	**1511.29**	**(-)70.98**	**(-)4.70**	**8569**
Total B (All sector-wise Working Statutory corporations)				**640.91**	**221.04**	**(-)992.68**	**627.30**	**(-)84.36**	**(-)41.60**	**1788.08**	**(-)68.04**	**(-)3.81**	**8597**
Grand Total (A + B)				**2036.92**	**6507.96**	**(-)2887.59**	**6536.34**	**(-)456.00**	**(-)2166.11**	**8164.69**	**17.82**	**0.22**	**34674**

Figures in column 5 to 12 are ₹ in crore)

Sl. No.	Sector/ Name of the company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year i.e., 31.03.2015	Accumulated profit (+)/ Loss (-)	Turnover	Net Profit(+)/ Loss(-)	Net impact of audit comments[1]	Capital [2] employed	Return on capital employed[3]	Percentage of return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
C.	**NON-WORKING GOVERNMENT COMPANIES**												
AGRICULTURE & ALLIED													
1	Agro Industrial Packaging India Limited	2013-14	2014-15	17.72	60.15	(-)78.23	-	(-)0.04	(-)5.58	77.87	(-)0.04	(-)0.05	1
Sector-wise Total:				**17.72**	**60.15**	**(-)78.23**	**-**	**(-)0.04**	**(-)5.58**	**77.87**	**(-)0.04**	**(-)0.05**	**1**
MANUFACTURE													
2	Himachal Worsted Mills Limited	2000-01	2001-02	0.92	-	(-)5.44	-	(-)0.01	-	0.92	(-)0.01	(-)1.09	-
Sector-wise Total:				**0.92**	**-**	**(-)5.44**	**-**	**(-)0.01**	**-**	**0.92**	**(-)0.01**	**(-)1.09**	**-**
Total C (All sector-wise Non-Working Government companies)				**18.64**	**60.15**	**(-)83.67**	**-**	**(-)0.05**	**(-)5.58**	**78.79**	**(-)0.05**	**(-)0.06**	**1**
Grand Total (A+B+C)				**2955.56**	**6568.11**	**(-)2951.26**	**6536.34**	**(-)456.05**	**(-)2171.69**	**8243.48**	**17.77**	**0.22**	**34675**

1. Impact of accounts comments include the net impact of comments of Statutory Auditors and CAG and is denoted by (+) increase in profit/ decrease in losses (-) decrease in profit/ increase in losses.
2. Capital employed represents Shareholders fund and long term borrowings.
3. Return on capital employed has been worked out by adding profit and interest charged to profit and loss account.
4. Excess of expenditure over income is reimbursable by the State Government.
5. Beas Valley Power Corporation Limited at serial No.A-10 has not prepared its profit and loss account.

Appendix 2.1.1

(Refer paragraph 2.1.7.1)

Financial position of the Company for the period from 2010-11 to 2014-15

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14 (Provisional)	2014-15 (Provisional)
A. Liabilities					
Paid up Capital	11.71	11.71	11.71	11.71	11.71
Reserve & Surplus (including Capital Grants but excluding Depreciation Reserve)	0.48	0.42	0.40	0.39	0.37
Secured	0	0	0	0	0
Unsecured	143.78	110.75	101.83	101.8	91.46
Current Liabilities & Provisions	168.86	155.35	172.41	176.41	190.54
Total	**324.83**	**278.23**	**286.35**	**290.31**	**294.08**
B. Assets					
Gross Block	16.98	18.17	18.62	19.46	20.26
Less: Depreciation	10.14	10.72	11.19	11.61	12.62
Net Fixed Assets	6.84	7.45	7.43	7.85	7.64
Capital works-in-progress	0.89	0.42	0.39	0.47	0.39
Investments	0.02	0.02	0.02	0.02	0.02
Current Assets, Loans and Advances	285.42	234.51	233.57	233.31	233.28
Accumulated losses	31.66	35.83	44.94	48.66	52.75
Total	**324.83**	**278.23**	**286.35**	**290.31**	**294.08**
Debt : Equity	**12:01**	**09:01**	**09:01**	**09:01**	**08:01**
Net Worth[6]	**(-)19.47**	**(-)23.70**	**(-)32.83**	**(-)36.56**	**(-)40.67**

6. Net Worth represents paid-up capital plus reserves and surplus less intangible assets.

Appendix 2.1.2

(Refer paragraph 2.1.13.2)

The detail of additional revenue could not be earned due to deficient classification system

Species	Volume sold in open auction (in M^3)	Sale Rate in RSD (Grade 'A')	Rate obtained through open auction B grade	Difference in rate *per* M^3(3-4)	Presuming 25 *per cent* of B grade as A due to wrong classification (in M^3)	Loss ₹ In lakh) (5X6)
		(in ₹)				
1	**2**	**3**	**4**	**5**	**6**	**7**
			2010-11			
Deodar	5872.740	48570	23722	24848	1468.185	364.81
Kail	7244.252	41600	16129	25471	1811.063	461.30
Rai/Fir	18417.964	18500	10384	8116	4604.491	373.70
Chil	13931.573	13960	6641	7319	3482.893	254.91
Total	**45466.529**				**11366.632**	**1454.72**
			2011-12			
Deodar	3133.788	54058	30969	23089	783.447	180.89
Kail	6767.670	48635	20344	28291	1691.918	478.66
Rai/Fir	16399.152	25308	12307	13001	4099.788	533.01
Chil	20424.058	13960	6739	7221	5106.015	368.71
Total	**46724.668**				**11681.167**	**1561.27**
			2012-13			
Deodar	3242.541	58045	31568	26477	810.635	214.63
Kail	7368.371	52245	25550	26695	1842.093	491.75
Rai/Fir	15409.582	26995	12989	14006	3852.396	539.57
Chil	15102.443	12915	8381	4534	3775.611	171.19
Total	**41122.937**				**10280.734**	**1417.13**
			2013-14			
Deodar	3065.699	58045	36217	21828	766.425	167.30
Kail	7778.959	52245	22933	29312	1944.740	570.04
Rai/Fir	16519.043	26995	13894	13101	4129.761	541.04
Chil	16924.264	12915	8891	4024	4231.066	170.26
Total	**44287.965**				**11071.991**	**1448.64**
			2014-15			
Deodar	3024.000	63900	33149	30751	756.000	232.48
Kail	5484.507	57500	25661	31839	1371.127	436.55
Rai/Fir	9367.598	29700	14974	14726	2341.900	344.87
Chil	17362.262	14200	8019	6181	4340.566	268.29
Total	**35238.367**				**8809.592**	**1282.19**
Grand Total	**212840.466**				**53210.117**	**7163.95**

Appendix 2.1.3

(Refer paragraph 2.1.15)

Details of resin blazes received, royalty paid, target of yield fixed, yield obtained and shortfall in extraction for the last five years ending 31 March 2015 (except FWD Chamba)

Sr. No.	Year	Resin lots	Blazes	Royalty (₹ in lakh)	Target for resin extraction	Actuals extraction	Short-fall	Percentage of shortfall	Transfer Price (in ₹)	Loss (₹ in lakh)
		(in numbers)			(in Qtls.)					
1	2010-11	382	1515972	972.42	58710 (3.87)	53076 (3.50)	5634	9.60	3300	185.92
2	2011-12	388	1505649	878.41	57842 (3.84)	53285 (3.54)	4557	7.88	7000	318.99
3	2012-13	381	1460517	740.92	55737 (3.82)	50915 (3.49)	4822	8.65	4900	236.27
4	2013-14	367	1400478	808.63	54060 (3.86)	49174 (3.51)	4886	9.04	5300	258.96
5	2014-15 (Provisional)	358	1374031	832.39	51616 (3.76)	48124 (3.50)	3492	6.77	5700	199.04
Total		**1876**	**7256647**	**4232.77**	**277965**	**254574**	**23391**			**1199.18**

Figures in the brackets indicate yield *per* blaze in Kg.

Appendix 2.1.4

(Refer paragraph 2.1.16.2)

Details of loss incurred due to excess process loss in the R&T Factory, Bilaspur

Sr. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1	Quantity of net resin processed (in quintals)	57447.96	27045.41	38767.94	45317.76	32683.79
2	Process loss (in quintals)	3992.40	1994.87	2523.01	3000.32	2304.31
3	Percentage of process loss	6.95	7.38	6.51	6.62	7.05
4	Percentage of process loss above 6.5 *per cent*	0.45	0.88	0.01	0.12	0.55
5	Qty. of process loss above 6.5 *per cent* (in quintals)	258.52	238.00	3.88	54.38	179.76
6	Cost of resin per quintal (in ₹)	3267	6848	5591	4637	4637
7	Value of excess process loss (5 x6)	8,44,585	16,29,824	21,693	2,52,160	8,33,547
Total loss = ₹ 35,81,808						

Appendix 2.1.5

(Refer paragraph 2.1.16.3)

The details of furnace oil consumed in R&T Factory, Bilaspur during the last five years ending March 2015

Sr. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1	FO consumed (Litres)	652086	321421	437477	517215	416000
2	Resin processed (in quintals)	60297.89	28026.73	40551.33	47157.26	33995.29
3	Consumption of FO for processing one quintal of resin (in Litres)	10.81	11.47	10.79	10.97	12.24
4	Excess consumption of FO as compared to 10.65 litres per quintal achieved in 2008-09	0.16	0.82	0.14	0.32	1.59
5	Excess consumption of FO (2 x 4) (Litres)	9648	22982	5677	15090	54053
6	Average purchase rate of FO (in ₹)	26.00	45.76	45.91	48.45	39.73
	Value of excess FO consumed (₹ in lakh)	**2.51**	**10.52**	**2.61**	**7.31**	**21.48**

Appendix 3.1

(Refer paragraph 3.3.2)

The details of purchases / consumption during the three years ended 31 March 2014

(₹ in lakh)

Sr. No.	**Particulars**	**2011-12**	**2012-13**	**2013-14** [7] **(Provisional)**
1.	Opening balance	7948.02	10222.73	9161.15
2.	Purchased during the year	18373.41	18173.04	13572.16
3.	Transfers (Inter unit)	315.44	13.69	(-) 949.25
4.	Adjustments	2120.34	1310.37	1524.72
5.	**Total**	**28757.21**	**29719.83**	**23308.78**
6.	Issued for consumption	18500.88	20506.31	14041.37
7.	Issued to contractors	33.60	52.37	0.09
8.	**Closing Stock**	**10222.73**	**9161.15**	**9267.32**
9.	Closing stock in terms of months	6.62	5.35	7.92
10.	Total utilisation during the year	18534.48	20558.68	14041.46
11.	Stock required for three month's consumption	4632.66	5137.09	3510.35
12.	Excess stock (over and above) to three months' requirement (₹ in crore)	55.90	40.24	57.57
	Total purchases	**20809.19**	**19497.10**	**14147.63**

7. Figures for the year 2014-15 were not available as accounts for the year are under finalisation by the company.

Appendix 3.2

(Refer paragraph 3.3.3.3)

Details of interest loss up to March 2015 on purchase of material without requirement

Sl. No.	Name of Division	Description of Material	Month of procurement	Qty. lying unutilised as on 31.3.2015	Amount (₹ in lakh)	Loss of interest up to March 2015
1	Nahan	3-1/2 Core 185 mm2 PVC Cable	November 2010 to January 2012	14459 Mtrs.	38.33	12.14
2	Nahan	11 KV XLPE 3x70 mm cable	July 2004 & November 2005	1426 Mtrs.	7.69	7.24
3	Paonta	33KV single core 240 mm2 Cable	June 2011	1161 Mtrs	6.86	5.72
4	Hamirpur	ST Poles	April 2013	110 No. 10 Mtr & 4 No. 11 Mtr.	18.28	3.50
5	Solan	30/7/3.00 mm ACSR Panther Conductor	January 2007	11108 Mtr	14.05	11.24
6	Sundernagar	630 KVA, 22/0.4 KV indoor T/F	November 2008	1 No.	6.33	4.00
7	Sundernagar	500 KVA, 22/0.4 KV outdoor T/F	June 2007	1 No.	8.43	6.60
8	Mandi	630 KVA, 22/0.4 KV indoor T/F	March 2010	1 No.	6.70	3.35
	Mandi	PCC Jointed 9mtr pole	December 2006	462 No.	11.03	9.10
	Mandi	PCC pole 9mtr long	December 2009	206 No.	3.82	2.00
9	Kullu	PT 22 KV, 22000/3.110v	March 2004	12 No.	3.00	3.30
	Kullu	33kV single core 240 mm XLPE cable	June 2005	8858Mtrs	55.81	54.88
		Total			**180.33**	**123.07**

Appendix 3.3

(Refer paragraph 3.9)

Statement showing the detail of month-wise energy bills issued, due / actual date of payment and final amount outstanding after forfeiture of consumer's security.

(₹ in lakh)

Energy consumption Month	**Billed amount**	**Due date of payment**	**Payment made**	**Actual date of payment**	**Delay in days**	**Balance outstanding**
March 2013	36.28	16.04.2013	0	-	-	36.28
April 2013	110.82	16.05.2013	36.26	03.05.2013	17	74.56
May 2013	164.50	15.06.2013	74.54	03.06.2013	18	89.96
June 2013	160.82	15.07.2013	89.96	03.07.2013	18	70.86
July 2013	121.75	16.08.2013	70.86	02.08.2013	18	50.89
August 2013	51.41	16.09.2013	50.89	02.09.2013	15	0.52
September 2013	105.93	15.10.2013	46.32	01.10.2013	15	59.61
October 2013	105.59	15.11.2013	0	Not paid	-	105.59
November 2013	131.42	16.12.2013	0	10.12.2013 (Security of ₹ 85.00 lakh forfeited)	-	46.42
December 2013	50.28	PDCO on 06.12.2013	0	-	-	₹ 50.28 lakh outstanding for recovery.

Appendix 3.4

(Refer paragraph 3.12)

Statement showing the detail of avoidable payment of contract demand charges for the period from July 2011 to February 2015 in respect of Himachal Bhawan, Delhi.

Month	MDI reading (In KVA)	Multiplying Factor	Maximum Demand record (In KVA)	Connected load (In KW)	Power factor	Contract Demand (In KVA)	60% of Contract Demand (In KVA)	Demand charges paid (In ₹)	Rate of fixed demand charges per KVA (In ₹)	Demand charges payable at 60% of Contract Demand (In rupees)	Avoidable payment (In ₹)
1. Himachal Bhawan New Delhi (Consumer No.6000048)											
Jul-11	1.65	160	**264**	681.54	0.98	695.45	417.27	104400	150	62590	41810
Aug-11	1.6	160	256	681.54	0.97	702.62	421.57	105450	150	63236	42214
Sep-11	1.62	160	259	681.54	0.94	725.04	435.03	108900	150	65254	43646
Oct-11	1.62	160	259	681.54	0.93	732.84	439.70	98955	135	59360	39595
Nov-11	1.23	160	197	681.54	0.92	740.80	444.48	100035	135	60005	40030
Dec-11	1.23	160	197	681.54	0.83	821.13	492.68	110970	135	66512	44458
Jan-12	1.23	160	197	681.54	0.92	740.80	444.48	100035	135	60005	40030
Feb-12	1.23	160	197	681.54	0.95	717.41	430.45	92070	135	58110	33960
Mar-12	0.66	160	106	681.54	0.89	765.78	459.47	103410	135	62028	41382
Apr-12	0.66	160	106	681.54	0.85	801.81	481.09	108270	135	64947	43323
May-12	1.29	160	206	681.54	0.91	748.95	449.37	101115	135	60665	40450
Jun-12	1.4	160	224	681.54	1	681.54	408.92	92070	135	55205	36865
Jul-12	1.44	160	230	681.54	0.95	717.41	430.45	96930	135	58110	38820

Aug-12	1.58	160	253	681.54	1	681.54	408.92	92070	135	55205	36865
Sep-12	1.58	160	253	681.54	1	681.54	408.92	92070	135	55205	36865
Oct-12	1.35	160	216	681.54	1	681.54	408.92	92070	135	55205	36865
Nov-12	1.348	160	216	681.54	1	681.54	408.92	92070	135	55205	36865
Dec-12	0.586	160	94	681.54	0.878	776.24	465.74	105435	135	62876	42559
Jan-13	0.628	160	100	681.54	0.9	757.27	454.36	102330	135	61339	40991
Feb-13	0.774	160	124	681.54	0.941	724.27	434.56	97875	135	58666	39209
Mar-13	0.48	160	77	681.54	0.93	732.84	439.70	98955	135	59360	39595
Apr-13	0.546	160	87	681.54	0.86	792.49	475.49	107055	135	64192	42863
May-13	1.254	160	201	681.54	1	681.54	408.92	92070	135	55205	36865
Jun-13	1.348	160	216	681.54	0.976	698.30	418.98	94365	135	56562	37803
Jul-13	1.416	160	227	681.54	0.947	719.68	431.81	97200	135	58294	38906
Aug-13	1.512	160	242	681.54	0.949	718.17	430.90	97065	135	58171	38894
Sep-13	1.396	160	223	681.54	1	681.54	408.92	92070	135	55205	36865
Oct-13	1.524	160	244	681.54	1	681.54	408.92	92070	135	55205	36865
Nov-13	1.31	160	210	681.54	1	681.54	408.92	92070	135	55205	36865
Dec-13	0.778	160	124	681.54	1	681.54	408.92	92070	135	55205	36865
Jan-14	0.692	160	111	681.54	1	681.54	408.92	92070	135	55205	36865
Feb-14	0.814	160	130	681.54	1	681.54	408.92	92070	135	55205	36865
Mar-14	0.774	160	124	681.54	1	681.54	408.92	92070	135	55205	36865
Apr-14	0.84	160	134	681.54	1	681.54	408.92	92070	135	55205	36865
May-14	1.31	160	210	681.54	1	681.54	408.92	92070	135	55205	36865
Jun-14	1.368	160	219	681.54	1	681.54	408.92	92070	135	55205	36865
Jul-14	1.418	160	227	681.54	1	681.54	408.92	92070	135	55205	36865

Aug-14	1.64	160	262	681.54	0.914	745.67	447.40	100710	135	60399	40311
Sep-14	1.472	160	236	681.54	0.919	741.61	444.97	100170	135	60070	40100
Oct-14	1.412	160	226	681.54	0.92	740.80	444.48	100035	135	60005	40030
Nov-14	1.278	160	204	681.54	0.872	781.58	468.95	105570	135	63308	42262
Dec-14	1.13	160	181	681.54	0.823	828.12	496.87	111915	135	67077	44838
Jan-15	0.73	160	117	681.54	0.917	743.23	445.94	100440	135	60201	40239
Feb-15	0.814	160	130	681.54	0.95	717.41	430.45	96930	135	58110	38820
										Total:	**1723846**
				or say ₹ 17.24 lakh							

Glossary of Abbreviations

Glossary of abbreviations	
AAAC	All Aluminium Alloy Conductors
AC	Aadhar Card
ACSR	Aluminium Conductor Steel Reinforced
AEE	Assistant Executive Engineer
AIPIL	Agro Industrial Packaging India Limited
APDRP	Accelerated Power Development and Reforms Programme
ATN	Action Taken Notes
BG	Bank Guarantee
BHEP	Bhaba Hydro Electric Project
BOD	Board of Directors
BPCL	Bharat Petrolium Corporation Limited
CAG	Comptroller and Auditor General of India
CBCD	Central Billing Cells
CD	Contract Demand
CGL	Crompton Greaves Limited, Mumbai
COPU	Committee on Public Undertakings
DBTS	Direct Benefit Transfer Scheme
DC	Data Centre
DNSC	Domestic Non Subsidised Cylinder
DoF	Department of Forests
DPRs	Detailed Project Reports
DRC	Data Recovery Centre
DSC	Domestic Subsidised Cylinder
DTRs	Distribution Transformers
EHT	Extra High Tension
EMD	Earnest Money Deposited
EMTA	Eastern Minerals & Trading Agency
EoI	Expression of Interest
EPF	Employees Provident Fund
EPFO	Employees Provident Fund Orgainsation
ESD	Electrical Sub Division
FO	Furnace Oil
FWD	Forest Working Divisions
GCR	Gas Cylinder Rules
GDP	Gross Domestic Product
GoI	Government of India
HEP	Hydro Electric Projects
HPCL	Hindustan Petroleum Corporation Limited
HPERC	Himachal Pradesh Electricity Regulatory Commission
HPFC	Himachal Pradesh Financial Corporation

HPGIC	Himachal Pradesh General Industries Corporation Limited
HPIDB	Himachal Pradesh Infrastructure Development Board
HPIE	M/s Him Productivity Institute of Education
HPMC	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited
HPPCL	Himachal Pradesh Power Corporation Limited
HPPTCL	Himachal Pradesh Power Transmission Corporation Limited
HPSCSCL	Himachal Pradesh State Civil Supplies Corporation Limited
HPSEBL	Himachal Pradesh State Electricity Board Limited
HPSFDC	Himachal Pradesh State Forest Development Corporation Limited
HPSH&HCL	Himachal Pradesh State Handicrafts and Handloom Corporation Limited
HRTC	Himachal Road Transport Corporation
HSDs	Himkashth Sale Depots
HT/LT	High Tension / Low Tension
HVSR	Higher Voltage Supply Rebate
IOCL	Indian Oil Corporation Limited
IT	Information Technology
JNNURM	Jawahar Lal Nehru National Urban Renewable Mission
JV	Joint Venture
KM	Kilometre
LD	Liquidated Damages
LIPS	Large Industrial Power Supply
LOA	Letter of Award
LPG	Liquefied Petroleum Gas
LVSS	Low Voltage Supply Surcharge
LSM	Labour Supply Mate
MD	Managing Director
MF	Multiplying Factor
MIS	Management Information System
MoU	Memorandum of Understanding
MRI	Metre Reading Instruments
MUs	Million Units
MVT	Motor Vehicle Taxation Act, 1972
NDEC	Non Domestic Exempt Customers
NIT	Notice Inviting Tender
PAG	Principal Accountant General
PDC	Public Distribution Clerk
PDCO	Permanent Disconnection Connection Order
PDH	Public Distribution Helpers
PLDVC	Peak Load Demand Violation Charges

PO	Purchase Order
PSUs	Public Sector Undertakings
PVR	Physical Verification Reports
RGGVY	Rajiv Gandhi Grameen Vidutikaran Yojana
R&T	Rosin and Turpentine
RPFC	Regional Provident Fund Commissioner
RPFO	Regional Provident Fund Office
RPO	Recovery Point Objective
RSD	Retail Sale Depots
RTO	Recovery Time Objective
SMS	Short Message Services
SPCB	Special Pollution Control Board
SRT	Special Road Tax
SSV	Standard Supply Voltage
STP	Steel Tubular Poles
TDCO	Temporary Disconnection Order
TMS	Temporary Meter Supply
VAT	Value Added Tax
WDMS	Water Discharge Monitoring System