सत्यमेव जयते

Report of the Comptroller and Auditor General of India on Public Sector Undertakings (Economic Sector) for the year ended 31 March 2017

भारतीय लेखापरीक्षा और लेखा विभाग ✦ INDIAN AUDIT AND ACCOUNTS DEPARTMENT

सत्यमेव जयते

हिमाचल प्रदेश सरकार

Government of Himachal Pradesh

Report No. 1 of the year 2018

Report of the
Comptroller and Auditor General of India

on

Public Sector Undertakings
(Economic Sector)

for the year ended 31 March 2017

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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 2017.

The accounts of Government companies (including companies deemed to be Government companies as per the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, read with Section 619 of the Companies Act, 1956, and Sections 139 and 143 of the Companies Act, 2013. The audit of statutory corporations is conducted under their respective legislations.

Reports in relation to the accounts of Government companies or corporations are submitted to the Government by CAG for laying before the State Legislature of Himachal Pradesh under 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, the CAG has the right to conduct the audit of accounts in addition to the audit conducted by chartered accountants appointed by the Corporation. The Separate Audit Reports on the Annual Accounts of these corporations are forwarded separately to the State government.

The instances mentioned in this Report are those which came to notice in the course of test audit during the year 2016-17 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 2016-17 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 one performance audit on Integrated Kashang Hydro Electric Project and 13 paragraphs with financial implication of ₹ 846.91 crore relating to issues of avoidable payment due to non-compliance of rules, directives and procedures, non / short recovery of energy charges and infructuous expenditure that resulted in losses to the companies / corporations.

1. Functioning of State Public Sector Undertakings (PSUs)

The State of Himachal Pradesh has 21 working PSUs (19 Government companies and two statutory corporations) and two non-working companies which employed 36,071 employees. As on 31 March 2017, the investment (paid up capital, free reserves and long-term loans) in 23 PSUs was ₹ 12,657.73 crore. Of the total investment in State PSUs, 99.38 *per cent* was in working PSUs and the remaining 0.62 *per cent* in non-working PSUs. The total investment consisted of 30.56 *per cent* towards paid up capital, 0.66 *per cent* towards free reserves and 68.78 *per cent* in long-term loans. The thrust of PSU investment was in the power sector, at ₹ 11,108.62 crore (87.77 *per cent)* of the total investment of 12,657.73 crore in 2016-17. The budgetary outgo towards paid up capital, loans and grants / subsidies which stood at ₹ 1,189.98 crore in 2014-15 decreased to ₹ 755.60 crore in 2016-17.

(Paragraphs 1.1, 1.6, 1.7 and 1.8)

The working PSUs recorded a turnover of ₹ 8,344.31 crore as per their finalised accounts as of 30 September 2017. The percentage of turnover of PSUs to State GDP increased from 6.48 *per cent* in 2012-13 to 6.70 *per cent* in 2016-17.

(Paragraph 1.15)

2. Performance audit on Integrated Kashang Hydro Electric Project

A Performance Audit of Integrated Kashang Hydro Electric Project (HEP) being implemented by Himachal Pradesh Power Corporation Limited, that will have installed capacity of 195 MW (Stage-I, 65 MW and Stage-II & III, 130 MW) brought out that the works relating to construction of Kashang HEP were awarded at a cost of ₹ 708.16 crore between February 2009 and October 2010 with scheduled completion of November 2014. Even after spending ₹ 1,169.75 crore up to March 2017, the Project is still incomplete and only one out of three units could be commercially operationalised (September 2016) as there was delay in completion of Stage II & III. The time overrun of 30 months in Stage-I was due to non-availability of encumbrance free sites, stoppage of work by local people, blockade of project roads, extra time required for the backfill in the over-break due to contractor’s fault and damage to the machine prior to commissioning. The cost overrun occurred due to time overrun, avoidable extra expenditure, payment for works at higher rates, non / short-recovery from the contractor and short provision of quantities in the DPR.

Stage-I of the project was completed for ₹ 789.84 crore against ₹ 478.02 crore (DPR cost) involving a cost overrun of ₹ 311.82 crore. Consequently, per unit generation cost up to the completion of Stage-I had increased from ₹ 2.85 to ₹ 4.78 per unit against prevailing sale rate of ₹ 2.20 per unit. The Stage II & III of the Project is now scheduled for completion in January 2021 and on completion, the generation cost is expected to increase further.

The Asian Development Bank loan received through Government of India in the shape of 90 *per cent* grant (₹ 498.99 crore) and 10 *per cent* loan (₹ 55.44 crore) was converted into 100 *per cent* loan by Government of Himachal Pradesh placing extra burden of ₹ 651.82 crore including interest of ₹ 152.83 crore on the Project cost.

(Paragraph 2.7.1, 2.7.2, 2.8 and 2.10)

3. Audit of Transactions

The Himachal Pradesh State Electricity Board Limited waived fixed demand charges of ₹ 5.06 crore chargeable in terms of Electricity Supply Code, 2009 approved by the Himachal Pradesh Electricity Regulatory Commission.

(Paragraph 3.1)

The Himachal Pradesh State Electricity Board Limited delayed conducting mandatory manual reconciliation of monthly accounts received from various field units with the main bank account of the Company and did not design a module into its systems for auto-reconciliation of payments received through NEFT/RTGS mode which enabled a consumer to forge receipts regarding transfer of funds that went undetected, resulting in a loss of ₹ 5.36 crore.

(Paragraph 3.2)

Himachal Pradesh State Electricity Board Limited did incorrect categorisation of a Bulk Supply consumer under Commercial category which resulted in short-recovery of ₹ 30.76 lakh.

(Paragraph 3.3)

Himachal Pradesh State Electricity Board Limited did not monitor payment of billed amount timely in a case and took 25 months to issue a temporary disconnection order by which time the consumer had run up unpaid energy charges of ₹ 1.62 crore.

(Paragraph 3.4)

By incorrect application of its sales circular and release of two separate connections in the same premises, the Himachal Pradesh State Electricity Board Limited did not bill a consumer for ₹ 25.58 lakh on account of Lower Voltage Supply Surcharge and ₹ 16.22 lakh on account of higher tariff applicable to HT-2 category.

(Paragraph 3.5)

The Himachal Pradesh State Electricity Board Limited, while withdrawing the benefit of revised pay and allowances credited into provident fund accounts of employees, did not withdraw financial benefit of ₹ 37.05 lakh paid as interest.

(Paragraph 3.6)

Absence of mechanism to detect excess drawl of power than sanctioned load resulted in loss of revenue of ₹ 36.78 lakh to Himachal Pradesh State Electricity Board Limited.

(Paragraph 3.7)

The Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited incurred loss of ₹ 2.61 crore on implementation of MIS due to low yield of Apple Juice Concentrate / Apple juice, spoilage of apple, excess consumption of fuel and payment of commission to the distributor besides non achievement of its objective by not releasing timely payments to the growers.

(Paragraph 3.8)

The Himachal Pradesh Power Corporation Limited extended undue favour to contractor by not initiating any action for recovery of interest of ₹ 15.54 crore as per the provisions of supplementary agreement executed with the contractor after advancing stage wise payment schedule incorporated in the original agreement.

(Paragraph 3.9)

Due to putting the incomplete line to use the Himachal Pradesh Power Transmission Corporation Limited had to release the payments amounting to ₹ 0.78 crore for achieving the required clearances.

(Paragraph 3.10)

The Himachal Pradesh Road and Other Infrastructure Development Corporation Limited made payment of ₹ 49.87 lakh to a contractor on account of VAT by subsequently amending the terms and conditions of letter of acceptance.

(Paragraph 3.11)

The Himachal Pradesh Tourism Development Corporation Limited failed to enter into an agreement for manning the Passenger Reservation System Centres as well as defining terms and conditions for recovery of service charges from consumers which led to loss of ₹ 18.87 lakh.

(Paragraph 3.12)

The Himachal Pradesh Tourism Development Corporation Limited failed to increase bus fare for its Luxury Air Conditioned buses plying on Delhi-Shimla and Delhi-Manali routes which resulted in loss of potential revenue of ₹ 0.98 crore.

(Paragraph 3.13)

Chapter-I

Functioning of State Public Sector Undertakings

CHAPTER-I

FUNCTIONING OF STATE PUBLIC SECTOR UNDERTAKINGS

Introduction

1.1 State Public Sector Undertakings (PSUs) consist of State government companies and statutory corporations. State PSUs are established to carry out activities of a commercial nature and occupy an important place in the State's economy. As on 31 March 2017, there were 23 PSUs. Of these, one company[1] was listed (April 1995) on the Delhi Stock Exchange. During the year 2016-17, one PSU[2] was incorporated and no PSU was closed down. The details of State PSUs in Himachal Pradesh as on 31 March 2017 are given in table 1.1 below.

Table 1.1: Total number of PSUs as on 31 March 2017

Type of PSUs	Working PSUs	Non-working PSUs[3]	Total
Government Companies[4]	19	2	21
Statutory Corporations	2[5]	-	2
Total	**21**	**2**	**23**

The working PSUs registered a turnover of ₹ 8,344.31crore ***(Appendix 1.2)*** as per their latest finalised accounts as of September 2017. This turnover was equal to 6.70 *per cent* of the State Gross Domestic Product (GDP) for 2016-17. The working PSUs incurred aggregate loss of ₹ 104.42 crore ***(Appendix 1.2)*** as per their latest finalised accounts as of September 2017. They had employed 36,071 employees as at the end of March 2017.

As on 31 March 2017, there were two[6] non-working companies with capital employed of ₹ 78.79 crore.

Accountability framework

1.2 The audit of Government companies is governed by Sections 139 and 143 of the Companies Act, 2013 (Act). According to Section 2(45) of the Act, a 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 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.

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

Further, as per sub-Section (7) of Section 143 of the Act, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, the Comptroller and Auditor General of India (CAG) may cause an audit to be conducted of the accounts of such company and Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to such audit. The audit of the financial statements of a company in respect of the financial years that commenced on or after 1 April 2014 shall be governed by the provisions of the Companies Act, 2013.

1.3 Statutory Audit

The financial statements of Government companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by statutory auditors who are appointed by CAG under Section 139(5) or (7) of the Act. The statutory auditors shall submit a copy of Audit Report to the CAG which among other things includes the directions issued by the CAG, the action taken thereon and its impact on the accounts. The financial statements are subject to supplementary audit by CAG within 60 days from the date of receipt of the Audit Report under Section 143(6) of the Act.

Audit of statutory corporations is governed by their respective legislations. Out of the two statutory corporations[7], CAG is the sole auditor for the 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 monitors the accounting and utilisation of Government investment in the PSUs. For this purpose, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State government companies and Separate Audit Reports in case of statutory corporations, are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Himachal Pradesh

1.5 The State government has financial stake in these PSUs which is mainly of three types:

- **Share Capital and Loans**- In addition to Share Capital Contribution, State government also provides financial assistance by way of loans to the PSUs from time to time.

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

- **Special Financial Support-** State government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State government guarantees the repayment of loans with interest, availed by the PSUs from financial institutions.

Investment in State PSUs

1.6 As on 31 March 2017, the investment (Paid up capital, Free Reserves and Long-term loans) in 23 PSUs was ₹ 12,657.73 crore as given in table 1.2 below.

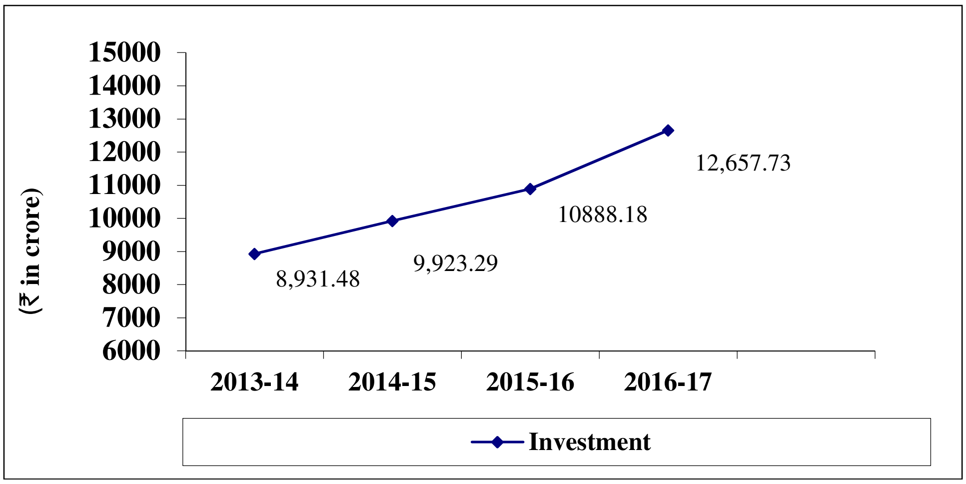
Table 1.2: Total Investment in PSUs

(₹ in crore)

Type of PSUs	Government Companies				Statutory Corporations				Grand Total
	Paid up Capital	Long Term Loans	Free Reserves	Total	Paid up Capital	Long Term Loans	Free Reserves	Total	
Working PSUs	3,079.32	8,297.15	84.12	11,460.59	770.06	348.29	0	1,118.35	12,578.94
Non-working PSUs	18.64	60.15	0	78.79	-	-	-	-	78.79
Total	**3,097.96**	**8,357.30**	**84.12**	**11,539.38**	**770.06**	**348.29**	**-**	**1,118.35**	**12,657.73**

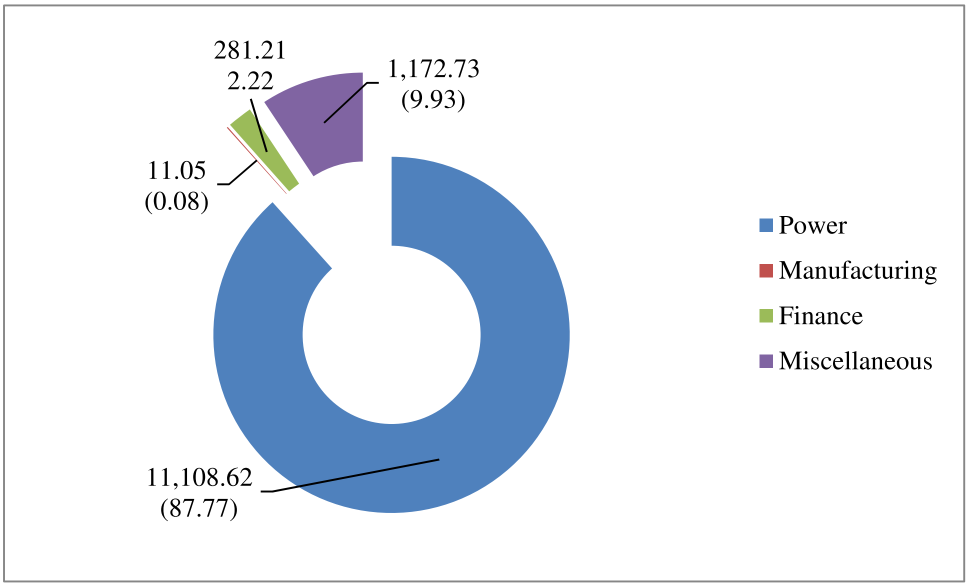
As on 31 March 2017, of the total investment 99.38 *per cent* was in working PSUs and the remaining 0.62 *per cent* in non-working PSUs. This total investment consisted of 30.56 *per cent* towards paid up capital, 0.66 *per cent* in Free Reserves and 68.78 *per cent* in long-term loans. The investment has grown from ₹ 8,931.48 crore (Paid up Capital: ₹ 2,990.47 crore, free reserves ₹ 21.64 crore and Long term loans: ₹ 5,919.37 crore) in 2013-14 to ₹ 12,657.73 crore (Paid up Capital: ₹ 3,868.02 crore, Free Reserves: ₹ 84.12 crore and Long term loans: ₹ 8,705.59 crore) in 2016-17 as shown in the graph 1.1 below.

Graph 1.1: Total Investment in PSUs



1.7 The investment in four significant sectors and percentage thereof at the end of 31 March 2017 is indicated in graph 1.2 below.

Graph 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 the power sector. It was 87.77 *per cent* (₹ 11,108.62 crore) of the total investment of ₹ 12,657.73 crore in 2016-17.

Special support and returns during the year

1.8 The State government provides financial support to PSUs in various forms through its annual budget. The summarised details of budgetary outgo towards share capital, loans, grants / subsidies, loans written off and interest waived in respect of State PSUs are given in table 1.3 below for three years ended 31 March 2017.

Table 1.3: Details regarding budgetary support to PSUs

(₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Share Capital outgo from budget	7	283.38	8	308.29	5	116.01
2.	Loans given from budget	2	119.15	2	96.04	2	133.06
3.	Grants / Subsidy from budget	7	787.45	9	623.37	5	506.53
4.	**Total Outgo (1+2+3)**		**1,189.98**		**1,027.70**		**755.60**
5.	Waiver of loans / interest and loans converted into share capital	1	19.11	0	Nil	0	Nil
6.	Guarantees issued	9	4,919.21	9	2,855.24	6	3,174.85
7.	Guarantee Commitment	9	2,746.24	8	1,516.87	5	3,991.17
8.	Guarantee fee	2	0.09	2	0.09	2	0.80

Source: Data collected from PSUs

The budgetary outgo of the State government towards share capital, loans and grants / subsidies during the years 2014-15 to 2016-17 showed a decreasing trend. The budgetary outgo which stood at ₹ 1,189.98 crore in 2014-15 decreased to ₹ 755.60 crore in 2016-17.

In order to enable PSUs to obtain financial assistance from banks and financial institutions, State government provides guarantee and charges guarantee fee from zero *per cent* to one *per cent*. During 2016-17, the Government had guaranteed loans aggregating ₹ 3,174.85 crore obtained by six PSUs. The guarantee commitment increased to ₹ 3,991.17 crore (five PSUs) in 2016-17 from ₹ 1,516.87 crore (eight PSUs) in 2015-16. Two PSUs[8] paid guarantee fee of ₹ 0.80 crore during 2016-17.

Reconciliation with Finance Accounts

1.9 The figures in respect of share capital and loans outstanding as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs

[8] HPMC and HPSH&HCL.

and the Finance department should carry out reconciliation of differences. The position in this regard as at 31 March 2017 is given in table 1.4 below.

Table 1.4: Share Capital and loans outstanding as per finance accounts *vis a vis* records of PSUs

(₹ in crore)

Sl. No.	Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
1.	**Share Capital**[9]	882.17	976.62	94.45
2.	**Loans**[10]	3,354.99	5,824.74	2,469.75

There was a mismatch between figures furnished by the PSUs and those depicted in the Finance Accounts. The reasons for the differences were not furnished by the PSUs through the concerned administrative departments. The PSUs and Finance Department were requested (September 2017) to take necessary action to reconcile the differences.

Arrears in finalisation of accounts

1.10 The financial statements for every financial year are required to be finalised by the companies within six months from the end of the relevant financial year *i.e.* by 30 September in accordance with Section 96(1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act. In case of statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

The details of progress made by 21 working PSUs in finalisation of accounts as of 30 September 2017 are given in table 1.5 below.

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

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1	**Number of working PSUs / other companies**	19	19	19	20	21
2.	**Number of accounts finalised during the year**	15	16	16	19	21
3.	**Number of accounts in arrears**	20	23	26	27	27
4.	**Number of PSUs with arrears in accounts**	12	15	18	18	17
5.	**Extent of arrears (numbers in years)**	1 to 3 years	1 to 3 years	1 to 3 years	1 to 3 years	1 to 4 years

9 10 No. of PSUs *i.e* HPAICL, HBCF&DC, HPMF&DC, HPSIDCL, HPGICL, HPPTCL, HPSEBL, HPFC, HPKVN and HPBL.

10 8 No. of PSUs in respect of loans. *i.e* HPAICL, HPMC, HPGICL, HPPCL, HPPTCL, HPSEBL, HPSEDCL and HPFC.

PSUs having arrears of accounts need to take effective measures for early clearance of backlog and to make the accounts up-to-date. The PSUs which have arrear of accounts should also ensure that at least two year's accounts are finalised in each year so as to liquidate the arrears.

The administrative departments have the responsibility of overseeing 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 updated regularly on the status of arrears in finalisation of accounts, no remedial measures were taken. As a result, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was taken up (July 2017) with the Chief Secretary / Director, Institutional Finance and Public Enterprises for liquidating the arrears of accounts. However, no significant improvement has been noticed.

1.11 The State government had invested ₹ 3,462.41 crore in 17 PSUs for which accounts have not been finalised as detailed in ***Appendix 1.1***. In the absence of finalisation of accounts and their audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and whether the purpose for which the amount was invested had been achieved or not. Thus, government's investment in such PSUs has remained outside the scrutiny of the State Legislature.

1.12 Out of two non-working PSUs, Himachal Worsted Mills Limited was in the process of liquidation since 2000-01 and its accounts were finalised up to that period. The Agro Industrial Packaging India Limited had its accounts in arrears for the years 2015-16 and 2016-17.

Placement of Separate Audit Reports

1.13 The separate audit report upto 2016-17 issued by the CAG on accounts of Himachal Road Transport Corporation was placed in the Legislature while for Himachal Pradesh Financial Corporation, the SAR upto 2015-16 was placed in Legislature.

Impact of non-finalisation of accounts

1.14 Delay in finalisation of accounts raises the risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2016-17 could not be ascertained.

Performance of PSUs as per their latest finalised accounts

1.15 The financial position and working results of working Government companies and statutory corporations are detailed in ***Appendix 1.2.*** The ratio of PSU turnover to State GDP shows the extent of PSU activities in the State's economy. The details of working PSUs turnover and State GDP for a period of five years ending 31 March 2017 is given in table 1.6 below.

Table 1.6: Details of working PSUs turnover *vis-a vis* State GDP

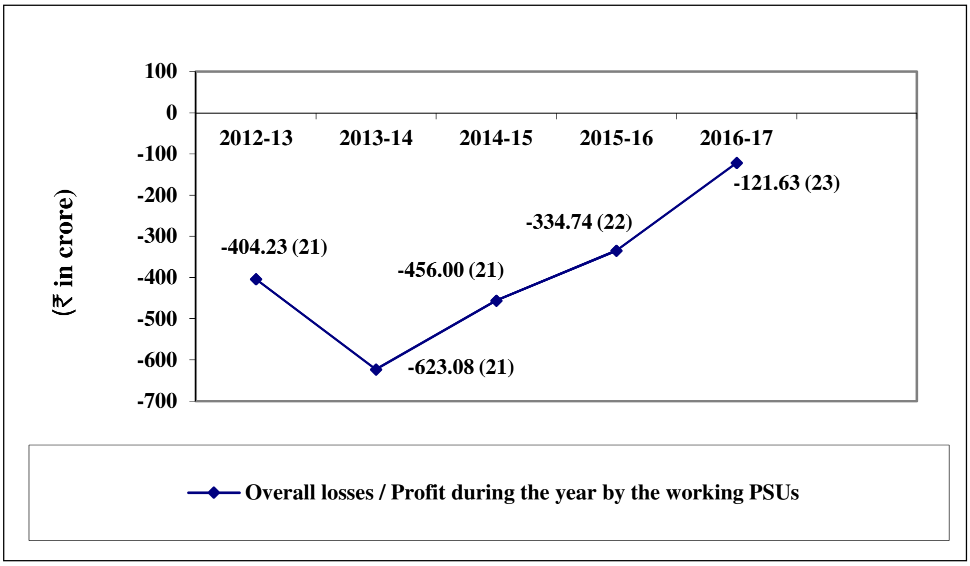
(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Turnover[11]	4,945.29	5,952.79	6,536.34	7,565.74	8,344.31
State GDP	76,259	85,841	95,587	1,10,511	1,24,570
Percentage of Turnover to State GDP	6.48	6.93	6.84	6.85	6.70

During the last five years, the turnover of working PSUs increased from ₹ 4,945.29 crore in 2012-13 to ₹ 8,344.31 crore in 2016-17. The percentage of turnover of PSUs to State GDP increased from 6.48 in 2012-13 to 6.70 in 2016-17.

1.16 The profit earned / losses incurred by working State PSUs during 2012-13 to 2016-17 are given in graph 1.3 below.

Graph 1.3: Profit / Loss of working PSUs



(Overall profit / loss is net effect of profit / loss during the year for which accounts were finalised and figures in brackets show the number of working PSUs in respective years)

- It is observed that the overall losses suffered by the working PSUs to the extent of ₹ 404.23 crore in 2012-13 has decreased to ₹ 104.42 crore during 2016-17.
- The main reason for decrease in losses was grant of financial package in the form of share capital, loans and grants-in-aid / subsidy by the State Government to PSUs and grant received by HPSEBL from the Central government under UDAY scheme.

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

The summarised financial results of Government Companies and Statutory Corporations for the latest year for which accounts were finalised are given in ***Appendix 1.2***. During the period from 01 October 2016 to 30 September 2017, 21 accounts were received in respect of 18 working PSUs. 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 Himachal Pradesh Beverage Limited incorporated in 2016-17 has not prepared its first accounts.

Table 1.7 (a) Details of working PSUs registering profit

(₹ in crore)

Name of the company	Period of accounts	Year in which accounts finalised	Net Profit
Himachal Pradesh Agro Industries Corporation Ltd	2015-16	2017-18	1.21
Himachal Pradesh Mahila Vikas Nigam	2013-14	2016-17	0.20
Himachal Pradesh Minorities Finance and Development Corporation Ltd	2013-14	2017-18	0.30
Himachal Pradesh State Industrial Development Corporation Ltd	2015-16	2016-17	8.25
Himachal Pradesh General Industries Corporation Ltd	2015-16	2016-17	5.47
Himachal Pradesh Power Transmission Corporation Ltd	2015-16	2017-18	2.11
Himachal Pradesh State Civil Supplies Corporation Ltd	2015-16	2017-18	2.12
Himachal Pradesh State Electronics Development Corporation Ltd	2015-16	2016-17	-
	2016-17	2017-18	1.38
Himachal Pradesh State Handicrafts and Handloom Corporation Ltd	2015-16	2016-17	0.69
Himachal Pradesh Tourism Development Corporation Ltd	2015-16	2016-17	1.40
Himachal Pradesh Kaushal Vikas Nigam	2015-16	2016-17	1.40
Himachal Road Transport Corporation	2015-16	2016-17	1.73

Table 1.7 (b) Details of working PSUs registering loss

(₹ in crore)

Name of the company	Period of accounts	Year in which accounts finalised	Net loss
Himachal Pradesh Agro Industries Corporation Ltd	2014-15	2017-18	0.86
Himachal Pradesh Horticultural produce Marketing and Processing Corporation Ltd.	2015-16	2016-17	3.14
Himachal Pradesh State Forest Development Corporation Ltd	2014-15	2017-18	4.09
Himachal Pradesh Power Corporation Ltd	2015-16	2017-18	17.92
Himachal Pradesh State Electricity Board Ltd	2014-15	2016-17	113.51
Himachal Pradesh Financial Corporation	2016-17	2017-18	6.40

- The major contribution to profit was made by Himachal Pradesh Small Industries Development Corporation Limited (₹ 8.25 crore) and Himachal Pradesh General Industries Corporation Limited (₹ 5.47 crore).
- Heavy losses were incurred by Himachal Pradesh State Electricity Board Limited (₹ 113.51crore), Himachal Pradesh Power Corporation Limited (₹ 17.92 crore) and Himachal Pradesh Financial Corporation (₹ 6.40 crore).

1.17 Some other key parameters of PSUs are given in table 1.8 below.

Table 1.8: Key Parameters of State PSUs

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Equity	NA	672.91	-18.2	-62.72	336.05
Investment	NA	6756.74	8294.58	8729.93	9919.50
Profit before Interest, Tax and Dividend	NA	-620.83	4.93	248.74	-104.42
Net Profit after tax and preference dividend	NA	-625.18	-455.70	-332.54	-119.12
Return on Equity[12] $ (*per cent*)	NA	-92.91	*	*	-35.45
Return on Investment[13] (*per cent*)	NA	-9.18	0.06	2.85	-0.01
Debt	3,932.91	5,919.37	6,568.11	5,384.53	6,225.04
Turnover$	4,945.29	5,952.79	6,536.34	7,565.74	8,344.31
Debt/ Turnover Ratio	0.80:1	0.99:1	1:1	0.71:1	0.75:1
Interest Payments	163.24	280.37	473.82	613.73	571.52
Accumulated Losses	1,875.73	2,492.97	2,951.26	3,291.92	3,242.88

Source : Information obtained from PSUs
NA = Not Available
$ - Figures as per latest finalised accounts as of 30 September 2017 and Turnover of working PSUs as per the latest finalised accounts as of 30 September 2017
* Not measurable as Equity in these years in negative.

Debt – Turnover ratio decreased from 0.80:1 in 2012-13 to 0.75:1 in 2016-17. The accumulated losses which were ₹ 1,875.73 crore in 2012-13 increased to ₹ 3,242.88 crore in 2016-17.

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, 12 PSUs earned an aggregate profit of ₹ 24.29 crore out of which only two[14] PSUs declared / paid

[12] Return on Equity = Net Profit after tax and preference dividend / Shareholder funds where Shareholders Funds (Equity) = Paid up Share Capital+ Free Reserves and Surplus – Accumulated Loss – Deferred Revenue Expenditure.

[13] Return on Investment = Net Profit before dividend, tax and Interest / Investment where Investment = Paid up capital + Free Reserves + Long term loans.

[14] Himachal Pradesh State Civil Supply Corporation and Himachal Pradesh State Industrial Development Corporation Ltd.

a dividend of ₹ 1.89 crore during 2015-16. The remaining 10 profit making PSUs had not paid any dividend to the State government.

Winding up of non-working PSUs

1.19 As on 31 March 2017, Agro Industrial Packaging India Limited and Himachal Worsted Mills Limited were the two non-working companies. The Himachal Worsted Mills Limited had been under liquidation since 2000-01 while the liquidation process in respect of Himachal Pradesh Agro Industrial Packaging India Ltd was yet to be started. The non-working companies are not contributing to the State's economy nor meeting their intended objectives and government may consider to close these companies at an early date.

Accounts Comments

1.20 18 working companies forwarded their 21 audited accounts to the Principal Accountant General from October 2016 to September 2017 which were selected for supplementary audit. The details of aggregate money value of comments of statutory auditors and CAG are given in table 1.9 below.

Table 1.9: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	4	21.87	6	4.99	8	7.49
2.	Increase in loss	5	2,105.11	2	6.34	3	21.22
3.	Decrease in loss	2	2.22	2	1.29	3	1.17
4.	Increase in profit	-	-	2	0.66	1	0.09
5	Non-disclosure of material facts	2	19.64	2	3.93	-	-
6	Errors of classification	2	4.47	2	0.34	-	-

As a result of the account comments, there would be an overall increase in the loss in fifteen PSUs by ₹ 27.45 crore during the year 2016-17.

During the year, the statutory auditors had given adverse certificates[15] for six accounts and disclaimer[16] for one account of Himachal Pradesh State Electricity Board Limited. In respect of remaining 14 accounts, qualified reports were issued by the statutory auditors. CAG gave qualified reports containing comments for 17 accounts during supplementary audit and nil comments have been issued in respect of four accounts of three companies. The compliance of companies with the Accounting Standards remained poor, there were 24 instances of non-compliance in 6 accounts during the year.

[15] Adverse certificate means that accounts do not reflect a true and fair position.
[16] Disclaimer means auditors are unable to form an opinion on accounts.

1.21 Similarly, two working statutory corporations forwarded their three accounts during the period between October 2016 and September 2017. Of these, one account of Himachal Road Transport Corporation pertained to sole audit by CAG which was completed. The remaining two accounts of Himachal Pradesh Financial Corporation were selected for supplementary audit by CAG and audit comments were issued.

The details of aggregate money value of comments of statutory auditors and CAG are given in table 1.10 below.

Table 1.10: Impact of audit comments on Statutory Corporations

(Amount ₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	**Increase in loss**	2	41.60	1	49.19	1	2.50
2	**Decrease in loss**	-	-	1	0.04	2	0.47
3	**Non-disclosure of material facts**	1	5.27	1	0.57	-	-

₹ 2.50 crore increase in loss was in case of Himachal Road Transport Corporation.

Response of the Government to Audit

Performance Audits and Paragraphs

1.22 For the Report of the Comptroller and Auditor General of India on State Public Sector Undertakings for the year ended 31 March 2017, one performance audit on the Integrated Kashang Hydro Electric Project and 13 compliance audit paragraphs were issued to the Additional Chief Secretaries / Principal Secretaries of the respective departments with a request to furnish replies within six weeks. However, replies in respect of the performance audit and eight compliance audit paragraphs were awaited from the State government (November 2017).

Follow up action on Audit Reports

Replies outstanding

1.23 The Report of the Comptroller and Auditor General (CAG) represents the culmination of the process of statutory audit. 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 within a period of three months of their presentation to the Legislature in the prescribed format without waiting for any questionnaire from the Committee on Public Undertakings (COPU).

The status of receipt of explanatory notes is given in table 1.11 below.

Table 1.11: Explanatory notes not received as on 30 September 2017

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	2	12	0	0
2013-14	April 2015	1	10	0	1
2014-15	April 2016	2	12	2	9
2015-16	March 2017	1	11	1	11
Total		**6**	**45**	**3**	**21**

Out of 51 paragraphs / performance audits, explanatory notes to 24 paragraphs / performance audits (47 *per cent*) involving six departments were awaited (November 2017).

Discussion of Audit Reports by COPU

1.24 The status as on 30 September 2017 of performance audits and paragraphs that appeared in Audit Reports on State Public Sector Undertakings (Economic Sector) and were discussed by the Committee on Public Undertakings (COPU) is given in table 1.12 below.

Table 1.12: Performance audits / Paragraphs appeared in Audit Reports *vis a vis* discussed as on 30 September 2017

Period of Audit Report	Number of performance audits/ paragraphs			
	Appeared in Audit Reports		Paragraphs discussed	
	Performance Audits	Paragraphs	Performance Audits	Paragraphs
2010-11	1	15	0	15
2011-12	1	13	1	9
2012-13	2	12	0	9
2013-14	1	10	0	2
2014-15	2	12	0	1
2015-16	1	11	0	0
Total	**8**	**73**	**1**	**36**

Compliance to Reports of Committee on Public Undertakings (COPU)

1.25 Action Taken Notes (ATN) to 42 paragraphs pertaining to 27 Reports of COPU presented to the State Legislature between December 2013 and March 2017 had not been received (November 2017) as indicated in table 1.13 below.

Table 1.13: Compliance to COPU Reports

Year of COPU Report	Total number of COPU Reports	Total number of Paragraphs	Total number of recommendations in COPU Report	Number of recommendations where ATNs not received
2013-14	2	2	8	8
2014-15	10	16	65	65
2015-16	8	18	27	16
2016-17	7	6	58	58
Total	**27**	**42**	**158**	**147**

These reports of COPU contained recommendations in respect of paragraphs pertaining to five[17] departments which appeared in the Reports of the CAG for the years 2005-06 to 2014-15.

It is recommended that the Government ensures (a) sending of replies to draft paragraphs / performance audits and ATNs on the recommendations of COPU and (b) revamping of the system of responding to audit observations to ensure timely response.

Recoveries at the instance of audit

1.26 Audit findings involving recoveries that came to notice in the course of test audit of accounts of the PSUs are referred to the PSUs / State government through Audit Inspections Reports for further investigation.

During the course of audit in 2016-17, recoveries of ₹ 51.69 crore were pointed out to the Management of various PSUs which were admitted by PSUs. Against this, an amount of ₹ 40.53 crore was recovered during the year 2016-17, out of which ₹ 40.44 crore recovery belonged to HPSEBL alone.

Disinvestment, Restructuring and Privatisation of PSUs

1.27 During the year 2016-17, there was no case of privatisation of Government companies and statutory corporations. The State government has not prepared any policy on disinvestment of Government equity invested in State PSUs.

Coverage of this Report

1.28 This Report contains one performance audit on Integrated Kashang Hydro Electric Project by Himachal Pradesh Power Corporation Limited and 13 paragraphs including one thematic paragraph with financial implication of ₹ 846.91 crore.

[17] Power, Finance, Service, Infrastructure and Agriculture & Allied.

Chapter-II

Performance Audit

CHAPTER-II

PERFORMANCE AUDIT

Himachal Pradesh Power Corporation Limited

Integrated Kashang Hydro Electric Project

The Himachal Pradesh Power Corporation Limited (Company) is implementing Integrated Kashang Hydro Electric Project (HEP) that will have installed capacity of 195 MW (Stage-I, 65 MW and Stage-II & III, 130 MW). The estimated cost was ₹ 966.21 crore and the project was to be completed by November 2015. As of November 2017 only Stage I of the project has been commissioned (September 2016) and Stage II & III were under execution. An expenditure of ₹ 1,169.75 crore has been incurred so far, a cost overrun of ₹ 203.54 crore. The complete project is anticipated to be commissioned in January 2021. The Performance Audit of the Project covered planning, construction and operational activities of Stage I and planning and construction activities of Stages II & III. We noticed deficiencies in conception and preparation of Detailed Project Report, time & cost overrun due to delay in getting clearances and cases of avoidable / extra payments to the contractor and booking of extra cost to the Project. As a result, the generation cost at the completion of Stage I had increased from ₹ 2.85 to ₹ 4.78 per unit against the prevailing sale rate of ₹ 2.20 per unit thereby rendering the Project commercially unviable.

Highlights

The Asian Development Bank loan received through Government of India in the shape of 90 *per cent* grant (₹ 498.99 crore) and 10 *per cent* loan (₹ 55.44 crore) was extended as 100 *per cent* loan by Government of Himachal Pradesh, placing extra burden of ₹ 651.82 crore including interest of ₹ 152.83 crore on the project cost.

(Paragraph 2.7.2)

Time overrun of 30 months in Stage-I was attributable to non-availability of encumbrance free sites, stoppage of work by local people, blockade of project roads, extra time required for the backfill in the over-break due to contractor's fault and damage to the machine prior to commissioning. Stage-I of the project was completed with cost overrun of ₹ 311.82 crore. Consequently, per unit generation cost, up to the completion of Stage-I, had increased from ₹ 2.85 to ₹ 4.78 per unit against prevailing sale[1] rate of ₹ 2.20 per unit.

(Paragraph 2.8)

[1] Rate at which energy being sold to HPSEBL.

We also noticed the following:

- Extra expenditure of ₹ 8.30 crore, extra payment of ₹ 1.99 crore, non / short recovery of ₹ 6.77 crore, besides favour of ₹ 27.72 crore to the Contractor due to non-compliance of various contractual provisions *etc*. in Stage-I.
- Extra payment / avoidable extra expenditure of ₹ 17.61 crore in electro-mechanical works.
- Besides, there was loss of interest, extra / avoidable expenditure of ₹ 9.32 crore in Stage-II & III.

(Paragraph 2.10, 2.17 & 2.21)

2.1 Introduction

The Integrated Kashang Hydro Electric Project (Project) was conceived as a run of river development on Kashang *Khad* (a tributary of Satluj River) in Kinnaur district of Himachal Pradesh. A special purpose vehicle (SPV) named as Jal Vidyut Vikas Nigam (JVVN) was created (March 2003) for execution of Hydro Electric Projects in Beas and Satluj river valleys which was subsequently merged with Himachal Pradesh Power Corporation Ltd (Company) in August 2007. The project was part of two[2] projects to be executed in the Satluj river valley. The techno-economic clearance for the project with installed capacity of 195 MW (Stage-I, 65 MW and Stage-II & III, 130 MW) was accorded by Himachal Pradesh State Electricity Board in two parts *i.e.* Stage-I (July 2008) for ₹ 478.02 crore and Stage II & III (September 2009) for ₹ 488.19 crore. The financial arrangements were envisaged with Debt Equity Ratio of 70:30 (Debt ₹ 676.35 crore and equity ₹ 289.86 crore). The Project was designed to generate 238.62 Million Units (MUs) with one unit during first two years and 713 MUs thereafter. The construction work of both Stages of the Project was scheduled for completion between January 2014 and November 2015[3]. The construction work started during April 2009 and was envisaged to be completed within 48 months but first unit of the Project could only be commissioned in September 2016.

2.2 Organisational set up

The Company was created by the State government for execution of Hydro Electric projects in the State. The management of the Company is vested with a Board of Directors (BoD). The BoD is headed by Managing Director and there are other four Directors for supervising the business of the Company. The execution of Civil and Electro-Mechanical Works of the Project is under the overall control of a General Manager, who is assisted by three Assistant General Managers, Civil, Mechanical and Electrical.

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2 (i) Kashang HEP& (ii) Shongtong-Karchham HEP (work in progress).

3 Including Electro-Mechanical Works.

2.3 Audit objectives

The objectives of the performance audit were to assess whether:

- Detailed Project Report (DPR) was prepared by incorporating appropriate quantities of items to be executed;
- The terms & conditions of the contract were strictly enforced during execution of the Project;
- The Project was executed in economic, efficient and effective manner;
- There was a monitoring system in place to review performance of Project, take corrective measures to overcome deficiencies identified and respond promptly; and
- The Project was economically viable *i.e.* the market price at which power will be sold would cover the cost of generation.

2.4 Scope and Methodology of Audit

The present performance audit was conducted to cover the activities of planning, award & execution and operational activities of Stage I and planning and award & execution activities of Stage II & III of the project since inception to 2016-17. Audit examination involved scrutiny of records in Corporate Office and at Project Office at Reckong Peo relating to design and construction of the Project.

The entry conference for the performance audit was held in April 2017 to explain audit objectives to the Company and Government of Himachal Pradesh. The audit findings were reported (July 2017) to the Government of Himachal Pradesh and Company / Management, however, their response is awaited. The audit findings were discussed (August 2017) in the exit conference held with Additional Chief Secretary (MPP & Power) / Management of the Company. The replies of the Management, wherever received, have been incorporated in the Performance Audit.

2.5 Audit Criteria

The audit criteria adopted for assessing the achievement of the audit objectives were sourced from the following:

- Norms / guidelines of Central Electricity Authority (CEA), regarding planning of the Projects;
- Guidelines / instructions / directions of Central Water Commission (CWC);
- DPR; Reports of Geologist for exploration for Project and quality control;

- Standard procedures for award of contracts with reference to principles of economy, efficiency and effectiveness and guidelines issued by the Asian Development Bank (ADB); and
- Construction schedule and methodology submitted by the contractor for the execution of Project.

2.6 Audit Findings

The execution of Project was divided in two parts *i.e.* Stage-I and Stage-II & III. Accordingly, audit findings have also been broadly divided in two parts *viz.* for Stage-I and Stage-II & III.

2.7 Financial Management

2.7.1 Funding

A loan of ₹ 200 crore carrying interest rate of 11 *per cent* per *annum* was sanctioned (February 2003) by the Power Finance Corporation (PFC) for the Project. Against the sanctioned loan of ₹ 200 crore only ₹ 30.00 crore was availed by the Himachal Pradesh State Electricity Board Limited (HPSEBL) for infrastructure development works executed prior to handing over the construction of the project to the Company. Further, a loan of ₹ 708.16 crore (contract value of Civil and Electro Mechanical Works) was taken from Asian Development Bank (ADB) through Government of India (GoI) under Himachal Pradesh Clean Energy Development Program (November 2008) for the execution of the project. An expenditure of ₹ 1,169.75 crore has been incurred by the Company on the Project till March 2017 with Debt Equity Ratio of 51:49[4] against the prescribed norms of 70:30 by Central Electricity Regulatory Commission (CERC) for tariff determination.

2.7.2 Charging of Interest on grant

Against sanctioned loan of ₹ 708.16 crore from ADB carrying interest at the rate of 0.20 *per cent* above LIBOR rate, the GoI transferred funds of ₹ 554.44 crore upto March 2017 in the shape of 90 *per cent* Grant and 10 *per cent* Loan at an interest rate of nine *per cent per annum* through State Government (GoHP). However, GoHP had diverted the grant and treated the grant amount as loan to the Company at an interest rate of 10 *per cent per annum.* The conversion of grant of ₹ 498.99 crore into loan resulted in total extra burden of ₹ 651.82 crore including interest of ₹ 152.83 crore upto August 2016 on the Project cost thereby, increasing the cost of generation and defeating the very purpose of grant released by GoI for providing clean energy at affordable rates.

2.8 Time and Cost over run

Techno-Economic Clearance (TEC) for the Project with installed capacity of 195 MW was accorded in two parts *i.e.* Stage-I (July 2008) for ₹ 478.02 crore

[4] Debt ₹ 596.91 crore & Equity ₹ 572.84 crore.

and Stage II & III (September 2009) for ₹ 488.19 crore. There was a time and cost overrun as shown in the table 2.1 below.

Table 2.1: Time & cost overrun as on 31st March 2017

(₹ in crore)

Name of work / Package	Estimated cost	Due date of completion as per award	Present status	Actual expenditure.	Cost overrun	Time over run in month
Work relating to Stage-I	478.02	February 2014	Completed in September 2016	789.84	311.82	30 months
Work relating to Stage-II & III	488.19	November 2014*	Work in progress	379.91	---	28 months

* Civil works only

As shown in the above table, Stage-I was completed at a cost of ₹ 789.84 crore, a cost overrun of ₹ 311.82 crore. The time overrun of 30 months was attributable to non-availability of encumbrance free sites, stoppage of work by local people, blockade of project roads, extra time required for the backfill in the over-break due to contractor's fault and damage to the machine prior to commissioning. The cost overrun occurred as a result of time overrun plus deficient management of the project which led to increase in cost mainly on account of avoidable extra expenditure, payment for works at higher rates, non / short-recovery from the contractor and short provision of quantities in the DPR.

Consequent to increase in project cost, per unit generation cost up to the completion of Stage-I had increased from ₹ 2.85 to ₹ 4.78 per unit against prevailing sale[5] rate of ₹ 2.20 per unit. Generation cost would increase further on completion of Stage II & III which will directly impact the viability of the Project.

The time & cost overrun as analysed in audit were mainly due to:

(A) Controllable: Charging of Interest on grant by GoHP, delay in handing over of sites to the contractors, extra time required for backfill in the over-break due to contractor's fault, non-availability of evacuation system for three months, damage to machine prior to commissioning, incorrect estimation of Bill of Quantities, wrong allocation of expenses and expenditure on Local Area Development Activities (LADA) over and above the norms.

5 Rate at which energy being sold to HPSEBL.

(B) Uncontrollable: Stoppage of work by local people and blockage of roads & avalanches. The impact of these factors has been discussed below.

The delay of more than two years (February 2014 to August 2016) in completion of Project (Stage I) had not only resulted in increase in cost but also resulted in potential generation loss of 616.435 MUs valued at ₹ 175.68 crore[6] including deferment of free power share of ₹ 21.08 crore (@ 12 *per cent*) to Government of Himachal Pradesh (GoHP). Besides, there is delay in achievement of social objective of providing additional one *per cent* free power to the local area residents.

2.9 Stage-I- Planning

2.9.1 Formulation of Detailed Project Report and Cost estimates

The DPR provides the basis for authorisation of the Project for construction. The capital cost of a Project includes all costs associated with investigation, design, construction and maintenance during construction period. Deviation in cost without any change in the scope of work and non-provision of major items in the Bill of Quantities (BOQ) can be termed as deficiencies in planning and estimation. Audit observed that cost of the project was kept below ₹ 500 crore in the DPR by providing inadequate / non-providing some essential items presumably to avoid concurrence of the Central Electricity Authority. Due to inadequate / non-provision of items in BOQ of Stage-I, payments of ₹ 65.46 crore have been made on the extra, deviated and analogous items paid on current market / awarded rates against total contract payment of ₹ 250.45 crore (excluding cost escalation) which worked out to 26.13 *per cent* of contract payments. Thus, the very purpose of preparation of estimates was defeated to that extent.

2.9.2 Unfruitful expenditure on purchase of land

The Company incurred avoidable expenditure / extra expenditure of ₹ 18.09 crore on construction of buildings and purchase of land as discussed below.

(i) The Company acquired 2.00.70 Hectare private land at a cost of ₹ 4.30 crore between September 2006 and January 2008 at Pangi for the construction of residential colony. Audit noticed that no survey was done prior to construction of buildings at a cost of ₹ 2.80 crore which were badly damaged due to landslides in June 2013 and are lying unutilised. The survey was got carried out subsequently from the Geologist of the Company in November 2013, which showed that area was covered with thick layer of overburden / Glacial Fluvial Deposit and was not fit for construction of the buildings. Had the survey of site was done before construction of buildings, an unfruitful expenditure of ₹ 2.80 crore could have been avoided.

[6] 616.435 MUs x ₹ 2.85 per unit (DPR rate) = ₹ 175.68 crore.

The General Manager (Project) stated that Geological Survey of India during site visit (August 2016) pointed out that the problem appears to be due to placement of structure on loosely compacted material & rock and lack of proper drainage arrangement. This clearly indicates that the site for construction of colony was not selected after proper geological survey.

(ii) Against the payment of ₹ 1.42 crore made for the diversion of 18.71.42 hectare of forest land, the Company actually got possession of only 13.07.21 hectare of land. The possession of remaining 5.64.21 hectare land could not be taken as the same was stated to be under encroachment. Further 3.25.28 hectare and 3.734 hectare of land got diverted for quarry sites at intake of Project and Akpa village respectively without taking into cognizance of the fact that the stones excavated could be utilised for processing into aggregate and sand during construction. Tenders for civil works were invited with the condition that the contractor could utilise the excavated stone. During construction, the contractor utilised the excavated material for aggregate and sand. Resultantly land acquired for quarry sites remained unused (June 2017). These quarry sites would not be used in future also, as execution of Stage-I is complete and for the execution of work for Stage-II & III, the stone retrieved during excavation has been made available to the Contractor free of cost.

Thus, the payment of ₹ 0.96 crore made for the Net Present Value (NPV) and compensatory afforestation for the said land has been rendered unfruitful.

(iii) Similarly, private land measuring 3.49.85 hectare acquired between January 2010 and October 2010 at a cost of ₹ 10.03 crore for setting up of common township at Dakho village could not be utilised. The land was purchased within the distance of 1200 yards ignoring the Notification 125 SRO dated 22 November 2005 which provided that land lying within this distance from the periphery of Ammunition Point of defence forces in district Kinnaur may be kept free from building. This also put an extra burden of interest of ₹ 7.02 crore[7] on the Company.

2.10 Award and execution of civil works (Stage-I)

After completion of preliminary works in order to facilitate the execution of the project, works had been broadly divided into three packages and awarded to different contractors. Civil and Hydro Mechanical work for Stage-I during February 2009 for ₹ 296.91 crore, Civil and Hydro Mechanical work for Stage-II & III during October 2010 for ₹ 252.39 crore and Supply & erection

[7] Calculated at the rate of 10 *per cent per annum* being charged by Government of Himachal Pradesh on loan.

of Electro-Mechanical works during March 2010 for ₹ 120.79 crore, EURO 0.38 crore and Swiss Francs (CHF) 0.27 crore.

After following the tendering process, the Civil work was awarded (February 2009) to M/s Hindustan Construction Company Ltd. (Contractor) at a cost of ₹ 296.91 crore. The work was to be completed by January 2013, however, the contractor completed the work only by March 2016, after a delay of 38 months which was substantially attributable to the contractor. Audit scrutiny of contract agreement and record relating to execution of works showed cases of extra expenditure of ₹ 8.30 crore, extra payment of ₹ 1.99 crore, non / short recovery of ₹ 6.77 crore, besides favour of ₹ 27.72 crore to the Contractor, due to non-compliance of various contractual provisions *etc*., as discussed below.

2.10.1 Avoidable extra expenditure

(i) Central Water Commission in its guidelines for River Valley Projects (Chapter 14.11) has provided for insertion of binding clause and upper limit for payment to keep control over the payments where the quantities could not be assessed initially. However, Chapter 1 (Schedule of Price) of Contract Agreement provides that the rates for the quantities executed in excess of 125 *per cent* would be analysed on current market rates.

Audit noticed (May 2017) that grouting, shotcrete and rock bolts *etc.* were kept out of the scope of binding clause and were allowed to be paid on the contractual rates even beyond 125 *per cent*. During execution of work the quantities of rock bolt used in Pressure Shaft and grouting in Head Race Tunnel had increased by 612.98 and 151.97 *per cent* respectively, as compared to the awarded quantities. For execution of these increased quantities the Contractor was paid at contractual rate of ₹ 3,554.88 per Running Meter (Rmt) and ₹ 1,149.96 per bag of Cement against the analysed rates of ₹ 2,237 per Rmt and ₹ 638 per bag respectively, in cost estimate. Had these items been kept within the ambit of above limit of 125 *per cent*, payment of ₹ 2.94 crore on quantities executed in excess of 125 *per cent* could have been avoided.

(ii) Clause 4.44 of the Contract Agreement (Volume IV) stipulates that the measurement and payment of concrete shall be made based on actual volume of particular mix-design of concrete. Payment for backfill of concrete beyond the pay-line in geological accepted over-break in underground excavation will be made at the rates fixed for mix-design of M-10.

The Engineer-in-Charge on the instance of the contractor requested (August 2012) the Design Wing to allow use of M-25 instead of M-10 lining grade concrete for backfill as it was difficult and time consuming to use M-10, accordingly design wing, of the Company approved the lining grade (M-25) of concrete to backfill where rib supports were not required.

Audit observed (June 2017) that in Head Race Tunnel (HRT) and Balancing Reservoir (BR) backfill of 4,367.484 M^3 and 4,488.113 M^3, respectively was done with M-25 lining concrete, the rates for which were higher as compared to the M-10, and paid for accordingly. The deviation in approved design and methodology of concrete resulted in extra expenditure of ₹ 4.19 crore.

2.10.2 Payment for works at higher rates

During execution of civil works the Company made extra / over payment of ₹ 1.99 crore to the Contractor due to non-exclusion of excise duty & custom duty (exempted) elements from the rates of input items, non-exclusion of entry tax (being paid separately), incorrect analysis, payment of higher rates for the deviated / extra / additional items as detailed in ***Appendix-2.1.***

2.10.3 Non / Short recovery of stone used at work

Clause 5 of Section 6 of the Contract Agreement stipulates that the Contractor can use stone retrieved from the underground excavation for crushing of aggregate after payment of cost. Audit noticed that the Company while working out the recovery of stone used by the Contractor had not taken into account the entire quantity of stones used for crushing of sand and aggregate required to execute the quantities of concrete, shotcrete and grouting and had not included the entire quantity of stones used by the Contractor resulting in short recovery of ₹ 6.77 crore as discussed below.

(i) The Contractor had used 1,21,268.41 M^3 of aggregate stone and sand for concrete, grouting and shotcrete works, out of which 9,974 M^3 was purchased from the open market. Evidently, 1,11,294.41 M^3 sand and aggregate was crushed from the stone retrieved from excavation. After taking into account the wastage of 38 *per cent* for the quantities used by the Contractor, total quantity of required stones worked out to 1,79,507.11 M^3 against which recovery was made for only 70,957.646 M^3 resulting in short recovery of ₹ 3.26 crore.

(ii) In addition the Contractor had backfilled the over-breaks of 26,186.10 M^3 (with sand and aggregate crushed from 58,285.190 M^3 stone), over and above the approved quantity at his own cost and erected 13,476.156 M^3 wire crates with 52,637.865 M^3 stones at dumping sites besides developing bench (6,118.130 M^3 stones) for working facility. The quantity of stone required for execution of above works worked out to 1,17,041.185 M^3, even after excluding the wastage. The cost of stones valuing ₹ 3.51 crore was not recovered.

2.11 Extension of undue benefit to the contractor

Audit noticed that during execution of work the Contractor was extended undue financial benefit to the extent of ₹ 27.72 crore as discussed in the following paragraphs:

2.11.1 Non-recovery of insurance charges

Condition 18.2 of General Conditions of Contract (GCC) stipulates that Contractor shall insure the works, plant and material against loss or damage as the awarded rates were inclusive of insurance charges and further insurance cover shall be maintained till the expiry of defect liability period. Audit noticed that the Civil Works were taken over by the Company on 31 March 2016 with some left out works. The Performance Guarantee and defect liability period was extended upto 31st March 2018, however, the Contractor had not taken insurance cover from April 2016 onwards, for which the cost of insurance charges to the extent of ₹ 2.54 crore (upto October 2017) included in the awarded rates had not been recovered. The Company may consider recovering the insurance cost from the contractor in term of terms and conditions of the contract. The Project remained without insurance cover from April 2016 to October 2017.

2.11.2 Non cancellation of Project Authority Certificate

The Company issued Project Authority Certificate (PAC) for 2,969.426 MT steel plates to the Contractor for availing exemption of Custom Duty (CD) and Excise Duty (ED) thereon. Audit noticed (June 2017) that against the PAC quantity of 2,969.426 MT, the actual utilisation of plates at Project site was 2,762.699 MT only. The Contractor had availed benefit of exemption of CD and ED to the extent of ₹ 0.47 crore on the unutilised quantity of 206.727 MT plates. Though the Project works had been taken over by the Company in March 2016, but no action to cancel the PAC for unutilised quantity of steel plates has been initiated so far (June 2017).

2.11.3 Non compliance of contractual provisions

Contract Agreement executed with the contractor stipulates that the contractor shall make arrangements for required power by installing Diesel Generating (D.G.) Sets at his own cost. Audit noticed (June 2017) that the Contractor had completed the entire construction work by utilising the power connection of the Company through the supply system of the Company. By utilising the power connection and supply system of the Company the Contractor had avoided the payment of Infrastructure Development Charges of ₹ 0.87 crore to HPSEBL and the same had to be borne by the Company being the original consumer of the HPSEBL for the electricity connection.

2.11.4 Unjustified extension of time

Civil component of the Project was taken over by the Company on 31 March 2016 with some left out works. The case for final extension upto 31 March 2016 with delay of 28 days attributable to the Contractor was recommended (October 2016) by the GM, Project. The maximum delay in completion of work was in the component of Pressure Shaft, where additional concrete work of 5,211.03 M^3 was executed, a time period of 8.81 months has been considered for delay besides other factors. Audit noticed that to work out the actual delay on the part of Contractor for levy of Liquidated Damages (LD), General Manager (GM), Project while recommending the extension of time had not accounted for the time spent to complete the additional / extra works required to be executed due to Contractor's fault as detailed below.

a) Time period of 19.89 months required for the backfill of over breaks of 11,765.763 M^3 due to the Contractor's fault.

b) Non-execution of work during night shift due to shortage of diesel.

c) Delay in commissioning of machines due to depression in the floor level of Gas-Insulated Switchgear (GIS).

d) Over breaks of 14,420.337 M^3 in other component at Contractor's fault and design of under capacity Penstock.

From the above it could be seen that by not accounting for the time spent on these issues attributable to the contractor, favour has been extended to the contractor by limiting delay to 28 days / LD charges to two *per cent* instead of 10 *per cent*. This has resulted in favour of ₹ 23.75[8] crore extended to the Contractor.

2.12 Extra / unfruitful expenditure on Geo-Technical Instrumentation

(i) The Company awarded (January 2011) complete package for supply and installation of Geo-Technical Instruments (GTI) at various Project sites to M/s Progressive Machine Tools (GTI contractor) for ₹ 2.94 crore with scheduled completion period of 30 months (August 2013). These instruments were to be operated and maintained by the Contractor during construction phase and for an additional six months post construction. Audit noticed (June 2017) that the Company incurred an extra expenditure of ₹ 1.17 crore on maintenance, monitoring and analysis work through these instruments due to non-completion of Civil Works by the Contractor within the stipulated period. As a result the execution period for GTI had to be extended upto January 2017 resulting in extra payment of ₹ 1.17 crore.

[8] 8 *per cent* (10 *per cent* – two *per cent* already charged) of contract value of ₹ 296.90 crore.

(ii) Besides, 67 Geo-Technical Instruments installed, between April 2011 and August 2015, for recording and analysis of data during construction and six months post construction of the project, stopped working even before operationalisation of all the generating units, rendering the expenditure of ₹ 0.71 crore incurred for installation of these instruments unfruitful. Moreover, the purpose of installing these instruments - monitoring the behaviour of the water conductor system during flow of water - was defeated.

(iii) Clause 17.1(b) of GCC of Contract of civil works provides that contractor shall indemnify the employer against all damages to any property, which arises in the course of execution of works by the contractor. It was observed that 14 instruments valuing ₹ 0.09 crore were damaged by the civil contractor in power house complex between April 2011 and February 2014 but, cost thereof was not recovered by the company.

2.13 Extra expenditure due to designing of under capacity Penstock

The pressure rise limit due to back pressure of water at the time of closure of machines for Electro-Mechanical Equipment was 25 *per cent* as intimated (June 2009) by the Electro Mechanical Wing to the Civil / Mechanical Wing. Ignoring this aspect the fabrication drawings for Penstock were approved (July 2010) with a pressure limit of 10.6 *per cent.* This discrepancy was noticed after completion of fabrication of Penstock and had to be rectified by providing Thrust Collars, procuring additional quantity of plates, dismantling of already erected Ferrule and concrete by incurring extra expenditure of ₹ 0.20 crore.

2.14 Extra payment due to deviation in quantities

Out of total approved quantity of 8,295.999 M³ over break in HRT, 355.832 M³ was left without back fill and 622.248 M³ was covered with shotcrete, which was paid separately. Thus, net area of back fill was 7,317.919 M³ in the over break against which the company had paid for 8,765.559 M³ concrete. This resulted in extra payment of ₹ 0.69 crore[9]. Similarly, in case of Balancing-Reservoir against the approved over-breaks quantity of 4,918.169 M³, payments for 5,013.047 M³ concrete and 778.36 M³ shotcrete have been made. This resulted in extra payment for 872.238 M³ valued at ₹ 0.36 crore[10].

2.15 Other factors contributing increase in Project cost

2.15.1 Excess expenditure on local area development activities

As per provisions of Hydro Power Policy, 2006 issued by GoHP, the Company had to pay Local Area Development Fund (LADF) at the rate of

9 1447.64 M^3 X ₹ 4738 (difference of rate of M25 and M10 in HRT) = ₹ 68,58,918.

10 872.238 M^3 X ₹ 4082 (difference of rate of M25 and M10 in BR) = ₹ 35,60,475.

1.5 *per cent* of the project cost. The Company, accordingly, paid ₹ 7.06 crore towards LADF against Stage-I. In addition the Company had also incurred an expenditure of ₹ 3.51 crore under LADF without any demand from the local panchayats, which was a pre-requisite for admissibility of expenditure under LADF. The Company requested (March 2012) the Director, Energy to adjust the expenditure against LADF but the same remained un-adjusted due to incurring of expenditure without any demand from locals.

The GM, Project stated (June 2017) that matter to include the works of ₹ 3.51 crore executed under LADF has been taken up with the appropriate authority.

2.15.2 Extra expenditure due to deviation from personnel policy

As per notification issued (July 2007) by the GoHP, the Company had to follow Personnel Policies as were in force in Satluj Jal Vidyut Nigam Ltd (SJVNL). Audit observed that the Company paid Special Project Site Allowance (SPSA) to all its employees posted on project site, on percentage basis on basic pay plus DA, whereas, the SJVNL was paying the SPSA based on slabs at fixed rates. This had resulted in extra expenditure of ₹ 1.48 crore (on DA portion only) during the period from July 2010 to March 2017.

2.16 Monitoring and Quality control

2.16.1 As per revised guidelines (October 2011) for management of Local Area Development Fund in respect of Hydro Electric Projects, the developer was entitled to claim compensation for the delays in commissioning of the Project due to work stoppage on account of agitation by local people during construction of the Project. For this purpose, details of stoppage of work by the locals were to be got approved from the State Level Committee (SLC). The loss on this account was to be deducted / adjusted from the revenue which was to accrue from one *per cent* free power to be made available to local population.

Audit noticed (May 2017) that delay in commissioning for 74 days was caused by agitation by local public leading to generation loss of ₹ 14.55 crore. Stage-I of the Project has been commissioned on 1st September 2016 but the Company did not report (June 2017) the matter to the SLC due to which the Company could not recover the generation loss since the commissioning of Project *i.e.* September 2016.

The GM, Project stated (June 2017) that delay of 52 days has been intimated to the Corporate Office of the Company in May 2017. The reply is not tenable as the SLC is yet (June 2017) to be intimated for obtaining the requisite approval.

2.16.2 Non-recovery of Compensation

Clause 17.1(b) (Section-7, Vol II) of Contract-Agreement stipulate that Contractor shall indemnify the employer against all claims, damages, losses to any property, by reasons of contractor's design (if any) during the execution and completion of works.

Based on the joint inspection report submitted by LADC and company engineers, the company had to pay compensation of ₹ 1.05 crore for damages in structures of 534 houses of Pangi village. As the Contractor had to indemnify the Company against such losses during construction the same should have been recovered from the Contractor. Thus the Company extended favour to the Contractor by not recovering the amount of compensation paid to villagers as per the terms and conditions of the Contract Agreement.

2.16.3 Quality Control

Durability and operational efficiency of any Project, primarily depends on the execution of its entire components consistent with design specifications and laid down standards. To ensure these aspects, regular quality control, testing of the material used, supervision of all quality aspects should have been established by the Company within the Project area. However, one of the two quality control laboratories is situated at Sundernagar *i.e.* about 250 km from the Project area making it time consuming to carry out requisite testing through this laboratory.

(i) During erection of Electro-Mechanical Equipment, a depression of about 160 mm in the floor elevation of GIS was observed due to mistake on the part of civil Contractor. This led to delay in commissioning of machines by 14 days besides, extra expenditure of ₹ 8.61 lakh on rectification of Sole Plates erected by the Electro-Mechanical Contractor for which no recovery was made from the civil Contractor.

(ii) Few samples of crushed aggregate and sand tested from time to time were found unsuitable for concrete work. The company had not put any mechanism in place to ensure non-utilisation of crushed material found unsuitable for concrete.

2.16.4 Risk to the safety of the project

(i) In the Head Race Tunnel (HRT), 355.832 M^3 of over-break was left without backfill, which is against the best construction practices and is therefore vulnerable to blast / cave in due to reverse pressure.

(ii) Technical Specification under clause 4.27 of Contract Agreement envisaged that the concrete which is not placed and compacted in accordance with the specification and found to have lower strength density as determined from test samples shall be removed and replaced by the Contractor at his cost. Test results of 28 days of casted cubes of concrete mix design M-25 showed that 385.25 M^3 concrete costing ₹ 0.34 crore used in various components was below the required strength. The test reports were received after a delay of one to three months and no action to replace the substandard concrete was initiated.

The GM Project stated that for the concrete, payment had been made to the Contractor on the basis of report of seven days strength, however, no laid down procedure had been received from the Quality Control Wing to deal with such cases. This indicated that the Company compromised with the quality of work. Audit is of the view that payment of ₹ 0.34 crore made to the contractor for below strength concrete was not admissible.

(iii) During December 2014 and January 2015, 578.248 M^3 of concrete (M-20) was poured by the Contractor at Pressure Shaft without obtaining Ok Card, casting cubes and despite some deficiencies pointed out by the quality control engineer in concrete mixing equipment used, payment of ₹ 0.40 crore being the value of concrete was duly made to the Contractor. This also indicates the ineffective internal as well as poor quality control of the Company during execution of work.

(iv) Pull test on Anchor Bars and Bolts according to Indian Standard 11309-1985 envisages that diameter of bore hole should be at least double the dia of Anchor Bar. In case of application of load, pressure should be applied with central hole jack of 50 Tonne capacity with uniform slow rate of 250 kg per minute to avoid jerk, until total extraction greater than 40 mm is reached or bolt yields or fracture, whichever is early. Audit noticed (June 2017) that above Standards were not followed while preparing the specifications for placing Anchor Bars / Bolts. Audit observed 29 reports which showed that the bolts failed the tests, however, no case of replacement of the defective bolts was present on record. It was also observed that in 10 cases the bolts should have been reported as failed however, no comment was made in the test reports. Thus, due to sub-standard quality of batch of 1,950 (39 x 50) rock bolts, placed at a cost of ₹ 0.82 crore[11], the strength of reinforcement was compromised.

Further, the pull test of 23 bolts required 1,772 minutes excluding the time for shifting of testing equipment against the available time of 1,440 minutes in a day. This showed that pull test were incomplete and did not meet the quality control standards.

The GM, Project stated that the pull test have been carried out as per Manual on Quality Assurance and Quality Control with IS 11309. Further, pull out test of 23 rock bolts in a day can be possible subject to availability of additional resources. The reply is not based on the facts as the Manual on Quality Control of the Company has not been framed as per Indian Standards. In so far

[11] 39 x 50 (one out of 50 was tested) x 3.15 Rmt (min length) x ₹ 1,340.64 (awarded rate) = ₹ 82,34,881.

as availability of resources is concerned, the single team carried out the entire pull out tests in a single day.

2.17 Execution of Electro-Mechanical works

The package for Electro-Mechanical Works comprising of supply, transportation and erection of Hydro Generating equipment and allied work was awarded (March 2010) to M/s Andritz Hydro Private Ltd. (Contractor) at a cost of ₹ 120.79 crore, EURO 0.38 crore and Swiss Francs 0.27 crore. The work was to be completed by February 2014, however, was actually completed by the Contractor in September 2016. The scrutiny of records revealed cases of extra payment / avoidable extra expenditure of ₹ 17.61 crore on execution of these works as discussed below.

2.17.1 Avoidable payment of price escalation due to insertion of faulty clause

Appendix 2(A) of the Contract Agreement stipulates price adjustment with ceiling of ± 20 *per cent*. Any escalation in excess of 20 *per cent* at any stage shall be kept to the credit of the Contractor and shall be adjusted as and when the actual payment of escalation fell below 20 *per cent* of cumulative ex-works price of plant and equipment already supplied. The objective of this clause was to safeguard the financial interest of the Contractor by adjusting the credit against any decrease in the price of any items supplied during the Contract period. The contract however, clearly did not provide for excluding the bought out items to be used from the ambit of this Clause of price escalation and element of interest free advance of ₹ 13.65 crore extended to the Contractor as was provided by the Beas Valley Power Corporation in the contract agreement of Uhl-III HEP.

Audit noticed (June 2017) that due to non-insertion of an appropriate clause for excluding bought out items procured from the Sub-Vendors, items worth ₹ 14.82 crore bought by the Contractor were supplied to the Company for ₹ 23.72 crore (a negative price variation of ₹ 8.90 crore *i.e.* 37.52 *per cent)*. Against this the Company had paid cost escalation of ₹ 1.55 crore. Further, in the price adjustment formula, component of interest free advance extended to the Contractor was also not excluded, resulting in avoidable extra payment of escalation of ₹ 2.32 crore[12].

The GM, Project stated that price variation is being given to the Contractor on 85 *per cent* of ex-works price and not on 100 *per cent* value of contract price as such no price adjustment is allowed on advance payment. The reply is not tenable as the Contractor in their bid had clearly given the break-up of fixed and variable cost of material at 15 and 85 *per cent*. In case of bought out

[12] ₹ 13.65 crore (advance to contractor) x 85 *per cent* (variable cost) x 20 *per cent* price escalation = ₹ 2.32 crore.

items it was stated that while preparing bidding document in future, the same can be considered after the approval of Management and funding agency.

2.17.2 Supply of electro mechanical material ahead of agreed schedule

In order to complete the awarded work, the Contractor for electro mechanical works, based on the agreed dates of making civil fronts available to him, had submitted schedule for purchasing, manufacturing, transportation to site, handling and storage of unit-1 and unit-2. Audit observed (June 2017) that the contractor had not adhered to supply schedule and items valued at ₹ 51.15 crore were supplied ahead of agreed schedule (ranging between 94 and 491 days) for which the Company, consequently, had to release payment in advance. This resulted in extra burden of interest of ₹ 3.48 crore to the Company on ₹ 51.15 crore released ahead of the schedule, although the work was completed after considerable delay from the stipulated completion date.

The GM, Project stated that as per agreed time schedule (December 2010), the Contractor had started manufacturing and transportation of equipment after getting despatch clearance. However, programme of performance was approved in August 2012 as per actual effective date of agreement. This is indicative of flaws in implementation / execution of work which put extra interest burden on the Project cost.

2.17.3 Extension of defect liability period

As per Contract Agreement, the defect-liability period of 540 days was available from the date of completion or one year from the date of operational acceptance whichever accrues first.

Audit noticed (June 2017) that the commissioning dates were not achieved due to non-availability of civil front in time, delay in opening of Letter of Credit (LC), non-availability of space for storage of material, blockade of roads *etc.* In pursuance to sub clause 27.2 of GCC contractor proposed (October 2015) for extension of warranty at additional cost of ₹ 3.36 crore upto June 2017 which was subsequently revised to ₹ 3.98 crore upto March 2018 with the approval (September 2016) of the Company. Thus, due to delay in completion of the Project, the Company had to incur an extra expenditure of ₹ 3.98 crore on extension of defect liability period.

The GM, Project stated that extension of warranty was required to cover any of the defects due to design, engineering, material and workmanship at the contractor's cost. The reply was not acceptable as the Company had to incur this additional cost due to delay in completion of civil works.

2.17.4 Avoidable liability of penalty on Entry Tax

Clause 14 of Special Condition of Contract provides that Contract Price is exclusive of all taxes, duties and other levies and the same shall be reimbursed by the employer on actual basis. In terms of H.P. Entry Tax Act, 2010, Entry

Tax on material brought from outside the State was to be deposited by the Contractor.

Audit noticed (June 2017) that the Contractor brought certain goods from outside the State by using TIN of the Company and had not deposited the Entry Tax. On receipt of demand from the Excise and Taxation Department, the Company deposited Entry Tax amounting ₹ 5.06 crore during March and April 2014. Due to non-depositing of tax in time, the Excise and Taxation Department also imposed interest and penalty of ₹ 3.78 crore in January 2015 against which the Company had filed (January 2015) an appeal before the Excise and Taxation Commissioner and decision thereof was still (June 2017) awaited.

Audit further noticed that for the execution of civil works the Contractor had used 6,144.527 MT steel costing ₹ 35.14 crore for reinforcement and fabrication of Penstock on which no Entry Tax has been claimed by the Contractor. Hence the possibility of penalty on Entry Tax amount of ₹ 1.41 crore at later stage could also not be ruled out.

The GM, Project stated that in case the decision is pronounced against the Company, the penalty imposed by the Assessing Authority shall be recovered from the Contractor who has adopted wrong means and had not deposited Entry Tax at first instance. The reply is not tenable as it was the responsibility of Company to ensure that taxes were paid by the contractor.

2.17.5 Extra payment of Service tax

Transportation of goods by road was covered under the scope of Service Tax vide GoI Notification issued in December 2004 and January 2005. In view of the special nature of the goods transportation agency service, the GoI vide amendment issued in March 2008 provided that service tax is required to be paid on 25 *per cent* of the freight.

Audit noticed (June 2017) that the company had paid service tax on the full value of transportation charges of ₹ 4.66 crore instead of on 25 *per cent* in accordance with the provisions of *ibid* orders resulting in extra payment of ₹ 0.46 crore.

In reply (June 2017) it was stated that no guidelines were issued to the field office by the Company about the GoI's notification and its applicability on 25 *per cent* value of transportation services. The reply is not based on the facts as the Contractor in its bid has specifically given a footnote wherein the levy of service tax on 25 *per cent* value has been calculated.

2.17.6 Payment of Service tax without documentary proof

The main Contractor further awarded transportation and erection of equipment work to a Sub-Contractor. From the data submitted by the Sub-Contractor it was gathered that the Sub-Contractor had deposited the service tax on transportation and erection work against which company had reimbursed service tax to the extent of ₹ 1.55 crore to the main Contractor without obtaining required documentary proof of deposit. The actual service tax paid by the sub-contractor for the full contract value cannot be ascertained. The total reimbursement remains questionable as no documentary evidence against payment of service tax was available on record of the Company.

In reply (June 2017) it was stated that action in the matter shall be taken after taking the view of Electric Contract cell and Corporate Finance Wing of the Company.

2.17.7 Non-recovery from the contractor

Clause 13 of Contract Agreement envisaged that the value of the Letter of Credit (LC) will be as per payment schedule for each quarter and it shall be the contractor's responsibility to utilise the LC for the concerned quarter to fullest extent. The charges for the unutilised portion of LC and for the period it remained unutilised shall be borne by the contractor.

Audit noticed that the Company had not recovered LC charges of ₹ 0.49 crore being the share of the Contractor on unutilised amount of LC up to December 2016.

In reply it was stated that necessary action to recover LC charges, shall be initiated.

2.18 Damage to the machine resulting in generation loss

During the commissioning test of unit No. III on 30-6-2016, when machine was started, the Stator and Rotor got damaged. On checking, one foreign particle on the Rotor pole end connections was found. Technical Committee was constituted (August 2016) by GoHP, to establish the actual cause of damage to the machine. Committee in its report pointed out that the reason for damage was continuous operation of the machine for 45 minutes even when the earth fault was detected through Supervisory Control and Data Acquisition (SCADA) which was installed at a cost of ₹ 35.42 crore but same was bypassed. This was against the standard engineering practice.

From the above it is evident, that the cause of the damage to the unit-III was negligence / lapses in observing the various safety measures to be adopted during erection, boxing up and commissioning of the generator unit. Thus, negligence on the part of Company had resulted in generation loss of 39.77 MUs[13] as per design capacity / delay period valued at ₹ 11.61[14] crore. Further bypassing the SCADA raises the question mark on the utility of the system itself and also indicates the casual approach of the Company.

In reply it was stated that as the unit no. III was under testing and not under commercial operation, hence no generation loss has occurred to the Company. Reply of the Company was not tenable as due to negligence the commercial

[13] 238.62 MUs *per annum* / 12 months x 2 months = 39.77 MUs.

[14] 39.77 MUs * ₹ 2.92 per unit.

operation was delayed by two months resulting in revenue loss to the Company.

2.19 Non –revision of rate on equitable basis

Clause 39.2.4 of Section-7, GCC stipulates that if the prices of any change are inequitable, the parties thereto shall agree on specific rates for the valuation of the change. Item no. 1.7 of phase I of supply part consisted two sets of 11 KV Generator Circuit Breakers (GCB) and one set for 3rd unit and mandatory spare parts that were to be imported as per Contract at total price of EURO 5,45,409. Due to change in the size of Bus Duct Gallery the revised proposal of Contractor to fit the GCB of ABB make in reduced dimension of Bus Duct Gallery with complete cubicle assembled from M/s Power Gear Ltd, Banglore was accepted. As the material after change in design had to be procured within India, the Company asked the Contractor to pass on the financial benefit, arising due to saving in expenditure to the Company.

Audit noticed that the Contractor supplied the material at a cost of ₹ 4.49 crore after purchasing the same for ₹ 3.20 crore from M/s Power Gear Ltd, Banglore. However, the Contractor agreed for only one *per cent* rebate in the BOQ rates during negotiation (October 2013). Even after allowing 20 *per cent* Contractor's profit and overhead charges, extra payment to the Contractor on this account worked out to ₹ 0.65 crore out of which benefit of only ₹ 3.76 lakh (one *per cent*) was passed on to the Company. This was indicative of the fact that the Company negotiated the rates poorly and revision of rates for change was not done on equitable basis.

2.20 Stage-II & III

Planning

Award of works without obtaining required clearances

In order to implement the integrated scheme, the works for the Stage-I and for Stage-II & III were awarded in February 2009 and September 2010 with completion period of 45 and 48 months respectively. The work for the Electro-Mechanical Equipment was awarded in March 2010 with target date of commissioning of 1st unit in January 2014. The 1st unit was actually commissioned in September 2016.

Audit noticed (June 2017) that the work for Stage-II & III was awarded (September 2010) without obtaining the NOC from local Panchayat and receipt of approval for diversion of forestland. The approval for diversion of land was actually conveyed in June 2011, and possession was physically handed over by the GoHP in January 2013 for which Company had deposited ₹ 15.81 crore up to March 2017. Further, after incurring an expenditure of ₹ 146.72 crore on erection of Electro Mechanical Equipment for Stage-II & III the work has been held up due to imposition of stay by the National Green Tribunal (NGT) on the grounds that NOC has not been obtained from local

Panchayats as per prescribed procedure and the Contractor was not able to start the work relating to intake structure.

Thus, award of work before obtaining required clearances resulted in delay in completion of works due to which funds of ₹ 146.72 crore utilised for erection of Electro Mechanical Equipment for Stage-II & III remained blocked. Besides, water conductor system constructed at a cost of ₹ 255.67 crore under Stage I for operation of three units also could not be put to use at its designed capacity.

2.21 Award and execution of civil works

The civil works for Stage-II & III comprising of intake, HRT & Balancing Reservoir were awarded (6 September 2010) to M/s Patel Engineering Ltd.(Contractor) for ₹ 252.39 crore with scheduled completion by November 2014. Scrutiny of Contract Agreement and records relating to execution of various works showed cases of loss of interest, extra / avoidable expenditure of ₹ 9.32 crore besides inadequate provision of quantities valuing ₹ 62.94 crore as discussed in the succeeding paragraphs:

2.21.1 Loss of interest

The Company released (November 2010) the first installment of interest free advance of ₹ 6.30 crore to Contractor for execution of three[15] major components of the Project. For the recovery of this advance, the Company instead of setting a time bound recovery plan, ignoring its own financial interests, linked the recovery with the progress of the work (after 30 *per cent* payments of contracted sum).

Audit noticed (May 2017) that the recovery of first installment of advance could not be commenced upto October 2012 due to slow-progress (4.92 *per cent*), yet second installment of advance (₹ 3.15 crore) was released (October 2012) by the Company. Due to non-achievement of minimum financial progress as the work remained suspended by the contractor at Balancing Reservoir-III during October 2014 to October 2015, recovery of advance could not be effected till the date of audit (May 2017). Thus, imprudent decision of releasing second installment has resulted in interest loss of ₹ 1.43[16] crore.

The GM, Project stated (June 2017) that the contract provision do not empower the Company to recover the advance unilaterally in deviation to contract provisions and the Contractor has been asked (January 2017) to convey their consent to amend the relevant contract provisions to commence the recovery.

[15] Upstream work of KK link tunnel: ₹ 93.38 crore, b) downstream work of KK link tunnel- ₹ 78.24 crore and c) B.R.-III – ₹ 80.77 crore.

[16] ₹ 6.31 crore * 10 *per cent* *900 days / 365 days + ₹ 3.15 crore * 10 *per cent* * 1653 days / 365 days.

2.21.2 Extra payment due to inadequate provision in Bill of Quantities

Detailed Project Report for the execution of Stage-II & III was prepared based on Central Water Commission (CWC) guidelines for grouting, concreting and shotcreting as single items. However, in the cost estimate prepared for the invitation of bids, the item of admixture which was otherwise an integral part of these items has been shown as separate item. Further, the quantity of admixtures was not calculated on realistic basis / as per norms. As per BOQ for the execution of 1,13,845 M^3 concrete, 4,060 MT cement grouting and 1,03,200 M^2 shotcrete, provision for 5,990 kg of admixture has been kept against the actual requirement of 10.04 lakh kgs. It is pertinent to mention here that up to November 2016, 67,737.435 kg have been used against the overall financial progress of 21 *per cent*. The segregation of admixture from the above items was contrary to the guidelines of CWC and approved DPR. Further, due to estimation of very small quantity for tendering, the contractor quoted exorbitant rate of ₹ 550/- against the estimated cost of ₹ 52/- per kg. However, during execution of work this would put extra burden of ₹ 54.92 crore on the Project cost as the quantity of admixture is bound to increase, tremendously. The Company had already paid ₹ 3.62 crore for this deviation up to November 2016.

2.21.3 Similarly, for the construction of underground Balancing Reservoir, the provision for steel reinforcement was kept at 70 MT only. The Contractor had quoted a rate of ₹ 65,000 PMT with four *per cent* rebate.

Audit noticed (June 2017) that during execution (work yet not completed) the actual quantity of steel has gone upto 976.684 MT (deviation of 1,295 *per cent*) involving extra cost of ₹ 8.02 crore. The Company had paid for deviated quantity based on analysed rate of ₹ 90,204 PMT as compared to the awarded rates of ₹ 65,000 PMT resulting in extra payment of ₹ 2.47 crore (upto May 2017). Thus, due to incorrect estimation of BOQ the Company had to pay higher charges.

Audit further noticed that in the analysis of rates for steel and admixture, the component of Excise Duty was not excluded from the material cost and service tax has been levied on the prime cost instead of labour component only. Project Allowance, Tunnel Allowance and higher charges for Tribal Area were also added on *lump sum* provision of handling and placing charges contrary to the guidelines of CWC. Besides, in case of steel reinforcement, the inadmissible component of Tunnel Allowances has been loaded on the cost of material and labour deployed in the open workshop resulting in higher fixation of rates of steel reinforcement and admixture by ₹ 14,750.25 per MT and ₹ 73.95 per kg, respectively. Consequently, extra payment of ₹ 1.80 crore was paid to the Contractor. It is pertinent to mention here that wrong analysis of admixtures would result in total extra payment of ₹ 7.38 crore for the execution of entire awarded quantity of concrete and grouting.

The GM, Project stated (June 2017) that the action regarding excluding / recovery of ED as the case may be shall be taken. However, component of

Service Tax has been considered at the rate of 5.80 *per cent* and Hydro, Tribal and Tunnel Allowance has been charged as per GoHP notification. The reply is not based on the facts as the rates were arrived at by charging Service Tax at the rate of 15 *per cent* on prime cost instead of labour component only and other charges were levied in contravention of CWC guidelines. Moreover, the reply did not cover the aspect of incorrect estimation of BOQ**.**

2.22 Extra payment due to non availing of exemption of duties

As per notification issued by the GoI in August 1995 all Asian Development Bank funded Projects were exempted from payment of Excise and Custom duties. Guidelines issued by the ADB for preparing bid documents also provide that under work contract, bidders shall take into account all duties, taxes while preparing the bids.

Test check of records relating to civil works awarded to the Contractor showed that company had not issued Project Authority Certificate to the contractor on the pretext that as per Instructions to Bidders (Section-I), all duties, taxes and other levies payable by the Contractor are included in the awarded rates. This was indicative of the fact that the Company while evaluating bids had considered rates quoted by the Contractor inclusive of duties. Since the duties were exempt for ADB funded Project so due to award of rates inclusive of duties, the Company failed to avail the benefit of this exemption and deprived itself of the benefit of tax exemption to the extent of ₹ 11.20 crore on steel, cement and admixtures.

The GM, Project stated (June 2017) that very purpose of serving public interest envisaged in the GoI notification is deemed to have been served at the stage of bidding and the benefit of such exemption is deemed to have been automatically passed on to the Project through competitive bidding. The reply is not tenable as for availing exemption of duties the Company was required to issue PAC to the Contractor which had not been issued in this case.

2.23 Other topics of interest

2.23.1 Deviation from standard guidelines

Clause-10 (Escalation) of the standard contract for domestic bidding issued by the Ministry of Statistics & Programme Implementation, GoI in April 2005 stipulated that all short duration contracts up to 24 months be awarded on fixed price basis and would not be subject to any escalation, whatsoever.

Audit noticed (June 2017) that the Company while floating tenders for the construction of roads and buildings for the Project, did not consider above mentioned guidelines and cost escalation of ₹ 0.31 crore has been paid on short duration contracts with completion period ranging between six and 14 months. The deviation from guidelines had resulted in avoidable payment of price escalation of ₹ 0.31 crore with consequential extra burden on the Project cost.

2.23.2 Sale of power below composite cost

As per Memorandum and Articles of Association of the Company, energy generation from its Projects was to be shared between GoHP and HPSEB Ltd. In the meeting held (February 2012) to firm up the arrangement for sale of power, HPSEB Ltd. expressed its unwillingness to purchase its 40 *per cent* share due to higher levelized tariff and agreed to purchase only 12 *per cent* Govt. share of royalty at HPERC determined tariff. In view of this GoHP decided (December 2013) to sell its power to other Power Distribution Companies (Discoms) through long term Power Purchase Agreements (PPA).

Audit noticed that despite taking up the matter with other Discoms in India, no buyer came forward for purchasing power based on long term PPA. Further, due to non-finalisation of PPA, the Company could not file tariff petition with the concerned Regulator. Finally HPSEB Ltd agreed to purchase the power from company at pre-determined rate of ₹ 2.92 per unit (revised to ₹ 2.20 per unit w.e.f. May 2017) instead of the composite generation cost of ₹ 4.78 per unit (calculated by the consultant engaged by the Company).

Thus sale of power below generation cost had resulted in total revenue loss of ₹ 45.91 crore on sale of 190.55 MUs generated during the period from September 2016 to September 2017 including loss on account of deemed generation[17] of ₹ 1.36[18] crore.

2.23.3 Loss due to failure to sell Certified Emission Reductions

A Certified Emission Reduction Purchase Agreement (CERPA) was signed (May 2010) between Company and Future Carbon Fund (FCF) under trusteeship of ADB for sale of Certified Emission Reductions (CERs) valuing USD 5,945,000,at the rate of USD 7.25 per CER, to be delivered from 1 April 2015 to 1 April 2021. The release of payment as per CERPA was conditional upon accomplishment of certain Condition Precedents (CP) and milestones. *Clause 3.4 (Sunset date)* of CERPA stipulated that if any of the conditions set out in the agreement has either not been satisfied or waived off by the trustee within 12 months from date of CERPA then trustee may terminate this agreement by written notice to the Project entity. The Company was required to get the terms and conditions of World Commission on Dams validated from the Trustee, as it was one of the CP.

Audit noticed that Company initiated action regarding compliance of Project to World Commission on Dams (CP*, 3.1.4)* by appointing a Validator (M/s TUV Rheinland) during June 2012 after a delay of 13 months. The Validator submitted its report on 31 May 2013. However, Future Carbon Fund (FCF) rejected (September 2013) the validation report due to non-

17 Deemed generation is sort of compensation for run of the river projects when a power project is ready to generate power but the generation is not achieved and water is spilled due to no demand from the buyer.

18 Deemed generation = 46,68,900 units * ₹ 2.92 per unit.

inclusion of the environment issue related to Lippa village pending with NGT and inconsistency of report with documents submitted to ADB.

Upon achievement of milestones and fulfilment of CPs, the company would have received ₹ 31.50 crore[19] including reimbursement of ₹ 0.58 crore registration fee deposited with United Nations Framework Convention on Climate Change (UNFCCC) even before actual delivery of CERs or commissioning of Project. However, due to termination of CERPA, same could not be realised despite fulfilling the milestones, *ibid*.

Although the CERPA termination does not affect the registration with UNFCCC and its validity, yet the guaranteed receipt as per CERPA has been lost. Since the termination of agreement with CERPA (September 2013) market for CER has slumped (average price of CER has been ranging between 0.24 USD and 0.72 USD during August 2013 to April 2017). Hence, the Company would not be able to sell CERs at the rate of USD 7.25 per CER fixed in CERPA even if it tries to sell it to other buyers.

Conclusion

The works relating to construction of Kashang HEP were awarded at a cost of ₹ 708.16 crore between February 2009 and October 2010 with scheduled completion of November 2015. Against sanctioned loan of ₹ 708.16 crore from ADB carrying interest at the rate of 0.20 *per cent* above LIBOR rate, the GoI transferred funds of ₹ 554.44 crore upto March 2017 in the shape of 90 *per cent* Grant and 10 *per cent* Loan at an interest rate of nine *per cent* per annum through State Government (GoHP). The State Government in diverting the grant, treated the grant as loan at an interest rate of 10 *per cent per annum.* Even after spending ₹ 1,169.75 crore up to March 2017, the project is still incomplete and only one out of three units could be commercially operationalised). Stage-I of the project was completed for ₹ 789.84 crore against DPR cost of ₹ 478.02 crore , a cost overrun of ₹ 311.82 crore attributable to payment for works at higher rates, non / short-recovery from the contractor and short provision of quantities in the DPR and time overrun of 30 months attributable to non-availability of encumbrance free sites, agitation by local people, blockade of project roads, extra time required for the backfill in the over-break due to contractor's fault and damage to the machine prior to commissioning.

Consequently, the per unit generation cost of power, up to the completion of Stage-I, had increased from ₹ 2.85 to ₹ 4.78 against prevailing sale[20] rate of ₹ 2.20 per unit. The Stages II & III of the project are now scheduled for completion by January 2021 and on completion, the generation cost is expected to increase further.

[19] (USD 5,945,000 x ₹ 52.99 per dollar, currency conversion rate applicable on date of fee deposited with UNFCCC).

[20] Rate at which energy is being sold to HPSEBL w.e.f. April 2017.

Recommendations

The Company may consider to ensure:-

- preparation of DPR, cost estimates and designs on realistic basis for its upcoming Projects;
- award of works after obtaining all mandatory clearances;
- effective mechanism to avoid extra / avoidable payments to the Contractors;
- insertion of suitable clause in the agreement regarding payment of taxes by the contractor to avoid penalty; and
- completion of work of Stages II & III at the earliest to avoid further cost overrun.

The State government may consider:-

- transfer of grant received from GoI direct to the Company to avoid increase in the cost of project.

Chapter-III

Audit of Transactions

CHAPTER-III

AUDIT OF TRANSACTIONS

Himachal Pradesh State Electricity Board Limited

3.1 Incorrect waiver of fixed charges

The Company waived fixed demand charges of ₹ 5.06 crore chargeable in terms of Electricity Supply Code, 2009 approved by the Himachal Pradesh Electricity Regulatory Commission.

The Himachal Pradesh Electricity Supply Code, 2009[1] stipulates that in case of HT[2] / EHT[3] supply, where the licencee has completed the required work for supply of electricity to an applicant, but the applicant is not ready or delays to receive supply of electricity or does not avail the full sanctioned contract demand, the licencee shall, after a notice of sixty days, charge on *pro rata* basis, fixed demand charges on the sanctioned contract demand as per the relevant tariff order.

On receipt (December 2011) of an application and agreement[4] from a consumer, the Himachal Pradesh State Electricity Board Limited (Company), sanctioned power connection for 4600 KW load with contract demand of 4600 KVA in February 2012. The Company completed (August 2012) the construction of required infrastructure and intimated (August 2012) the consumer to avail the supply, failing which necessary fixed demand charges based on sanctioned contract demand will be charged as per relevant tariff order. The consumer did not avail the supply within the prescribed period of sixty days but no *pro rata* fixed demand charges, as per the provisions of the Supply Code, were charged by the Company. On being pointed out in Audit (December 2013), the Company issued notice for recovery of fixed demand charges in terms of supply code to the consumer.

The Consumer applied (March 2015) for exemption from levy of fixed demand charges citing their dispute / court case with the armed forces regarding construction on the land due to which the supply could not be availed. The Board of Directors (BoD) of the Company, considering the request, waived off (April 2016) fixed demand charges of ₹ 4.10 crore recoverable up to November 2015 and at the rate of ₹ 8.05 lakh per month further recoverable till release of connection to the consumer. Simultaneously, the Company also approached (April 2016) the Himachal Pradesh Electricity Regularity Commission (HPERC) and sought amendment to the relevant

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1 Clause 3.9 of Chapter 3.
2 High Tension (up to 66 Kilo Volt).
3 Extra High Tension (132 Kilo Volt and above).
4 Request for permanent and immediate connection.

clause by incorporation of an enabling provision for such special cases. The decision of the HPERC, in this regard, was awaited (October 2017).

The Company released (November 2016) the power connection to the consumer, by which time the fixed demand charges recoverable had accumulated to ₹ 5.06 crore.

Thus, the Company overlooking its financial interests, in non-applying the Supply Code 2009, incorrectly waived off fixed demand charges of ₹ 5.06 crore.

The Government stated (August 2017) that the Company has taken up the matter for amendment of clause 3.9 with the HPERC.

3.2 Systemic failure leading to non- detection of fraud

Delays in conducting mandatory manual reconciliation of monthly accounts received from various field units with the main bank account of the Company or design a module into its systems for auto-reconciliation of payments received through NEFT / RTGS mode enabled a consumer to forge receipts regarding transfer of funds that went undetected, resulting in a loss of ₹ 5.36 crore.

The consumers of the Himachal Pradesh State Electricity Board (Company), until July 2008, could deposit their electricity bills through cash or cheque mode only. In August 2008 the Company allowed its consumers to deposit their electricity bills directly, in the main bank account of the Company through use of National Electronic Funds Transfer (NEFT) / Real Time Gross Settlement (RTGS) methods. The Company, however, while allowing this method of deposit of electricity bills did not design a module which would have facilitated auto-reconciliation of amount received through NEFT / RTGS into the system. In absence of the same, reconciliation of receipts was being done as per banking manual of the Company, which provides that bank Reconciliation Statement for collection account should be prepared at monthly intervals. The consumers, depositing their electricity bills through NEFT / RTGS mode, were mandatorily required to submit their respective unique transaction reference number (UTR) generated by their banker in support of transfer of funds to Company's account, to the concerned sub-division.

Audit observed, one consumer[5] of Electrical Sub-division (ESD), Dhaulakuan, claimed depositing his electricity bills of February 2014 to May 2014 of ₹ 4.50 crore, during March 2014 to June 2014, through RTGS mode. The consumer submitted five UTRs of these transactions to the ESD in support of the deposit. The Company while conducting (November / December 2014) reconciliation of receipts noticed that the amount claimed transferred by the said consumer had not been credited into its bank account and took up (April 2015) the matter with the bank of the Consumer. In response

[5] M/s Indian Technomac Co. Ltd.

(May 2015) the bank stated that the said UTRs had not been issued by them which indicated that the consumer had furnished fake UTRs. Audit noticed that there was delay of six months by Accounts Wing in conducting the bank reconciliation instead of mandatory monthly gap, which resulted in the fraud not being detected in time. Thus, delay in observance of the control procedure *i.e.* conducting reconciliation of accounts received from various field units with the main bank account of the Company at monthly intervals, enabled the consumer to produce fake UTRs for transfer of funds, consecutively, through RTGS resulting in loss of ₹ 4.50 crore to the Company.

There was no consumption of power by the consumer after June 2014 and Company disconnected (December 2014) power supply in January 2015. Further, as per the schedule of tariff, applicable from time to time, if the consumer fails to deposit his or her bill within due date, late payment surcharge at the rate of 2 *per cent* per month on due amount (excluding Electricity Duty) is recoverable from such consumers up to the date of effecting Permanent Disconnection Order (PDCO). In the above case although the payment had not been credited into the Company's account due to forged UTRs, yet, the Company could not levy / recover the late payment surcharge of ₹ 0.86 crore due from the defaulting Consumer up to PDCO date (January 2015) as per provision of the Schedule of Tariff.

In line with the HPERC regulation, the consumer had furnished bank guarantees (BGs) of ₹ 60.00 lakh to the Company against Advance Consumption Deposit. Audit noticed that the Company had not got extended their validity and the same had expired on 14.04.2014 and 26.06.2014. Thus, non-extension of validity of BGs deprived the Company of an opportunity to recover ₹ 60.00 lakh by encashing the BGs.

Thus, non-adherence to the internal control procedure of reconciliation of collection account at monthly intervals or to design a module for auto-reconciliation of amount received though NEFT / RTGS mode into the system, enabled the consumer to perpetrate a fraud on the Company, resulting in loss of ₹ 5.36 crore. The Company did not conduct any internal enquiry to fix the responsibility for lapses.

The Government stated (July 2017) that a police complaint has been lodged and the recovery suit against defaulting consumer has been filed in the Hon'ble High Court. The Company had directed (June 2017) its consumers willing to deposit their bills through RTGS / NEFT only through website of the Company or in the respective bank account of concerned ESD instead of centralised account. The reply did not cover the aspect of non-renewal of bank guarantees.

3.3 Short recovery due to incorrect categorisation of consumer

Company incorrectly categorised a Bulk Supply consumer under Commercial category resulting in short-recovery of ₹ 30.76 lakh.

As per the Schedule of Tariff approved by the Himachal Pradesh Electricity Regulatory Commission (HPERC) from time to time, Bulk Supply (BS) tariff is chargeable to a consumer for general or mixed load where further distribution of power to various residential and non-residential buildings is to be undertaken by the principal consumer.

The Himachal Pradesh State Electricity Board Ltd. (Company) sanctioned 650 KW load with contract demand of 650 KVA in favour of a consumer for interstate bus stand at Tuti Kandi, Shimla, including therein the requirements of various commercial (shops / multiplexes / hotel) / non-commercial (union office / police post) units operating from the premises. The connection was released at 11 KVA, in March 2012, by categorising the consumer under Commercial category for billing purpose. This was despite the fact that electricity was being further distributed to different consumers from a single point / meter supply by the consumer himself. Thus, as per schedule of tariff, in force, the consumer should have been categorised and charged under bulk supply tariff.

On the incorrect categorisation being highlighted (January 2014), the Company charged (February 2014) the differential amount of ₹ 15.66 lakh from the consumer, of rates applicable for BS and commercial category for the period from April 2012 to January 2014. However, on the reference (July 2014) of the sub-division regarding categorisation of consumer for tariff purpose, the Chief Engineer (Commercial) of the Company clarified (September 2014) that from August 2014 onwards, multiplexes have been included in the Schedule of Tariff approved by the HPERC under Commercial category and for the previous period also the consumer should be charged under Commercial Category as all other categories which are not covered by any other tariff schedule fall under Commercial category ignoring the fact that the consumer was getting single point supply and was meeting the requirements of all commercial / non-commercial establishments operating from the premises. Based on the advice received, the ESD again changed categorisation of the consumer from BS to Commercial category and refunded the amount of difference in rates previously collected.

Audit observed that the Company erred in categorising the consumer under Commercial category instead of under bulk supply (BS) category in terms of schedule of tariff, as the main consumer was running the bus stand and was further distributing energy to various establishments in the demised premises. This incorrect categorisation resulted in short-recovery of electricity charges of ₹ 30.76 lakh (up to July 2017).

The Government stated (September 2017) that commercial supply category applied to the consumer is correct for shopping malls / multiplex.

The reply is not tenable as the consumer was getting electricity supply at a single point and distributing it to the different commercial / non-commercial establishments in the same premises, and, therefore, he should have been categorised as BS consumer in terms of the Schedule of Tariff and Supply Code 2009.

3.4 Loss due to delay in disconnection of electricity

Company did not monitor payment of billed amount timely in a case and took 25 months to issue a temporary disconnection order by which time the consumer had run up unpaid energy charges of ₹ 1.62 crore.

Himachal Pradesh Electricity Supply Code[6], 2009 stipulates that where a consumer fails to deposit the billed amount or any other charges for electricity, with the licencee by the due date, the licencee may, after giving not less than fifteen days' notice, proceed to recover such amount and / or disconnect supply to the consumer temporarily. Also, where default in payments is continued for a period of six months, from the date the payment first became due, the supply may be disconnected permanently.

Audit noticed (February 2017) that a large supply consumer[7] continuously defaulted in payment of full billed amounts since July 2013 but the Company did not initiate any action against the consumer for 25 months till September 2015. It temporarily disconnected power supply in October 2015, by which time the defaulted amount had accumulated to ₹ 2.05 crore. The power supply of the consumer was permanently disconnected (April 2016), by when recoverable amount including late payment surcharge had increased to ₹ 2.22 crore. The Company on permanently disconnecting the power supply adjusted the Advance Consumption Deposit (ACD) of ₹ 60.00 lakh of the consumer. In the process an amount of ₹ 1.62 crore remained unrecovered. Thus, had the Company at least temporarily disconnected the power supply in August 2013 itself, when the default first arose and recovered ₹ 60.00 lakh from the available ACD against recoverable amount of ₹ 60.81 lakh till July 2013, it could have avoided loss of ₹ 1.62 crore.

The matter was reported to the Government / Management (June 2017); their reply was awaited (November 2017).

6 Clause 7.1.2 of Himachal Pradesh Electricity Supply Code, 2009.

7 M/s T.I. Steel Pvt. Ltd.

3.5 Under billing of electricity charges

By incorrect application of its sales circular and release of two separate connections in the same premises, the Company did not bill a consumer for ₹ 25.58 lakh on account of Lower Voltage Supply Surcharge and ₹ 16.22 lakh on account of higher tariff applicable to HT-2 category.

Himachal Pradesh State Electricity Board Ltd. (Company), by its Sales Circular (April 2001) stipulated that whenever an existing consumer applies for a new connection in the same premises (independent construction / unit having separate identity) in his name, it should not be allowed and the consumer should be asked to apply for enhancement / extension in existing load. Whenever a new connection is applied by the same consumer in the new premises by carving out from the existing one or by purchasing adjoining land / premises, it should be treated as extension in load. Further, in the Schedule of Tariff applicable from August 2014, two new sub categories (HT-1[8] and HT -2[9]), for billing purposes, under large industrial power supply category were introduced. In case power supply is availed at voltage lower than the prescribed standard supply voltage, the consumer was liable to pay lower voltage supply surcharge (LVSS) at rates specified and approved by the Himachal Pradesh Electricity Regulatory Commission (HPERC).

Audit observed that a power connection with connected load of 1730 KW with Contract Demand (CD) of 880 KVA was existing at village Katha *(Khasra* No. 137 and 138), Baddi, District Solan in favour of M/s Jupiter Innovation Ltd. Another connection having connected load of 1500 KW with CD of 700 KVA was applied (August 2007) for the same premises (*Khasra* No. 137/8, 138/2 and 138/4) by M/S Jupiter International Ltd which was released in December 2010. However, while releasing second connection, the Company failed to take cognizance of the fact that M/S Jupiter Innovations Ltd in whose name first connection was released had been amalgamated into M/S Jupiter International Ltd w.e.f. 1st April 2005 as per orders (August 2006) of the Hon'ble High Court of Kolkata. After release of second connection to M/S Jupiter International Ltd., total connected load in the premises had increased to 3230 KW with CD of 1580 KVA and was therefore liable to be categorised as HT-2. Thus, the first connection should have been treated as also in the name of M/s Jupiter International Ltd and the second connection as an extension of load and both connections which were released on 11 KV should have been released under the prescribed standard supply voltage at 33 KV which attracted Low Voltage Supply Surcharge (LVSS) as per Schedule of Tariff.

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8 Consumer having Contract Demand upto 1000 KVA.
9 Consumer having Contract Demand above 1000 KVA.

This release of two separate connections in the same premises to the same entity, in violation of sales circular of the Company, resulted in under billing of ₹ 25.58 lakh[10] on account of LVSS as well as under billing of ₹ 16.22 lakh[11] on account of higher tariff, applicable to HT-2 category. During November 2015, one power supply connection was disconnected in the premises.

The Government stated (October 2017) that with the notification of Electricity Supply Code, 2009, the provisions of supply code will prevail over the sales circular issued in 2001 and that the second connection was released during December 2010 under the provisions of the Supply Code 2009. The contention of Government is not tenable as Supply Code is silent about release of two connections in the same premises. Therefore, such provision of sales circular of the Company will also prevail, over which the Supply Code does not provide any guidance.

3.6 Non withdrawal of financial benefit

The Company, while withdrawing the benefit of revised pay and allowances credited into provident fund accounts of employees, did not withdraw financial benefit of ₹ 37.05 lakh paid as interest.

Himachal Pradesh State Electricity Board Ltd. (Company), (erstwhile Himachal Pradesh State Electricity Board), revised (January 1996) pay scale of its Junior Engineers (JEs) from ₹ 1,800-₹ 3,200 to ₹ 2,000-₹ 3,500 with effect from 1 January 1986 with the condition that they will not be eligible for the grant of time bound promotion after 9 and 16 years. The arrears due, as a result of the revision in pay scale, with effect from January 1986 to the date of issue of orders, were to be credited to the General Provident Fund Account (GPF) of the concerned employees.

The Company subsequently decided (May 2003) to grant an opportunity to those Assistant Engineers (AEs) / Assistant Executive Engineers / Senior Executive Engineers who were Associate Members of the Institution of Engineers (AMIE), initially appointed as Junior Engineers (JEs) and subsequently promoted as AEs against the AMIE quota or appointed as Assistant Engineer against direct recruitment, to exercise their option to avail the benefits of time bound promotional scale after 9 / 16 years of service, with effect from 1 January 1996. The decision came with a rider that in the eventuality of employee exercising this option, the benefits of higher pay scale already availed of by the AEs as mentioned above shall stand withdrawn. The chance to exercise such option was re-opened once again in November 2009.

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10 ₹ 8,52,77,592 (Energy Charges from January 2011 to March 2014) x 3 *per cent.*

11 1422 KVA (90 *per cent* of 1580 KVA) x ₹ 150 x 16 months (8 / 14 to 11 / 15) less (5968900 kvah x ₹ 0.30) = ₹ 16,22,130.

Audit scrutiny of records revealed that 48 AEs drawing revised pay scale of ₹ 2,000-3,500 had opted for the time bound promotional benefit after 9 / 16 years and had agreed to refund the arrears paid for the period 1.1.1986 to 17.1.1996, credited in their respective GPF accounts during 1996 and 1997. The Company while adjusting benefits of earlier revision out of the arrears payable after allowing 9 / 16 years benefit to 27 Engineers, withdrew (October 2010 to August 2015) only the principle amount credited into respective Assistant Engineers' GPF accounts but did not withdraw interest accrued on the arrears.

Audit concludes that non-withdrawal of benefit of interest of ₹ 37.05 lakh to 27 AE's, which had been agreed to be surrendered, had resulted in an undue financial benefit would further increase in future.

The matter was reported to the Government / Management (June 2017); their reply was awaited (November 2017).

3.7 Non realisation of revenue

Absence of mechanism to detect excess drawl of power than sanctioned load resulted in loss of revenue of ₹ 36.78 lakh.

Section 126(1) of the Indian Electricity Act, 2003, as amended from time to time, provides that, if after inspection of records maintained by any person, the assessing officer comes to the conclusion that such person is indulging in unauthorised use of electricity, he shall, provisionally, assess to the best of his judgement, the electricity charges payable by such person or by any other person benefited by such use. Further, sub-section (6) of Section 126 of the Act *ibid*, provides that the assessment under this section shall be made at a rate equal to twice the tariff rates applicable for the relevant category. Himachal Pradesh Electricity Regulatory Commission while amending (June 2014) Electricity Supply Code, 2009 had clarified that Section 126 would not be attracted, if the increase in connected load does not exceed the limit of 10 *per cent* of the sanctioned connected load, subject to a maximum of 200 KW.

Audit noticed that two consumers under Electrical Sub-division, Tahliwal had drawn load in excess of the 10 *per cent* of the sanctioned connected load as was evident from the Maximum Demand (MD) recorded on their respective energy meters. The excess drawl by these two consumers during August 2012 to January 2015 ranged between 32 KVA and 216 KVA over and above the sanctioned connected load. However, the Company failed to detect this excess drawal of power by the two consumers and consequently, no assessment under section 126 of the Act *ibid,* could be made against them. This resulted in loss of revenue of ₹ 36.78 lakh to the Company, as detailed in the ***Appendix-3.1.***

Audit observed the absence of an institutionalised monitoring mechanism in the Company, which would help detect the excess drawal of power by consumers. Sub-section (5) of Section 126 of the Act *ibid* provides that in case the period during which such unauthorised use of electricity has taken place cannot be ascertained, such period shall be limited to a period of twelve months immediately preceding the date of inspection. As the period in these cases is not continuous as such, maximum period of 12 months can be covered from the date of inspection which has been expired and the recovery has become time barred.

The matter was reported to the Government / Management (June 2017); their reply was awaited (November 2017).

Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited

3.8 Thematic audit of procurement, processing and disposal of fruits by Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited under Market Intervention Scheme (MIS)

The Company incurred loss of ₹ 2.61 crore on implementation of MIS due to low yield of Apple Juice Concentrate / Apple juice, spoilage of apple, excess consumption of fuel and payment of commission to the distributor besides non achievement of its objective by not releasing timely payments to the growers.

3.8.1 Introduction

The Government of Himachal Pradesh (GoHP), to protect the interest of growers of perishable horticultural commodities such as Apples, Citrus Fruits and Mangoes (Fruits), implements a Market Intervention Scheme (MIS) to support prices every year during the peak arrival period. The GoHP has designated Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited (Company) and Himachal Pradesh State Cooperative Marketing and Consumers Federation Limited, Shimla (HIMFED) as the agencies for implementation of MIS. The Company procures fruits from the growers at the rates fixed by the GoHP every year. Based on its requirement, the Company also retains such a quantity of fruits as are required for processing in its three Fruit Processing Plants and sells the rest in open market through auction. Based on average auction price realised / assumed price fixed by the GoHP, the Company pays for the quantity of fruits processed in its processing plants. The difference between the procurement price and price realised / assumed price charged is reimbursed to the Company by the GoHP. The procurement price is paid to the growers after its receipt from the GoHP on the basis of claims submitted by the Company or is adjusted by the Company in lieu of sale of horticulture related implements / goods to the growers. The handling charges for implementation of MIS, as fixed by the GoHP from time to time, are also reimbursed to the Company.

The Company for procurement of fruits opens Procurement Centres as decided by the GoHP and processes the fruits in-house for sale through its marketing channels.

To assess the effectiveness and efficiency of MIS scheme, processing and sale of products by the Company, Audit reviewed the activities undertaken during the period 2014-17.

3.8.2 Procurement of fruits under Market Intervention Scheme

A difference in procurement cost and its assumed sale realisation is inherent in the MIS operation. The quantity and value of apples procured and the difference released by the GoHP, in the form of subsidy, during the last three years ending 31 March 2017 are given in table 3.1 below.

Table 3.1: Details of subsidy released by the GoHP in implementation of MIS for Apples

(₹in crore)

Year	Quantity procured (in MTs)	Procure-ment cost[12]	Handling charges[13]	Total procure-ment cost (3+4)	Sale proceeds of quantity sold / processed	Subsidy released by the State Government (5-6)
1	**2**	**3**	**4**	**5**	**6**	**7**
2014-15	7,001	4.55	1.54	6.09	1.73	4.36
2015-16	20,135	13.09	4.43	17.52	7.56	9.96
2016-17	8,337	5.42	2.29	7.71	3.06	4.65
Total	**35,473**	**23.06**	**8.26**	**31.32**	**12.35**	**18.97**

(Source: figures supplied by the Company).

Audit observed that MIS for apples had resulted in an outgo of ₹ 18.97 crore from GoHP during 2014-17. In addition, the GoHP had also reimbursed ₹ 2.16 crore on account of establishment cost of operating apple Collection Centres during 2015-17.

The Company also procured 147 MTs of Citrus Fruits (Kinnow and Galgal) valuing ₹ 13.02 lakh under MIS during 2014-17. The Company could realize only ₹ 5.09 lakh by their sale in the open market / cost of fruits processed in its own plants. The difference of ₹ 7.93 lakh was reimbursed by the GoHP to the Company.

The GoHP reimbursed cost of staff deployed for procurement of fruits under MIS from crop season 2015 onwards. However, the Company did not submit its claim of ₹ 10.85 lakh to the GoHP in respect of its employees deployed for procurement of citrus fruits during the period 2015-17 resulting in short-claim of ₹ 10.85 lakh.

12 Procurement cost of apples was ₹ 6.50 per kg during 2014-17.

13 Handling charges for apples were ₹ 2.20 per kg during 2014-16 and ₹ 2.75 per kg in 2016-17.

The Management (July 2017) had accepted that Government had started reimbursement of staff cost from crop season 2015 onwards. However, reply is silent regarding short-claim of ₹ 10.85 lakh.

3.8.3 Excess spoilage of Apples

In MIS activity, procurement of 2.5 *per cent* of excess fruits to cover evapo-transportation losses is undertaken. The growers are paid for 100 kg of fruit against delivery of 102.5 kg fruits. The Company procured 35,473 MTs of apples under MIS out of which 808.395 MTs was shown spoiled by Fruit Processing Plants. The spoilage in fruit processing plants ranged between 1.73 and 8.50 *per cent* worth ₹ 27.35 lakh, after excluding 2.5 *per cent* extra procurement during 2014-17, which was a burden on the Company.

The Management admitted (July 2017) that fruits are collected in an unscientific manner and also delays in transportation of fruits to processing plants result in deterioration of quality of fruits. The reply of the Management is to be seen in the light of the norms of procurement of 2.5 *per cent* excess fruits under the scheme which are designed to take care of losses on account of elements of driage, delays in the process and loss pointed out is after considering these factors.

3.8.4 Payment to growers

The Company makes payment to growers for the apples procured under MIS after receipt of claims from the GoHP. During the period from 2014 to 2017, the Company procured 35,473 MTs of Apples for ₹ 23.06 crore.

The year wise details of payments made to growers is given in the table 3.2 below.

Table 3.2: Details of pending payments of growers

Crop Season	Apple procured (MTs)	Procurement Cost received from GoHP.	Payment made to growers	Payment yet to be made (April 2017)	Month of receipt of payment from the GoHP
		(₹ in lakh)			
2014	7,001	455.07	444.85	10.22	March 2015
2015	20,135	1,308.71	1,176.37	132.34	April 2016
2016	8,337	541.88	398.13	143.75	March 2017
Total	**35,473**	**2,305.66**	**2,019.35**	**286.31**	

(Source: Figures supplied by the Company)

The above table shows that though the GoHP had released all the claims, but the Company did not release ₹ 2.86 crore to the growers indicating that the Company had utilised this amount for meeting its own requirements.

Audit had highlighted the issue earlier also, at Para No. 2.13 of CAG's Audit Report (Commercial), GoHP for the year ended March 2008, wherein the Government had assured the Committee on Public Undertakings (COPU) that suitable directions would be issued to the Company to release payment to growers within one month of its receipts from GoHP. The assurance made to COPU has not been implemented causing hardships to the growers.

Audit also observed that out of total payment of ₹ 20.19 crore made to growers by the Company during the last three years only ₹ 0.49 crore was released in cash and remaining ₹ 19.70 crore was adjusted against sale value of its own products and horticulture related implements and products. The percentage of cash payment made to growers ranged between zero and 13.98 during 2014-17 whereas percentage of claims adjusted against sale of products ranged between 73.47 and 92.24 during the same period.

Audit further observed that the Company had fixed different rates for spray oil (TSO / HMO) and Apple packing material (cartons / separators / trays) for sale on cash basis and for adjustment against MIS claims. The rates for cash sale were lower as compared to the rates charged for the material supplied against MIS payment. In seven[14] branch offices, the Company adjusted ₹ 25.39 lakh in excess from growers by selling spray oil and packaging material at higher rates as compared to the rates fixed for cash sale.

The Management admitted and stated (July 2017) that the financial position of the Company was not sound which resulted into delay in payments. However, the reply did not cover the aspect of paying the dues of growers in the form of material and that too at rates higher, as compared to the rates fixed for cash sale.

3.8.5 Low yield of Apple Juice and Juice Concentrate

The Company has two fruit processing plants at Parwanoo and Jarol. For fruit processing plant at Jarol, the norm fixed for extraction of apple juice is 650 ml juice from one kg of apple. However, the juice extracted ranged between 568 and 604 ml from processing of one kilogram of apples which translated into less yield of 14,034 litres of apple juice equivalent to ₹ 6.31 lakh during 2014-17.

For producing one kg of apple juice concentrate (AJC) 9.5 kg to 10.5 kg and 11.5 kg to 12.5 kg of apple at Fruit Processing Plants, Parwanoo and Jarol was fixed as the norms, respectively. Audit observed that fruit processing plant,

[14] Bhunter, Rohru, Chopal, Jubbal, Tutupani, Gumma and Oddi.

Parwanoo processed 13,780 MTs of apple for production of 1,243 MTs of AJC. There was excess consumption of 732 MTs of apple whereas excess consumption of apple at Jarol plant for production of 140 MTs of Apple Juice Concentrate (AJC) was 33 MTs as compared to the norms. This resulted in less extraction of AJC valuing ₹ 0.82 crore during the period 2014-17.

The Management attributed (July 2017) the reasons for reduced yield to old machinery, processing of AJC at 72^0 brix and quality of processing grade apple available.

(i) Use of laminate paper above norms

Wastage norms for use of laminate paper in tetra pak were fixed at 2.50 *per cent.* Audit observed that the actual wastage at Fruit Processing Plants Parwanoo ranged between 1.67 and 4.85 *per cent* in excess of norms fixed for wastage (2.5 *per cent*) during 2014-17, equivalent to ₹ 16.49 lakh during 2013-14 and 2015-17. The wastage was within the norms during 2014-15.

The reasons for excess wastage were shortage of skilled technical / supervisory staff and frequent changing of types of products to be packed, which required clean-in place involving wastage equivalent to more than 175 pouches of tetra pak every time.

The Management admitted and stated (July 2017) that the wastage increases due to mechanical faults and frequent changes in product mix at the plants.

(ii) Excess consumption of fuel

The Company replaced one of its two Oil Fired Boilers at Parwanoo with Wood Fired Boiler citing high cost of oil in September 2014.

As per norms fixed by the Company, 440 and 1,300 litres of furnace oil respectively were required for extracting one MT of AJC and packing 4,000 trays of tetra pak respectively. The Company had not fixed any norms for consumption of wood briquettes in its wood fired boiler. However, as per cost benefit analysis made by the Company at the time of purchase of wood fired boiler, 3.08 kg of wood briquettes were required against one litre of furnace oil.

Audit noticed that consumption of furnace oil and briquettes used for extraction and packing of AJC was in excess of norms fixed by the Company due to shortage of skilled supervisory / technical staff for operating the fruit processing plant, inefficient use of steam pressure maintained by the boiler for running fruit processing plant and tetra pak machine resulting in excess consumption of fuel equivalent to ₹ 0.61 crore **(*Appendix-3.2*).**

The Management accepted and assured that co-ordination among production staff would be ensured.

3.8.6 Quality control

The Company had not formulated any policy for sale of its products. As the products of the Company are perishable in nature, the Company should have adopted the First-in-First-Out policy for sale of its products. Audit noticed that as of March 2017, orange pulp and apple juice concentrate (AJC) valuing ₹ 35.50 lakh[15] produced by fruit processing plants between February 2014 and October 2014 were lying unsold for last 29 to 37 months. As the products are perishable in nature, stock lying unsold has lost its shelf life and is unfit for human consumption, resulting in loss of ₹ 35.50 lakh.

The Management accepted (July 2017) the issue.

3.8.7 Deficiencies in Marketing

The Company had not formulated any marketing policy. Audit observed that the Company had not followed proactive marketing strategy to increase the sales of its products.

The Management stated (July 2017) that it has approved a new marketing policy during March 2017.

Unfruitful appointment of distributor

With a view to tap the retail market of National Capital Territory (NCT) for its processed fruit products, the Company appointed a sole distributor[16] during May 2013, for the sale of its products. As per terms and conditions of the agreement the distributor was entitled for a commission at the rate of 10 *per cent* of the total sale value. The target for the distributor was fixed at ₹ 4.00 crore *per annum*. Audit noticed that the Company had made sale of ₹ 2.75 crore to ₹ 4.31 crore *per annum* during 2010-11 to 2012-13 on its own through its already established network of kiosks / vendors over the years and there were 71 kiosks / vendors as on 31 March 2013 in the NCT. The distributor used Company's distribution network and did not increase it further. The distributor could achieve sales ranging between ₹ 1.12 crore and ₹ 2.05 crore only during the last four years ending May 2017. Apart from this, there was also no reduction of staff deployed at Delhi office after appointing the distributor and the distributor also utilised the premises of the Company as his sale office.

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15 48 MT Orange pulp valuing ₹ 11.50 lakh and 20 MT AJC valuing ₹ 24.00 lakh.

16 Glacier Marketing Network (GMN), Delhi.

Thus, the sales of the Company products decreased despite appointing a distributor, yet the Company had to pay commission of ₹ 84.37 lakh to the distributor in terms of the agreement whereas before appointment of distributor, the Company had higher sales and was not paying any sales commission as well.

Audit also observed that as per agreement entered into with the distributor, entire sale in the NCT was to be routed through the distributor and a sale target of ₹ 4.00 crore[17] *per annum* starting from June to May every year was fixed for the distributor. In case of any breach of obligation under the agreement, the Company was entitled to forfeit the Performance Guarantee of ₹ 3.00 lakh. Despite non-achievement of targets, the agreement was renewed in subsequent years till May 2017, on the same terms and conditions and no action was taken by the Company to forfeit the Performance Guarantee. Thus, the purpose of appointing the distributor, *i.e.* tapping the retail market of NCT for improvement in sale of its processed fruit products and reduction of staff cost, was defeated and the Company had to bear avoidable payment of commission of ₹ 84.37 lakh also.

The Management stated (July 2017) that the matter has been referred to the State Government for its consideration.

Conclusion

The main objective of MIS was to protect the interests of fruit growers in the State from fall in sale price due to bumper crop. However, this objective was achieved in a limited manner. The Company paid only 2.43 *per cent* - ₹ 0.49 crore out of ₹ 20.19 crore due to apple growers during 2014-17 in cash and for the rest the growers had to purchase products from the Company. The Company incurred loss of ₹ 2.61 crore on implementation of MIS due to low yield of apple juice concentrate / juice, spoilage of apple, excess consumption of fuel and payment of commission to the distributor besides non achievement of its objective by not releasing timely payments to the growers.

Himachal Pradesh Power Corporation Limited

3.9 Extension of undue favour to contractor

The Company extended undue favour to a contractor by not initiating any action for recovery of interest of ₹ 15.54 crore as *per* the provisions of supplementary agreement executed with the contractor after advancing stage wise payment schedule incorporated in the original agreement.

Himachal Pradesh Power Corporation Limited (Company) awarded (June 2010) civil and hydro-mechanical work for 100 MW Sainj Hydro

[17] ₹ 1.25 crore for kiosk sale and ₹ 2.75 crore for the market sale.

electric Project to a firm[18] at a cost of ₹ 431.00 crore with scheduled completion by 1 August 2014. The payments to the contractor were to be released on stage-wise completion of work. The Contractor requested (August 2012) the Company to revise the agreed stage-wise payment milestones *inter alia* due to delay in completion of project. The company in accepting the request of the Contractor signed a supplementary agreement (SA) with the Contractor (January 2013). Article 2 of the supplementary agreement provided that in the event of failure of the Contractor in completing the whole of the works by 2 June 2015, for reasons attributable to the Contractor, the contractor was liable to pay interest at the rate of 11 *per cent per annum*, compounded at annual rates by charging interest on 31 March of each year.

Audit scrutiny revealed that condition regarding stage-wise payments was included in bidding documents and all the bidders had submitted their bids considering the mobilisation of funds accordingly. Sub clause 4.12 of General Conditions of Contract read with para 1.3.4 of Section-6 of the contract agreement provided that the Contractor shall be deemed to have obtained all necessary information as to risks, contingencies and other circumstances which may influence or affect the works, have foreseen all difficulties for successful completion of the works. The work was behind schedule from the very beginning for reasons attributable to the contractor including frequent breakdown of machinery, non-arranging of required construction material and shortage of skilled manpower at site. Therefore, accepting the request of contractor for advancing the payment schedule, after 32 month of award of work was not justified. The Contractor even after advancing payment schedule could not complete the work by the agreed date of June 2015 for reasons attributable to him. The project was commissioned on 19 June 2017, after a delay of over 24 months from revised schedule. In view of non-completion of works by agreed date, the Contractor was liable for payment of interest of ₹ 15.54 crore, on the amount of ₹ 396 crore released in advance up to March 2016. It is pertinent to mention here that although the Company had to bear additional interest cost due to advancing the payment schedule, yet the Contractor despite getting benefit of early receipt of funds at the cost and expense of Company, did not complete the work as per agreed schedule.

Further, the Company had granted extension of time on account of various reasons including varied conditions which was not admissible as per Sub clause 4.12 of General Conditions of Contract read with para 1.3.4 of Section-6 of the contract agreement

The matter was reported to the Government / Management (June 2017); their reply was awaited (November 2017).

[18] M/s Hindustan Construction Company Limited, Mumbai.

Himachal Pradesh Power Transmission Corporation Limited

3.10 Avoidable loss

The Company put an incomplete transmission line to use and had to release further payments of ₹ 0.78 crore to the contractor for achieving the required clearances.

Himachal Pradesh Power Transmission Corporation Ltd (erstwhile HPSEB) awarded (June 2005) the work for construction of 220 KV, double circuit transmission line from Kashang to Bhaba to a contractor[19].

Para 1.19 of the Special Condition of Contract provided that the contractor would ensure the minimum technical ground clearance from the lowest conductor and side clearances as specified under the contract. The company during its inspection of the works had observed (July 2009) that the line could not be charged at that stage to full rated capacity because of inadequate ground clearance at various places and advised the contractor to complete the works.

In the meanwhile, to evacuate power from a private Hydro Electric Project, the State Transmission Utility Coordination Committee in its meeting held on 10 September 2010 decided to charge the line at 22 KV and one circuit of the line was energised during May 2011. Audit noticed that the required works of the line were not executed by the contractor despite repeated notices (October 2010 and April 2011) as per specifications to charge the line to its full rated capacity of 220 KV as the required ground / side clearances were not achieved. The Company now having started using the line, in order to achieve the required clearances had to incur further expenditure of ₹ 0.78 crore on destringing & restringing conductor as well as Earth wire, dismantlement and re-erection of certain towers. This failure of the Company to ensure required clearance of the line before putting the line to use, resulted in avoidable expenditure of ₹ 0.78 crore, as the clearances were within the scope of contract and the Company should have ensured the same prior to putting the line to use.

The matter was reported to the Government / Management (October 2017); their reply was awaited (November 2017).

[19] M/s Jyoti Structure Limited, Gurgaon.

Himachal Pradesh Road and Other Infrastructure Development Corporation Limited

3.11 Payment of VAT to a contractor

The Company made payment of ₹ 49.87 lakh to a contractor on account of Value Added Tax by subsequently amending the terms and conditions of letter of acceptance.

Himachal Pradesh Road and Other Infrastructure Development Corporation (Company) was the implementing agency for the execution of work "output and performance based road contract for the maintenance of package 02 Roads in Mandi District" financed by World Bank. The project was to be implemented through divisions of Public Works Department (PWD). The Chief Engineer, Himachal Pradesh, PWD, Mandi Zone (CE), on behalf of State Government, invited (November 2013) the tenders for execution of this work. Clause 14.7 of Section-I (Instruction to Bidders) stipulated that the prices were to be quoted inclusive of all duties, taxes and other levies. Before award of the contract, a pre-award meeting was held in the office of the Chief Engineer, (Mandi Zone) on 19 July 2014 wherein the Contractor agreed to execute the work for ₹ 38.33 crore inclusive of all taxes. After obtaining (29 August 2014) an affidavit from the Contractor regarding his readiness to execute the work as per proceedings of the pre award meeting, the CE issued (02 September 2014) the acceptance letter, indicating that rates so finalised were inclusive of all taxes, and a contract agreement was, accordingly, entered into (31 October 2014) between the Contractor and the State Government for execution of entire work for ₹ 38.33 crore inclusive of all taxes.

Audit noticed (April 2016) that the contractor approached (February 2015) the State Government for payment of Value Added Tax (VAT) based on the clarification given in clause ITB-14.7 of Bid Data Sheet and Clause 52.1, 52.4 and 52.4.1 under particular conditions of the contract. In response to this the CE issued (May 2015) a corrigendum to the letter of acceptance issued in September 2014 to the contractor by replacing the words "inclusive of all duties, taxes and other levies payable by the Contractor" with the words "inclusive of all duties, taxes (except Value Added Tax) and other levies payable by the Contractor". The amendment issued was against the guidelines issued (November 2002) by Central Vigilance Commission, which provides that the payment terms should be defined unequivocally and should not be changed after award of the contract. Moreover, the letter of acceptance was superseded by the contract agreement entered into in October 2014, which has not been amended and in case of difference in letter of acceptance (annexure of the agreement) and any clause of the contract, the latter shall prevail. Further, amending the terms and conditions of the letter of acceptance after execution of contract agreement was against the guidelines of the Central Vigilance Commission (CVC) and has no relevance without amending the contract agreement which was not only binding but also enforceable by law.

The Company instead of releasing payments as per the agreed rates in the contract agreement, which was binding for both the parties and enforceable by law, released payments of VAT to the Contractor over and above the agreed rates. This resulted in extra payment of VAT amounting to ₹ 49.87 lakh[20] (₹ 35.15 lakh by the Company and ₹ 14.72 lakh by the PWD) to the contractor. The Company released the payments up to June 2016 and after exhausting the funds sanctioned by the World Bank for this project, payment for the balance work was being released by the PWD.

The matter was reported to the Government / Management (May 2017); their reply was awaited (October 2017).

Himachal Pradesh Tourism Development Corporation Limited

3.12 Loss due to non-recovery of service charges on booking of railway tickets

Failure of the Company to enter into an agreement for manning the Passenger Reservation System Centres as well as defining terms and conditions for recovery of service charges from consumers led to loss of ₹ 18.87 lakh.

Northern Railway, on request (November, 2005) of Government of Himachal Pradesh, opened two non-railhead Passenger Reservation Systems Centres (PRS) at Kullu and Mandi in order to facilitate inhabitants of remote interior parts. The State Government in consultation with the Managing Director, Himachal Pradesh Tourism Development Corporation Limited (Company) conveyed (November 2005) its consent to provide space free of charge for housing PRS equipment along with booking counter, furniture & equipment. The requisite manpower to operate these PRS was also to be provided by the Company. However, no agreement defining terms and conditions to regulate service charges to operationalise these PRS was also executed. The Company transferred the cash generated from booking of tickets to railway authorities from time to time. In absence of any agreement with the Railway Authorities, no service charges were recovered from consumer for rendering this service.

The Company took up the matter with Railway Authorities, through the State Government, in May 2016. In response to this, the Chief Commercial Manager, Northern Railway informed (July 2016) the Company that service charges may be realised @ ₹ 15 for booking II Class Sleeper ticket, ₹ 20 for III AC Chair Car ticket and ₹ 30 for II AC and First Class ticket from customers as allowed to postal authorities in September 2007.

The audit scrutiny showed (March 2016) that the Company had booked 1,25,800 tickets of various classes during the period from September 2007 to March 2017 valuing ₹ 11.98 crore. As the Company has not maintained any

[20] ₹ 35.15 lakh released by the Company between June 2015 and June 2016 (up to 14th running bill) and ₹ 14.72 lakh (up to 20th running bill) released by the PWD.

data regarding sale of class-wise tickets, actual loss of service charges not recovered on booking of 1,25,800 tickets, could not be ascertained in audit. However, considering the minimum rate of service charges of ₹ 15 applicable for booking of ticket of II Class Sleeper as allowed to Postal Authorities, total loss due to non-recovery of service charges on 1,25,800 tickets worked out to ₹ 18.87 lakh.

Thus, failure of the Company to enter into an agreement for manning these PRS as well as continuing the operation of PRS without safeguarding its financial interest led to loss of revenue of ₹ 18.87 lakh. The Company further continued to incur revenue loss on this account as the advice of Railway Authorities regarding recovery of service charges, conveyed (July 2016) to the Company, remained unheeded so far (April 2017).

The Government reply (October 2017) did not address the issue in its due perspective.

3.13 Delay in revision of fare

Delay in revision of bus fare of its luxury air conditioned buses plying on Delhi–Shimla and Delhi-Manali routes resulted in loss of potential revenue of ₹ 0.98 crore.

Himachal Pradesh Tourism Development Corporation Ltd. (Company) is plying its luxury air-conditioned bus services as contract carrier on Delhi-Shimla and Delhi-Manali routes. The two bus routes cover 211 and 189 kilometres, respectively of Haryana territory. The fare per Passenger / km is fixed after considering the distance travelled, taxes payable and other overheads. The Company deposits applicable bus fare with the Transport Department and road tax with the Excise and Taxation Department of Haryana at the rates specified (August 2013).

Audit noticed (December 2016) that the Government of Haryana increased per km bus fare for Luxury Air Conditioned buses from ₹ 1.08 to ₹ 1.88 per km w.e.f. 23 August 2013. In view of this, the Company was required to revise bus fare relating to Haryana portion for its luxury air conditioned buses on Delhi-Shimla and Delhi-Manali routes. After considering this increase in fare by Haryana Government, total impact for Haryana territory per ticket on Delhi-Shimla and Delhi-Manali routes works out to ₹ 168.50 and ₹ 151.20 respectively. However, the Company did not give effect of this hike in total fare being charged from the tourists on the above two routes till 30 September 2014. The fare on this account for Luxury Air Conditioned buses was only revised by the Company w.e.f. 1 October 2014. During the period from September 2013 to September 2014, 61,730 tourists (Shimla-Delhi-Shimla: 25,968 and Delhi-Manali-Delhi: 35,762) travelled in the luxury air conditioned buses of the Company.

Thus, due to delay in increasing bus fare for Haryana Territory, the Company could not realise additional potential revenue of ₹ 0.98 crore from 61,730 tourists who had travelled in luxury air conditioned buses of the Company during the period from September 2013 to September 2014.

The matter was reported to the Government / Management (June 2017); their reply was awaited (November 2017).

Shimla **(KULWANT SINGH)**
Dated : 12 March 2018 **Accountant General (Audit)**
Himachal Pradesh

Countersigned

New Delhi **(RAJIV MEHRISHI)**
Dated : 14 March 2018 **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 Backward Classes Finance and Development Corporation	2012-13	10.28	2013-14 2014-15 2015-16 2016-17	0.72 0.80 0.67 0.75	- -	- -
2	Himachal Pradesh MahilaVikas Nigam	2013-14	7.19	2014-15 2015-16 2016-17	0.65 0.75 0.75	- - -	- - 0.61
3	Himachal Pradesh Minorities Finance and Development Corporation	2013-14	9.39	2014-15 2015-16 2016-17	1.30 0.66 0.75	- - -	0.11 0.12 0.13
4	Himachal Pradesh Power Corporation Limited	2015-16	1585.16	2016-17	191.25	-	-
5	Himachal Pradesh Power Transmission Corporation Limited	2015-16	239.23	2016-17	23.75	120.00	
6	Himachal Pradesh State Electricity Board Limited	2014-15	553.30	2015-16 2016-17	62.50 50.00	-	330.00 0.70
7	Himachal Pradesh State Handicrafts and Handloom Corporation Limited	2015-16	9.25	2016-17	-	-	8.35
8	Himachal Pradesh KaushalVikas Nigam	2015-16	0.01	2016-17	0.01	--	0.99
9	Himachal Pradesh Tourism Development Corporation Limited	2015-16	12.30	2016-17	-	-	0.60
10	Himachal Pradesh State Forest Development Corporation Ltd.	2014-15	11.71	2015-16 2016-17			
11	Himachal Pradesh Agro Industries Corporation Ltd.	2014-15	18.85	2015-16 2016-17		12.92	
12	Himachal Pradesh State Civil Supplies Corporation Ltd	2015-16	3.51	2016-17			
13	Himachal Pradesh State Industrial Development Corporation Ltd.	2015-16	30.82	2016-17			
14	Himachal Pradesh General Industries Corporation Ltd.	2015-16	7.16	2016-17		2.97	
15	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Ltd.	2015-16	38.76	2016-17		8.00	
16	Beas Valley Power Corporation Ltd.	2015-16	300.00	2016-17			
	Total A : (Working Government Companies)		**2836.92**		**335.31**	**143.89**	**341.61**
B	**Working Statutory Corporations**						
1	Himachal Road Transport Corporation	2015-16	625.49	2016-17		-	
	Total B : (Working Statutory Corporations)		**625.49**				
	Grand Total : (A + B)		**3462.41**				

Appendix 1.2

(Referred to in paragraph 1.15 & 1.16)

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	Long term loans outstanding	Accumulated profit (+)/ Loss (-)	Turnover	Net Profit(+)/ Loss(-) before dividend, tax and interest	Net impact of audit comments[1]	Investment	Return on Investment	Manpower	Interest
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
A.													
AGRICULTURE AND ALLIED													
1	Himachal Pradesh Agro Industries Corporation Limited	2015-16	2017-18	18.85	6.35	(-)18.88	60.57	1.27	0.49	25.20	0.05	118	
2	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	2015-16	2016-17	38.76	20.00	(-) 80.14	72.20	(-) 2.11	0.06	58.76	(-) 0.04	250	1.03
3	Himachal Pradesh State Forest Development Corporation Limited	2014-15	2017-18	11.71	35.72	(-) 52.75	182.90	(-) 2.58	0.53	47.43	(-) 0.05	1930	1.51
Sector-wise Total:				**69.32**	**62.07**	**(-)151.77**	**315.67**	**(-) 3.42**	**1.08**	**131.40**	**(-) 0.03**	**2298**	**2.54**
4	Himachal Backward Classes Finance and Development Corporation	2012-13	2015-16	10.28	16.50	6.29	2.57	0.90	-	26.78	0.03	18	0.29
5	Himachal Pradesh MahilaVikas Nigam	2013-14	2016-17	7.19	-	1.22	0.62	0.20	-	7.19	0.03	2	-

(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	Long term loans outstanding	Accumulated profit (+)/ Loss (-)	Turnover	Net Profit(+)/ Loss(-) before dividend, tax and interest	Net impact of audit comments[1]	Investment	Return on Investment	Manpower	Interest
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
6	Himachal Pradesh Minorities Finance and Development Corporation	2013-14	2016-17	9.39	11.19	(-) 4.77	0.68	0.42	0.09	20.58	0.02	14	0.39
Sector-wise Total:				**26.86**	**27.69**	**2.74**	**3.87**	**1.52**	**0.09**	**54.55**	**0.03**	**34**	**0.68**
7	Himachal Pradesh Road and Other Infrastructure Development Corporation Limited	2016-17	2017-18	25.00	-	-	-	-[4]	-	25.00	-	2	0.35
8	Himachal Pradesh State Industrial Development Corporation Limited	2015-16	2016-17	30.82	-	34.46	25.46	13.14	0.49	63.66	0.21	138	-
Sector-wise Total:				**55.82**	**-**	**34.46**	**25.46**	**13.14**	**0.49**	**88.66**	**0.21**	**140**	**0.35**
9	Himachal Pradesh General Industries Corporation Limited	2015-16	2016-17	7.16	4.83	14.25	56.75	8.59	0.28	26.17	0.33	139	0.21
Sector-wise Total:				**7.16**	**4.83**	**14.25**	**56.75**	**8.59**	**0.28**	**26.17**	**0.33**	**139**	**0.21**
10	Beas Valley Power Corporation Limited	2015-16	2016-17	300.00	652.22	-	-	-[5]	-	952.22	-	175	-
11	Himachal Pradesh Power Corporation Limited	2015-16	2016-17	1585.16	1748.24	(-) 58.98	1.65	(-) 17.92	12.20	3333.40	(-) 0.01	702	-
12	Himachal Pradesh Power Transmission Corporation Limited	2015-16	2016-17	239.23	338.02	(-) 1.55	15.22	3.14	3.27	577.25	0.01	127	0
13	Himachal Pradesh State Electricity Board Limited	2014-15	2016-17	553.30	3090.72	(-) 1989.12	5584.34	(-)113.51	8.96	3644.02	(-)0.03	20535	535.52
Sector-wise Total:				**2677.69**	**5829.20**	**(-) 2049.65**	**5601.21**	**(-)128.29**	**24.43**	**8506.89**	**(-)0.02**	**21539**	**535.52**

(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	Long term loans outstanding	Accumulated profit (+)/ Loss (-)	Turnover	Net Profit(+)/ Loss(-) before dividend, tax and interest	Net impact of audit comments[1]	Investment	Return on Investment	Manpower	Interest
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
14	Himachal Pradesh State Civil Supplies Corporation Limited	2015-16	2016-17	3.51	-	32.81	1243.37	3.48	0.16	35.24	0.09	891	0.13
15	Himachal Pradesh State Electronics Development Corporation Limited	2015-16 2016-17	2016-17 2017-18	- 3.72	- 0.95	- 5.38	- 82.20	- 2.14	0.18	- 10.1	- 0.21	57	- 0.06
16	Himachal Pradesh State Handicrafts and Handloom Corporation Limited	2015-16	2016-17	9.25	0	(-) 16.52	32.20	1.06	0.52	9.25	0.11	56	0.004
17	Himachal Pradesh Tourism Development Corporation Limited	2015-16	2016-17	12.30	-	(-) 22.08	90.89	2.05	0.09	12.30	0.17	1480	0.31
18	Himachal Pradesh KaushalVikas Nigam	2015-16	2016-17	0.007	-	0.003	-	0.03	-	0.007	4.29	38	-
19	Himachal Pradesh Beverages Limited	2016-17	-	1.00	-		5.43			1.00		142	
Sector-wise Total:				**29.787**	**0.95**	**(-) 0.407**	**1454.09**	**8.76**	**0.95**	**30.737**	**0.28**	**2664**	**0.504**
Total A (All sector-wise Working Government companies)				**2866.637**	**5924.74**	**(-) 2150.377**	**7457.05**	**(-)99.70**	**27.32**	**8791.377**	**(-)0.01**	**26814**	**539.804**
B.													
1	Himachal Pradesh Financial Corporation	2016-17	2017-18	99.57	127.36	(-) 161.06	3.42	(-) 6.40	0.47	226.93	(-) 0.03	43	7.57
Sector-wise Total:				**99.57**	**127.36**	**(-) 161.06**	**3.42**	**(-) 6.40**	**0.47**	**226.93**	**(-) 0.03**	**43**	**7.57**
2	Himachal Road Transport Corporation	2015-16	2016-17	625.49	112.79	(-) 847.77	883.84	1.73	2.50	738.28	0.01	9213	24.15
Sector-wise Total:				**625.49**	**112.79**	**(-) 847.77**	**883.84**	**1.73**	**2.50**	**738.28**	**0.01**	**9213**	**24.15**
Total B (All sector-wise Working Statutory corporations)				**725.06**	**240.15**	**(-) 1008.83**	**887.26**	**(-) 4.67**	**2.97**	**965.21**	**(-) 0.01**	**9256**	**31.72**
Grand Total (A + B)				**3591.697**	**6164.89**	**(-) 3159.207**	**8344.31**	**(-)104.37**	**30.29**	**9756.587**	**(-)0.01**	**36070**	**571.524**

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	Long term loans outstanding	Accumulated profit (+)/ Loss (-)	Turnover	Net Profit(+)/ Loss(-) before dividend, tax and interest	Net impact of audit comments[1]	Investment	Return on Investment	Manpower	Interest
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
C.													
1	Agro Industrial Packaging India Limited	2013-14	2014-15	17.72	60.15	(-)78.23	-	(-)0.04	(-)5.58	77.87	(-)0.04	1	
Sector-wise Total:				**17.72**	**60.15**	**(-)78.23**	**-**	**(-)0.04**	**(-)5.58**	**77.87**	**(-)0.04**	**1**	
2	Himachal Worsted Mills Limited	2000-01	2001-02	0.92	-	(-)5.44	-	(-)0.01	-	0.92	(-)0.01	-	
Sector-wise Total:				**0.92**	**-**	**(-)5.44**	**-**	**(-)0.01**	**-**	**0.92**	**(-)0.01**	**-**	
Total C (All sector-wise Non-Working Government companies)				**18.64**	**60.15**	**(-) 83.67**	**-**	**(-) 0.05**	**(-) 5.58**	**78.79**	**(-) 0.01**	**1**	
Grand Total (A+B+C)				**3610.337**	**6225.04**	**(-) 3242.877**	**8344.31**	**(-)104.42**	**24.71**	**9919.50**	**(-)0.01**	**36071**	**571.524**

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. Investment represents paid up capital, free reserves and long term borrowings.
3. Return on Investment has been worked out by dividing net profit / loss before dividend, tax and interest by Investment.
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

(Refer to in paragraph 2.10.2)

The details of award of higher rates due to incorrect analysis of rates for deviated items (Stage-I)

Sl. No.	Name of the component	Name of deviated items involved	Amount paid due to wrong analysis of rates (₹ in crore)	Reasons attributing to wrong analysis	Reply of the unit	Remarks / rebuttal
1.	Balancing reservoir, Adit and Pressure Shaft	Steel, PVC Water Stop Seal and Concrete	0.77	Non-exclusion of component of Excise Duty (exempted for ADB funded projects), from the rates of input items.	The rates have been analysed as per guidelines of CWC and Company issued in February 2013 after including the tax component.	The reply is not tenable as the exemption of taxes was available for ADB funded Project.
2.	All components of the project	31,663 M^3 Sand and aggregate used for 23466.160 M^3 concrete	0.30	Considering energy charges on the basis of per MT production instead of actual capacity of motor (in KW) used in crushing plant used by the Contractor, the highest cost of excavator instead of average cost of three excavator used by the contractor and higher labour charges.	The fixed charges for machinery and labour were considered as per CWC guidelines / invoices submitted by the Contractor.	Average cost of machinery and labour was to be considered after verification by the Engineer-in-Charge.
3.	Pressure Shaft and Adits	Underground excavation through Drill Jumbo Machine	0.26	Component of exempted Custom Duty (CD) was not excluded from its cost. Rates were not derived from analogues items and wages of Mechanic, Chowkidar and Foreman were also charged on higher side.	--	--

4.	Power House	Brick works and providing Sluice Valve	0.34	Non-exclusion of exempted component of ED and Entry Tax (being paid separately), loading of wastage and indirect cost besides, extra charges for manual carriage of bricks in violation of Himachal Pradesh Schedule of Rates (HPSR) and higher cost of sand.	The GM stated (June 2017) that the norms of HPSR could not be applied for shifting of limited material as such charges have been worked out on actual basis.	The reply is not based on the facts as the guidelines issued by the Company (February 2013) stipulate adoption of HPSR rates.
5.	Gas Insulated Switchgear, Power House and Main Access Tunnel	Supply / erection of roofing, wall cladding and tiles.	0.32	Loading Contractor's profit on the rates quoted by the Sub-Contractor, which already included his profit and ED. This resulted in double levy of Contractor's profit besides payment of ED (exempted). Similarly, rate for tiles was also worked out on the rates quoted by the Trader which were inclusive of ED and his profit margin instead of manufacturers' rates.	The GM stated (June 2017) that duties / taxes were included in material cost as per the guidelines issued by the Company.	The reply is not tenable as the exempted components should have been excluded while working out the rates.
		Total	**1.99**			

Appendix-3.1

(Refer to in paragraph 3.7)

Details of higher charges recoverable under Section 126 of Electricity Act, 2003

Name of ESD	Name / Account No. of Consumer	Sanctioned connected load in KW	Sanctioned connected load	110 *per cent* of sanctioned connected load	Period / months	Actual load drawn	Excess load drawn	Total Consumption (KVAH)	Proportionate consumption on extended load	Amount recoverable under Section 126	Penalty already recovered as per tariff (other than Section 126)	Short recovery
			(load in KVA)							(in ₹)		
Tahliwal	Himalya Craft (P) Ltd.	491.36	546	601	8/12 & 1/13 to 6/13	603 to 703	57 to 157	2144510	349332	13,45,314	1,94,354	11,50,960
		585.36	585	644	10/13 to 7/14 (except5/14)	683 to 749	98 to 164	3106480	242208	11,50,488	1,48,920	10,01,568
		585.36	585	644	8/14 to 1/15	694 to 801	109 to 216	2267270	265781	11,96,014	1,05,120	10,90,894
Tahliwal	Lovin Care	248	276	303	5/13 to 11/13 (except 6/13)	308 to 357	32 to 81	715200	103415	4,91,219	56,200	4,35,019
											Total	**36,78,441**

Appendix-3.2

{Refer to in paragraph 3.8.5 (ii)}

Statement showing the details of excess consumption of furnace oil with reference to norms

Sl. No.	Particulars	2014-15	2015-16	2016-17
1	Norms fixed for consumption of FO (litres) for extraction of one MT of AJC	440	440	440
2	AJC actual extracted (MT)	455.300	287.400	500.000
3	FO was to be consumed (Litres)	200332	126456	220000
4	Actual FO consumed (Litres)[1]	255379	188142	230164
5	Excess consumption of FO (Litres)	55047	61686	10164
6	Consumption of FO for extraction one MT of AJC (Litres)	**561**	**655**	**460**
7	Norms fixed for consumption of FO for filling of 4000 trays	1300	1300	1300
8	Actual trays filled	565621	639694	526737
9	FO was to be consumed (Litres)	183827	207901	171190
10	FO actual consumed (Litres)	221909	207035	162875
11	Excess consumption of FO (Litres)	38082	-865	-8314
12	Consumption of FO for filling of 4000 trays (tetra pak)	**1569**	**1295**	**1237**
13	FO excess consumed in extraction of one MT AJC & filling of tetra pak juices (5+11)	93128	60821	1850
14	Average rate of FO *per* litre (Rupees)	49.22	24.88	26.08
15	Excess expenditure due to excess consumption of FO (Rupees in lakh)	**45.84**	**15.13**	**0.48**
			Total	**₹ 61.45 lakh**

[1] During 2014-17, briquettes consumed (kg) has converted into FO (litres) by dividing 3.08 as the Company installed wood fired boiler during September 2014.

Glossary of Abbreviations

Glossary of abbreviations	
ABB	ASEA Brown Boveri
AC	Air condition
ACD	Advance Consumption Deposit
ADB	Asian Development Bank
AEs	Assistant Executive Engineers
AIPIL	Agro Industrial Packaging India Limited
AJC	Apple Juice Concentrate
AMIE	Associate Members of the Institution of Engineers
ATN	Action Taken Notes
BGs	Bank Guarantees
BoD	Board of Directors
BOQ	Bill of Quantities
BR	Balancing Reservoir
BS	Bulk Supply
CAG	Comptroller and Auditor General of India
CD	Contract Demand / Custom Duty
CE	Chief Engineer
CEA	Central Electricity Authority
CERs	Certified Emission Reductions
CERC	Central Electricity Regulatory Commission
CERPA	Certified Emission Reduction Purchase Agreement
CHF	Swiss Franks
COPU	Committee on Public Undertakings
CP	Condition precedents
CWC	Central Water Commission
CVC	Central Vigilance Commission
DC	Data Centre
DG	Diesel Generating
DG sets	Distributed Generation
Discoms	Power distribution companies
DoF	Department of Forests
DPR	Detailed Project Report
ED	Excise Duty / Electricity Duty
EHT	Extra High Tension
ESD	Electrical Sub Division
FCF	Future Carbon Fund
FPP	Fruit Processing Plants
FWD	Forest Working Divisions
GCB	Generator Circuit Breaker
GCC	General Conditions of Contract
GDP	Gross Domestic Product
GIS	Gas Insulated Switchgear
GM	General Manager
GoI	Government of India

GoHP	Government of Himachal Pradesh
GPF	General Provident Fund
GTI	Geo Technical Instruments
HEP	Hydro Electric Projects
HPERC	Himachal Pradesh Electricity Regulatory Commission
HPFC	Himachal Pradesh Financial Corporation
HPGIC	Himachal Pradesh General Industries Corporation Limited
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
HIMFED	Himachal Pradesh State Co-operative Marketing and Consumers Federation Limited
HPRIDC	Himachal Pradesh Road and Other Infrastructure Development Corporation Limited
HPTDCL	Himachal Pradesh Tourism Development Corporation Limited
HRTC	Himachal Road Transport Corporation
HRT	Head Race tunnel
HT/EHT	High Tension / Extra High Tension
HVSR	Higher Voltage Supply Rebate
IT	Information Technology
ITB	Instructions to Bidders
JEs	Junior Engineers
JVVN	Jal Vidyut Vikas Nigam
Kgs	Kilograms
KM	Kilometre
KVA	Kilovolt Ampere
KW	Kilo watt
LADA	Local Area Development Activities
LADF	Local Area Development Fund
LC	Letter of Credit
LD	Liquidated Damages
LIBOR	London Inter Bank Offered Rate
LOA	Letter of Award
LVSS	Low Voltage Supply Surcharge
MD	Managing Director / Maximum Demand
MIS	Market Intervention Scheme
MoU	Memorandum of Understanding
MRI	Metre Reading Instruments
MT	Metric Tonne
MUs	Million Units

MW	Mega Watt
NCT	National Capital Territory
NEFT	National Electronic Funds Transfer
NGT	National Green Tribunal
NIT	Notice Inviting Tender
NOC	No Objection Certificate
NPV	Net Present Value
PAC	Project Authority Certificate
PAG	Principal Accountant General
PDCO	Permanent Disconnection Order
PFC	Power Finance Corporation
PLDVC	Peak Load Demand Violation Charges
PMT	Per Metric Tonne
PO	Purchase Order
PPA	Power Purchase Agreement
PRS	Passenger Reservation System
PSUs	Public Sector Undertakings
PVR	Physical Verification Reports
PWD	Public Works Department
Rmt	Running meter
RTGS	Real Time Gross Settlement
SA	Supplementary Agreement
SAR	Separate Audit Report
SCADA	Supervisory Control and Data Acquisition
SJVNL	Satluj Jal Vidyut Nigam limited
SLC	State Level Committee
SPSA	Special Project Site Allowance
SPV	Special Purpose Vehicle
SSV	Standard Supply Voltage
TEC	Techno- Economic Clearance
UNFCCC	United Nations Frame Work Convention on Climate Change
USD	United States Doller
UTR	Unique Transaction Reference
VAT	Value Added Tax