

## OVERVIEW

### 1 Overview of Government companies and Statutory corporations

*Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Himachal Pradesh had 20 working PSUs (17 companies and three Statutory corporations) and three non-working PSUs (all companies), which employed 42,204 employees. The working PSUs registered a turnover of Rs. 4,629.88 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 12.53 per cent of State GDP indicating an important role played by the State PSUs in the economy. However, the working PSUs incurred overall loss of Rs. 0.12 crore in 2008-09 and had accumulated losses of Rs. 943.78 crore.*

#### *Investment in PSUs*

*As on 31 March 2009, the investment (Capital and long term loans) in 23 PSUs was Rs. 4,256.01 crore which declined by over 16 per cent from Rs. 5,104.22 crore in 2003-04. Power sector accounted for nearly 72 per cent of the total investment in 2008-09. The Government contributed Rs. 703.85 crore towards equity, loans and grants/subsidies during 2008-09.*

#### *Performance of PSUs*

*During the year 2008-09, out of 20 working PSUs, eight PSUs earned profit of Rs. 47.68 crore and equal number of PSUs incurred loss of Rs. 47.80 crore. Three working PSUs had not started commercial activities and in respect of one working PSU, excess of expenditure over income was reimbursable by the State Government. The major contributors to profit were Himachal Pradesh State Electricity Board (Rs. 32.31 crore) and Himachal Pradesh State Industrial Development Corporation Limited (Rs. 9.74 crore). The heavy losses*

*were incurred by Himachal Road Transport Corporation (Rs. 34.18 crore) and Himachal Pradesh Financial Corporation (Rs. 6.32 crore). The losses were attributable to various deficiencies in the functioning of PSUs. A review of three years Audit Reports of CAG shows that the state PSUs losses of Rs. 550.50 crore and infructuous investment of Rs. 8.58 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.*

#### *Quality of accounts*

*The quality of accounts of PSUs needs improvement. Of the 16 accounts of working companies finalised during October 2008 to September 2009, eight accounts received qualified certificates and seven accounts received adverse certificates. There were 44 instances of non-compliance with Accounting Standards. Of the three accounts of Statutory corporations finalised during October 2008 to September 2009, audit of only one account was completed and it received qualified certificate. The Reports of the Statutory Auditors on internal control of the companies indicated several weak areas.*

#### *Arrears in accounts and winding up*

*Twelve working PSUs had arrears of 15 accounts as of September 2009. The arrears need to be cleared by setting targets for individual PSUs. There were three non-working PSUs. As no purpose may be served by keeping these PSUs in existence, Government need to expedite closing down of the non-working PSUs.*

#### *Discussion of Audit Reports by COPU*

*The Audit Reports (Commercial) for 2002-03 onwards are yet to be fully discussed by COPU. The six pending Audit Reports contained 17 reviews and 80 paragraphs of which 16 reviews and 56 paragraphs were pending for discussion.*

## 2 Performance review relating to Statutory corporation

Performance review relating to ‘Himachal Road Transport Corporation’ was conducted. Executive summary of the Audit findings is given below:

*The Himachal Road Transport Corporation (Corporation) provides public transport in the State through its 23 depots. The Corporation had fleet strength of 1,908 buses as on 31 March 2009 and carried an average of 1.20 lakh passengers per day during 2008-09. It accounted for a share of 41.26 per cent in public transport with rest coming from private operators. The performance audit of the Corporation for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the buses model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.*

### **Finances and Performance**

*The Corporation suffered a loss of Rs. 34.18 crore in 2008-09. Its accumulated losses and borrowings stood at Rs. 512.23 crore and Rs. 140.01 crore as at 31 March 2009, respectively. The Corporation earned Rs. 25.19 per kilometre and expended Rs. 27.34 per kilometre in 2008-09. Audit noticed that with a right kind of policy measures and better management of its affairs, it is possible to reduce costs, so as to earn profit and serve its cause better.*

### **Declining share**

*Of 4,624 buses licensed for public transport in 2008-09, about 41.26 per cent belonged to the Corporation. The percentage share of the Corporation increased from 40.35 per cent in 2004-05 to 41.82 per cent in 2007-08 but decreased marginally to 41.26 in 2008-09. The decline in share during 2008-09 was mainly due to its operational inefficiency. Nonetheless, vehicle density (including private operators buses) per one lakh population increased marginally from 65.31 in 2004-05 to 66.85 in 2008-09*

*indicating stability in the level of public transport in the State.*

### **Vehicle profile and utilisation**

*Corporation’s buses consisted of own fleet of 1,881 buses and 27 hired buses as on 31 March 2009. Of its own fleet, 588 (31.26 per cent) were overage. The percentage of overage buses increased from 24.46 in 2004-05 to 31.26 in 2008-09 due to non-replacement of overage buses though the Corporation acquired 960 new buses during 2004-09. The acquisition was funded through grant-in-aid of Rs. 40 crore and share capital contribution of Rs. 36.24 crore from the State Government. Corporation’s fleet utilisation at 98.67 per cent in 2008-09 was above All India Average (AIA) of 90.01 per cent. Its vehicle productivity at 224 kilometres per day per bus was above the AIA of 196 kilometres for hilly areas. Similarly, its load factor at 64.83 per cent in 2008-09 remained above the AIA of 63 per cent. Though, the Corporation did well on operational parameters, its 95 per cent schedules of buses were unprofitable due to high cost of operations. The Corporation did not carry out preventive maintenance as required in 12.70 to 13.53 per cent cases during 2004-09.*

### **Economy in operations**

*Manpower and fuel constitute 72.97 per cent of total cost. Interest, depreciation and taxes account for 14.22 per cent and are not controllable in the short term. Thus, the controllable expenditure has to come from manpower and fuel. The Corporation succeeded in reducing the manpower per bus from 5.09 in 2004-05 to 4.41 in 2008-09 though the manpower cost rose from Rs. 8.44 to Rs. 10.60 per effective Km in 2004-09. Further, the expenditure on repairs and maintenance was Rs. 66.24 crore (Rs. 3.52 lakh per bus) in 2008-09 of which nearly 44 per cent was on manpower. The Corporation did not attain its own fuel consumption targets resulting*

*in excess consumption of fuel valued at Rs. 5.26 crore.*

*The Corporation had just 27 hired buses where bus owners provide buses with drivers and incur all expenses. The Corporation provides conductors and makes payment as per kilometres operated. Since the net loss per effective Km of hired buses was lower than the same in respect of owned buses, this arrangement has the potential to cut down the cost substantially. The Corporation needs to explore possibility to replace overage buses by hired buses in future.*

#### **Revenue maximisation**

*The State Government reimburses the cost of concessional/free passes and operation on uneconomical routes. However, against the claim of Rs. 311.92 crore lodged by the Corporation, the State Government had reimbursed Rs. 231 crore only leaving a sum of Rs. 80.92 crore unrecovered.*

#### **Need for a regulator**

*The fare per kilometre stood at 92.50 paise from February 2008. Though the Government approves the fare increase, there is no scientific basis for its calculation. The Corporation has also not formed norms for providing services on uneconomical schedules. Thus, it would be desirable to have an independent regulatory body (like Public*

*Tariff Commission as envisaged by the State Government) to fix the fares, specify operations on uneconomical routes and address grievances of commuters.*

#### **Inadequate monitoring**

*The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. The shortfall in operations is required to be deliberated upon in the Board of Directors with suitable remedial actions to be taken. However, the Corporation lacked in these aspects and could not control the cost by exercising effective management control over operational parameters.*

#### **Conclusion and recommendations**

*Though the Corporation is incurring losses, it is mainly due to its high cost of operations, negligible reliance on hired buses and low fare structure. The Corporation can control the losses by reducing operational cost and resorting to hiring of buses. This review contains five recommendations to improve the Corporation's performance. Reduction of operational cost, hiring of buses and effective monitoring by top management are some of these recommendations.*

### **3 Transaction Audit Observations**

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

- Loss of Rs. 16.69 crore in five cases due to non-compliance of rules, directives, procedure and conditions of tender document.

*(Paragraphs 3.1, 3.6, 3.7, 3.9 and 3.10)*

- Loss of potential revenue of Rs. 1.13 crore in one case due to deficient planning.

*(Paragraph 3.2)*

- Loss of Rs. 7.51 crore in one case due to injudicious decision.

*(Paragraph 3.4)*

- Loss of Rs. 12.52 crore in three cases due to inadequate/deficient monitoring.

*(Paragraphs 3.3, 3.8 and 3.12)*

Gist of some of the important audit observations is given below.

**Himachal Pradesh Tourism Development Corporation Limited** failed to plan construction of a car parking project properly, which led to time overrun of more than seven years in commissioning of the project, cost overrun of Rs. 81 lakh besides loss of potential revenue of Rs. 1.13 crore.

*(Paragraph 3.2)*

**Himachal Pradesh State Civil Supplies Corporation Limited** failed to initiate timely action for revision of rates of bran in accordance with the prevailing market rates resulting in loss of Rs. 3.56 crore.

*(Paragraph 3.3)*

**State Government's** injudicious decision not to enforce the condition of the sale deed against the purchaser of property resulted in a loss of Rs. 7.51 crore to **Himachal Pradesh General Industries Corporation Limited**.

*(Paragraph 3.4)*

**Himachal Pradesh State Electricity Board** failed to fix rates for supply of Steel Tubular Poles as per the tender document resulting in undue favour of Rs. 1.06 crore to local suppliers.

*(Paragraph 3.6)*

**Himachal Pradesh State Electricity Board** failed to implement the Expenditure Regulations resulting in revenue loss of Rs. 2.90 crore due to short recovery of service connection charges from the consumers.

*(Paragraph 3.7)*

**Himachal Pradesh State Electricity Board** did not assess the load requirement of Sansarpur Terrace area correctly resulting in injudicious investment of Rs. 3.35 crore with resultant interest loss of Rs. 85.43 lakh.

*(Paragraph 3.8)*

**Himachal Pradesh State Electricity Board** failed to apply the provisions of applicable schedule of tariff and Electricity Act, 2003 resulting in loss of revenue of Rs. 11.69 crore.

*(Paragraph 3.10)*