Chapter-III
Audit of Transactions

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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

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.

[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.

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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
Dated : 12 March 2018

(KULWANT SINGH)
Accountant General (Audit)
Himachal Pradesh

Countersigned

New Delhi
Dated : 14 March 2018

(RAJIV MEHRISHI)
Comptroller and Auditor General of India