Chapter-III

Social, General and Economic Sectors (Public Sector Undertakings)

CHAPTER-III
SOCIAL, GENERAL AND ECONOMIC SECTORS (PUBLIC SECTOR UNDERTAKINGS)

Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited (HPMC)

3.1 Unfruitful expenditure on Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited - Process Automation Project, ₹ 7.82 crore

Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited (HPMC) expended ₹ 7.82 crore on Process Automation Project (Project) without utilizing it. Additional liability of ₹ 2.74 crore is still pending.

Government of India[75] approved (March 2015) an Automation Project to improve internal business process of HPMC offices through a centralized application. The duration of the Project was three years (June 2015 to June 2018) with a total outlay of ₹ 8.83 crore as Grant-in-Aid[76]. The objective was to integrate all regional offices (14), fruit processing units (3), cold storages (2) and head office to bring the whole process online to increase operational efficiency and facilitate availability of critical information on real time basis. Better Human Resource (HR) management; reduction in supply and manufacturing bottlenecks; reduction in transportation, warehousing and distribution costs and better customer management were the envisaged benefits.

There was no separate Project Management Unit (PMU) in place. HPMC itself was acting as the PMU. It was responsible for activities like coordinating between the stakeholders, ensuring the infrastructure created as per specifications, monitoring the timelines and Service Level Agreements (SLAs), conducting User Acceptance Tests (UATs) of the applications, creating internal capacity and meeting any other administrative requirements.

Apart from HPMC, there were both private and public agencies engaged in implementing the project. Their roles were as follows:

- The Department of Information Technology (DIT), Government of Himachal Pradesh was to provide technical assistance to HPMC for the preparation of DPR and drafting of tenders.
- HPMC appointed Price water house Coopers Private Limited (PwC) as System Integrator (SI) for the implementation of the automation project. They would customise SAP as per the HPMC requirement. Besides, the work of SI mainly

75 Department of Electronics and Information and Technology (DeitY) under the Ministry of Communications and Information Technology, New Delhi.

76 Central Share: ₹ 7.90 crore (first instalment of ₹ 3.94 crore released in March 2015) and State Share: ₹ 0.93 crore.

comprised project planning, design, system development and data digitization/ migration.

- In order to acquire the license of Enterprise Resource Planning (ERP), HPMC entered into agreement with SAP India Private Limited for which it was required to pay SAP Enterprise support fees for the renewal of software license.
- The company appointed Wipro Limited to provide consultancy services for the execution of the Project.

Scrutiny of records (September 2019) revealed that during the course of implementation, the following discrepancies were observed:

i. While assessing software developed by PwC for acceptance on 16th November 2017, the Department of Information Technology (DIT), had observed that the developed application was not web based, the graphical user interface was very complicated and modules were not designed as per HPMC requirements. DIT recommended to HPMC that every process needs to be discussed with the people actually dealing with particular domain.

ii. The project was made live in February 2018. The system was not much used by the field offices. For instance, even nine months after go-live, only three entries were made in the apple collection center at Jakri under Gumma Branch. No concrete action was taken by HPMC to assess why the system was not being used.

Despite the above, MD, HPMC without conducting proper user acceptance testing certified (January 2019) that PwC had successfully completed the project.

HPMC made payment of ₹ 7.82 crore to various agencies for implementation of the project as depicted in **Appendix-3.1**. However, no module has been used since February 2019. Further, the project is now non-functional as SAP enterprise which provides license for ERP had also terminated its services (December 2019) due to non-payment of its license fee.

The GoI asked HPMC in a meeting held (13 August 2019) at Delhi to submit the project closure report, consolidated final utilization certificate and a short video film regarding the functioning of HPMC and its benefits accruing to farmers and end users as proof of the successful implementation of the project to release the second instalment of the Grants-in-Aid. There is no record of any such report being prepared or submitted. The MD, HPMC, informed Director (Ministry of Electronics and Information and Technology) on 15 January 2020 that "The Process Automation Project at HPMC is at its final stages". GoI released the second instalment (₹ 3.91 crore) in June 2020.

The State Government in its reply (September 2021) attributed the failure to lack of IT trained staff and non-availability of services of consultants. The reply is not tenable as the issues of manpower should have been accounted for at the project planning stage. Further, the consultants were available for the project implementation as well as during the maintenance period but the company could not operationalize the project during the entire period.

The HPMC has incurred a total expenditure of ₹ 11.57 crore against the grants-in-aid of ₹ 8.83 crore and, thus, created an additional liability of ₹ 2.74 crore without gaining any benefit from the project.

Recommendation: The Government may consider taking concrete steps to revive the project, ensure better coordination between agencies and availability of trained personnel to attain the intended objectives.

Himachal Pradesh Power Transmission Corporation Limited (HPPTCL)

3.2 Contract Management in Himachal Pradesh Power Transmission Corporation Limited

The Company executed 41 projects during the period 2017-18 to 2019-20. There was delay in award and subsequent completion of works. Instances of unjustified price variation, inadmissible payment and non-enforcement of financial safeguards including non-levy of liquidated damages were observed.

3.2.1 Introduction

Himachal Pradesh Power Transmission Corporation Ltd. (Company) was formed (August 2008) to strengthen the Transmission Network in the State and to facilitate evacuation of power from upcoming power generation plants. It was conferred the status of State Transmission Utility in the year 2010. It has been entrusted with execution of all new works relating to transmission lines and sub-stations of 66 KV and above. Organization structure of the Company relating to contracts is given in **Appendix-3.2.**

Audit was conducted between October 2020 and December 2020 to examine the planning, award and execution of contracts in three years, from April 2017 to March 2020. Out of 41 projects executed during 2017-20, 14 projects were selected by using Probability Proportional to Size without replacement method as detailed in **Appendix-3.3**.

Table-3.2.1: Status of Projects

Period/Year	Awarded	Award Value (₹ in crore)	In-progress	Completed
	A	B	C (of A)	D (of A)
Up to 2017-18	26	1,728.46	11	15
2018-19	08	449.65	08	0
2019-20	07	315.78	07	0

The audit objective was to assess whether:

- due tendering procedure was followed for awarding the works;
- works were executed as per the terms of the contract; and

- deviations and extension of time were justified and approved by competent authority.

Audit findings

Of the 14 projects selected for test check, issues like delay in award of work, contradictory provisions in supply agreement, inadmissible payment, avoidable payment of tax, irregular grant of time extension and short deposit of performance guarantee were observed. These issues are discussed in detail in the succeeding paragraphs:

3.2.2 Delay in Award

In six projects, works were awarded between 15 and 40 months after approval of DPRs. These works were completed with a delay ranging between 28 and 66 months as detailed in **Table-3.2.2**:

Table-3.2.2: Delay in award and completion of projects

Sl. No.	Name of work	Date of approval of DPR	Date of award	Scheduled date of commissioning as per award	Actual date of commissioning	Delay in award (Months)	Delay in completion (Months)
1.	33/132 kV, Sub-Station at Chambi	05.06.2012	01.10.2015	April 2017	20.08.2019	40	28
2.	220 KV line from Lahal to Budhil HEP	05.06.2012	11.03.2015	March 2016	29.06.2020	33	51
3.	33/220/400 kV Lahal Sub-Station	24.06.2013	20.09.2014	September 2017	30.06.2020	15	34
4.	220/400 kV, Sub-Station at Pragati Nagar	06.04.2011	25.10.2013	April 2015	02.11.2020	30	66
5.	66 kV Switching Station at Urni	05.06.2012	07.06.2014	September 2015	30.09.2020	24	61
6.	66/220/400kV sub-station at Wangtoo with LILO of both circuits of 400 kV Karcham-Kala Amb Transmission Line	14.03.2012	24.07.2013	May 2015	29.09.2021	16	52

3.2.3 Deficient Contract agreement

Audit observed in one project, irregularities in the contract allowed for unjustified payment for price variation. For construction of Lahal sub-station[77], a supply-cum-service contract was awarded to a contractor in September 2014. The supply contract was for ₹ 185.55 crore and 1,11,900 USD. The service contract was for ₹ 46.90 crore. The unjustified price variation was given in the following instances:

[77] 33/220/400 KV GIS Sub-station.

(i) Contradictory provisions within supply contract

As per Instructions to Bidders (ITB)[78], no price variation was admissible, except for Low Tension (LT)/Power transformers, Civil works and associated Erection component for transmission project[79]. Terms of the contract also did not provide for price variation on bought-out items[80].

These two provisions are contradictory because in this contract, power transformer was a bought-out item. Audit observed that the Contractor claimed (05 February 2019) price variation (PV) in respect of supply of power transformers, for which the Company paid (May 2019) ₹ 6.33 crore. Since the power transformer[81] was a bought-out item, payment of PV of ₹ 6.33 crore was not admissible as per terms of contract agreement. The Company should have resolved the inconsistencies before making the payment of ₹ 6.33 crore to the contractor.

(ii) Insertion of price variation clause in service contract

According to ITB for service contract, price variation was not admissible in service contracts and the bids were placed and accepted accordingly. In the service contract for construction of Lahal sub-station, the price variation clause was inserted in the agreement after award of work and the contractor was made eligible for price variation. This resulted in unjustified payment of price variation amounting to ₹ 5.92 crore.

Thus, Company extended undue favour by releasing payment of price variation of ₹ 12.25 crore (₹ 5.92 crore + ₹ 6.33 crore) in contravention to the terms and conditions of bid/contract.

The Management stated (January 2021) that as per tender document/pre bid clarification price variation is exclusively applicable for major equipment i.e., LT transformers, power transformers and civil works. The reply was silent about power transformer being a bought-out item, on which no price variation was admissible.

3.2.4 Implementation of contracts

3.2.4.1 Violation of terms of Agreement

Instances of non-compliance with conditions of the contracts were as under:

(i) Inadmissible payment for widening of road

In one project (sub-station at Lahal), the Company bore the financial burden of road strengthening/widening work which was clearly within the bidder's scope of work.

In a pre-bid query on the clause "Bridges and roads strengthening in the bidder's scope" for construction of Lahal sub-station, a bidder wanted to know whether road

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78 Clause 18.6 of section-2 (BDS) and Clause 11.2 of Section 8 (Special Conditions of Contract) of contract agreement.

79 Concreting; Reinforced and other steel works; and Erection.

80 Items purchased by the contractor from other manufacturers.

81 (Make M/s Toshiba Transmission & Distribution system (India) Pvt. Ltd).

and bridges between Chamba and Lahal were to be strengthened by the successful bidders. The Company replied (30 January 2014) that wherever required, temporary strengthening of bridges and widening of roads would be in the bidder's scope of work. As per tender, contractor was to transport material up to destination for execution of work. The road strengthening required for this was the contractor's responsibility.

After award of contract, a joint survey was done by the Company, the contractor and HPPWD (6 August 2015) of Chamba - Bharmour road to identify potential hindrances. During the survey it was noticed that widening of road and dredging of overhanging rock was required at various locations to maintain requisite clearance for smooth movement of heavy vehicles. An estimate of ₹ 2.00 crore was prepared (September 2017) by the Superintending Engineer, HPPWD, Shahpur for this work. The Company deposited (December 2017) this amount with HPPWD.

In pre-bid clarification Company had already made it clear that widening of roads, wherever required, was in bidder's scope. Therefore, deposit of the cost of widening of road by the Company against the contractual provision led to additional financial burden of ₹ 2.00 crore.

(ii) Approval of extra / additional items

In two projects, the Company separately approved and made extra payments for additional items, which were deemed to be included in the scope of work of the contractor.

In the contract for construction of sub-stations at Wangtoo and Lahal, as per Clause 3.6 of Section-1 (Project), the contractors were fully responsible for providing equipment, material, system and services, specified or otherwise, required for successful construction, commissioning, operation and maintenance of the sub-stations in all respects. These would be deemed to be included in the scope of work of the contractors and would be provided at no extra cost to the Company.

Audit found that the contractors had submitted additional claims for supply and installation of Poly vinyl chloride (PVC) pipes for the weep holes, for providing and laying of filter media, and for expansion joints, Filler Boards in retaining/protection walls as additional item, for which the Company paid ₹ 0.99 crore as detailed in **Table-3.2.3**:

Table-3.2.3: Detail of extra payment to contractor

(Amount ₹ in crore)

Sl. No.	Name of work	Month of claim	Amount claimed	Amount paid
1.	400/220/66KV GIS, Wangtoo	October 2016	2.66	0.92
2.	33/220/400 KV, GIS, Lahal	January 2020	0.07	0.07
Total				**0.99**

Thus, non-compliance with the conditions of the contracts and treating the above-mentioned items as extra items, led to extra payment of ₹ 0.99 crore.

The Management stated (January 2021) that PVC pipes etc., required for completion of protection wall were not included in the BOQ, and as such were paid as an extra item. The reply was not justified as these items were essential items to be supplied free of cost as per provisions already incorporated in the contract as discussed in the para above.

(iii) Avoidable payment of Goods and Service Tax

In four projects, the Company made avoidable payment of GST on bought-out items, which was not required as per the contracts.

Clause 14.9 of Section-8 of the contract agreements for construction of sub-station/Transmission Line (TL) at Lahal, Chambi, Sunda-Hatkoti, Urni and Lahal-Budhil, (awarded between June 2014 and October 2015) provided that the contract price and terms of payment[82] would be based on the taxes, duties, levies and charges that were prevailing 28 days prior to the last date of bid submission. It further provided that if any alteration in taxes occurred in the course of the contract, an equitable adjustment in contract price would be made accordingly. However, these adjustments were restricted to direct transactions between the employer and the contractor and were not applicable on bought-out items.

After the introduction of Goods and Service Tax (1 July 2017), the Company revised the contract price of these four contracts and adjusted the price of bought out items on account of GST. This was in contravention of the provisions of the contract and led to overpayment of ₹ 24.57 crore by the Company on account of adjusting GST on bought-out items in the contract, as detailed in **Table-3.2.4**:

Table-3.2.4: Details of avoidable payment on account of GST

Sl. No.	Name of projects	Value of bought out items supplied in post-GST era (₹)	Amount of excess GST paid after adjusting payable CST (₹)
1.	GIS Lahal	1,33,57,16,768	22,01,78,766
2.	GIS Chambi	8,13,28,031	1,30,12,485
3.	Sunda-Hatkoti T/L	7,57,36,875	1,21,17,900
4.	Urni sub-station	24,59,240	3,93,480
Total			**24,57,02,631**

3.2.4.2 Non-enforcement of financial safeguards

(i) Release of retention money in contravention to the provisions of contract

In one project (Lahal sub-station), the Company released retention money to the contractor prematurely, instead of retaining it till the successful completion of the contract, which led to loss of interest revenue.

The contractor for construction of Lahal sub-station, intimated the Company in May 2019 that he was under tremendous pressure due to bad cash flow for the contract and requested for release of interest free retention money against bank guarantee. Although the payments were being released to the contractor on time, the Company

82 as specified in Article-2 of the contracts.

invoked clause no. 25.5.2(b) of GCC, and released retention money of ₹ 18 crore against bank guarantee in 20 June 2019, and ₹ 3.13 crore again on 27 December 2019.

As per clause no. 25.5.2(b) of GCC, the contractor was eligible for release of retention money against the bank guarantee for reasons attributable to the Employer, and not due to bad cash flow to the contractor. Therefore, release of 10 *per cent* retention money was in contravention to the provisions of the contract and the Company had to bear avoidable interest loss of ₹ 2.01 crore[83] on the amount released before it became due.

(ii) Irregular grant of extension of time resulting into non-levy of liquidated damages

In one project, the Company did not recover liquidated damages from the contractor and allowed unjustified extension of time for delays.

The contract for construction of Chambi sub-station[84] was awarded for ₹ 39.18 crore and USD 9,59,950. The work was required to be completed within 18 months from the effective date (15 June 2016) of the contract i.e., by 15 December 2017. In case the contractor failed to complete the work within the scheduled time, Clause 26.2 of Section 7 under GCC provided for levy of liquidated damages @ 0.5 *per cent* per week of the contract value subject to maximum limit of 10 *per cent* at the end of 20 weeks.

On 19 March 2019, the Contractor applied for extension of time from 8 December 2017 to 30 June 2019 (569 days) on account of delay in making payments, delay in approval of construction drawings, vendor and Guaranteed Technical Parameters (GTP).

However, as per contract[85], the contractor was supposed to prepare these documents and submit the same to the project manager/employer. Unless the project manager/ employer notified the contractor in writing of their disapproval or modification, these were deemed to be approved within fourteen days of submission.

On 26 March 2019, against the extension of 569 days claimed by the contractor, the Company granted extension of 477 days, up to 31 March 2019. The company failed to deduct 212 days claimed for delay in approval of GTP and construction drawings. As per terms of contract, in the absence of written communication of disapproval or modification, the GTP and drawing were deemed to be approved. Thus, the Company was not responsible for this delay and, therefore, the extension of time was not admissible to the contractor.

Thus, extension should have been given for only 265 days (477-212 days). Irregular grant of extra extension of time of 212 days without levy of liquidated damages resulted in non-levy/recovery of liquidated damages of ₹ 4.58 crore[86] at 10 *per cent* of contract value.

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83 ₹ 18.00 crore x 10 *per cent* x 376 days + ₹ 3.13 crore x 10 *per cent* x 186 days = ₹ 2.01 crore.

84 33/132 KV GIS sub-station.

85 clause (20.1.1, 20.3.1, 20.3.2).

86 10 *per cent* of ₹ 39.18 crore+ ₹0.66 crore (10 *per cent* of 9,59,950 USD).

(iii) Short – deposit of Performance Guarantee

In two projects, the Company obtained performance guarantee of less than 10 *per cent* of contract value from the contractors. As per standard terms of contract agreement, contractor is required to deposit performance security @ 10 *per cent* of value of contract so as to safeguard the interest of the Company in case of any deficiency in the execution of work.

In the contract for construction of 220 KV Transmission line from Snail to Hatkoti, the contract amount was revised from ₹ 18.00 crore to ₹ 25.44 crore. The company should have received deposit of ₹ 2.54 crore as performance guarantee from the contractor, instead, it obtained only ₹ 1.89 crore (on initial awarded amount of ₹ 18.00 crore). Thus, there was shortfall in recovery of security amount to the extent of ₹ 0.65 crore.

Similarly, in the contract for construction of 220 KV Lahal-Budhil Transmission Line, the contract amount was revised from ₹ 4.81 crore to ₹ 5.87 crore. The Company should have received deposit ₹ 0.59 crore as performance guarantee from the contractor, instead, it obtained only ₹ 0.48 crore (on initial awarded amount of ₹ 4.81 crore). Thus, there was short receipt of ₹ 0.11 crore.

Overall shortfall in performance security in above two cases was ₹ 0.76 crore (₹ 0.65 + ₹ 0.11).

The Management stated (January 2021) that the performance security needs to be given for the 10 *per cent* of contract price only. The reply was not tenable as the additions made pursuant to the contract forms the part of contract price. Hence, the PBG was required to be obtained on the revised cost pursuant to additions.

The audit findings were referred to the Government in April 2021. Reply had not been received (October 2021).

3.2.5 Conclusion

There was delay in award and subsequent completion of works. Company did not adhere to terms and conditions of contract which resulted in payment of price variations, avoidable payment of taxes, non-levy of liquidated damages resulting in undue favour to the contractors. This also placed additional financial burden on the Company.

3.2.6 Recommendation

Company may consider ensuring strict compliance of conditions of bids and contracts; and timely completion of the projects.

Himachal Pradesh State Electricity Board Limited (HPSEBL)

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

Records of four (out of 12) Operation Circles were examined. Company sustained interest loss of ₹ 4.88 crore due to holding of excess stock. Placement of Purchase Order by the Company without tendering or analysis of market rates resulted in extra expenditure of ₹ 1.40 crore. Company issued purchase orders for procurement of stores but could not ensure their utilization even after period ranging from one year to three years. In the absence of physical verification, surplus / obsolete material was not being disposed-off timely.

3.3.1 Introduction

The Himachal Pradesh State Electricity Board Limited (Company) is engaged in generation, transmission and distribution of power in the State. The Chief Engineer (CE) Material Management (MM) under the overall control of Director (Operation) of the Company is responsible for central procurement of electrical items and general items of stores in accordance with the annual requirement received from the field units. The annual outgo on purchase of store items during 2017-18 to 2019-20 ranged between ₹ 100.26 crore and ₹ 259.27 crore (average ₹ 183.66 crore annually).

Material / Inventory Management is an integrated approach to the planning, procurement and utilization of material with a view to control material cost and ensuring availability of materials at the right time, with minimum storage cost. This Audit was undertaken to assess whether purchase orders were issued timely with due care for economy and in accordance with the requirement and rules of the Company; Inventory management system of the Company was efficient and effective; System for physical verification of inventory was adequate; and Disposal of obsolete / scrap items was done promptly.

The period covered for the audit was 2017-18 to 2019-20. The records maintained at the Head office and four[87] (out of 12) Operation Circles[88] were examined between November 2020 and January 2021. The selected circle offices had 38.77 *per cent* of total stock as on 31 March 2020.

There was no system in the Company to prepare Material Budget for the purchases to be made during the year. The detail of purchases / consumption and closing stock at the end of year and excess stock during last three years ended 31 March 2020 is given in **Appendix-3.4**. Stock at the year end during 2018-19 and 2019-20 represented four to five months' consumption. Considering three[89] months' limit, there was excess stock of value ₹ 38.13 crore and ₹ 88.67 crore during 2018-19 and 2019-20

87 Superintending Engineer (Operation) i.e., SE (OP) Bilaspur, Mandi, Solan and Una.
88 selected, based on closing stock as of March 2020, by using random sampling method through IDEA software.
89 Three months limit was fixed by the purchase wing of the Company vide corrigendum no. HPSEB CPO-M 32/86-26213-388 dated 20-9-86.

respectively, on excess stock at the end of 2018-19 Company sustained interest loss of ₹ 4.88 crore[90].

Audit findings

Audit findings on the system of assessment and finalization of demand; procurement process; and inventory management have been discussed in the succeeding paragraphs.

3.3.2 Delay in finalization of yearly requirement resulting in delayed procurement

Purchases are required[91] to be planned and made in the most economical manner and in accordance with the definite requirements of the Company. As per instructions, the field offices are expected to submit next year's requirement/indents in advance during May and November every year to CE (MM). In the indents submitted, the quantities available in stock, quantities on order, consumption during the preceding 12 months as per stock issue registers should be furnished.

In all the four test checked circles, working plans for 2017-18 to 2019-20 were finalised between April and July whereas, the same should have been finalised well before the start of the financial year. The delay in submission of requirement is detailed in **Table-3.3.1**:

Table-3.3.1: Delay in finalization of purchase requirements

Year	2017-18			2018-19			2019-20		
Circle	Target month	Requirement submitted	Delay (in months)	Target month	Requirement submitted	Delay (in months)	Target month	Requirement submitted	Delay (in months)
Solan	11/2016	4/2017	4	11/2017	6/2018	7	11/2018	3/2019	4
Una	11/2016	4/2017	4	11/2017	5/2018	6	11/2018	6/2019	7
Bilaspur	11/2016	6/2017	7	11/2017	7/2018	8	11/2018	3/2019	4
Mandi	11/2016	5/2017	6	11/2017	6/2018	7	11/2018	4/2019	5

Approval for quantity of items for 2017-18, 2018-19 and 2019-20 was provided by the Company in December 2017, November 2018 and October 2019 respectively. As a result, Purchase Orders (PO) were placed at the end of the year, defeating the objective of timely provision of material to field units.

It is pertinent to mention here that although the Company had started using SAP-ERP (September 2014) the application was not being utilized to the optimum. Under the MM modules there is a key function of Consumption based material requirement and planning, but it was not made operational resulting in huge amount of material lying unutilized in different stores. Resultantly, the unnecessary piling up of the stores could not be controlled as discussed in para 3.3.4.1.

Government in their reply (October 2021) had accepted the observation.

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90 ₹ 38.13 crore x 12.79 *per cent* (rate of interest approved by HPERC in June 2019 for capital) = ₹ 4.88 crore.

91 As laid down in Para 1 (3) of Chapter-III of Purchase Manual of the Company.

3.3.3 Placement of purchase order without finalizing tender

Company floated tender enquiry (April 2017) based on the tentative requirement received from its field units for 2,58,188 energy meters for the period 2017-18. Eight firms participated in the bidding process. Scrutiny of records revealed that one firm i.e., M/s Himachal Energy Meter Pvt. Ltd. (who had not participated in the tender) requested (25.04.2017) the Company for placing the Purchase Order (PO) of single phase meter on the same rates, terms and conditions as of previous PO dated 26.02.2016.

The bid evaluation process was slow and before finalizing the bid, Company placed (July 2017) PO for one lakh meters with M/s Himachal Energy Pvt. Ltd. on previous rates, without verifying the pricing trend of meters in the market.

The price bid was opened on 5 March 2018 and rates quoted by the L-1 bidder[92] were found to be lower than the rates of previous year. Thus, placement of PO with supplier of previous year without finalizing the tenders had resulted in extra expenditure of ₹ 1.40 crore as detailed in **Table-3.3.2**:

Table-3.3.2: Extra expenditure on purchase without tender

Items	New Rate	Old Rate on which PO placed	Difference	Quantity	Extra expenditure
	(Amount in ₹)			Number	(₹ in lakh)
Single phase meter, 5-30 AMP	496	638	142	50,000	71.00
Single phase meter, 10-60 AMP	517.25	656	138.75	50,000	69.37
Total					**140.37**

Further, as the material was to be supplied in post GST regime, while placing PO the rates were revised by adding GST. Company, while revising the rates, did not deduct Excise duty (ED) from the ex-work price resulting in determination of rates on higher side and had extended undue benefit to the firm. Resultantly, the Company had to bear avoidable payment of ₹ 49.88 lakh[93].

Government stated (October 2021) that at the time of issuing the purchase order at previous year rates, the current rates were not available. The reply was not acceptable because had the Company conducted a market rate analysis before awarding, the rates could have been negotiated.

3.3.4 Inventory Management

3.3.4.1 Surplus stores leading to blockade of funds of ₹ 3.60 crore

As per instructions issued by the Chief Engineer (MM) dated 22.12.2000 and further instructions issued by the Secretary HPSEB dated 11.07.2005, material purchased should be consumed within six months of procurement.

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92 M/s Link well Telesystems Pvt. Ltd.

93 50,000 x ₹ 49.23 + 50,000 x ₹ 50.53 = ₹ 49.88 lakh.

Company issued purchase orders for procurement of different quantities of materials during the period 2017-2020 but could not ensure their utilisation despite lapse of period ranging one year to three years (December 2020), indicating unrealistic assessment of requirement resulting in blockade of funds and interest loss.

(i) **Cable:** 77.705 Kms of Cable[94] valuing ₹ 2.78 crore was lying unutilized for more than one to three years in three test units (test checked circles) as detailed in the **Table-3.3.3**:

Table-3.3.3: Detail of unutilized cable

Name of store	Idle from	Particulars	Quantity (in meter)	Amount (₹ in lakh)
Una	2017-18	XLPE-3 Core 120 MM *	6,011	36.31
	2017-18	XLPE 3 Core 185 MM	1,010	7.55
	2019-20	XLPE 3 Core 185 MM	7,186	49.53
	2019-20	AB cable LT 3Cx95+70 mm	22,550	12.89
	2019-20	LT AB cable 3 x95+70 mm	31,033	82.95
Parwanoo	August 2017	XLPE 3 Core 120 MM	6,009	36.84
Parwanoo	June 2017	XLPE 3 Core 185 MM	2,701	20.40
Barotiwala, Baddi	June 2019	AB cable LT 3 x 120+1x95	8,391	31.75
Total			**77,705**	**278.22**

*Allotted to Electrical Division Kangra, which did not lift it despite requests, indicating that the cable was procured without requirement.

Cable lying in haphazard conditions at Barotiwala and at Parwanoo stores

Although in the test checked two[95] circles 3.7 km XLPE 3 Core 185 MM cable was lying unutilized year ending 2017-18 the Company again placed purchase order of the same cable for 6.70 km valuing ₹ 80.61 lakh during May 2018.

Government stated (October 2021) that certain material remains unutilized due to adverse site conditions it further stated that efforts are made to consume the material in succeeding year. The reply was not acceptable as the Company should purchase material keeping in view the site conditions.

(ii) **Compact Florescent Lamps (CFLs):** Company purchased (2008-09) 64 lakh (16 lakh packs) CFLs at a cost of ₹ 63.08 crore for distribution under Atal Bijli Bachat

94 XLPE and AB.

95 Una and Solan.

Yojana. Out of these CFLs, 4,85,905 valuing ₹ 18.80 crore were lying unutilized (March 2015) in the field stores even after more than six years. To utilize the same, Management of the Company decided (March 2015) to use these CFLs for day to day requirement in field offices, power houses and rest houses in place of fused incandescent bulbs.

Government stated (October 2021) that field units have already been asked to use the CFLs for the day to day requirement in field offices / sub-stations / power houses.

However, even after five years from the decision of the Company, 64,736 CFLs valuing ₹ 1.06 crore were lying idle out of which 32,812 CFLs valuing ₹ 53.57 lakh were lying in selected four circles for the last 12 years and the warranty period of 18 months from the date of receipt of material had already expired.

3.3.4.2 Non-utilization/Disposal of stock

Stock represents cash and any dead stock is unproductive capital on which there is loss of interest until the same is disposed-off. Regular weeding out and disposal of stock is necessary to avoid unnecessary holding of material leading to blockade of funds, higher inventory carrying cost and space constraints. The value of inventory of the Company was ₹ 58.40 crore as on 31 March 2018 which increased to ₹ 193.51 crore (by 331 *per cent*) at the end of March 2020.

(i) Non-moving store: Test check of records relating to four circle offices showed that stock mainly comprising cables, energy meters, steel and conductors valuing ₹ 1.51 crore was lying in stores for more than five years which was indicative of the fact that the store items were purchased in excess of the actual requirement. On these excess purchases, the Company had suffered interest loss of ₹ 96.84 lakh[96] up to March 2020.

Government stated (October 2021) that certain material remains unutilized due to adverse site conditions such as right of way issues. It further stated that efforts are made to consume the material in succeeding year. The reply was not tenable as the Company should purchase material keeping in view the site conditions. Moreover, the material was lying unutilized for more than five years.

(ii) Obsolete store: Company is required to review twice in a year all items declared surplus/obsolete and dispose of items found surplus. Stock verifiers of the Company are required to indicate, in their physical verification reports (PVR), duration for which each item is kept in store. The Executive Engineers in charge of the store are required to supplement the PVRs by classifying the disposable material as surplus, obsolete, unserviceable and scrap. The same is also required to be got condemned by the circle level condemnation committee within 45 days of finalization of above classification by the Executive Engineer.

[96] ₹ 151.43 lakh x 12.79 *per cent* x 5 years = ₹ 96.84 lakh.

Scrap and unserviceable store comprising mainly old and used machinery valued at ₹ 4.31 crore (31 March 2020) was pending for final disposal. Further in two circles[97], in spite of continuous increase in non-moving inventory, obsolete and condemned material was not disposed-off during the period, 2017-18 to 2019-20.

Government stated (October 2021) that the field units have repeatedly been requested to reduce the obsolete store. Reply of the Management may be seen in the light of the fact that even after issuing instructions the same were not effectively implemented.

3.3.4.3 Insufficient coverage of physical verification of stores

Continuous stock taking by stock verifier is prescribed[98] so that all the material items are covered at least once in a year. Random checks by the Sub-divisional officer/ officer in-charge of the store are also prescribed. During the period under audit, no official was deployed against the sanctioned post of one Stock Verification Officer and seven Stock Verifiers. PV for the period 2017-18 to 2019-20 was carried out as given in **Table-3.3.4**:

Table-3.3.4: Details of physical verification of stores

Particulars	2017-18	2018-19	2019-20
Total no. of Divisional Store	81	81	81
PV of stores conducted for the year	30	40	2
Percentage of PV conducted	37.03	49.38	2.47

Management admitted (December 2020) the observation and stated that due to non-filling up of the post of Stock Verification Officer and Stock Verifier, the stock verification could not be carried out properly as per laid down procedures and this may also be the main cause for non-implementation of various provisions for maintenance of stores resulting in piling up of surplus/unutilised stores.

3.3.5 Conclusion

The entire process of assessment of material requirement and purchase suffered from delays. Assessment of requirement was improper and there were surpluses unutilized in a circle while fresh procurements were made for other circles as evidenced by the surplus inventories of various items. The Company also did not manage its stores with regards to disposal and weeding out leading to blocked funds and unrealised value. In the absence of physical verification, surplus and obsolete material was not being disposed-off timely.

3.3.6 Recommendations

Company may consider:

- ***Timely finalisation of next year's requirement based on proper assessment of requirements;***
- ***Placing the purchase orders for immediate use only; and***
- ***Timely disposal of surplus and obsolete material.***

97 Solan & Mandi.

98 Instructions 26.2 (b) (vi) of Manual.

3.4 Avoidable payment of Transmission Charges

HPSEBL had to bear transmission charges of ₹ 198.91 crore without actually utilizing the system due to non-completion of downstream system. The charges will increase further until the downstream system is completed.

To meet the power demand in industrial area of Himachal Pradesh, Standing committee on the Power System Planning of Northern Region proposed (2 January 2013) construction of 400/220 KV sub-station at Kala Amb. This upstream sub-station was to be constructed by Power Grid Corporation of India Limited (PGCIL) to strengthen the Northern Regional inter-state transmission network. Subsequently, the Coordination Committee of State Transmission Utility (STU), of which HPSEBL was also a member, decided (06 September 2014) that a downstream system (220KV sub-station) for drawal of power is to be constructed by Himachal Pradesh State Electricity Board Limited (Company). For this purpose, scheme for ₹ 83.14 crore was approved (28 September 2015) by the Company.

Scrutiny of records (July 2019) revealed that the progress of setting up the downstream system (220 KV sub-station) was slow as given in **Table-3.4.1**:

Table-3.4.1: Sequence of events

Sl. No.	Date	Description
1.	27 October 2014	Committee was constituted to select the site for the sub-station.
2.	24 December 2015	Site visit by committee (reasons for visit of site after a delay of one year were not found on records).
3.	15 July 2016	Site was approved by the Management.
4.	19 November 2016	CE (Planning & Monitoring) raised observation that no expression of interest was invited for the acquisition of land.
5.	22 January 2017	Another committee for negotiation of rates of land was formed.
6.	31 January 2017	Rates were negotiated by the Committee. However, no record related to action taken on the negotiated rates was available on record.
7.	30 November 2017-January 2018	BoD accorded sanction for purchase of another identified land. Tendering process initiated for sub-station.

The Company could not synchronize the work of downstream system with the upstream one as PGCIL awarded (9th December 2015) the upstream system's construction work and completed the same during July 2017. The Company was unable to finance the project and it was decided (February 2018) to hand over the downstream system to Himachal Pradesh Power Transmission Corporation Limited (HPPTCL). HPPTCL acquired land only during March 2021 and execution of work had not started until March 2021.

After completion of work by PGCIL, according to tariff petition decided (18 September 2018) by the Central Electricity Regulatory Commission (CERC), 84.5 *per cent* of the approved monthly transmission charges for Kala Amb sub-station of the PGCIL were to be paid by the Company until the completion of downstream system. After completion of downstream system by the Company unit based transmission tariff would be payable based on actual drawal of power through that system. According to tariff fixed by the CERC, the PGCIL raised monthly bills of transmission charges relating to its 400/220 KV Kala Amb sub-station, and due to non-completion of the downstream system, the Company had to pay the same without actually utilizing the system of the PGCIL. Until February 2021, Company had paid monthly transmission charges amounting to ₹ 198.91 crore. It is pertinent to mention here that these charges have also been approved by the Himachal Pradesh Electricity Regulatory Commission in the distribution tariff of the Company and, thus, factored into the bills of consumers. Thus, the consumers were unnecessarily burdened due to failure of the Company to complete downstream system. Thus, due to non-completion of downstream system by the Company, it had to bear transmission charges of ₹ 198.91 crore without actually utilizing the system. These transmission charges will increase further until the downstream system is completed.

The Government stated (October 2021) that the creation of the downstream system was delayed for reasons beyond its control primarily on issues concerning the acquisition of land. As regards payments of transmission charges Management further stated that the Company had filed appeal before Hon'ble Appellate Tribunal for Electricity (APTEL) against the orders of CERC taking the plea that the issue of sharing of transmission charges by all constituents of Northern Region was not adequately addressed. The reply was not acceptable as the Company failed to acquire the land for five years due to which the downstream system could not be created. Appeal before Hon'ble APTEL was filed by the Company on the grounds which had already been rejected by the CERC, when it fixed the tariff after considering all the aspects. Moreover, the Company had already factored these charges into the bills of the consumers, who were burdened due to the company's failure.

Recommendation: The Company should ensure that all works are synchronized and completed timely to prevent avoidable payment of charges. Issues of land acquisition should be settled before starting projects.

Himachal Pradesh State Forest Development Corporation Limited (HPSFDC)

3.5 Loss of ₹ 80.84 lakh due to full payment to workers despite underutilization of their services

Despite lack of full-time requirement, semi/un-skilled workers were paid in full for lesser quantity of work; their contracts were extended annually; and they were also given regular appointments. This led to avoidable payment and loss of ₹ 80.84 lakh to the Himachal Pradesh State Forest Development Corporation Limited (Corporation).

The Corporation is responsible for the felling of trees, subsequent conversion into timber, and for stacking and transportation in the state. The Corporation engages Contractors (Labour Supply Mates) who further engage labourers for this work.

The Joint Secretary (Forests) to the Government of Himachal Pradesh conveyed (October 2014) the approval of the Government to the Managing Director (MD) of the Corporation for engagement of 100 semi-skilled (Girani & Chirani) and un-skilled (Dhulani) workers on contract basis for the work of felling, conversion, stacking, manual carriage of converted timber from the forest and timber loading and unloading. The MD directed (January 2015) the Directors (North and South) to engage 42[99] Girani & Chirani and 18[100] Dhulani workers.

The terms and conditions, *inter alia*, prescribed that a minimum quantity of work would be required of the workers each month. Only on satisfactory completion of this assigned work, they would be paid ₹ 6,300/- (semi-skilled) and ₹ 6,200/- (un-skilled) per month.

Nineteen workers (13 Girani & Chirani and six Dhulani) were engaged for Chamba division, initially for one year. Scrutiny of the records of Chamba Division revealed that 863.51 cum and 468.5 cum of work was completed by Chirani/Girani (semi-skilled) and Dhulani (un-skilled) respectively during the period 2016-17 to 2019-20 (October 2019) for which an amount of ₹ 5,69,452/- was to be paid as wages as given in **Table-3.5.1**. However, against this amount, wages at the maximum applicable rates amounting to ₹ 86,53,736/- was paid which resulted in excess payment of ₹ 80,84,284/- to these workers.

Table-3.5.1: Detail of work done by Chirani/Girani and Dhulani

(Amount in ₹)

Year	Work done by Chirani/ Girani (Semi-skilled) (in cum)	Work done by Dhulani (Un-skilled) (in cum)	Value of work done by Chirani / Girani (Semi-skilled)	Value of work done by Dhulani (Un-skilled)	Total work done by the workers (in cum)	Total payment which was to be made to these workers
(A)	**(B)**	**(C)**	**(D)**	**(E)**	**[(B)+(C)]**	**[(D)+(E)]**
2016-17	155.243	0	76,019	0	155.243	76,019
2017-18	81.759	246.933	93,621	37,538	328.692	1,31,159
2018-19	403.13	221.57	2,05,886	10,376	624.7	2,16,262
2019-20	223.381	0	1,46,012	0	223.381	1,46,012
Total	**863.513**	**468.503**	**5,21,538**	**47,014**	**1,332.016**	**5,69,452**

Source: Compiled based on information received from Department.

Ignoring the lack of work, the unit also engaged 16 additional workers (November 2016 and February 2017), taking the total number of workers to 35[101].

It was also observed that despite indications regarding lesser quantity of work *vis-a-vis* number of workers, the management persisted in keeping them engaged through extensions of contracts.

The Divisional Manager, Chamba informed (August 2017) the Director (North) to take necessary action as the maximum work availability was only for four to five months during the year. Despite this, the State Government extended (December 2017, February 2018 and March 2019) the contracts of these workers.

The MD also observed (July 2018) that these workers were not being fully utilized for the purpose they were engaged and directed the field officers to utilize their services

99 Semi-skilled workers: Directorate (North): 20 and Directorate (South): 22.

100 Un-skilled workers: Directorate (North): Nine and Directorate (South): Nine.

101 33 remained in July 2017.

by deploying them with Labour Supply Mates (Contractors). They were also directed to suggest alternative modes for their utilization. However, the Chamba unit did not respond to these instructions. Ignoring all of the above, 17 out of 19 workers (semi-skilled: 6 and un-skilled:11) were also given permanent appointments (October 2019).

Extension of contracts year after year was not in the financial interest of the Corporation and wholly unjustified, as this work is ordinarily executed through Labour Supply Mates who are paid according to actual work done. Further, the Corporation was well aware that the services of these workers were not fully utilized and still continued to engage them, leading to avoidable payment and loss of ₹ 80.84 lakh to the Corporation in Chamba unit. The other units of the Corporation also reported that these workers were not fully utilized, yet no concrete action was taken by the Corporation.

The Audit findings were referred to the State Government in April 2021. Reply has not been received (September 2021).

Recommendation: The Corporation should do a cost-benefit analysis of getting the work of felling and conversion of timber etc. done through contractors or contractual staff based on the quantum of work available and accordingly rationalize contractual staff.

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Principal Accountant General (Audit)
Himachal Pradesh

Shimla
Dated: 31 January 2022

Countersigned

(Girish Chandra Murmu)
Comptroller and Auditor General of India

New Delhi
Dated: 16 February 2022