

CHAPTER IV

4 TRANSACTION AUDIT OBSERVATIONS

Important audit findings noticed as a result of test check of transactions made by the State Government companies/corporations are included in this Chapter.

Government companies

Himachal Pradesh State Forest Corporation Limited

4.1 Avoidable loss

Non-acceptance of rate offered by a party for bulk purchase of turpentine oil despite known decreasing trend in rates resulted in a loss of Rs.18.04 lakh due to subsequent sale of turpentine oil at lower rates.

The Company sells Turpentine Oil Grade II (T.Oil) produced at its Rosin and Turpentine Factories through tenders on quarterly basis. The rates offered by the parties are approved by a Committee consisting of the Managing Director, Executive Director and the Additional Secretary (Forests). The rates approved remain in force till the approval of rates received in response to next tender.

It was noticed (June 2007) that the Company invited (April 2006) sealed tenders for sale of T.Oil. The offers received from four parties were opened on 5 May 2006. The tentative quantity of T.Oil which was likely to be available for sale was more than 3 lakh litres including opening stock in the beginning of May 2006 and expected production from May to July 2006. The rates offered by the four parties were as under:

Sr. No.	Name of the party	Rate per litre inclusive of all taxes and duties
1	Vikram Aromatics Pvt. Ltd., Mumbai	Rs.39.50 (for 11,000 ltrs)
2	Camphor & Allied Products Ltd., Bareilly	Rs.37.50 (for 3,50,000 ltrs)
3	Himachal Terpene Products (P) Ltd., Kala Amb	Rs.33.50 (for 3,00,000 ltrs)
4	Dujodwala Resins & Terpenes Ltd., Jammu	Rs.33.00 (for 55,000 ltrs)

The above rates were below the reserve price of Rs.40 per litre fixed by the Company. The Committee approved the highest rate of Rs.39.50 per litre

offered by Vikram Aromatics Pvt. Ltd., Mumbai for meager quantity of 11,000 litres for all the parties. The second highest rate of Rs.37.50 per litre for bulk quantity of 3.50 lakh litres offered by Camphor & Allied Products Ltd., Bareilly was not considered. But no other party except the party which offered the highest rate came forward to purchase T.Oil at the rate of Rs.39.50 per litre on the plea that the rate fixed was on the higher side. The second highest party, however, requested (11 May 2006) the Company to reconsider their decision and to accept its realistic rate which was based on market condition. The Management submitted the proposal for considering the request of the party to the Board of Directors (BODs), but by the time the BODs decided (30 June 2006) to sell at his quoted rates, the party had already withdrawn (1 June 2006) its offer. Thereby, the Company lost an opportunity to sell the available T.Oil at the highest available rate for bulk purchase despite the fact that the Company itself was selling T.Oil at the rate of Rs.37.35 per litre with effect from 9 March 2006.

As such, the Company could sell only 11,000 litres of T.Oil at the rate of Rs.39.50 per litre (5 May 2006 to 28 July 2006) out of 3.39 lakh litres of T.Oil available during this period. The balance quantity of 3.28 lakh litres of T.Oil was thereafter sold at the rate of Rs.32 per litre as approved by the Committee on 28 July 2006. Thus, due to delay in taking decision to accept the realistic rates of second highest party, the Company suffered a loss of Rs.18.04 lakh.

The Management stated (July 2007) that the rate was approved by the Committee for all types of sales and more than one rate could not be fixed for open sale. By the time (30 June 2006) the approval of the BODs was obtained for negotiations with the second highest party, the party had withdrawn (1 June 2006) its offer.

The matter was referred to the Government in August 2007; the reply is awaited (September 2007).

Beas Valley Power Corporation Limited

4.2 Undue favour to a contractor

In addition to payment of price variation increase of Rs.42.19 lakh as per the standard price variation formula incorporated in the agreement, the Company paid further price variation increase of Rs.82.10 lakh to the contractor resulting in undue favour to him.

Himachal Pradesh State Electricity Board awarded (April 2003) the work of construction of modified horse shoe shaped Head Race Tunnel (8,477 metres long) for 100 MW Uhl Stage-III Hydro Electric Project to SSJV Projects Pvt. Ltd., Bangalore (contractor). This work was later on transferred to the Himachal Pradesh Jal Vidyut Vikas Nigam Limited, a new Company

(incorporated in March 2003) which has now been renamed (November 2006) as Beas Valley Power Corporation Limited. As per contractual agreement (April 2003), if during the currency of the contract there is an increase or decrease in the cost of material as reflected by the whole sale price index for all commodities including steel items (base 1993-94 = 100), a corresponding increase or decrease in the payment to the contractor shall be computed for each quarter on the basis of a formula stipulated in the contract. The contract further provided that no claim whatsoever for the price adjustment/variation other than those stipulated above would be entertained.

Scrutiny of records (November 2006) relating to price variation claims of the contractor revealed that the Company paid price variation increase of Rs.42.19 lakh under the stipulated price variation formula. On the request (May 2005) of the contractor that there was abnormal increase in the prices of steel items which was not covered in the formula stipulated in the agreement, the Company devised a new price variation formula for allowing additional price variation increase and worked out further increase of Rs.1.64 crore in the prices of steel items up to September 2006. Out of above increase of Rs.1.64 crore, the Company paid to the contractor Rs.82.10 lakh in addition to the payment of Rs.42.19 lakh already made under the formula stipulated in the agreement. This resulted in extension of an undue favour of Rs.82.10 lakh to the contractor.

The Company stated (March 2007) that during May 2003 to May 2005 there was abnormal price hike in steel items in the global market and the formula stipulated in the agreement did not neutralise the price increase. The new formula was devised on the request of the contractor in order to compensate him and the element of increase in prices was shared by the Company and the contractor in the ratio of 50:50. This was stated to have been done in the interest of work to avoid more expenditure, delay in completion of work and carrying out of codal formalities of rescinding the work/recalling of tenders again. The reply is not tenable as the increase in prices of all items was linked to whole sale price index and the standard price increase formula incorporated in the contract took care of price increase from time to time of all commodities including steel. It was the responsibility of the Company to enforce the terms and conditions of the contract. Moreover, the Audit has not come across any other case where the Board/Company had granted this type of additional increase for any other work executed during the same period through other contractors to compensate them by paying additional increase in the prices of steel items.

The matter was referred to the Government in August 2007; the reply is awaited (September 2007).

Himachal Pradesh State Civil Supplies Corporation Limited

4.3 Undue favour to the Panchayat

Instead of taking recourse to legal action to secure possession of land allotted to it by the State Government or selecting some other piece of land, the Company succumbed to undue pressure from the Panchayat and incurred an expenditure of Rs.13.07 lakh on the construction of 12 shops.

For construction of godowns for storage of food grains and office building for its area office Shimla, the Company selected and got allotted (May 2002) 3.02 *Bighas* of Government land at Bhattakuffar (District Shimla) on lease for 99 years and lease rent of Rs.36,683 *per annum*. The land was, however, in the possession of the Gram Panchayat, which demanded (October 2002) eight duly constructed shops on this land from the Company in lieu of handing over the possession of the land. Instead of taking recourse to legal action to secure possession of the land or selecting an alternative site, the Company entered into (May 2003) an agreement with the Panchayat to construct eight shops for the Panchayat free of cost. The Company constructed eight shops at a cost of Rs.8.62 lakh but the Panchayat refused to take over the shops on the plea that the shops were one step down to the road. Hence, after negotiations (July and September 2005), the Company paid (March 2006) to the Panchayat Rs.4.45 lakh for the construction of four more shops on the road side. The Company also took over (November 2006) from the Panchayat already constructed eight shops on monthly lease rent of Rs.15,700 with increase of 10 *per cent* after every five years.

Thus, the Company created a liability for itself, by extending undue favour of Rs.13.07 lakh to the Panchayat *i.e.* the cost of construction of 12 shops and the lease rent of Rs.1.47 lakh to the Panchayat, which should have gone to the State Government. Besides, there would be additional annual liability of Rs.1.88 lakh as lease rent of self constructed shops.

The Government stated (June 2007) that all issues were finalised with the approval of the Board of Directors. The eight shops were taken on rent keeping in view the storage requirement of the Area Manager, Shimla. The lease rent of land was being paid to the Panchayat on the condition that if the Government decided to charge lease rent of land, the same would be deducted from the rent payable to the Panchayat for its godowns taken on rent by the Company for storage of gas. The reply is not tenable as the Government did not give any justification for the selection of disputed land initially, subsequent failure of the Company to take legal action for taking possession of the Government land duly allotted to it and succumbing to undue pressure of the Panchayat.

Himachal Pradesh Tourism Development Corporation Limited

4.4 Unfruitful investment

Construction of a tourist complex at a place having negligible tourist potential without preparing feasibility report or conducting cost benefit analysis resulted in its leasing out immediately after construction and indecision of the Management to take action against the lessee though he did not make payment of lease rent since August 2005. This resulted in unfruitful investment of Rs.94.33 lakh on a tourist complex.

The Company constructed (1999-2004) a tourist complex (Complex) consisting of eight double bed rooms, a restaurant, a multipurpose hall, a gymnasium, a health club and a dormitory at Nurpur in Kangra District at a cost of Rs.94.33 lakh.

The salient features of construction, financing and running of the tourist complex are given below:

- The Company did not prepare feasibility report/ cost benefit analysis before obtaining grant for constructing the Complex. The justification given for constructing a tourist complex made a mention of a fort and two temples at Nurpur; a few temples around Kangra, a place about 75 Kms away from Nurpur and scenic beauty and pollution free atmosphere of the State. There was nothing on record to show that the place had enough tourist potential.
- Cost of construction was met out of grants of Rs.81.58 lakh (GOI: Rs.70 lakh, State Government: Rs.11.58 lakh) and Company's own funds of Rs.12.75 lakh.
- Decision to lease out the Complex was taken in August 2002 and it was leased out (September 2004) to Spain Electronics Corporation Limited, Delhi (SECL) for five years on lease rent of Rs.33.82 lakh (recoverable at incremental annual rent from Rs.6.12 lakh in the first year to Rs.7.44 lakh in the fifth year which was to be paid in advance on quarterly basis.
- SECL made (up to July 2005) payment of Rs.4.59 lakh being the three instalments only, thereafter no payment was made and the Company invoked the security deposit of Rs.3.31 lakh in November 2005 towards lease rent.
- The SECL filed (February 2006) a civil writ petition in the High Court, Shimla for restraining the Company from claiming lease rent or asking for fresh security.

Thus, investing the hard earned money of tax payers received by way of grant at a place without preparing feasibility report/cost benefit analysis reflects the Company's indifference to sound and prudent financial principles resulting in unfruitful investment of Rs.94.33 lakh.

The Government admitted (June 2007) that feasibility report/cost benefit analysis of the project was not prepared. It was further stated that the contract with SECL had been terminated (8 March 2007) and case for recovery of dues and eviction of lessee from the premises had also been filed (April 2007) in the court. The fact, however, remains that the tourist complex was constructed at a place having negligible tourist potential and the decision (August 2002) of the Company to lease out the complex even before the complex was constructed (August 2004) reflects the apprehension of the Company that running the complex on its own would have resulted in huge losses. So far as actions for recovery of dues and eviction of lessee are concerned, the same were taken after Audit pointed out (February 2007) lack of action on the part of the Management.

4.5 Avoidable extra payment

Entering into agreement for higher contract demand for electricity in two complexes resulted in avoidable extra payment of Rs 11.36 lakh to Himachal Pradesh State Electricity Board.

The Company entered into (September 2004 and April 2005) agreements with the Himachal Pradesh State Electricity Board (Board) for supply of power to Dharamshala Tourist Complex and Himachal Holiday Home, Shimla indicating contract demand of 30 to 200 KVA in respect of 10 connections.

The Board approved (July 2004) two part tariff structure. As per tariff, the consumers for commercial, non-commercial, non-domestic, water pumping, small, medium industrial supply and bulk supply consumers having connected load above 20 KW (22 KVA) were requested to declare their contract demand in KVA and enter into an agreement with the Board for the purpose of levy of demand charges with effect from 1 October 2004. As per the tariff order applicable with effect from July 2005, the demand charges were to be levied at the rate of Rs.125 per KVA per month for connected load of 20 KW (22 KVA) to 100 KW (111 KVA) and Rs.175 per KVA per month for connected load above 100 KW (111 KVA) which were subsequently (July 2006) reduced to Rs.75 and Rs.100 respectively.

The agreements for contract demand for power supply entered into by the Company were on higher side as the maximum power consumption of 18 to 104.47 KVA was recorded by the Board in the above two complexes between July 2005 and February 2007. Though the Company had the option to revise

the contract demand, it failed to review the requirement of electricity and get the contract demand reduced resulting in avoidable extra payment of Rs 11.36 lakh to the Board for these two complexes from July 2005 to February 2007.

The Government stated (June 2007) that contract demand was made after assessing tourist occupancy and over all trend of consumption of electricity though subsequently electricity consumption remained comparatively less. The contract demand has now been reduced as advised by Audit. The fact, however, remains that the Company failed to review the contract demand *vis-à-vis* consumption of electricity for two/three years till higher contract demand was pointed out (February 2007) by Audit.

Himachal Pradesh State Handicrafts and Handloom Corporation Limited

4.6 Diversion of grant-in-aid

The Company diverted grant-in-aid of Rs.17.15 lakh received for purchase of handlooms for imparting training to the prospective weavers for payment of salary and wages of regular staff.

The Company has been conducting various training programmes for handloom and carpet weavers under different grant-in-aid (GIA) schemes of the State and the Central Government. The funds are released to the Company by the Government based on schemes formulated by the Company, which includes provision for expenditure on account of cost of looms required for imparting training to the prospective weavers besides other expenses for running the schemes.

The Company received GIA of Rs.3.90 crore (State: Rs.3.73 crore and Centre: Rs.0.17 crore) during the last five years ended 31 March 2006. Despite repeated verbal and written requests, the Company did not produce records to show the amount of GIA received for the purchase of looms during these years. Scrutiny of records (February 2007) revealed that the Company did not purchase new looms during 2001-06 for imparting training and gave training to the prospective weavers on the already existing handlooms. These looms were acquired out of GIA received during the earlier years. In order to show utilisation of GIA received for this purpose, the Company revalued the existing looms having book value of Rs.7.64 lakh as Rs.24.79 lakh and charged the difference of Rs.17.15 lakh as tabulated below to GIA received during these years without actually spending any amount.

The said amount of Rs.17.15 lakh was utilised by the Company for payment of salary and wages to the staff during the last five years ending 31 March 2006.

(Rupees in lakh)

	2001-02	2002-03	2003-04	2004-05	2005-06	Total
Book value of looms revalued	0.98	2.95	0.33	2.80	0.58	7.64
Value after revaluation of looms	5.37	8.32	2.31	6.05	2.74	24.79
Difference- amount charged to GIA but used for payment of salary and wages	4.39	5.37	1.98	3.25	2.16	17.15

Source: Compiled from the relevant records of the Company.

Audit pointed out (December 2003 and June 2005) the aforesaid diversion of GIA during transaction audit of the Company for 2002-03 and 2003-05. Instead of refunding the above amount of GIA to the Government, the Company continued the practice during 2005-06 also. Thus, the Company diverted GIA of Rs.17.15 lakh for purposes other than those specified in the sanction for grants during the last five years ended 31 March 2006.

The Government admitted (June 2007) that the training was imparted on old looms but stated that the expenditure was rightly charged to GIA as it was nowhere mentioned in the scheme that the training should be imparted on newly purchased looms. The reply is not tenable as the Company had been given GIA by the State and Central Governments for buying new looms on the basis of the Company's own proposals. Therefore, diverting the money for another purpose and showing it as utilised on the purchase of new looms tantamounts to mis-utilisation of GIA.

Statutory corporations

Himachal Pradesh State Electricity Board

4.7 Avoidable payment of interest

Failure of the Board to exercise the option available for redemption of bonds of Rs 58.44 crore after five years resulted in avoidable payment of interest of Rs.6.89 crore for the period beyond fifth year.

For financing its requirement of capital expenditure, the Board raised (January to March 1999) funds of Rs.58.44 crore (Rs.28.44 crore from the Kangra Central Co-operative Bank Limited (KCCBL), Dharamsala and Rs.30 crore from the H.P. State Co-operative Bank Limited (HPSCBL), Shimla) at an interest rate of 14.48 *per cent per annum* payable half yearly

through issue (January 1999) of Non-SLR Bonds-2006. The period of bonds was seven years with the option for redemption after five years.

It was observed (April 2006) that the interest rate on borrowings decreased from 14.48 *per cent* in 1999 to 11.30 *per cent* in 2002 and 8 *per cent* in 2004. Despite the decreasing trend in the interest rate on borrowings, the Board did not exercise the option of redemption of bonds after five years (27 March 2004). Instead, it requested (August 2004) the concerned Banks to restructure their interest with current lending rate of interest. While KCCBL (which had sold in July 2005 bonds of Rs.5.20 crore to Poonawalla Investment and Industries Pvt. Ltd., Pune) agreed (July 2005) to reduce the rate of interest to 10 *per cent* from August 2005 on the bonds of Rs.23.24 crore, HPSCBL refused (November 2004) to reduce the rate of interest. Consequently, the Board paid interest at 14.48 *per cent per annum* on Rs.58.44 crore beyond the fifth year from 28 March 2004 to 31 July 2005 and on Rs.35.20 crore from 1 August 2005 to 27 March 2006 and at 10 *per cent per annum* on Rs.23.24 crore from 1 August 2005 to 27 March 2006. Had the Board exercised the option available for redemption of bonds after five years and repaid Rs.58.44 crore to the banks after five years on 27 March 2004 (by arranging funds from the market at the then prevailing interest rate of 8 *per cent per annum*), it could have avoided payment of interest of Rs.6.89 crore from 28 March 2004 to 27 March 2006.

The Government stated (August 2007) that the financial position of the Board was not favourable and did not permit the Board to exercise redemption option. Besides, for availing loan from the financial institutions for refund of the amount to above banks, Government guarantee was required whereas the State Government was reluctant to furnish guarantee to the Board. Thus, the Board was left with no alternative but to pay interest on the balance unstructured amount of loan at the rate of 14.48 *per cent per annum*. The reply is not tenable as the Board had neither considered the option for redemption of bonds nor approached the State Government for giving guarantee to mobilise funds (available at lower rate of interest for redemption of above bonds) from the market.

4.8 Undue favour to supplier

The merger of excise duty in the ex-works rates, though the supplier was exempted from payment of the same, resulted in extending of an undue favour of Rs.1.29 crore to the supplier on the purchase of conductor.

The Board placed (July 2004) two supply orders on Durable Conductors, Solan for the supply of 5,417.75 Km ACSR/AAA conductors of various types valuing Rs.14.32 crores. The purchase orders clearly indicated per Km ex-works prices, 16 *per cent* Excise Duty (ED), freight and insurance, *etc.* for each type of conductor. As per the terms and conditions of the *ibid* purchase order, the ED was to be paid to the supplier against documentary proof of payment of the same by him.

After receipt of orders, the firm informed the Board (August 2004) that due to substantial expansion, it was exempted from payment of ED as per the GOI notification (June 2003) and requested the Board to merge 16 per cent exempted ED component in the ex-works rates. The SPC in its meeting (June 2005) decided to merge ED component in the ex-works rates and the purchase orders were revised accordingly. Thus, on purchase of 3,215.50 Km conductor, total ED exemption benefit of Rs.1.29 crore (**Annexure-XXXIII**) was passed on to the firm. This resulted in extending of an undue favour to the supplier and consequent loss to the Board to that extent.

The matter was referred to the Government/Board in August 2007; their replies are awaited (September 2007).

4.9 Avoidable overpayment

Failure of the Board to fix rates for supply of conductors as per instructions contained in the tender document resulted in avoidable overpayment of Rs.78.64 lakh.

The Board floated (February 2004) tender enquiries for procurement of different type of ACSR/AAA* conductors. After opening (March 2004) of the bids received thereagainst, the following firms emerged as L-1 for various types of conductors:

Sr. No.	Name of the firm	Type of conductor	L-1 ex-works rate (Rs. Per Km)	L-1 FOR rate (Rs. Per Km)	FOR Rates of local firms			
					Durable conductors	Percentage of excess of quoted rates w.r.t L-I	Nu-Line Industries	Percentage of excess of quoted rates w.r.t L-I
	(a)	(b)	(c)	(d)	(f)	(g)	(h)	(i)
1.	New India Wire & Cable Industries, Jammu	ACSR Weasel	10,871.00	12,760.00	13550	6.19	13442	5.34
2.	Ritco Automotive's (India) Pvt. Ltd. Bhiwadi, Rajasthan	ACSR Rabbit	18,500.00	20,981.00	21320	1.62	21550	2.71
		ACSR Raccon	27,300.00	30,981.00	-	--	32500	4.90
3.	Venkateshwara Wires Pvt. Ltd., Jaipur	AAA Squirrel	6,757.04	8,294.93	8850	6.69	8819	6.32
		AAA Weasel	10,509.18	12,934.46	13600	5.15	13515	4.49
		AAA Rabbit	16,553.28	20,385.84	21299	4.48	21295	4.46

Source: Compiled from the relevant records of the Board.

* ACSR-Aluminium Conductor Steel Reinforced/AAA-All Aluminium Alloy

As per instructions[&] contained in the tender document, the manufacturing units located in the State of Himachal Pradesh (HP), whose rates fall within 17.5 per cent over the overall FOR comparable rates of the outside lowest eligible tenderer may be given order for purchase at the comparable lowest ex-works rate of L-1 firm. In their case, payment on account of duties and taxes applicable in HP are to be paid on actual basis on production of documentary proof of evidence of payment of the duties and taxes or the total FOR rates of L-1 firm whichever is on the lower side.

As all the L-1 firms were from outside the State, the Board placed (July 2004, January and July 2005) supply orders on the L-1 firms and also on two H.P based firms (Durable Conductors, Solan and Nu-Line Industries Pvt. Ltd., Parwanoo) who participated in the tender. But while fixing the rates for H.P. based firms, the Board considered L-1 FOR rates which were higher when compared to the L-1 ex-works rates with applicable duties and taxes. This was in violation of the above mentioned condition of the tender document for fixation of rates, which resulted in avoidable overpayment of Rs.78.64 lakh to these firms as detailed in the **Annexure-XXXIV**. There were no reasons on record for not fixing the rates as per the conditions of the tender document.

The matter was referred to the Board/Government in May 2007; their replies are awaited (September 2007).

4.10 Avoidable payment of excise duty

Failure of the Board to obtain documentary evidence of payment of excise duty from the supplier before releasing the payment resulted in avoidable payment of excise duty of Rs.73.48 lakh.

The Board placed (19 July 2004) two purchase orders for supply of 2,405 Kms AAA* conductors and 347.50 Kms AA/ACSR* conductors respectively on Bharat Electrotech Pvt. Ltd., Damtal. The Board also placed (3 January 2005) additional purchase orders for supply of 601.50 Kms AAA conductors and 86.50 Kms AA/ACSR conductors on the same supplier. The FOR destination consignee store rates of the supplier were inclusive of excise duty (ED) at the rate of 16 per cent. As per the terms and conditions of the, *ibid*, purchase orders, the ED was to be paid to the supplier against documentary proof of payment of the same by him.

[&] Instruction No. 16.2 of the tender document

* AAA - All Aluminium Alloy

AA/ACSR- All Aluminium/Aluminium Conductor Steel Reinforced

The supplier informed (November 2004) the Board that his firm was exempted from the payment of ED in terms of the Government of India Notification of June 2003 vide which all industrial units existing before 7 January 2003 which had undertaken substantial expansion by way of increase in installed capacity by not less than 25 per cent on or after 7 January 2003 were exempt from payment of ED. In view of above, the supplier was not entitled to the payment of ED and thus, the Board should not have released the same to him. The Board, however, released ED of Rs.73.48 lakh to the supplier on receipt of conductors without obtaining documentary proof of payment of the same. This resulted in avoidable payment of ED of Rs.73.48 lakh to the supplier and consequent loss to the Board to that extent.

The Government stated (June 2007) that no communication regarding exemption from payment of ED to Bharat Electrotech Pvt. Ltd., Damtal was available in the record. The supplier had indicated serial number and date of RG (Part-II) in each invoice on the basis of which the payment of ED was made to him by treating the same as documentary proof of having paid ED. The reply is not tenable as the supplier had requested (November 2004) the Board to amend the purchase orders placed on him suitably treating his unit as exempted from payment of ED in terms of Government of India notification of June 2003. Further, as per terms and conditions of purchase orders, ED was to be paid only on production of documentary proof of payment to the Government and invoices of material supplied is not an acceptable proof.

4.11 Loss on sale of surplus land

The Board sold its surplus land at Barmana having market value of Rs.1.17 crore to a private party for Rs.47.87 lakh resulting in loss of Rs.69.13 lakh coupled with interest loss of Rs.13.32 lakh due to accepting the total agreed cost after 22 months from the date of agreement.

The Board commissioned (December 1998) 220 KV single circuit line from Dehar to Kangoo along with 220/132/33 KV sub-station at Kangoo. With the commissioning of this line, the existing 132/33 KV sub-station at Barmana from where power to ACC Barmana (Company) was being supplied became idle. Thus, the Board dismantled (1999-2000) the sub-station at Barmana and 19.3 *bigha* of land at which the sub-station was built became surplus. As the land was originally purchased by the Board from the Company, the Company desired (February 2003) to buy back the said land. The Land Acquisition Officer (LAO) of the Board assessed (June 2003) the present market value of land at Rs.1.17 crore. The value of immovable assets on the surplus land was assessed at Rs.33.99 lakh, the total value of land and immovable assets worked out to Rs.1.51 crore. In spite of this, the Board agreed (May 2004) to sell this land to the Company for Rs.81.86 lakh (Land: Rs.47.87 lakh, on the

basis of assessment made by the Patwari of the area and immovable assets: Rs.33.99 lakh) and agreement signed (June 2004).

The Board received (April 2006) Rs.81.86 lakh *i.e.* after a delay of 22 months. The sale deed was executed (May 2006) when the current market rate of this land for the purpose of stamp duty and registration fee was assessed as Rs.1.44 crore by the same Patwari. This indicated that the assessment of Rs.47.87 lakh made earlier by the Patwari was not correct. By ignoring the assessment made by its own LAO and not getting the assessment of Patwari reviewed from the Senior Officer of the Revenue Department, the Board extended undue favour to the Company and loss of Rs.69 lakh by selling the land at much below the prevailing market rate. The Board also suffered loss of interest of Rs.13.32 lakh (7 July 2004 to 27 April 2006 at the rate of 9 *per cent per annum*, which was the rate at which the Board was borrowing funds) by accepting the sale proceeds after 22 months from the date of signing the agreement.

The Board also failed to safeguard its interest by not incorporating a suitable clause for charging the cost of the land at the rate prevailing when final payment is made. Before execution of sale deed, the Finance and Accounts wing of the Board, *inter alia*, opined (November 2005) that the LAO of the Board and the Patwari were both from the Revenue Department and the Board should have considered the assessment as made by LAO (a senior officer). Based on the market value of land as assessed by the Patwari at the time of execution of sale deed, the loss worked out to Rs.96 lakh (Rs.1.44 crore-Rs.47.87 lakh).

The Government admitted (September 2007) that the value of land was assessed at Rs.1.17 crore by LAO in July 2003 after the committee of the Board recommended (June 2003) to sell the land at market price. It further stated that the value of land was got re-assessed (February 2004) from the Patwari at the time of finalisation of decision when it was assessed at Rs.47.87 lakh. The reply is not tenable as the Government did not assign any reason for not accepting the value of land as assessed by the LAO in July 2003 and why it went for re-assessment. Further, it was also decided to receive the sale value at the time of execution of sale deed on the basis of assessment made by the Patwari earlier. As the Board agreed for execution of sale deed at a later date, it could have asked for the value of the land as at the time of execution of sale deed which was assessed by the Revenue Department as Rs.1.78 crore (including value of immovable assets: Rs.33.99 lakh).

4.12 Undue favour to supplier

Due to non-enforcement of risk and purchase clause of the supply order, the Board extended undue favour to the supplier and thereby suffered a loss of Rs.11.82 lakh.

The Board placed (July 2004) two purchase orders on Bharat Electro Tech Private Limited, Damtal for supply of 2,752.500 Km conductor of various types for Rs.8.61 crore for delivery within six months from the date of issue of purchase orders. As per terms and conditions of the purchase order, the Board also placed (January 2005) two additional purchase orders for supply of 688 Km conductor for Rs.2.15 crore on the same terms and conditions. The Board had bank guarantees from the firm for Rs.48.94 lakh.

Against the total ordered quantity of 3,440.500 Km conductor, the supplier delivered (March 2005) only 1,982.732 Km at a cost of Rs.5.97 crore and the balance quantity of 1,457.768 Km conductor was purchased by the Board during 2005-06 at higher rates from other suppliers at an extra cost of Rs.26.78 lakh. The Board was entitled to recover this amount from the original supplier as risk purchase cost as per terms and conditions of the purchase orders. The Board, however, recovered (February 2006) only Rs.14.96 lakh by encashing bank guarantee of Rs.39.78 lakh, being the risk purchase cost of 769.768 Km conductor against the first order and suspended business dealing with the supplier for five years. The balance amount of Rs.11.82 lakh remained un-recovered as the Board refunded the balance amount of Rs.24.82 lakh of the bank guarantee encashed by it to the supplier. The Board also did not encash the remaining bank guarantee of Rs.9.16 lakh.

The matter was referred to the Board/Government in May 2007; their reply is awaited (September 2007).

Himachal Road Transport Corporation

4.13 Loss due to injudicious decision and its improper implementation

Injudicious decision to provide free traveling facility to the cancer/spinal injury patients in its buses and its improper implementation resulted in loss of Rs.49.23 lakh.

The State Government (Department of Transport) decides from time to time to allow free/concessional traveling facility to certain categories of passengers such as students, Government employees, police persons, handicapped persons, Members of Parliament and State Legislatures, *etc.* in the buses of the

Corporation. The loss on this account is reimbursed as subsidy by the State Government to the Corporation. The State Government makes budget provision to this effect each year and the amount is released to the Corporation in installments.

It was observed (June 2007) that the Transport Minister of the State, without the approval of the State Government, extended (October 2003) free traveling facility to people of the State suffering from cancer/spinal injury for undergoing treatment in the Government hospitals within and outside the State. Thereafter, the Corporation requested (October 2003) the State Government to accord necessary approval for providing such facility and make budgetary provision to meet the financial liability on this account. In response, the State Government stated (December 2003) that there was neither any need to obtain State Government approval nor any budgetary support as only small number of patients of cancer/spinal injury would be involved. The State Government also recommended (December 2003) the inclusion of multiple fracture/kidney patients and stated (December 2003) that the Corporation may obtain approval of its Board of Directors (BODs). The State Government further directed that the concession be extended only to such patients (along with one attendant) who are referred for treatment to other Government Hospitals by an officer of the Health Department not below the rank of Chief Medical Officer (CMO).

The BODs discussed (July 2004) the response of the State Government and without making efforts to ascertain the likely number of such patients from the Health Department or the State level hospital at Shimla, approved (July 2004) the proposal. The Management also did not approach the State Government again to provide budgetary support though its accumulated losses stood at Rs.307.68 crore as on 31 March 2003 thereby eroding its paid-up capital of Rs.213.51 crore. This indicates that the decision of the BODs was neither well thought of nor based on prudent and sound commercial and financial principles. The Management had also circulated (January 2004) the proposal to the Divisional Managers for compliance *i.e.* even before the proposal was approved by the BODs.

During the period January 2004 to June 2007, the Corporation allowed the concession of Rs.49.23 lakh. The implementation of the decision was test checked in the office of Regional Manager (local) Dhalli, Shimla and it was noticed that the officers concerned who was empowered to issue passes to the patients along with one attendant for free travel in the buses, did not verify the papers of even a single patient (out of 10,516 patients to whom concession of Rs.28.57 lakh was given) to ascertain as to whether the patient was referred by a Health Officer, not below the rank of CMO. Even after coming to know the quantum of loss being suffered, the Management had not taken up the matter with the State Government for reimbursement of such loss or discontinuation of the concession. Thus, implementation of the decision of the Minister without approval of the State Government resulted in non-reimbursement of

the amount of Rs.49.23 lakh and for subsequent years also the Corporation would have to bear the cost which would further adversely affect the poor financial position of the Corporation.

The matter was referred to the Government/Corporation in August 2007; their replies are awaited (September 2007).

General

4.14 Follow-up action on Audit Reports

Explanatory Notes outstanding

The Comptroller and Auditor General of India's Audit Reports represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various Public Sector Undertakings. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Himachal Pradesh issued (February 1994) instructions to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 2002-03, 2003-04, 2004-05 and 2005-06 were presented to the State Legislature in February 2004, April 2005, April 2006 and April 2007 respectively, two departments did not submit explanatory notes on 44 out of 59 paragraphs/reviews, as on August 2007, as indicated below:

Year of Audit Report (Commercial)/ Commercial Chapter	Total paragraphs/reviews in Audit Report/Commercial Chapter	Number of paragraphs/reviews for which explanatory notes were not received
2002-03	12	6
2003-04	15	12
2004-05	13	9
2005-06	19	17
Total	59	44

Department wise analysis is given below:

Name of department	2002-03	2003-04	2004-05	2005-06
Power department	6	9	5	9
Horticulture department	-	-	-	2
Tourism department	-	-	-	1
Industries department	-	-	-	1
Transport department	-	-	-	1
Finance department	-	3	4	3
Total	6	12	9	17

The department largely responsible for non-submission of explanatory notes was the Power department. It did not submit explanatory notes to 29 out of 44 paragraphs/reviews. It did not respond to even reviews highlighting important issues like system failures, delay in procurement of material, loss of interest, excess inventory holding, short recovery, underbilling, mismanagement, extra/overpayments, undue favour, non-recovery of interest on advance given to contractors, etc.

Compliance to Reports of Committee on Public Undertakings (COPU)

The Action Taken Notes to the recommendations of COPU are required to be furnished within six months from the presentation of the Reports. Replies to 41 paragraphs pertaining to 10 Reports of the COPU, presented to the State Legislature between March 2005 and March 2007, had not been received as on August 2007, as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where replies not received
1998-99	2	12
1999-2000	3	13
2000-01	1	11
2002-03	1	1
2003-04	1	2
2004-05	2	2
Total	10	41

Action taken on persistent irregularities in Audit Reports

With a view to assist and facilitate discussion of the paras of persistent nature by the State COPU, an exercise was carried out to verify the extent of corrective action taken by the concerned auditee organisation and results thereof are indicated in **Annexure-XXXV**.

A review of persistent irregularities included in **Annexure-XXXV** would reveal that though the irregularities relating to excess inventory holding (ranging between Rs.6.30 crore and Rs.13.35 crore), non-recovery of advance consumption deposits (Rs.3.84 crore), loss due to wrong application of tariff (Rs.0.14 crore), short recovery of peak load exemption charges (Rs.1.51 crore), undue favour to consumers (Rs.7.42 crore) etc. pertaining to Himachal Pradesh State Electricity Board were included in the Audit Reports (Commercial)/Commercial Chapter of Audit Report (Civil) of the Comptroller and Auditor General of India- Government of Himachal Pradesh for the years 1994-95 to 1996-97, 1998-99, 2000-01, 2002-03, 2003-04 and 2005-06, these irregularities continued to persist, as the Government/Board had not taken corrective action.

The matter was reported to the Government (September 2007); the reply is awaited (September 2007).

4.15 Response to inspection reports, draft paras and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of the Public Sector Undertakings (PSUs) and departments of the State Government concerned through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to February 2007 pertaining to 21 PSUs disclosed that 3,351 paragraphs relating to 943 inspection reports remained outstanding at the end of August 2007. Department-wise break-up of inspection reports and audit observations outstanding as on 31 August 2007 is given in **Annexure-XXXVI**.

Similarly, reviews and draft paragraphs on the working of Public Sector Undertakings are forwarded to the Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that eight draft paragraphs and three reviews forwarded to the five departments between May and September 2007 as detailed in **Annexure-XXXVII** had not been replied to so far (September 2007).

It is recommended that (a) the Government should ensure that procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/Action Taken Notes on the recommendations of COPU as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayments is taken within prescribed time schedule, and (c) the system of responding to audit observations is revamped.

The matter was reported to the Government (September 2007); the reply is awaited (September 2007).

Shimla
The

(SUMAN SAXENA)
Accountant General (Audit)
Himachal Pradesh

Countersigned

New Delhi
The

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India

