

OVERVIEW

1 Overview of Government companies and Statutory corporations

As on 31 March 2007, the State had 21 Public Sector Undertakings (PSUs) comprising 18 Government companies (including two non-working companies) and three Statutory corporations. In addition, there were three companies under the purview of Section 619-B of the Companies Act, 1956 as on 31 March 2007. The total investment in working PSUs increased from Rs. 3,743.45 crore as on 31 March 2006 to Rs. 3,886.32 crore as on 31 March 2007. The total investment in non-working PSUs decreased from Rs. 705.26 crore as on 31 March 2006 to Rs. 4.79 crore as on 31 March 2007.

(Paragraphs 1.1, 1.2, 1.16 and 1.31)

According to the latest finalised accounts of 19 working PSUs (16 Government companies and three Statutory corporations), six Government companies and one Statutory corporation earned aggregate profit of Rs. 10.06 crore and Rs. 1.88 crore respectively. Only one company declared a dividend of Rs. 35.15 lakh during 2006-07. Eleven working PSUs (nine Government companies and two Statutory corporations) incurred aggregate loss of Rs. 71.62 crore as per their latest finalised accounts. Of the loss incurring working Government companies, four companies had accumulated losses aggregating Rs. 141.97 crore, which exceeded their aggregate paid-up capital of Rs. 51.75 crore. Two Statutory corporations incurred losses aggregating Rs. 45.27 crore. These two loss incurring Statutory corporations had accumulated loss of Rs. 540.21 crore, which exceeded their paid-up capital of Rs. 305.68 crore.

(Paragraphs 1.7, 1.8, 1.9 and 1.11)

Two working Government companies had incurred losses for the last five years ended 31 March 2006 and 31 March 2007 leading to negative net worth. In view of continuous losses, the Government may take steps to either improve the performance of these companies or consider their closure.

(Paragraph 1.29)

2 Performance Reviews relating to Government companies and Statutory corporations

Performance reviews relating to Felling and Conversion of trees by **Himachal Pradesh State Forest Corporation Limited**, Working of **Himachal Pradesh Agro Industries Corporation Limited**, Information Technology Review of Computerised Reservation of Hotel Rooms in **Himachal Pradesh Tourism**

Development Corporation Limited, Tariff, Billing and Collection of revenue in **Himachal Pradesh State Electricity Board**, Implementation of Accelerated Power Development Reforms Programme by **Himachal Pradesh State Electricity Board** and Information Technology Review of Computerised Booking in **Himachal Road Transport Corporation** were conducted. Some of the major audit findings are as follows:

Felling and Conversion of trees by Himachal Pradesh State Forest Corporation Limited

The Himachal Pradesh State Forest Corporation Limited (Company) was incorporated (March 1974) under the Companies Act, 1956, with a view to undertake proper and scientific exploitation of forest resources in the State by nationalising operation of extraction of timber to eliminate the agency of contractors. Some of the major deficiencies noticed during performance review were as follows:

- The Company failed to initiate steps for undertaking work departmentally to eliminate the agency of contractors in a phased manner thereby defeating the very purpose of formation of the Company.
- There was delay in receipt of marking lists, taking over and working of lots resulting in loss of Rs.1.88 crore due to payment of extension fee, interest and less extraction of timber.
- Submission of incorrect data to the Pricing Committee resulted in fixation of higher royalty rates and consequent avoidable payment of royalty of Rs.2.36 crore to the Forest Department.
- Fixation of higher royalty rates by assuming obtainable yield at a higher rate resulted in a loss of Rs.1.74 crore.
- Failure of the Company to review requirement of manpower resulted in payment of salary and wages of Rs.8.75 crore to surplus manpower during the period June 2003 to March 2007.

(Chapter 2.1)

Performance review on the Working of Himachal Pradesh Agro Industries Corporation Limited

Himachal Pradesh Agro Industries Corporation Limited (Company) was incorporated (September 1970) with a view to promote agro based industries in the State. The Company did not draw any long-term plan for achievement of its main objective of promoting agro-based industries in the State. It did not plan annual activities well before the commencement of financial year in consultation with State Government Departments, which were the main buyers

of Company's products. Some of the major deficiencies noticed during performance review were as follows:

- Out of five production units, three units were incurring losses continuously on account of low capacity utilisation due to lack of adequate demand from the State Government Departments and inability of the Company to market its products in the open market.
- The Company purchased major portion of food grains for manufacturing cattle feed during off season resulting in incurring of avoidable extra expenditure of Rs.54.35 lakh.
- Out of 20 trading units and one petrol pump, 10 units were continuously incurring losses and loss suffered by these units during five years up to 2006-07 amounted to Rs.1.59 crore due to inaction of the Management to improve their working.

(Chapter 2.2)

Information Technology Review of Computerised Reservation of Hotel Rooms in Himachal Pradesh Tourism Development Corporation Limited

The Company introduced (1993) computerised Central Hotel Reservation System for Hotel reservation facility at Central Reservation Office, Shimla. The software was got modified (September 2000) as web enabled software from National Informatics Centre. Some of the important findings are as follows:

- No policies relating to computerisation have been framed by the company.
- The Company failed to recover cancellation charges of Rs.2.42 crore from the customers who reserved the rooms in the hotels at nil advances due to defect in the System.
- The Company completed (March 2007) Local Area Network (LAN) in three units at a cost of Rs.10.88 lakh but as the System had no provision to upload the data from the online hotel reservation system; the basic purpose of LAN was defeated.

(Chapter 2.3)

Tariff, Billing and Collection of revenue in Himachal Pradesh State Electricity Board

The Himachal Pradesh State Electricity Board (Board) was incorporated (September 1971) for generation, transmission and distribution of electricity in an efficient and economical manner in the State. Sale of power is regulated with reference to the tariff fixed by the Himachal Pradesh Electricity

Regulatory Commission (HPERC) from time to time. Prior to the establishment (December 2000) of the HPERC, the Board was exercising the powers conferred on it by the Electricity (Supply) Act, 1948 with regard to fixation of tariff. The Board failed to file tariff petitions annually in time and on the basis of justifiable data resulting in disallowing of expenditure by the HPERC and consequential loss to the Board. The Board was unable to bill most of the consumers monthly resulting in delay in collection of revenue. Some of the major deficiencies noticed during performance review were as follows:

- Failure of the Board to file tariff petitions annually in time with complete details and justifiable data resulted in loss of Rs.154.86 crore and delay in recovery of Rs.533.72 crore.
- The Board failed to restructure its high cost debts resulting in loss of Rs.48.21 crore due to non-adjustment of interest through tariff.
- Failure of the Board to reduce transmission and distribution losses as per the targets fixed by HPERC resulted in loss of potential revenue of Rs.79.75 crore.
- The Board failed to bill the consumers in accordance with the laid down procedure/directions of HPERC resulting in non-recovery of revenue of Rs.70.40 crore.
- Internal control mechanism and internal audit system were deficient resulting in increase in number of units remaining un-audited by Internal Audit and non-settlement of large number of outstanding observations of Internal Audit.

(Chapter 3.1)

Implementation of Accelerated Power Development Reforms Programme by Himachal Pradesh State Electricity Board

The Union Ministry of Power (MOP) launched a nationwide programme called Accelerated Power Development Programme (APDP) during 2000-01, which was subsequently modified and rechristened as Accelerated Power Development Reforms Programme (APDRP) during 2002-03. The modified programme focuses on up-gradation of sub-transmission and distribution system in densely electrified zones in the urban and industrial areas and improvement in commercial viability of the State Electricity Boards. Some of the major deficiencies noticed during performance review were as follows:

- The State Government delayed the release of APDRP funds aggregating Rs.228.46 crore to the Board by 7 to 637 days thereby making itself liable to pay Rs.9.09 crore as penal interest to the GOI.

Besides, the Board had to pay Rs.1.01 crore on account of interest at the rate of 12 *per cent* on loan component of Rs.16.39 crore for the period of delay in release of funds by the State Government.

- Delay in completion/non-execution of targeted works resulted in loss of potential revenue of Rs.15.32 crore as envisaged in the APDRP schemes.
- The Board incurred avoidable extra expenditure of Rs.35.99 crore due to allotment of work at higher rates, failure to purchase the material in bulk, use of conductor of higher size, delay in completion of works, non-receipt of material, *etc.*
- The monitoring of works under APDRP was deficient due to weak management information/internal control system and absence of internal audit system.

(Chapter 3.2)

Information Technology Review of Computerised Booking in Himachal Road Transport Corporation

The Corporation introduced (1995-96) in-house developed software for booking of tickets and loaded it on computers installed at 15 locations under eight Regional Offices at a cost of Rs. 15 lakh. Some of the major deficiencies noticed during performance review were as follows:

- During the last 11 years, the corporation had not formulated any strategic plan for computerisation.
- There was neither any password policy nor the system of taking back ups regularly.
- There was lack of consistency in executable programs working in different booking counters. Resultantly, leakage of revenue could not be ruled out.
- The System did not contain refund module for computerised cancellation of tickets, the depot codes were not fed correctly and the System accepted advance booking even after issuance of way bills.
- There was lack of consistency in executable programs working in different booking counters. Resultantly, leakage of revenue could not be ruled out.

(Chapter 3.3)

4 Transaction audit observations

Audit observations included in this chapter highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The

irregularities pointed out are broadly of the following nature:

- avoidable payment of Rs.8.52 crore in four cases,
(Paragraphs 4.5, 4.7, 4.9 and 4.10)
- undue favour of Rs.2.36 crore in four cases,
(Paragraphs 4.2, 4.3, 4.8 and 4.12)
- loss of revenue of Rs. 1.50 crore in three cases,
(Paragraphs 4.1, 4.11 and 4.13)
- Unfruitful investment of Rs. 94.33 lakh in one case,
(Paragraph 4.4)
- Diversion of grant-in-aid of Rs. 17.15 lakh in one case.
(Paragraph 4.6)

Gist of some of the important observations is given below.

- Non-acceptance of rate by **Himachal Pradesh State Forest Corporation Limited** 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.
(Paragraph 4.1)
- 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 **Beas Valley Power Corporation Limited** paid further price variation increase of Rs.82.10 lakh to the contractor resulting in undue favour to him.
(Paragraph 4.2)
- Failure of the **Himachal Pradesh State Electricity 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.
(Paragraph 4.7)
- The merger of excise duty in the ex-works rates by the **Himachal Pradesh State Electricity Board** 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.
(Paragraph 4.8)
- Failure of the **Himachal Pradesh State Electricity 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.
(Paragraph 4.9)

- Failure of the **Himachal Pradesh State Electricity 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.

(Paragraph 4.10)

- The **Himachal Pradesh State Electricity 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.

(Paragraph 4.11)

- Injudicious decision of **Himachal Road Transport Corporation** 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.

(Paragraph 4.13)