

CHAPTER I

1. Overview of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Himachal Pradesh, the State PSUs occupy an important place in the state economy. The State PSUs registered a turnover of Rs. 4,629.88 crore for 2008-09 as *per* their latest finalised accounts as of September 2009. This turnover was equal to 12.53 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Himachal Pradesh State PSUs are concentrated in power sector. The State PSUs incurred an overall loss of Rs. 1.54 crore in the aggregate for 2008-09 as *per* their latest finalised accounts. They had employed 42,204^{*} employees as of 31 March 2009.

1.2 As on 31 March 2009, there were 23 PSUs as *per* the details given below. Of these, one company[§] was listed on the stock exchange.

Type of PSUs	Working PSUs	Non-working PSUs ^ψ	Total
Government Companies [♦]	17	3 ^Δ	20
Statutory Corporations	3	-	3
Total	20	3	23

1.3 During the year 2008-09, one PSU[€] was established whereas two companies viz. Pabbar Valley Power Corporation Limited and Kinner Kailash Power Corporation Limited were merged with the Himachal Pradesh Power Corporation Limited with effect from 31 July 2007.

^{*} As per the details provided by all the 23 PSUs.

[§] Himachal Pradesh General Industries Corporation Limited.

^ψ Non-working PSUs are those which have ceased to carry on their operations.

[♦] Includes 619-B companies.

^Δ Includes one company (Agro Industrial Packaging India Limited) which became non-working during 2008-09.

[€] Himachal Pradesh Power Transmission Corporation Limited.

Audit Mandate

1.4 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as *per* Section 619-B of the Companies Act.

1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as *per* the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as *per* the provisions of Section 619 of the Companies Act, 1956.

1.6 Audit of statutory corporations is governed by their respective legislations. Out of three statutory corporations, CAG is the sole auditor for Himachal Pradesh State Electricity Board and Himachal Road Transport Corporation. In respect of Himachal Pradesh Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in State PSUs

1.7 As on 31 March 2009, the investment (capital and long-term loans) in 23 PSUs (including 619-B companies) was Rs. 4,256.01 crore as *per* details given below.

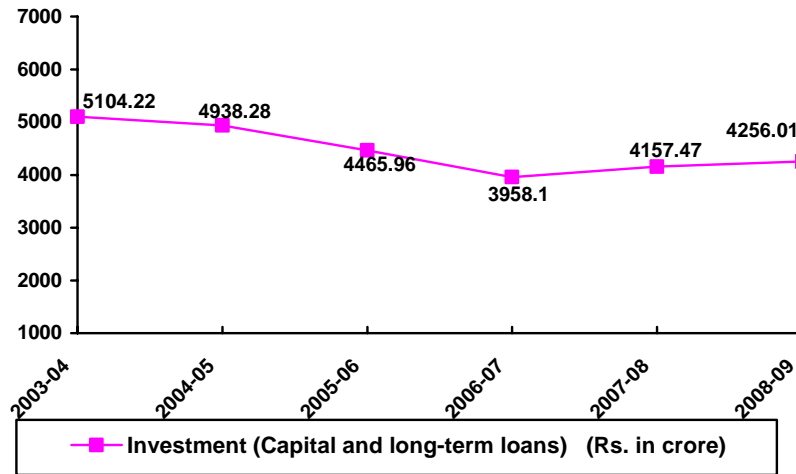
(Amount: Rupees in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	632.26	563.93	1,196.19	760.40	2,255.15	3,015.55	4,211.74
Non-working PSUs	22.14	22.13	44.27	-	-	-	44.27
Total	654.40	586.06	1,240.46	760.40	2,255.15	3,015.55	4,256.01

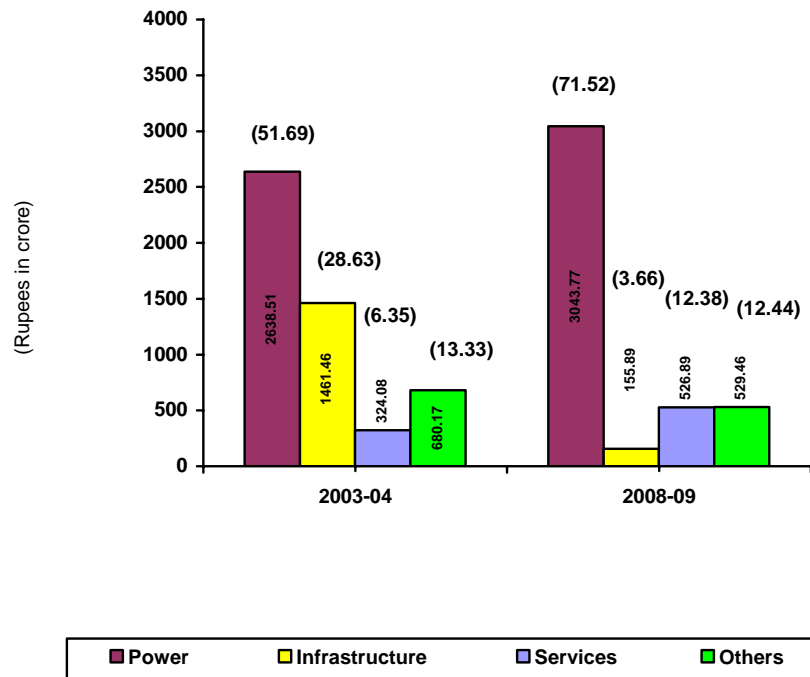
A summarised position of government investment in State PSUs is detailed in **Annexure 1**.

1.8 As on 31 March 2009, of the total investment in State PSUs, 98.96 *per cent* was in working PSUs and the remaining 1.04 *per cent* in non-working PSUs. This total investment consisted of 33.24 *per cent* towards capital and

66.76 per cent in long-term loans. The investment has declined by 16.62 per cent from Rs. 5,104.22 crore in 2003-04 to Rs. 4,256.01 crore in 2008-09 as shown in the graph below.



1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart. During 2003-09, the major investment was in the power sector. The percentage of investment in power sector has increased from 51.69 in 2003-04 to 71.52 in 2008-09 of total investment due to incorporation of new companies.



(Figures in brackets show the percentage of total investment)

Budgetary outgo, grants/subsidies, guarantees and loans

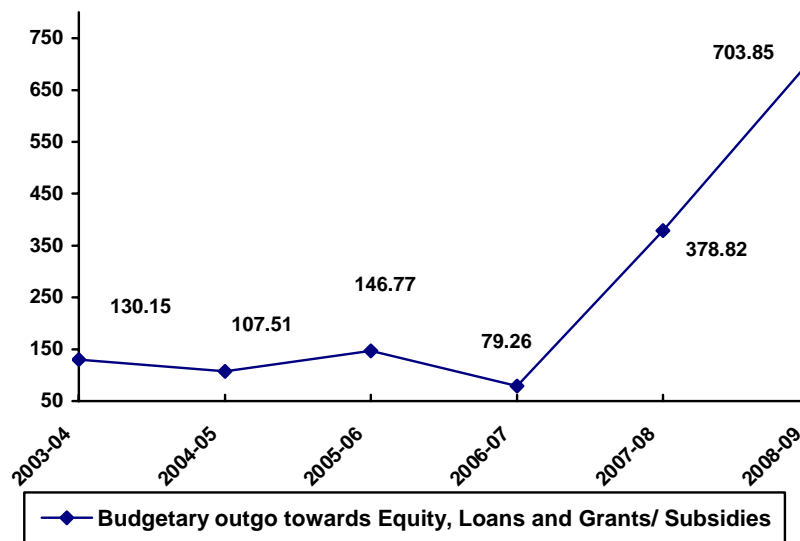
1.10 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Annexure 3**. The summarised details are given below for three years ended 2008-09.

(Amount: Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	5	14.36	6	164.83	8	336.99
2.	Loans given from budget	1	7.93	1	0.50	2	76.56
3.	Grants/Subsidy received	8	56.97	6	213.49	6	290.30
4.	Total Outgo (1+2+3)	12 [¥]	79.26	10 [¥]	378.82	14 [¥]	703.85
5.	Loans converted into equity	-	-	1	4.61	-	-
6.	Guarantees issued	4	240.27	5	111.30	4	26.60
7.	Guarantee Commitment	8	2,411.74	9	584.70	7	1,795.42

[¥] Represent actual number of companies/corporations which received budgetary support in the form of equity, loans, grants and subsidy from the State Government during respective year.

1.11 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in a graph below.



Budgetary outgo was Rs. 130.15 crore in 2003-04 which was curtailed to Rs. 79.26 crore in 2006-07. The budgetary outgo jumped to Rs. 378.82 crore in 2007-08 and again to Rs. 703.85 crore in 2008-09 mainly due to significant extension of equity/loans and grants/subsidy to power sector amounting to Rs. 301.85 crore (2007-08) and Rs. 470.55 crore (2008-09).

1.12 During 2008-09, the Government had guaranteed loan aggregating Rs. 26.60 crore obtained by four PSUs. At the end of 2008-09, guarantee commitment stood at Rs. 1,795.42 crore (seven PSUs) as against Rs. 2,411.74 crore (eight PSUs) and Rs. 584.70 crore (nine PSUs) during 2006-07 and 2007-08 respectively.

Reconciliation with Finance Accounts

1.13 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

(Amount: Rupees in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	1,205.73	1,225.91	20.18
Loans	-	145.39	145.39
Guarantees	1,906.06	1,795.42	110.64

1.14 Audit observed that the differences occurred in respect of 11 PSUs and the difference in respect of one company was pending reconciliation since 1995-96. The concerned administrative departments, PSUs and Finance Department were requested every quarter to take necessary action to reconcile the differences. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

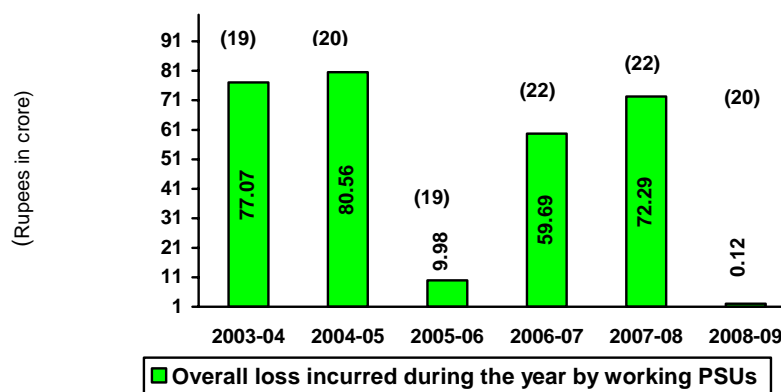
1.15 The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Annexure 2, 5 and 6** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2003-04 to 2008-09.

(Amount: Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover [∞]	2,037.52	2,146.74	2,641.63	3,029.68	3,476.06	4,629.88
State GDP	20,721.00	23,066.00	25,471.00	28,358.00	31,974.00	36,940.00
Percentage of Turnover to State GDP	9.83	9.31	10.37	10.68	10.87	12.53

It can be noticed that there was an overall rise in turnover of PSUs during 2003-09 with corresponding growth in the State GDP.

1.16 Losses incurred by State working PSUs during 2003-04 to 2008-09 are given below in a bar chart.



(Figures in brackets show the number of working PSUs in respective years)

During preceding six years up to 2008-09, the PSUs incurred overall huge losses, which indicated poor functioning of PSUs except during 2005-06 and 2008-09, when the overall losses incurred by State PSUs were comparatively low.

[∞] Turnover as per the latest finalised accounts as of 30 September.

During the year 2008-09, out of 20 working PSUs, eight PSUs earned profit of Rs. 47.68 crore and equal number of PSUs incurred loss of Rs. 47.80 crore. Three working Government companies viz., Beas Valley Power Corporation Limited, Himachal Pradesh Power Corporation Limited and Himachal Pradesh Power Transmission Corporation Limited have not started commercial activities and in respect of one working Government company viz., Himachal Pradesh Road and Other Infrastructure Development Corporation Limited excess of expenditure over income is reimbursable by the State Government. The major contributors to profit were Himachal Pradesh State Electricity Board (Rs. 32.31 crore) and Himachal Pradesh State Industrial Development Corporation Limited (Rs. 9.74 crore). The heavy losses were incurred by Himachal Road Transport Corporation (Rs. 34.18 crore) and Himachal Pradesh Financial Corporation (Rs. 6.32 crore).

1.17 The losses of working PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of Rs. 550.50 crore and infructuous investment of Rs. 8.58 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(Amount: Rupees in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net loss	59.69	72.00	0.12	131.81
Controllable losses/avoidable expenditure as per CAG's Audit Report	499.00	17.38	34.12	550.50
Infructuous Investment	1.71	3.18	3.69	8.58

1.18 The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised (or eliminated or the profits can be enhanced substantially). The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

1.19 Some other key parameters pertaining to State PSUs are given below.

(Amount: Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (Per cent)	1.11	1.47	2.97	2.74	3.93	5.54
Debt	4,391.36	4,189.98	3,704.40	3,136.86	2,918.66	2,841.21
Turnover ^Y	2,037.52	2,146.74	2,641.63	3,029.68	3,476.06	4,629.88
Debt/ Turnover Ratio	2.16:1	1.95:1	1.40:1	1.04:1	0.84:1	0.61:1
Interest Payments	217.52	210.52	160.55	166.55	210.64	201.39
Accumulated Profits (losses)	(772.64)	(856.45)	(826.76)	(939.66)	(1,021.00)	(1,028.60)

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

^Y Turnover of working PSUs as per the latest finalised accounts as of 30 September.

1.20 The percentage of return on Capital Employed showed a rising trend from 1.11 *per cent* in 2003-04 to 5.54 *per cent* in 2008-09. The debt position also showed improvement as total debt declined from Rs. 4,391.36 crore in 2003-04 to Rs. 2,841.21 crore in 2008-09. The outgo of PSUs towards payment of interest showed declining trend up to 2005-06 and increased thereafter during next two years up to 2007-08. It again declined in 2008-09 and stood at Rs. 201.39 crore as on 31 March 2009. The turnover position also showed an improving trend during five years up to 2008-09, correspondingly, the debt-turnover ratio improved from 2.16:1 in 2003-04 to 0.61:1 in 2008-09. The position of accumulated losses has, however, deteriorated from Rs. 772.64 crore (2003-04) to Rs. 1,028.60 crore (2008-09).

1.21 The State Government had formulated (August 1982) a dividend policy under which all PSUs are required to pay a minimum return of three *per cent* on the paid up share capital contributed by the State Government. As per their latest finalised accounts, eight PSUs earned an aggregate profit of Rs. 47.68 crore and only one PSU^È declared a dividend of Rs. 0.35 crore, which was ten *per cent* of its paid up capital. Other profit earning PSUs did not declare any dividend.

Performance of major PSUs

1.22 The investment in working PSUs and their turnover together aggregated to Rs. 8,841.62 crore during 2008-09. Out of 20 working PSUs, the following three PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These three PSUs together accounted for 79.90 *per cent* of aggregate investment *plus* turnover.

(Amount: Rupees in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to aggregated investment plus turnover of all PSUs
(1)	(2)	(3)	(4)	(5)
Himachal Pradesh State Civil Supplies Corporation Limited	17.60	920.06	937.66	10.61
Himachal Pradesh State Electricity Board	2,312.62	2,915.38	5,228.00	59.13
Himachal Road Transport Corporation	479.61	419.00	898.61	10.16
Total	2,809.83	4,254.44	7,064.27	79.90

Some of the major audit findings of past five years for above PSUs are stated in the succeeding paragraphs.

Himachal Pradesh State Civil Supplies Corporation Limited

1.23 The profit of the Himachal Pradesh State Civil Supplies Corporation Limited (Company) has risen continuously in past three years from Rs. 1.13

^È Himachal Pradesh State Civil Supplies Corporation Limited.

crore in 2006-07 to Rs. 3.23 crore in 2008-09. Similarly, the turnover too has risen from Rs. 568.66 crore to Rs. 920.06 crore during this period.

1.24 Deficiency in implementation

- The Company failed to comply with the instructions of the Government of India while fixing sale rates of wheat and rice for distribution to the consumers categorised under above poverty line resulting in a loss of Rs. 1.01 crore. (Paragraph 4.1 of Audit Report (Commercial), 2007-08)

1.25 Deficiencies in financial management

- Lackadaisical approach of the Company against the increase in service charges by the bank during 2006-07 resulted in an avoidable payment of Rs. 0.28 crore. (Paragraph 4.2 of Audit Report (Commercial), 2007-08)

Himachal Pradesh State Electricity Board

1.26 The Himachal Pradesh State Electricity Board (Board) has incurred a loss of Rs. 94.20 crore and Rs. 25.38 crore during 2006-07 and 2007-08 respectively, before taking into account the subsidy from State Government. However, the Board earned a profit of Rs. 32.31 crore in 2008-09 mainly because of reduction in transmission and distribution losses and upward revision of tariff. The turnover has risen from Rs. 1,917.70 crore in 2006-07 to Rs. 2,915.38 crore in 2008-09. The return on capital employed has increased from 5.30 *per cent* in 2006-07 to 8.71 *per cent* in 2008-09.

1.27 Deficiency in financial management

- 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. (Paragraph 4.7 of Audit Report (Commercial), 2006-07)

1.28 Deficiency in implementation

- The merger of excise duty in the ex-works rates, though the supplier was exempted from the 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 of Audit Report (Commercial), 2006-07)

1.29 Deficiency in monitoring

- Failure of the Board in handing over the requisite sites to the contractor resulted in an unfruitful expenditure of Rs. 3.59 crore. (Paragraph 4.5 of Audit Report (Commercial), 2007-08)
- The Board's failure to deduct service tax in conformity with provision of Service Tax Rules may result in an avoidable liability of Rs. 15.89 crore. (Paragraph 4.12 of Audit Report (Commercial), 2007-08)
- During execution of civil works of Larji Hydel Project by the Board, extra/overpayments of Rs. 13.32 crore made to the contractors due to incorrect analysis, payment of higher rates for

deviated/extra/substituted/additional items. The Board extended undue favour of Rs. 9.66 crore to the contractors by payment of inadmissible compensation, inadmissible payments, releasing interest free advance, execution of work on behalf of contractors at its cost and non-recovery of dumping charges. Failure of the Board to levy compensation for non-achievement of targeted milestones of civil works resulted in undue favour of Rs. 18.35 crore to the contractors besides interest loss of Rs. 3.65 crore. (Paragraphs 2.1.11 to 2.1.22 & 2.1.24 of Audit Report (Commercial), 2003-04)

Himachal Road Transport Corporation

1.30 Himachal Road Transport Corporation (Corporation) is continuously incurring losses. The loss of Corporation has increased from Rs. 32.60 crore in 2007-08 to Rs. 34.18 crore in 2008-09. The turnover of the Corporation increased from Rs. 242.28 crore in 2006-07 to Rs. 419 crore[€] in 2008-09. The return on capital employed was negative during this period.

1.31 Deficiency in planning

- Purchase of two air conditioned buses from the highest bidder without cost benefit analysis resulted in avoidable expenditure of Rs.0.39 crore in addition to operational loss of Rs. 0.25 crore during ten months of their operation. (Paragraph 4.11 of Audit Report (Commercial), 2005-06)
- Failure to conduct traffic survey before plying two Volvo buses on a non-viable route resulted in an avoidable loss of Rs. 0.17 crore. (Paragraph 4.13 of Audit Report (Commercial), 2007-08)

Conclusion

1.32 The above details indicate that the State PSUs are not functioning efficiently and there is tremendous scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

Arrears in finalisation of accounts

1.33 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as *per* the provisions of their

[€] Including subsidy of Rs. 48 crore received during the year on account of issue of free/concessional passes and running buses on uneconomical routes.

respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September of respective year.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of working PSUs	20	19	22	22	20
2.	Number of accounts finalised during the year	18	17	23	20	19
3.	Number of accounts in arrears	14	16	15	17	15
4.	Average arrears <i>per</i> PSU (3/1)	0.70	0.84	0.68	0.77	0.75
5.	Number of working PSUs with arrears in accounts	9	12	12	13	12
6.	Extent of arrears	1 to 5 years	1 to 4 years	1 to 3 years	1 to 3 years	1 to 3 years

1.34 The average number of accounts in arrears per working PSUs ranged between 0.68 in 2006-07 and 0.84 in 2005-06. The PSUs having arrears of accounts need to take effective measures for early clearance of backlog and make the accounts up-to-date. The PSUs should also ensure that at least one year's accounts are finalised each year so as to restrict further accumulation of arrears.

1.35 Out of three non-working PSUs, one had gone into liquidation process. The remaining two non-working PSUs have finalised their accounts for the year 2008-09.

1.36 The State Government had invested Rs. 259.47 crore (Equity: Rs. 248.17 crore, and grants: Rs. 11.30 crore) in nine PSUs during the years for which accounts have not been finalised as detailed in **Annexure 4**. In the absence of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

1.37 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up (June 2009) with the Chief Secretary/Finance Secretary to expedite the clearance of backlog of arrears in accounts in a time bound manner.

1.38 In view of above state of arrears, it is recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**

- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

Winding up of non-working PSUs

1.39 There were three non-working PSUs (all companies) as on 31 March 2009. Of these, one PSU has commenced liquidation process. The numbers of non-working companies at the end of each year during past five years are given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of non-working companies	4	4	2	2	3

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2008-09, two non-working PSUs incurred an expenditure of Rs. 1.41 crore towards salary & wages and other administrative expenses. The expenditure in respect of one non-working PSU was financed by the State Government by sanctioning an interest free loan of Rs. 1.56 crore.

1.40 The stages of closure in respect of non-working PSUs are given below.

Sl. No.	Particulars	Companies
1.	Total No. of non-working PSUs	3
2.	Of (1) above, the No. under	
(a)	liquidation by Court (liquidator appointed)	-
(b)	Voluntary winding up (liquidator appointed)	1
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started	2

1.41 During the year 2008-09, no company was finally wound up. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/ pursued vigorously. The Government may make a decision regarding winding up of two non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working. The Government may consider setting up a cell to expedite closing down its non-working companies.

Accounts Comments and Internal Audit

1.42 Fourteen working companies forwarded their audited 16 accounts to PAG during the period from October 2008 to September 2009. Of these, 14 accounts of 14 companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be

improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount: Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	3	5.25	5	5.59	2	1.31
2.	Increase in loss	7	14.17	4	13.42	4	15.59

It can be seen that average impact of audit comments per account causing 'increase in loss' or 'decrease in profit' increased from Rs. 1.94 crore (2006-07) to Rs. 2.82 crore (2008-09). The deterioration in the quality of maintenance of accounts by PSUs is thus, apparent and needs to be improved.

1.43 During the year, the statutory auditors had given unqualified certificates for one account, qualified certificates for eight accounts, adverse certificates (which means that accounts do not reflect a true and fair position) for seven accounts. The compliance of companies with the Accounting Standards remained poor as there were 44 instances of non-compliance in 11 accounts during the year.

1.44 Some of the important comments in respect of accounts of companies are stated below.

Himachal Pradesh Agro Industries Corporation Limited (2007-08)

- The Company did not make provisions for leave encashment (Rs. 2.77 crore), additional gratuity (Rs. 2.36 crore), interest payable on advance received on support price scheme for potato (Rs. 0.98 crore), doubtful debts/advances (Rs. 0.42 crore) and damages claimed by Provident Fund Department for late deposit of provident fund for the period June 1990 to March 1998 (Rs. 0.25 crore). This has resulted in understatement of current liabilities and provisions and loss for the year by Rs. 6.78 crore.

Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited (2007-08)

- Non-provision for liability towards leave encashment payable to employees has resulted in understatement of loss and current liabilities and provisions by Rs. 5.85 crore.
- No provision has been made for investment made in Punwire Limited which has become doubtful. This has resulted in understatement of loss and current liabilities by Rs. 0.55 crore.
- Non-provision for doubtful debts and loans and advances under litigation resulted in understatement of loss and overstatement of current assets by Rs. 0.76 crore.
- No provision has been made for current assets, loans and advances which were not in the possession of the Company and become doubtful

of recovery. This has resulted in overstatement of current assets, loans and advances and understatement of loss by Rs. 0.37 crore.

**Himachal Pradesh State Forest Development Corporation Limited
(2005-06)**

- No provision was made for royalty on resin blazes though the Pricing Committee had fixed the royalty of resin blazes at the higher rate. This has resulted in understatement of current liability and provision and loss for the year by Rs. 1.23 crore.
- Non-provision for the amount demanded by the LIC of India towards short contribution to gratuity fund of employees has resulted in understatement of current liabilities and provisions and accumulated losses by Rs. 26.51 crore.
- The Company did not reconcile the provisions for income tax account since 1987-88 and provisions were continuing since then and these should have been adjusted/reversed in the next year in which the returns were filed. Non-reversal/adjustment of provisions for income tax up to 2001-02 has resulted in overstatement of loss and overstatement of advances recoverable in cash or kind by Rs. 11.14 crore.
- Sundry creditors do not include an amount of Rs. 0.36 crore on account of royalty payable to private parties and Rs. 0.48 crore in respect of interest on account of non-payment of royalty payable on due dates. This has resulted in understatement of sundry creditors and loss by Rs. 0.84 crore.

**Himachal Pradesh State Handicrafts and Handloom Corporation Limited
(2007-08)**

- No provision has been made for retirement benefits of Rs. 0.35 crore for the year and Rs. 4.53 crore till date. This has resulted in understatement of current liability and provisions and accumulated loss by Rs. 4.53 crore.

**Himachal Pradesh State Electronics Development Corporation Limited
(2008-09)**

- No provision for liability on account of leave encashment amounting to Rs. 0.89 crore was made. This has resulted in understatement of current liabilities and provisions and overstatement of profit by Rs. 0.89 crore.

1.45 Similarly, three working statutory corporations forwarded their three accounts to PAG during the period from October 2008 to September 2009. Of these, two accounts of two statutory corporations pertained to sole audit by

CAG which were under audit. The remaining one account was selected for supplementary audit. The audit reports of statutory auditors and the sole/supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount: Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	297.06	1	1.06	-	-
2.	Increase in loss	2	4.71	2	247.10	1	0.20

The huge impact of audit comments during 2006-07 and 2007-08 mainly pertain to Himachal Pradesh State Electricity Board and the impact of audit comments during 2008-09 is comparative low as the audit of the accounts of the Board for the year 2008-09 was under progress as on 30 September 2009.

1.46 During the year, the audit of accounts of only one Statutory corporation (Himachal Pradesh Financial Corporation) was completed and it received a qualified certificate.

1.47 Some of the important comments in respect of accounts of Statutory corporations are stated below.

Himachal Pradesh Financial Corporation (2008-09)

- Himachal Pradesh Financial Corporation had lodged a claim of Rs. 0.15 crore with the State Government on account of gratuity paid to its employees who opted for pension scheme notified by the State Government. As the reimbursement of this claim was doubtful, necessary provision should have been made. This resulted in understatement of loss and overstatement of current assets by Rs. 0.15 crore.
- Other liabilities does not include Rs. 0.05 crore representing rent of hired building payable to Director of Industries, Government of Himachal Pradesh for the period 4 November 2003 to March 2009. This has resulted in understatement of liabilities and loss by Rs. 0.05 crore.

1.48 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major

comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of seven companies[£] for the year 2007-08 and 13 companies^µ for the year 2008-09 are given below.

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Annexure 2
1.	Non-existence of system of making short/long-term business plan	2	3 and 16
2.	Inadequate monitoring of outstanding dues from outside parties	8	1 to 4, 6, 11, 16 and 17
3.	Non-existence of system of obtaining confirmation from the debtors	9	1 to 4, 6, 10 and 13 to 15
4.	Non-provision of retirement benefits as per AS-15	5	2, 3, 6, 15 and 16
5.	Non-maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	8	2, 3, 6, 8, 10, 11, 14 and 15
6.	Non-fixation of minimum/maximum limits of store and spares	4	2, 14, 15 and 16
7.	Non-fixation of economic order quantity for procurement of stores	6	1 to 3, 14, 16 and 17
8.	Non-adoption of ABC analysis to control inventory	5	3 and 13 to 16
9.	Absence of internal audit system commensurate with the nature and size of business of the company	7	1 to 3, 6, 11, 13 and 15
10.	Non-preparation of internal audit manual/standards/guidelines	5	3, 4, 11, 14 and 15
11.	No approved IT strategy/plan	13	1 to 4, 6, 8, 10 to 16

[£] Sr. No. 1 to 3, 6, 14, 16 and 17 of Annexure 2.

^µ Sr. No. 1 to 4, 6, 8, 10, 11 and 13 to 17 of Annexure 2.

Recoveries at the instance of audit

1.49 During the course of propriety audit in 2008-09, recoveries of Rs. 73.02 crore were pointed out to the Management of various PSUs, which were admitted by PSUs. An amount of Rs. 19.46 crore was recovered during the year 2008-09.

Status of placement of Separate Audit Reports

1.50 Separate Audit Reports (SARs) issued by the CAG on the accounts of all the three Statutory corporations for the period up to 2007-08 have been placed in the State Legislature by the State Government.

Disinvestment, Privatisation and Restructuring of PSUs

1.51 During the year 2008-09, there was no case of disinvestment and privatisation of Government companies and Statutory corporations. The State Government had not prepared any plan for disinvestment of State PSUs.

Reforms in Power Sector

1.52 The State has Himachal Pradesh Electricity Regulatory Commission (HPERC) formed in December 2000 under Section 17 (1) of the Electricity Regulatory Commission Act, 1998[♦] with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2008-09, HPERC issued 37 orders (four on annual revenue requirements and 33 on others).

1.53 Memorandum of Understanding (MoU) was signed in March 2001 between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. The State Electricity Board was able to meet all the milestones set out in the MoU.

[♦] Since replaced with Section 82 (1) of the Electricity Act, 2003.

Discussion of Audit Reports by COPU

1.54 The status as on 30 September 2009 of reviews and paragraphs that appeared in Audit Reports (Commercial) and discussed by the Committee on Public Undertakings (COPU) is as under:

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2002-03	2	10	-	10
2003-04	1	14	-	4
2004-05	-	13	-	4
2005-06	5	14	1	2
2006-07	6	15	-	2
2007-08	3	14	-	2
Total	17	80	1	24