CHAPTER V

COMMERCIAL ACTIVITIES

5.1 Overview of State Public Sector Undertakings

Introduction

5.1.1 The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporations. The State working PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Uttarakhand, the State PSUs occupy a moderate place in the state economy. The State PSUs registered a turnover of Rs.1527.06 crore for 2008-09 as per their latest finalised accounts as of September 2009. This turnover was equal to 3.80 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Uttarakhand State PSUs are concentrated in power sector. The State working PSUs incurred a loss of Rs.151.41 crore in the aggregate for 2008-09 as per their latest finalised accounts. They had employed 0.17 lakh[1] employees as of 31 March 2009. The State PSUs do not include seven prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments. Audit findings of these DUs are incorporated in chapter-II of this Audit Report.

5.1.2 As on 31 March 2009, there were 24 PSUs as per the details given below. Of these, no company was listed on the stock exchange.

Type of PSUs	Working PSUs	Non-working PSUs[2]	Total
Government Companies[3]	18	4	22
Statutory Corporations	2	-	02
Total	**20**	**4**	**24**

5.1.3 During the year 2008-09, one PSU namely Uttarakhand State Infrastructure Development Corporation Limited was established.

Audit Mandate

5.1.4 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

[1] As per the details provided by 16 PSUs. Remaining 08 PSUs did not furnish the details.
[2] Non-working PSUs are those which have ceased to carry on their operations.
[3] includes 619-B companies.

were a Government company (deemed Government company) as per Section 619-B of the Companies Act.

5.1.5 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 Comptroller & Auditor General of India (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.

5.1.6 Audit of statutory corporations is governed by their respective legislations. Out of two Statutory corporations, CAG is the sole auditor for Uttaranchal Parivahan Nigam. Though, CAG is the sole auditor for Uttarakhand Peyjal Sansadhan Evam Nirman Nigam, entrustment of audit is awaited.

Investment in State PSUs

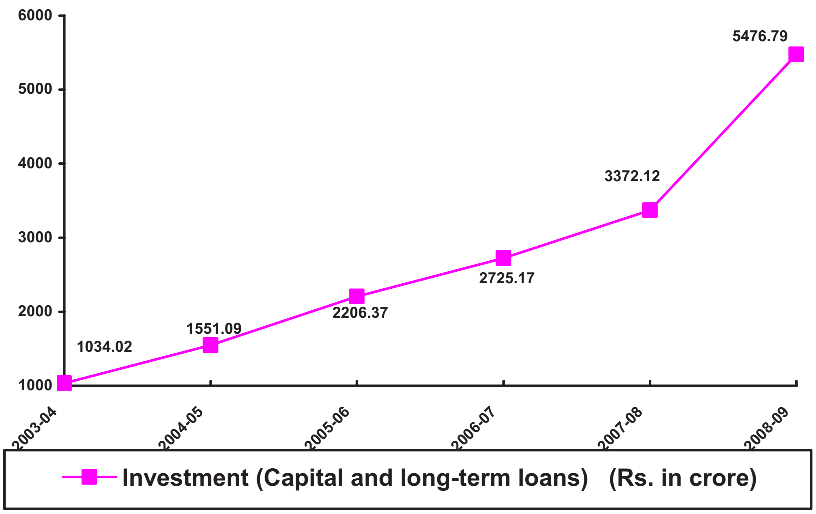
5.1.7 As on 31 March 2009, the investment (capital and long-term loans) in 24 PSUs (including 619-B companies) was Rs.5476.79 crore as per details given below:

(Rs. in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	977.77	2277.68	3255.45	2111.59	109.36	2220.95	5476.40
Non-working PSUs	0.39	-	0.39	-	-	-	0.39
Total	**978.16**	**2277.68**	**3255.84**	**2111.59**	**109.36**	**2220.95**	**5476.79**

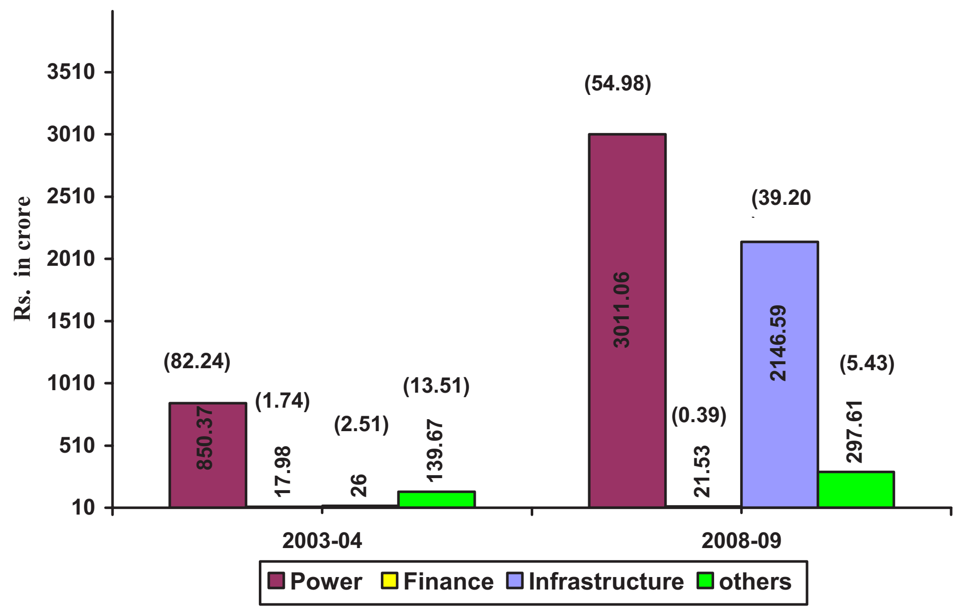
A summarised position of government investment in State PSUs is detailed in *Appendix 5.1.*

5.1.8 As on 31 March 2009, of the total investment in State PSUs, 99.99 *per cent* was in working PSUs and the remaining 0.01 *per cent* in non-working PSUs. This total investment consisted of 56.42 *per cent* towards capital and 43.58 *per cent* in long-term loans. The investment has grown by 429.66 *per cent* from Rs.1034.02 crore in 2003-04 to Rs.5476.79 crore in 2008-09 as shown in the graph below:



(Note : Sudden increase in investment was due to inclusion of investment of Rs.2108.59 crore of Uttarakhand Pey Jal Sansadhan Vikas and Nirman Nigam for which information was not provided by the Company in earlier years)

5.1.9 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. Though the major investment was in Power Sector (54.98 *per cent*), the thrust of PSU investment in the State was mainly in infrastructure sector which had seen its percentage share rising from 2.51 *per cent* in 2003-04 to 39.20 *per cent* in 2008-09.



(Figures in brackets show the percentage of total investment)

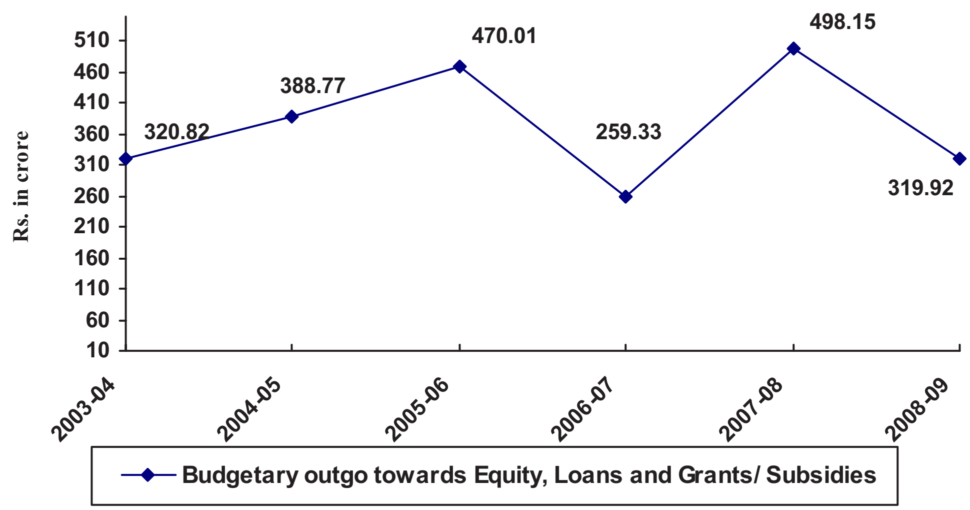
Budgetary outgo, grants/subsidies, guarantees and loans

5.1.10 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 *Appendix 5.3*. The summarised details are given below for three years ended 2008-09.

(Amount Rs.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	144.95	4	307.27	5	256.14
2.	Loans given from budget	5	97.70	6	162.19	5	36.55
3.	Grants/Subsidy received	3	16.68	4	28.69	5	27.23
4.	Total Outgo (1+2+3)	-	259.33	-	498.15	-	319.92
5.	Guarantees issued	1	1200.00	2	211.05	1	3.15
6.	Guarantee Commitment	4	1654.16	1	1200.00	2	1143.15

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



The budgetary outgo in state PSUs in the form of equity, loans and grants range between Rs.259.33 crore and Rs.498.15 crore during 2004-09.

5.1.12 The amount of guarantee commitment as on 31 March 2007 was Rs.1654.16 crore (three PSUs) which decreased to Rs.1200 crore (one PSU) as on 31 March 2008 and to Rs.1143.15 (two PSUs) as on 31 March 2009. The State Government charged guarantee fee at the rate of one *per cent* in case of all PSUs and two *per cent* in case of defaulting PSUs. During the year none of the PSUs has paid any guarantee fee out of Rs.14 crore payable to the Government as on 31 March 2009.

Reconciliation with Finance Accounts

5.1.13 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 on 31 March 2009 is stated below:

(Rs. in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	1170.10	3065.74	1895.64
Loans	432.60	721.11	288.51
Guarantees	1599.61	1143.15	456.46

5.1.14 Audit observed that the differences occurred in respect of 20 PSUs and some of the differences were pending reconciliation since 2003. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

5.1.15 The financial results of PSUs, financial position are detailed in *Appendix 5.2.* A ratio of PSUs turnover to State GDP shows the extent of PSU activities in the State economy. Following table provides the details of working PSUs turnover and State GDP for the period from 2003-04 to 2008-09.

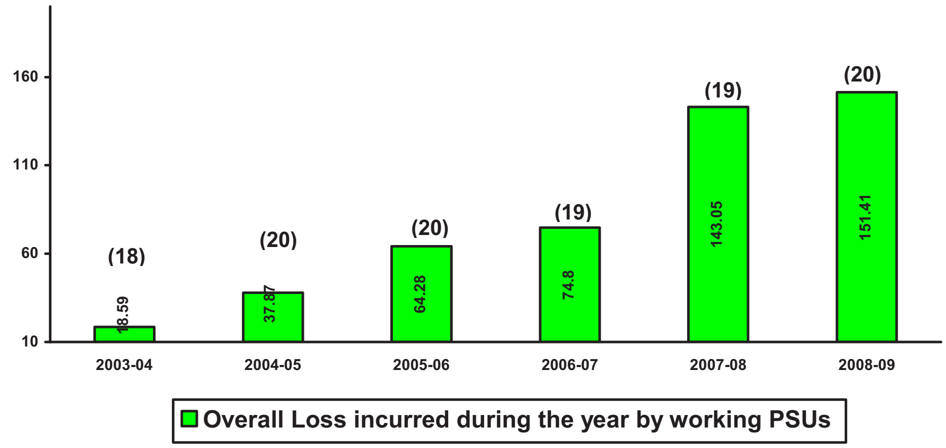
(Rs. in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover[4]	307.38	486.46	1293.01	1366.26	1481.94	1527.06
State GDP	20668.00	22765.00	25776.00	29881.00	34549.00	40159.00
Percentage of Turnover to State GDP	1.48	2.14	5.02	4.57	4.29	3.80

The percentage of turnover to the State GDP rose from 1.48 in 2003-04 to 3.80 in 2008-09 and turnover of PSUs also increased from Rs.307.38 crore to Rs.1527.06 crore.

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

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



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

It can be seen from the bar chart that overall loss increased during 2004 to 2009. The Losses increased from Rs.18.59 crore in 2003-04 to Rs.151.41 crore in 2008-09. As per their latest finalised accounts, out of 20 working PSUs, eight PSUs earned profit of Rs.63.86 crore and 10 PSUs incurred loss of Rs.215.27 crore. One PSU (Uttarakhand State Infrastructure Development Corporation Limited) has been newly created and its first account had not been received. The entrustment of audit in respect of one PSU (Uttarakhkand Pey Jal Sansadhan Evam Nirman Nigam) is still awaited. The major contributors to the profit were State Infrastructure Development Corporation of Uttaranchal Limited (Rs.56.49 crore) and Uttarakhand Purv Sainik Kalyan Udham Limited (Rs.3.67 crore). The heavy losses were incurred by Uttarakhand Power Corporation Limited (Rs.168.28), Kichha Sugar Company Limited (Rs.14.94 crore), Doiwala Sugar Company Limited (Rs.10.14 crore) and Uttarakhand Parivahan Nigam (Rs.10.29 crore).

5.1.17 The losses of 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.99.80 crore and infructuous investment of Rs.9.52 crore which were controllable with better management. Year wise details from Audit Reports are stated below:

(Rs. in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net Profit (loss)	(-) 74.80	(-) 143.05	(-) 151.41	(-) 369.26
Controllable losses as per CAG's Audit Report	15.17	4.52	80.11	99.80
Infructuous Investment	1.45	5.07	3.00	9.52

5.1.18 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. 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.

5.1.19 Some other key parameters pertaining to State PSUs are given below:

(Rs. in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (*Per cent*)	-	1.31	6.42	11.40	-	-
Debt	923.84	1275.73	1644.05	1950.91	2356.08	2387.65
Turnover[5]	307.38	486.40	1293.01	1366.26	1481.91	1527.06
Debt/ Turnover Ratio	3.01:1	2.62:1	1.27:1	1.43:1	1.59:1	1.56:1
Interest Payments	12.36	58.72	187.74	304.16	158.78	156.53
Accumulated Profits (losses)	(-) 49.61	(-) 80.33	(-) 146.43	(-)168.20	(-)291.71	(-) 283.60

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

5.1.20 It can be seen that though debt/turnover ratio had decreased from 3.01:1 during 2003-04 to 1.56:1 during 2008-09, the debts actually increased. This increased the pressure on profit margins by way of increased interest. The percentage of consolidated return on capital employed of all PSUs varied between 1.31 in 2004-05 and 11.40 in 2006-07. It was negative in the year 2003-04, 2007-08 & 2008-09. The accumulated losses increased from Rs.49.61 crore in 2003-04 to Rs.283.60 crore in 2008-09.

5.1.21 The State Government had not formulated any dividend policy for the PSUs under which PSUs would be required to pay a minimum return of dividend to the State Government. As per their latest finalised accounts, eight PSUs earned a profit of Rs.63.86 crore but no dividend had been declared.

Performance of major PSUs

5.1.22 The investment in working PSUs and their turnover together aggregated to Rs.7003.46 crore during 2008-09. Out of 20 working PSUs, the following four PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These four PSUs together accounted for 87.59 *per cent* of aggregate investment *plus* turnover as indicated below:

(Rs. in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover
(1)	**(2)**	**(3)**	**(4)**	**(5)**
1. Uttarakhand Power Corporation Limited	463.26	757.57	1220.83	17.43
2. Uttarakhand Jal Vidyut Nigam Limited	2006.63	233.59	2240.22	31.99
3. Uttarakhand Pey Jal Sansadhan Evam Vikas Nigam	2108.09	-	2108.09	30.10
4. Power Transmission Corporation Limited	541.17	23.99	565.16	8.07
Total	**5119.15**	**1015.15**	**6134.30**	**87.59**

[5] Turnover of working PSUs as per the latest finalised accounts as of 30 September.

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

Uttarakhand Power Corporation Limited

5.1.23 The Company had arrear of accounts for four years as on September 2009. The arrears were for two years as on September 2006. The arrears have increased despite having a separate accounts department. The company attributed non-finalisation of accounts to shortage of trained staff.

5.1.24 The Company earned profit of Rs.12.41 crore in the year 2002-03, however, it incurred a loss of Rs.49.45 crore in the year 2003-04 which increased to Rs.168.28 crore in the year 2004-05. The turnover of the company has declined from Rs.916.94 crore to Rs.757.57 crore during this period and the return on capital employed which was 6.48 *per cent* in the year 2002-03 became negative in the year 2004-05.

5.1.25 Deficiencies in implementation

- The Company failed to realize revenue of Rs.3.41 crore from Bharat Heavy Electrical Limited due to incorrect raising of bill. (Paragraph 7.4 of the Audit Report 2005-06)
- The Company awarded contract without obtaining clearance for diversion of forest land resulting unfruitful expenditure of Rs.5.70 crore. (Paragraph 7.3 of the Audit Report 2007-08)

5.1.26 Deficiencies in monitoring

- The Company did not charge additional 25 *per cent* amounting to Rs.42.51 crore on electricity charges of Rs.170.04 crore as applicable on construction work. (Paragraph 7.2 of the Audit Report 2004-05)

5.1.27 Deficiencies in financial management

- Vitiation of the tender process by the Company resulted in avoidable extra expenditure of Rs.1.10 crore. (Paragraph 7.3 of the AR 2004-05)
- The Company suffered extra financial burden of Rs.2.29 crore due to non-recovery of security deposit. (Paragraph 7.4 of the AR 2007-08)

Power Transmission Corporation of Uttarakhand Limited

5.1.28 The Company had arrear of accounts for four years as of September 2009. The arrears were for two years as on September 2006. The arrears have increased despite having a separate accounts department. The company attributed non-finalisation of accounts to shortage of trained staff.

5.1.29 The Company incurred loss of Rs.8.59 crore in the year 2004-05.

5.1.30 Deficiencies in monitoring

- Failure of the Company to raise a demand on the contractor for the abnormal energy used during testing resulted in a loss of Rs.0.41 crore. (Paragraph 7.7 of the AR 2007-08)

5.1.31 Deficiencies in financial management

- The Company failed to recover Rs.1.53 crore as liquidated damage from a contractor despite enabling provision in the agreement. (Paragraph 7.6 of the AR 2007-08)

Conclusion

5.1.32 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

5.1.33 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 respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of Working PSUs	20	20	19	19	20
2.	Number of accounts finalised during the year	08	09	11	09	12
3.	Number of accounts in arrears	106	115	119	128	135
4.	Average arrears per PSU (3/1)	5.30	5.75	6.26	6.74	6.75
5.	Number of Working PSUs with arrears in accounts	20	19	19	19	20
6.	Extent of arrears	1 to 18 years	1 to 19 years	1 to 20 years	1 to 21 years	1 to 22 years

5.1.34 As may be seen from above, the arrear of finalised of accounts increased from 106 during 2004-05 to 135 during 2008-09. 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 two accounts are finalised each year so as to clear the backlog and further accumulation of arrears.

5.1.35 In addition to above, there were also arrears in finalisation of accounts by non-working PSUs. Out of four non-working PSUs, one had gone into liquidation process, remaining three non-working PSUs had arrears of accounts for 19 to 22 years.

5.1.36 The State Government had invested Rs.1214.58 crore (Equity: Rs.754.94 crore, loans: Rs.400.40 crore and grants: Rs.59.24 crore). The years for which accounts have not been finalised are detailed in *Appendix 5. 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.

5.1.37 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 with the Chief Secretary/ Finance Secretary to expedite the backlog of arrears in accounts in a time bound manner.

5.1.38 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

5.1.39 There were four non-working PSUs as on 31 March 2009. Of these, one PSU have 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	06	04	04	04	04

5.1.40 The stages of closure in respect of non-working PSUs are given below:

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working PSUs	04	-	04
2.	Of (1) above, the No. under	-	-	-
(a)	liquidation by Court (liquidator appointed)	01	-	01
(b)	Voluntary winding up (liquidator appointed)	-	-	-
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	03	-	03

5.1.41 During the year 2008-09, no company/corporation was finally wound up. The companies which have taken the route of winding up by Court order are under liquidation for more than 18 years. 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 three 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

5.1.42 Twelve working companies forwarded their audited 12 accounts to Accountant General (AG) during the year 2008-09. All these accounts 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 Rs. 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	2	5.62	2	13.07	5	93.50
2.	Increase in loss	1	0.06	1	20.32	4	131.16
3.	Non-disclosure of material facts	3	89.74	-	-	3	2.47

5.1.43 During the year, the statutory auditors had given qualified certificates for 11 accounts, adverse certificates (which means that accounts do not reflect a true and fair position) for one account. The compliance of companies with the Accounting Standards (AS) remained poor as there were four instances of non-compliance with AS in two accounts during the year. One adverse certificate was issued to a company by the CAG.

5.1.44 Some of the important comments in respect of accounts of companies are stated below:

UP Hill Electronics Corporation Limited (1994-95)

- The Company gave loans & advances of Rs.1.13 crore to four firms, which were either sick or closed and the chances of recovery are remote for which provision was not made by the Company. This has resulted in overstatement of profit as well as loans and advances by Rs.1.13 crore.
- The sundry debtors (Rs.1.16 crore) of the Company were as old as 16 to 17 years and no recovery had been made upto 2008-09. Provision for bad and doubtful debts had also not been made in the accounts. This has resulted in overstatement of profit as well as sundry debtors by Rs.1.16 crore.

Uttarakhand Jal Vidyut Nigam Limited (2004 - 05)

- The Nigam had taken loan of Rs.800 crore, but no guarantee fee (Rs. 11.06 crore) was paid. The provision for guarantee fee should have been made in the accounts. Non provision of guarantee fee resulted in understatement of current liabilities and overstatement of profit by Rs.11.06 crore.

Doiwala Sugar Company Limited (2005 – 06)

- It was decided in the meeting held (13 July 2001) between the Secretaries of Government of Uttar Pradesh and Uttarakhand that no further claim would be raised on account of transfer of Sugar Mills. However, the company has accounted for loans and advances of Rs.30.35 crore recoverable from UP Government. This resulted in overstatement of loans and advances and understatement of loss by Rs.30.35 crore.

Power Transmission Corporation of Uttaranchal Limited (2004 -05)

- Stores & spares valuing Rs.2.39 crore were surplus/obsolete for which provision should have been made in the accounts. Non- provision had resulted in overstatement of current assets and understatement of loss by Rs.2.39 crore.

State Infrastructure and Industrial Development Corporation of Uttarakhand Limited (2007-08)

- As per Accounting Standards (AS -1) interest earned/accrued of Rs.78.85 crore on fixed deposits with the banks, income from sale/leased out of land, interest charges on land premium and interest on leased rent should have been shown as payable to the State Government instead of income. This resulted in overstatement of profit and understatement of current liabilities by Rs.78.85 crore.

5.1.45 One working statutory corporation (Uttarakhand Parivahan Nigam) forwarded the accounts for one year (2005-06) to AG during the year 2008-09, which were audited. The details of aggregate money value of comments of CAG are given below:

(Amount Rs. 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	0.70	-	-
2.	Increase in loss	-	-	-	-	1	0.23
3.	Non-disclosure of material facts	01	0.08	-	-	-	-
4.	Errors of classification	-	-	1	0.86	-	-

5.1.46 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, account for which was finalised during 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 *Appendix 5. 2*
1.	Non-fixation of minimum/ maximum limits of store and spares	4	A 11, 14, 15 & 17
2.	Absence of internal audit system commensurate with the nature and size of business of the company	6	A 5, 10, 11, 15, 16 & 17
3.	Non maintenance of cost record	1	A 17
4.	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	4	A 11, 15, 17 & 18

Status of placement of Separate Audit Reports

5.1.47 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by the Government.

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	Uttarakhand Parivahan Nigam	2004-05	2005-06	17 July 2009	AGM was not held

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature(s).

Disinvestment, Privatisation and Restructuring of PSUs

5.1.48 The State Government had no plan of disinvestment, privatisation or restructuring of any of the PSUs.

Reforms in Power Sector

5.1.49 The State has Uttarakhand Electricity Regulatory Commission (UERC) formed in September 2002 under Section 17 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, no order was issued by UERC on annual revenue requirements and other matters.

Discussion of Audit Reports by COPU

5.1.50 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
2003-04	-	2	-	-
2004-05	-	4	-	-
2005-06	1	3	-	-
2006-07	1	5	-	-
2007-08	1	5	-	-
Total	**3**	**19**	**-**	**-**

5.1.51 The matter relating to clearance of backlog of discussion of reviews/ paragraphs was taken up by AG with Chief Secretary/ Finance Secretary of the State and Chairperson of COPU in June & July 2009.

PERFORMANCE REVIEW RELATING TO STATUTORY CORPORATION

DEPARTMENT OF TRANSPORT

5.2 UTTARAKHAND PARIVAHAN NIGAM

Executive summary

The Uttarakhand Parivahan Nigam (Nigam) provides public transport in the state through its 17 depots. The Nigam had fleet strength of 1095 buses as on 31 March 2009 and carried an average of 1.11 lakh passengers per day. It accounted for a share of 17.58 per cent in public transport with rest coming from private operators. The performance audit of the Nigam for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Nigam.

Finance and performance

The Nigam suffered a loss of Rs.14.09 crore in 2008-09 without considering prior period adjustments. Its accumulated losses and borrowings stood at Rs.236.61 crore and Rs.33.13 crore as on 31 March 2009, respectively. The Nigam earned Rs.14.96 per km and expended Rs.16.04 per km in 2008-09. Audit noticed that with a right kind of policy measure and better management of its affairs, it is possible to increase revenue and reduce costs, so as to earn profit and serve its cause better.

Declining share

Of 6287 buses licensed for public transport in 2008-09, about 17.58 per cent belonged to the Nigam. The percentage share declined from 20.07 per cent in 2004-05 to 17.58 per cent in 2008-09. The decline in share was mainly due to its operational inefficiency (leading to non-availability of adequate funds to replace/ add new buses) and lack of support from the State Government. Nevertheless, vehicle density (including private operators buses) per one lakh population increased marginally from 53.57 in 2004-05 to 60.30 in 2008-09 indicating stability in the level of public transport in the State.

Vehicle profile and utilisation

Nigam's buses consisted of own fleet of 1095 buses and 63 hired buses at the end of 2008-09. Of its own fleet, 99 (9.04 per cent) were overage, i.e. more than eight years old. The per cent of overage buses declined from 43.31 per cent in 2004-05 to 9.04 per cent in 2008-09 due to acquisition of 981 new buses during 2004-09 at a cost of Rs.109.49 crore. Nigam's fleet utilization at 95 per cent in 2008-09 was above the All India Average (AIA) of 92 per cent. Its vehicle productivity at 340 kilometers per day per bus was also above the AIA of 313 kilometers. Similarly, its load factor at 68 per cent remained above the AIA of 63 per cent. However, the Nigam did not fix its own targets of vehicle productivity and load factor. Though the Nigam did well on operational parameters, its 73 per cent routes were unprofitable due to high cost of operations and non-reimbursement of full cost of operations on uneconomical routes by the State Government. Nigam's performance on repair and maintenance was poor

Economy in operations

Manpower and fuel constitute 73.68 per cent of total cost. Interest, depreciation and taxes account for 7.79 per cent and are not controllable in the short term. Thus, the controllable expenditure has to come from manpower and fuel. The manpower per bus increased from 5.49 in 2004-05 to 6.95 in 2006-07. but decreased to 6.24 in 2008-09. The Nigam did not attain its own fuel consumption targets resulting in

excess consumption of fuel valued at Rs.23.22 crore during 2004-09.

The number of hired buses decreased from 91 in 2004-05 to 63 in 2008-09. The Nigam earned a net profit of Rs.10.57 crore from hired buses during 2004-09. As this activity is profitable and has the potential to cut down the cost substantially, the Nigam needs to explore possibility to replace overage buses by hiring more buses in future.

Revenue maximisation

Nigam's staff at depot and Headquarters conducts enroute checking of buses. Though checking by higher management was required, the same was not being carried out. This is one area for the Nigam to plug leakage of revenue. Further, the Nigam has about 5.89 hectares of land. As it mainly utilizes the ground floor/ land for its operation, the space above can be developed on public private partnership basis to earn steady income which can be used to cross-subsidise its operations. The Nigam has proposals for some projects on PPP mode, but these are still at very initial stage.

Need for a regulator

The fare per kilometer stood at 54 paise from April 2008. Though the State Government approves the fare increase, there is no scientific basis for its calculation. The Nigam has also not framed norms for providing services on uneconomical schedules.

Inadequate monitoring

Independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify the fixation of targets for various operational parameters and effective Management Information System (MIS) for obtaining feedback on achievement thereof are essential for monitoring by the top management. The monitoring by the Board of Directors fell short as it did not take/ Recommend suitable measures to control the cost and increase the revenue.

Conclusion and recommendations

Though the Nigam is incurring losses, it is mainly due to its high cost of operations and not due to low fare structure. The Nigam can control the losses by resorting to hiring of buses and tapping non-conventional sources of revenue. This review contains five recommendations to improve the Nigam's performance. Hiring of buses, creating a regulator to regulate fares and services and tapping non-conventional sources of revenue by undertaking PPP projects are some of these recommendation.

Introduction

5.2.1 In Uttarakhand, public road transport is provided by the Uttarakhand Parivahan Nigam (Nigam), which is mandated to provide an efficient, adequate, economical and properly coordinated road transport. The State also allows private operators to provide public transport. The State has not reserved any route exclusively for the Nigam. At present, the private operators also operate on the routes on which the Nigam operates. The fare structure is controlled by the State Government and is different for the Nigam and for private operators.

5.2.2 The Nigam was incorporated on 31 October 2003 by the State Government under Section 3 of the Road Transport Corporation Act, 1950 as a Nigam jointly owned by Central Government and State Government. The Nigam is under the administrative control of the Transport Department of the Government of Uttarakhand. The Management of the Nigam is vested with a Board of Directors comprising the Chairman, the Managing Director and Directors appointed by the Government of Uttarakhand. The day-to-day operations are carried out by the Managing Director, who is the Chief Executive of the Nigam, with the assistance of General Managers, Finance Controller, Deputy General Managers, Divisional Managers and Assistant Regional Managers. The Nigam has three Regional Offices[6], seventeen Depots[7] and three Regional Workshops[8]. The work of bus body building is carried out through external agencies. The organisation chart is given in *Appendix-5.5.*

5.2.3 The Nigam had a fleet strength of 1095 buses as on 31 March 2009 excluding 63 hired buses and carried an average of 1.11 lakh passengers per day during 2008-09. The Nigam's share in the passenger transport operations in the State was 17.58 *per cent* and the remaining 82.42 *per cent* was accounted for by private operators. The turnover of the Nigam was Rs.195.22 crore in 2008-09, which was equal to 0.47 *per cent* of the State Gross Domestic Product (Rs.40159 crore). The Nigam employed about 6897 employees as at 31 March 2009 including 1007 drivers and 915 conductors engaged through outsourcing.

Scope and Methodology of Audit

5.2.4 The present review conducted during February 2009 to July 2009 covers the performance of the Nigam during the period from 2004-05 to 2008-09. The review mainly deals with operational efficiency, financial management, fare policy, fulfillment of the social obligations and monitoring by top management of the Nigam. The audit examination involved scrutiny of records at the Head Office, three Regional workshops, three Regional Offices and ten[9] out of seventeen depots. The selection of depots was based on the profit and loss earned/suffered by the depots keeping a mix of Depots located in the plains and in hill areas. During 2008-09, the total revenue earned by these depots was Rs.103.96 crore and constituted 53.25 *per cent* of the total revenue of the Nigam.

5.2.5 The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, scrutiny of records at Head Office and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria,

[6] Dehradun, Nainital and Tanakpur.

[7] 'B', Hill, Rural, Haridwar, Rishikesh, Roorkee, Kotdwar, Almora, Kathgodam, Kasahiur, Rudrapur, Ranikhet, Bhowali, Ramnagar, Pithoragarh, Lohaghat and Tanakpur.

[8] Dehradun, Kathgodam and Tanakpur.

[9] B, Hill, Hardwar,Kotdwar, under Dehradun region, Kashipur, Rudrapur, Almora and Ranikhet under Nainital region and Lohaghat and Pithoragarh under Tanakpur region.

raising of audit queries, discussion of audit findings with the management and issue of draft review to the management for draft comments.

Audit Objectives

5.2.6 The objectives of the performance audit were to assess:

Operational Performance

- the extent to which the Nigam was able to keep pace with the growing demand for public transport;
- whether the Nigam succeeded in recovering the cost of operation; and
- whether the adequate maintenance was undertaken to keep the vehicles roadworthy.

Financial Management

- whether the Nigam was able to raise claims and recover its dues efficiently; and
- the possibility of realigning the business model of the Nigam to tap non-conventional sources of revenue and adopting innovative methods of accessing such funds.

Fare Policy and Fulfillment of Social Obligations

- the existence and adequacy of fare policy; and
- whether the Nigam operated adequately on uneconomical routes.

Monitoring by Top Management

- whether the monitoring by Nigam's top management was effective.

Audit Criteria

5.2.7. The audit criteria adopted for assessing the achievement of audit objectives, were:

- all India average for performance parameters;
- performance standards and operational norms fixed by the Association of State Road Transport Undertakings (ASRTU);
- physical and financial targets/norms fixed by the management;
- manufacturers' specifications, norms for life of a bus, preventive maintenance schedule, fuel efficiency norms etc;
- instructions of Government of India (GOI) and State Government and other relevant rules and regulations; and
- procedures laid down by the Nigam.

Financial position and working results

5.2.8 The overall financial position and working result of the Nigam for five years upto 2008-09 are given below :

(Rs.in crore)

Particulars	2004-05	2005-06	2006-07[10]	2007-08[10]	2008-09[10]
A. Liabilities					
Paid up Capital	37.24	57.24	77.24	78.24	79.74

[10] Provisional figures.

Reserves & surplus (including Capital grants but excluding Depreciation Reserve)	1.23	1.97	1.38	1.61	2.79
Borrowings (Loan Funds)	24.94	26.02	19.68	36.02	33.13
Current liabilities & Provisions	122.68	133.00	133.50	139.24	143.91
Inter Office adjustment	114.85	114.85	114.85	114.85	114.40
Total	**300.94**	**333.08**	**346.65**	**369.96**	**373.97**
B. Assets					
Gross Block	109.27	123.16	114.22	125.62	142.88
Less: Depreciation	67.88	61.02	64.42	73.86	88.36
Net Fixed Assets	41.39	62.14	49.80	51.76	54.52
Current Assets, Loans & Advances	17.81	18.65	47.31	67.92	56.43
Uttarakhand & U.P. Reorganisation settlement A/c	26.41	26.41	26.41	26.41	26.41
Accumulated losses	215.33	225.88	223.13	223.87	236.61
Total	**300.94**	**333.08**	**346.65**	**369.96**	**373.97**

Working Results

5.2.9 The details of working results like operating revenue and expenditure, total revenue and expenditure, net surplus/ loss and earnings and cost per kilometre of operation are given below:

(Rs. in crore)

Sl. No.	Description	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Revenue	106.56	141.17	171.58	187.04	195.22
2.	Operating Revenue[11]	102.19	135.36	165.76	180.33	188.47
3.	Total expenditure	121.67	151.46	168.83	187.35	209.31
4.	Operating Expenditure[12]	121.51	151.20	168.39	186.27	208.61
5.	Operating Profit/Loss	(19.32)	(15.84)	(2.63)	(5.94)	(20.14)
6.	Profit/Loss for the year	(15.11)	(10.29)	2.75	(0.31)	(14.09)
7.	Net Prior period income	(0.79)	(0.26)	0.00	(0.43)	1.35
8.	Accumulated loss	215.33	225.88	223.13	223.87	236.61
9.	Fixed Costs (i) Personnel Costs (ii) Depreciation (iii) Interest (iv) Other Fixed Costs[13]	 47.51 6.80 0.16 19.02	 50.47 12.85 0.26 18.63	 55.52 16.72 0.44 18.70	 61.78 17.80 1.09 20.71	 65.39 14.66 0.70 22.38
	Total Fixed Cost	**73.49**	**82.21**	**91.38**	**101.38**	**103.13**

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[11] Operating revenue includes traffic earnings, season tickets, re-imbursement against concessional passes, fare realised from private operators under KM scheme, etc.

[12] Operating expenditure includes expenses relating to traffic, repair and maintenance, electricity, welfare and remuneration, licenses and taxes and general administrative expenses.

[13] Other fixed costs include miscellaneous expenditure, payment to hired bus owners and expenditure on incentives.

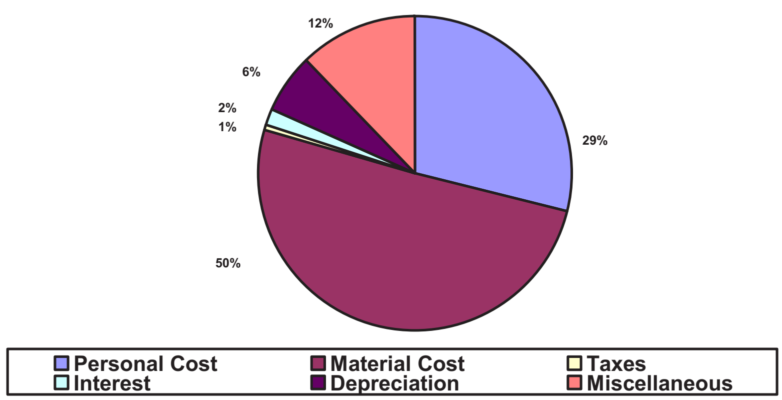
10.	Variable Cost					
	(i) Fuel & Lubricants	39.15	59.44	66.10	71.64	88.83
	(ii) Tyres & Tubes					
	(iii) Other Items/ spares[14]	2.61	3.33	4.95	7.60	7.91
	(iv) Taxes (MV Tax, Passenger Tax, etc.)	5.57	5.66	5.26	5.86	8.50
		0.85	0.82	1.14	0.87	0.94
	Total Variable Costs	48.18	69.25	77.45	85.97	106.18
11.	Effective Kms. Operated (in crore) as per Operation	8.83	10.14	11.04	12.12	13.05
12.	Revenue per KM (Rs.) (1/11)	12.07	13.92	15.54	15.43	14.96
13.	Fixed Costs per KM (Rs.) (8/11)	8.32	8.11	8.28	8.36	7.90
14.	Variable Cost per KM (Rs.) (10/11)	5.46	6.83	7.02	7.09	8.14
15.	Cost per KM (Rs.) (3/11)	13.78	14.94	15.29	15.46	16.04
16.	Net Earnings per KM (Rs.) (12-15)	(1.71)	(1.02)	0.25	(0.03)	(1.08)
17.	Traffic Revenue[15] (Rs.in crore)	91.18	125.60	158.78	172.94	178.75
18.	Traffic revenue per KM (17/11)	10.33	12.39	14.38	14.27	13.70
19.	Operating profit/ Loss per KM (Rs.) (5/11)	(2.19)	(1.56)	(0.24)	(0.49)	(1.54)

5.2.10 The working results show that except for 2006-07, the Nigam was unable to recover its operating cost in all the years covered by the review. The operating loss per KM, however, has been decreasing from 2004-05 to 2006-07, but has again increased thereafter. Subsequent audit findings show that these losses were controllable and there is scope for improvement in the Nigam's performance.

Elements of Cost

5.2.11 Personnel cost and material cost constitute the major elements of the cost. The percentage break-up of costs for 2008-09 is given below in the Pie chart.

Components of various elements of cost



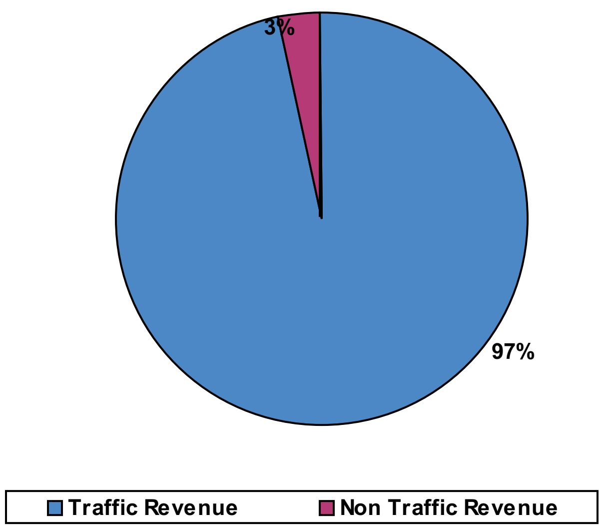
[14] Other items/ spares include expenditure on batteries, outsourced repair and maintenance and expenditure on spare parts.

[15] Traffic revenue represents sale of tickets, advance booking, reservation charges and contract services earnings.

Elements of Revenue

5.2.12 Traffic revenue, and non-traffic revenue constitute total revenue. The percentage break-up of revenue for 2008-09 is given below in the pie chart.

Components of various elements of revenue



Audit Findings

5.2.13. During an entry conference held on 17 March 2009, the audit objective, scope and methodology were explained to officers of the Nigam. Subsequently, audit findings were reported to the Nigam and Government in September 2009 and discussed in an exit conference held on 12 November 2009 which was attended by Managing Director, General Manager (Administration), Finance Controller and Dy. General Manager (Technical). The views expressed by them have been considered while finalizing this review. The formal reply of the Nigam/ State Government was awaited. The audit findings are discussed below:

Operational Performance

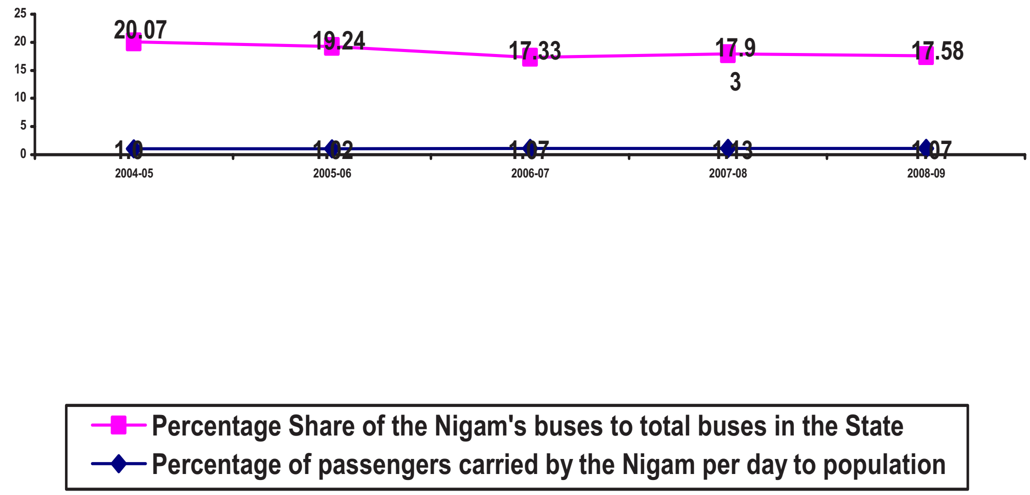
5.2.14. The operational performance of the Nigam for the five year ending 2008-09 is given in the *Appendix 5.6.* The operational performance of the Nigam was evaluated on various operational parameters as described below. It was also seen whether the Nigam was able to maintain pace with the growing demand for public transport. Audit findings in this regard are discussed in the subsequent paragraphs. These audit findings show that the losses were controllable and there is scope for improvement in performance.

Share of Nigam in public transport

The percentage share of the Nigam in bus transport decreased from 20.07 to 17.58 during 2004-09.

5.2.15 The State Government has not framed any transport policy to provide adequate and affordable public transport. The transport policy of the State Government should have been aimed at achieving a balanced modal mix of public transport and to discourage personalized transport. The focus should be on increasing mass transport systems by providing adequate, accessible and affordable modes of transport. The policy should recognize that in a hill state the bus system will continue to play the role of main mass transport system.

5.2.16 A Line graph depicting the percentage share of the Nigam buses in public bus transport of the State and percentage of average passengers carried per day by the Nigam to the population of the State during five years ending 2008-09 is given below:



5.2.17 The Table depicts the growth of public transport in the State.

S. No.	Particular	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Nigam's buses including hired	1015	961	985	1069	1105
2.	Private stage carriages	4043	4035	4698	4894	5182
3.	Total buses for public transport	5058	4996	5683	5963	6287
4.	Percentage share of the Nigam	20.07	19.24	17.33	17.93	17.58
5.	Percentage share of private operators	79.93	80.76	82.67	82.07	82.42
6.	Estimated population (lakh)	94.41	96.77	99.19	101.67	104.22
7.	Vehicle density per one lakh population (3/6)	53.57	51.63	57.29	58.65	60.32

(Figures in S. no. 1, 2 and 3 are average number of buses.)

5.2.18 The Nigam has not been able to keep pace with the growing demand for public transport. The share of Nigam in public transport decreased from 20.07 *per cent* (2004-05) to 17.58 *per cent* (2008-09). The effective per capita km. operated by the Nigam per year, however, increased from 9.35 km. to 12.52 km during the period under review as given below:

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Effective kms. operated (lakh)	882.81	1013.52	1103.92	1212.22	1304.73
Estimated population (lakh)[16]	94.41	96.77	99.19	101.67	104.22
Per capita km. per year	9.35	10.47	11.13	11.92	12.52

5.2.19 Even though the Nigam's share in the overall public transport has decreased, the above table shows that the Nigam has increased coverage of its services in absolute terms over the years. This is on account of increase in fleet size of the Nigam, better utilization of the fleet and operation on a larger number of routes. This is apparent from the fact that effective kilometers operated by the Nigam, has grown by a massive 47.80 *per cent* during the period covered by the review.

5.2.20 Public transport has definite benefits over personalized transport in terms of costs, congestion on roads and environmental impact. The public transport service has to be adequate to derive those benefits. Yet despite increasing the overall coverage of its service, the Nigam was not able to maintain its share in public transport mainly on account of a lack of policy both on the part of the Government and the Nigam with regard to expanding the services of the Nigam on new routes and in the far flung and remote regions of the State. In the absence of such a policy and financial incapacity of the Nigam itself to expand its fleet size and regularly renew its fleet, the Nigam failed to take advantage of the growing demand in the State for affordable and reliable mass public transport.

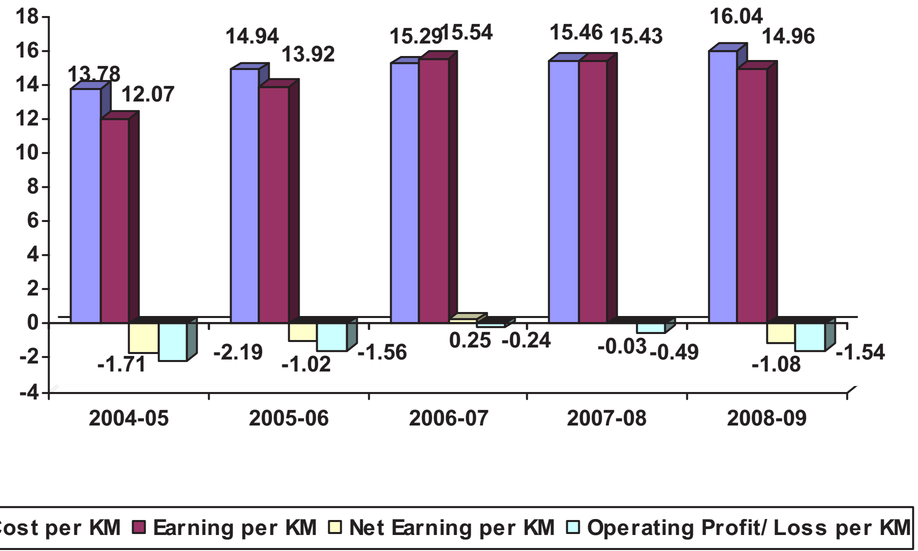
Recovery of Cost of Operation

5.2.21 As stated in para 5.2 above the Nigam was consistently unable to recover its cost of operations in all the years covered by the review. During the last five years ending 2008-09, the net operational revenue per km remained negative as shown in the graph[17] below:

[16] The population of Uttarakhand in 2001 was 84.80 lakh. The growth of population on All India basis has been taken as 2.5 percent per annum.

[17] Operational cost per KM represents total expenditure divided by effective KM operated. Operational revenue per KM is arrived at by dividing total revenue with effective KM operated. Net operational Revenue per KM is revenue per KM reduced by cost per KM.

Operational Performance



5.2.22 The above graph indicates that performance of the Nigam looked up in 2005-06 and 2006-07 largely on account of renewal of its fleet and fleet additions, the slide has resumed in the last two years. When compared to the All India Average for operating revenue per km of Rs.18.22 (2006-07) per km, the Nigam earned Rs. 15.54 per km for its best year of 2006-07. On the front of net earnings, the Nigam was behind the net earning of the best performers and in all the years the Nigam's net revenue was negative. The consistently adverse operational performance has undermined the capacity of the Nigam to renew and expand its fleet and operations as it is unable to generate or mobilize funds for the purpose.

> Orissa, Uttar Pradesh and Karnataka registered best net earnings per KM at Rs.0.49, Rs.0.47 and Rs.0.34 respectively during 2006-07.
> (Source: STU's profile and performance 2006-07 by CIRT, Pune)

5.2.23 There was no evidence of efforts being made by the Nigam to contain and eliminate its losses as both fixed and variable costs continued to rise. During the period, variable costs primarily consisting of cost of materials such as POL, tyres and tubes and spare parts, grew by 120 *per cent* over the period of review, which was much higher than the growth in effective kilometers run even after considering the normal price escalation during review period, the increase in cost was on higher side. In case remedial action is not initiated the financial viability of the Nigam would be in the risk of being undermined to an extent that it will put the Nigam's operations and very existence in peril.

Efficiency and Economy in operation

Fleet strength and utilization

Fleet Strength and its Age Profile

5.2.24 The Association of State Road Transport Undertaking (ASRTU) had prescribed (September 1997) the desirable age of a bus as eight years or five lakh kilometers, whichever was earlier. The Nigam has its own fleet of buses. It also hires buses from contractors. Audit findings in respect of hired buses are given in paragraphs 5.2.58 to 5.2.60. The Table below shows the age-profile of buses held by the Nigam for the period of five years ending 2008-09:

Sl. No.	Particulars[18]	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total number of buses at the beginning of the year	803	875	977	943	1003
2.	Addition during the year	300	300	175	95	111
3.	Buses scrapped during the year	228	198	209	35	19
4.	Buses held at the end of the year (1+2-3)	875	977	943	1003	1095
5.	Of (4), number of buses more than 8 years old	379	180	191	110	99
6.	Percentage of overage buses to total buses	43.31	18.42	20.25	10.97	9.04

5.2.25 Procurement of buses constitutes a large part of the capital expenditure of the Nigam. As buses become over-aged with usage and passage of time, they are required to be replaced continuously. Hence, the Nigam is required to incur capital expenditure on a regular basis so as to keep its fleet modern and at an appropriate level consistent with its expansion plans. Towards this end, the Nigam should have prepared a plan outlining its capital expenditure requirements for a reasonable period and the means of financing the procurement of buses. No such plan was however, prepared by the Nigam. As a result, procurement of buses was not taking place in a planned manner keeping in mind the objectives of timely fleet renewal and expansion and the special requirements of a hill state. During 2004-09, the Nigam procured 981 buses at the cost of Rs.109.49 Crore. The percentage of overage buses came down from 43.31 *per cent* in 2004-05 to 9.04 *per cent* in 2008-09.

5.2.26 The main reason for non-replacement of all the overage buses or undertake fleet expansion is inability of the Nigam to generate enough internal resources to fund the acquisitions. During 2004-09, the Nigam incurred a loss of Rs.37.05 crore. The Nigam also provided for depreciation of Rs.14.66 crore during the year. Had the Nigam replaced all its overaged buses during

[18]The number of buses would not match with the figure given in the table under paragraph 8.3 as that indicate average number of buses during the year (s) and included hired buses.

2008-09, it would have required Rs.11.88 crore to replace 99 buses (at the rate of Rs.12.00 lakh per ordinary bus) for which the company's internal generation of funds was completely inadequate.

5.2.27 The overage fleet requires high maintenance and results in extra cost and less availability of vehicles compared to underage fleet, other things being equal. This only goes to increase operational inefficiency and causes losses which, in turn, affect the ability of the Nigam to replace its fleet on a timely basis. However, the Nigam does not book the expenditure on maintenance on overage and underage buses separately.

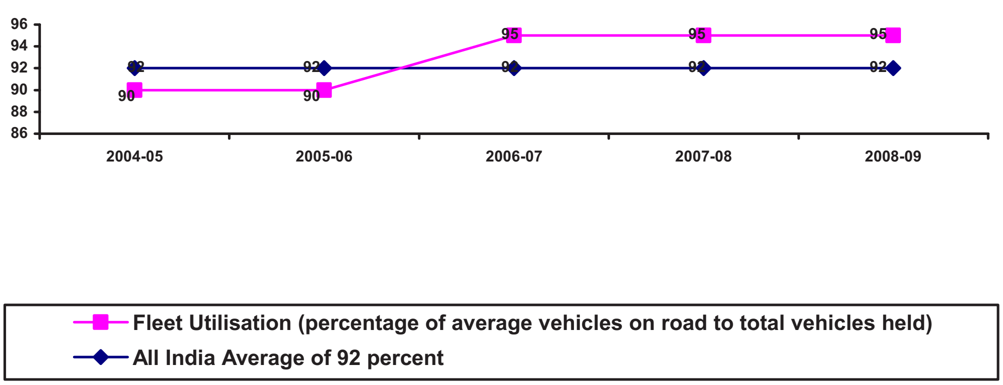
Fleet Utilization

5.2.28 Fleet utilization represents the ratio of total buses held by the Nigam to the buses on road. The Nigam had not set any target of fleet utilization. The fleet utilization of the Nigam varied from 90 *per cent* in 2004-05 to 95 *per cent* in 2008-09 as compared to the performance of APSRTC (best performer) of 99.40 *per cent* as indicated in the graph given below:

Andhara Pradesh, Tamil Nadu (Kumbakonam) and Tamil Nadu (Coimbatore) registered best fleet utilisation at 99.4, 98.4 and 98.3 *per cent* respectively during 2006-07.
(Source: STU's profile and performance 2006-07 by CIRT, Pune)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Average number of buses held including hired buses	1015	961	985	1069	1105
2.	Buses on road	914	865	936	1015	1050
3.	Fleet utilisation (*per cent*)	90.05	90.01	95.03	94.95	95.02

The line graph depicts fleet utilisation of the Nigam for five years ending 2008-09 *vis-à-vis* All India average.



5.2.29 The reasons for lower utilisation during 2004-05 and 2005-06, as compared to All India average of 92 *per cent,* were not analysed by the Nigam. It was also seen that the rate of utilization furnished by the Nigam was notional and was arrived at by assuming that 10 *per cent* buses remained off-road till 2005-06 and 5 *per cent* thereafter on account of maintenance, accidents, break-downs etc.

5.2.30 A test check of the records pertaining to fleet utilisation in two depots i.e. Hill depot and B depot in Dehradun for the year 2008-09 revealed that the average bus utilisation of Hill depot was 93.47 *per cent* and that of B depot was 90.85 *per cent*. Variations in utilization were also noticed within the year with utilisation in the Hill depot ranging from 90.36 *per cent* (May 2008) to 95.18 *per cent* (June 2008) and in the B depot it ranged from 87.80 *per cent* (August 2008) to 92.68 *per cent* (February 2009). Since these two depots would be the busiest in the Nigam, its claim of maintaining fleet utilization at 95 *per cent* appears to be weak.

5.2.31 The Nigam stated (July 2009) that the schedule for operation of buses is prepared at 90 *per cent* of the buses and 5 *per cent* each are left for maintenance and for operation due to accidents or break-downs.

Vehicle Productivity

5.2.32 Vehicle productivity refers to the average kilometers run by each bus per day in a year The Nigam has not fixed its internal target for vehicle productivity for control purposes. The vehicle productivity of the Nigam *vis-à-vis* the average fleet for the five years ending 2008-09 is shown in the table below:

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Vehicle productivity (KMs run per day per bus)	265	321	323	327	340
Overage fleet (percentage)	43.31	18.42	20.25	10.97	9.04

5.2.33 The vehicle productivity of the Nigam during the period 2004-05 to 2008-09 has increased from 265 kms. per day (2004-05) to 340 kms. per day (2008-09). This is a result of renewal of the bus fleet of the Nigam initiated since 2005-06 and phasing out of overage buses. However, despite induction of 981 new buses in the last four years the vehicle productivity achieved by the Nigam was far less than that of best performer i.e. 474 km. achieved by Tamil Nadu (Villupuram). The vehicle productivity could still be improved in case, the following factors were controlled:

> Tamil Nadu (Villupuram), Tamil Nadu (Salem) and Tamil Nadu (Kumbakonam) registered best vehicle productivity at 474, 469 and 463 KMs per day respectively during 2006-07. (Source: STU's profile and performance 2006-07 by CIRT, Pune)

- Deficient route planning (Para 5.2.41)
- Cancellation of scheduled KMs. (Para 5.2.45)
- Want of crew (Para 5.2.45)
- Excess time taken for servicing/ overhauling and repairs (Para 5.2.51)

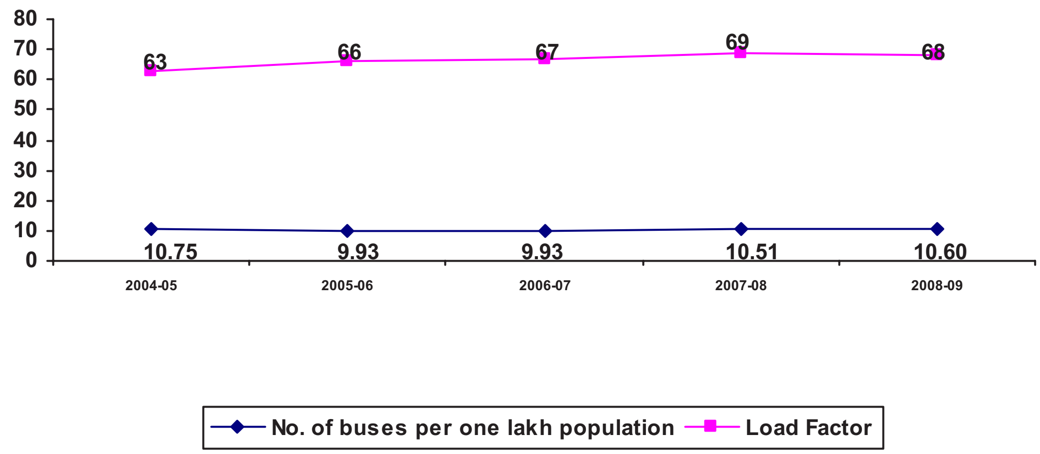
5.2.34 The Nigam stated (Oct 2009) that it had received 957 old buses in bad condition and since 2004-05 the Nigam started adding new buses in its fleet which resulted in improvement of vehicle productivity.

Capacity utilisation

Load Factor

5.2.35 Capacity utilisation of a transport undertaking is measured in terms of Load Factor, which represents the percentage of passengers carried to seating capacity. Schedules and routes to be operated should normally be decided after a proper study of routes. Routes and schedules should be periodically reviewed so that the overall load factor can be enhanced.

5.2.36 The load factor and number of buses per one lakh population of the Nigam is given below in the line graph:



5.2.37 The load factor of the Nigam increased from 63 *per cent* (2004-05) to 68 *per cent* in 2008-09. While the load factor achieved by the Nigam since 2005-06 has been higher than the All India average of 63 *per cent*, it was much lower than the load factor of the best performer. This showed that the Nigam was operating routes and schedules where demand was not very high causing seats to go empty on buses operating on such routes. There was no evidence of any study or review conducted by the Nigam of load factor on various routes/schedules with a view to optimize operations.

> State Express Transport Corporation (Tamil Nadu), Tamil Nadu (Coimbatore) and Tamil Nadu (Villupuram) registered best load factor at 85.69, 79.57 and 79.06 *per cent* respectively during 2006-07. (Source: STU's profile and performance 2006-07 by CIRT, Pune)

5.2.38 The Table below provides the details for break-even load factor (BELF) for traffic revenue as well as total revenue. Audit worked out this BELF at the given level of vehicle productivity and total cost per KM.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Cost per KM. (Rs.)	13.78	14.94	15.29	15.46	16.04
2.	Traffic Revenue per KM on 100 *per cent* load factor	16.40	18.77	21.46	20.68	20.15
3.	Break-even Load Factor considering only traffic revenue (1/2)	84.02	79.59	71.25	74.76	79.60

5.2.39 From the above table it is evident that break-even load factor considering only traffic revenue had a decreasing trend during review period. Scrutiny of the monthly route-wise Daily Vehicle Report (DVR) for the year 2007-08 and 2008-09 revealed that:

- the Nigam operated buses at a very low average load factor ranging from 24.5 *per cent* to 61.38 *per cent* on 31 routes.
- the services on some routes were provided for a short period and discontinued due to continuous loss. The load factors on these routes were very low.

Route planning

5.2.40 Appropriate route planning to tap demand leads to higher load factor. No systematic route planning has been made by the Nigam. There are 887 routes (2008-09) including 13 interstate routes in the State, of these 52 routes are nationalized. The Nigam operates its fleet on 12492 route kilometers irrespective of the fact whether the route is nationalized or private. The State Government has not earmarked any route exclusively for the Nigam. It is observed in audit that the State Government has not nationalized any additional route since formation of Uttarakhand (November 2000). The routes nationalised by the State Government of Uttar Pradesh remained applicable in Uttarakhand. Services on all routes were provided without any scientific route planning and without any previous survey of the routes. On some routes services were provided without assessing the actual demand and the service was terminated after a short period due to poor load factor.

5.2.41 Some routes are profitable while others are not. The position in this regard is given in the Table below:

Sl. No.	Particulars	Total No. of Routes	No of routes making profit	No of routes not meeting total cost
1.	2004-05	259 (100)	73 (28)	186 (72)
2.	2005-06	274 (100)	74 (27)	200 (73)
3.	2006-07	274 (100)	75 (27)	199 (73)
4.	2007-08	303 (100)	82 (27)	221 (72)
5.	2008-09	305 (100)	83 (27)	222 (73)

5.2.42 The Nigam provides transport services only on 34.39 *per cent* of the total routes. The remaining routes are serviced by private operators. In view of its very low share of the routes operated in the state, it is essential that the

Nigam take steps to expand its services to more routes after due care so that people of the state in all regions get access to economical and safe public transport services since percentage share of routes not meeting total cost remained stagnant at 72-73 despite increase of routes during review period by 17.76 *per cent* highlighting that new routes were not undertaken for operation after due cost benefit analysis.

5.2.43 Though some of the routes are non-profitable, being a Government public utility the Nigam is under obligation to provide services even on uneconomical routes. However, to maintain operational and financial viability it is essential that the Nigam formulate and implement a plan for providing an optimum quantum of services on different routes so that revenues are optimized even while it meets its obligations as a public utility. No such exercise was, however, carried out by the Nigam leading to sub-optimal operations.

5.2.44 The Nigam stated (August 2009) that while its fleet is limited, many of the private operators have been operating bus services from the period earlier than the formation of the Nigam. Besides, smaller passenger utility vehicles like Mahindra Jeep, maxi cabs, Tata Sumos, Commanders etc. also operate in large numbers on hill routes due to their better maneuverability. The reply is not justifiable as the Nigam being a state-owned utility should increase its operations to routes which are being profitably operated by private operators.

Cancellation of Scheduled Kilometers

5.2.45 A review of the operations indicated that the scheduled kilometers were not fully operated by the Nigam mainly due to non-availability of adequate number of buses, shortage of crew and other factors like accidents, breakdowns, strikes, road blockages etc. The details of scheduled kilometers, effective kilometers, cancelled kilometers, avoidable cancellation etc are given below:

(Lakh kms)

Sl.No	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1	Scheduled Kilometers	1113.73	1150.07	1240.04	1302.64	1374.84
2	Effective Kms	882.81	1013.52	1103.92	1212.22	1304.73
3	Kilometers cancelled	230.92	136.55	136.12	90.42	70.11
4	Percentage of Cancellation	20.73	11.87	10.98	6.94	5.10
Cause-wise analysis						
5	Want of buses	92.81	57.42	55.44	22.52	24.99
6	Want of crew	78.65	40.99	35.63	18.92	14.92
7	Others	59.46	38.14	45.05	48.98	30.20
8	Contributions per Km (in Rs.)	4.87	5.56	7.36	7.18	5.56
9	Avoidable cancellation (want of buses and crew)	171.46	98.41	91.07	41.44	39.91
10	Loss of contribution (8x9) (Rs.in crore)	8.35	5.47	6.70	2.98	2.22

[19] Contribution =Traffic Revenue per km-variable cost per km (Sr. No. 18-14 of Table Paragraph No. 5.2.12)

Cancellation of scheduled kilometers for want of buses and crew led to loss of contribution of Rs. 25.72 crore during 2004-09.

5.2.46 It is observed that percentage of cancellation of scheduled kilometers reduced from 20.73 (2004-05) to 5.10 (2008-09). However, the percentage was still very high compared to the best performers. Due to cancellation of scheduled kilometers for want of buses and crew, the Nigam was deprived of contribution of Rs.25.72 crore.

> Tamil Nadu (Salem), state Express Transport Corporation (Tamil Nadu) and Tamil Nadu (Villupuram) registered least cancellation of Scheduled KMs. at 0.45, 0.67 and 0.78 *per cent* respectively during 2006-07.
> (Source: STU's profile and performance 2006-07 by CIRT, Pune)

Maintenance of vehicles

Preventive Maintenance

5.2.47 Preventive maintenance is essential to keep the buses in good running condition and to reduce breakdowns/ other mechanical failures. The Nigam had Tata and Leyland make buses and a schedule of maintenance had been prescribed by the Original Equipment Manufacturers (OEMs), which is given in the Table below:

(in Kms.)

Sl. No.	Particulars	Prescribed Schedule	
		Ashok Leyland	Tata
1.	Engine oil change	32000	18000
2.	Brake Inspection	24000	18000
3.	Wheels hub	32000	36000
4.	Fuel injection pump	32000	18000
5.	Coolant	72000	72000
6.	Wheel alignment	9000	9000
7.	Gear oil change	32000	36000

5.2.48 The Nigam stated (August 2009) that it was following the norms prescribed by the OEMs for maintenance. It was seen in audit that the Nigam also had another set of norms which included: various processes of maintenance like checking of engine oil, coolant, brake system etc. These maintenance activities were required to be undertaken at 4000, 8000, 16000 and 32000 kms. stages. It was also seen that each bus also underwent checks each time it was garaged in the depot at the end of the day/ trip.

Repair and Maintenance

5.2.49 The summarized position of the Nigam's fleet holding, over-aged buses and repairs and maintenance (R & M) expenditure for the last five years upto 2008-09 is given below:

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Number of own buses[20] at the end of year	875	977	943	1003	1095
2.	Over-aged buses (more than 8 years)	379	180	191	110	99
3.	Percentage of over-aged Buses	3.31	18.42	20.25	10.97	09.04
4.	R & M expenses (Rs.in crore)	8.17	8.99	10.21	13.46	16.42
5.	R & M expenses per bus (4/1) (Rs.in lakh)	0.94	0.92	1.08	1.34	1.50

[20] Exluding hired buses.

5.2.50 It would be seen from the above table that expenditure on repair and maintenance of its buses increased sharply year after year from Rs.8.17 crore (2004-05) to Rs.16.42 crore (2008-09) during review period though its holding of overaged buses reduced from 30 *per cent* to 6 *per cent* during the same period.

Delay in overhauling of engines

5.2.51 Workshops are the backbone of Transport Corporations. Efficiency in operation depends to a large extent on the efficient working of the workshops. The Nigam has three Regional Workshops located at Dehradun, Kathgodam and Tanakpur for overhauling of engines and repair of heavily damaged buses. The Nigam has fixed a norm of six days for overhauling of engines at the Regional Workshops. A test check of records of the Regions revealed that the Nigam lost a contribution of Rs.7.40 crore during the period of review due to excess time taken beyond norms on overhauling of engines as detailed below:

Delay in overhauling of engines led to loss of contribution of Rs.7.40 crore during 2004-09.

Year (1)	Number of engines repaired (2)	Excess docking (Days) (3)	Loss in terms of vehicle productivity (4)	Contribution per kilometer (In Rs.) (5)	Loss of contribution (Rs.In crore) (3x4x5) (6)
2004-05	441	9141	265	4.87	1.18
2005-06	238	8499	321	5.56	1.52
2006-07	184	8009	323	7.36	1.90
2007-08	121	7066	327	7.18	1.66
2008-09	145	6061	340	5.56	1.14
Total	1129	38776	--	--	7.40

Manpower cost

5.2.52 The cost structure of the organization shows that manpower and fuel constitute 73.68 *per cent* of total cost. Interest, depreciation and taxes- the costs which are not controllable in the short-term account for 7.79 *per cent*. Thus, the major cost saving can come only from manpower and fuel.

5.2.53 Manpower is an important element of cost which constituted 31.24 *per cent* of total expenditure of the Nigam during 2008-09. Therefore, it is imperative that this cost is kept under control so as keep operations viable and that manpower is utilised optimally to achieve high productivity. The sanctioned strength of manpower was 6,397 including all cadres. The manpower in position as on 31 March 2009 was 4,793 employees thereby having a shortage of 1604 employees. This shortage was mainly in the category of operational staff/ officers who constitute the core staff of the Nigam. The shortage of drivers and conductors has been met by engaging them on contract or through service providers (drivers 1007 and conductors 915). Thus, the Nigam had employed 500 employees on contract in excess to sanctioned strength.

Gujrat, Tamilnadu (Villupuram) and Tamilnadu (Salem) registered best performance at Rs.6.10, Rs.6.13 and Rs.6.21 cost per effective KM respectively during 2006-07.
(Source: STU's profile and performance 2006-07 by CIRT, Pune)

5.2.54 The Table below provides the details of manpower, its cost and productivity:

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Manpower including crew on contract (Number)	5568	6591	6841	7108	6897
2.	Manpower Cost (Rs.in crore)	47.52	50.47	55.52	61.78	65.39
3.	Effective Kilometer (in lakh) including hired buses	882.81	1013.52	1103.92	1212.22	1304.73
4.	Cost per effective Km.(Rs.)	5.38	4.98	5.03	5.10	5.01
5.	Productivity per day per person (kms.)	43.43	42.13	44.21	46.72	51.83
6.	Total no. of buses (Average) including hired	1015	961	985	1069	1105
7.	Manpower per bus	5.49	6.86	6.95	6.65	6.24

5.2.55 The manpwer cost per effective KM. during all the years was better than the All India Average of Rs.7.50 per effective KM. (2006-07) but was much higher than the best performers. Likewise, while the staff per bus of the Nigam was better than the All India Average of 6.5 staff per bus during 2004-05 and 2008-09, while it was higher during the remaining years. However, it remained higher than the staff-bus ratio of 4.89 of the best performer. Audit analysis revealed that number of crew per bus increased from 3.28 in 2004-05 to 4.38 in 2006-07 but subsequently decreased to 4.03 in 2008-09. Similarly, other staff per bus also increased from 1.36 in 2004-05 to 2.76 in 2005-06 which again decreased to 2.18 in 2008-09.

North West Karnataka State Road Transport, Karnataka State Road Transport and Himachal Pradesh registered best performance at 4.89, 4.99 and 4.94 manpower per bus.
(Source: STU's profile and performance 2006-07 by CIRT, Pune)

Fuel Cost

5.2.56 Fuel is major element of cost which constituted 35.90 *per cent* of total expenditure in 2008-09. Control of fuel costs by a road transport undertaking has a direct bearing on its productivity. The table below gives the targets fixed by the Nigam for fuel consumption, actual consumption, mileage obtained per litre (kilometer per litre i.e. KMPL), All India average and estimated extra expenditure:

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Gross kilometers (in lakh) (Nigam only)	853.24	947.63	1059.04	1174.12	1187.64
2.	Actual consumption (in lakh liters)	183.89	202.47	226.73	253.08	254.09
3.	Kilometer obtained per liter (KMPL)	4.64	4.68	4.67	4.64	4.67
4.	Targets of KMPL fixed by the Nigam	5.0	5.0	5.0	5.0	5.0

5.	Consumption as per Nigam's norm (in lakh liters)	170.65	189.53	211.81	234.82	237.53
6.	Excess consumption (in lakh liters)	13.24	12.94	14.92	18.26	16.56
7.	Average cost per liter (in Rs.)	21.89	29.80	33.88	31.50	34.17
8.	Extra expenditure (Rs. in crore) (6 x 7)	2.90	3.86	5.05	5.75	5.66

Consumption of fuel in excess of its norm led to extra expenditure of Rs.23.22 crore during 2004-09.

5.2.57 The above table indicates that the Nigam consumed 75.93 lakh liters of fuel in excess during 2004-05 to 2008-09 as compared to its own norm of 5 KMPL resulting in extra expenditure of Rs.23.22 crore.

North East Karnataka State Road Transport, Uttara Pradesh and Andhra Pradesh registered mileage of 5.45, 5.33 and 5.26 KMPL.
(Source: STU's profile and performance 2006-07 by CIRT, Pune)

Cost effectiveness of hired buses

5.2.58 The Nigam hires private buses on kilometer payment basis. Agreements with the private bus owners were entered into for a period of three years under the kilometer scheme. The owners of these buses are required to provide buses with drivers and incur all expenditure for running of the buses. The Nigam provides conductors and make payments as per the actual kilometers operated by the hired buses. During the period of review, the Nigam earned a net profit of Rs.10.57 crore from hired buses. While the net revenue per km. of the Nigam's fleet remained negative in all the years during the period of review, it was as high as Rs.8.39 per km for hired buses during 2004-05, which declined down to Rs.0.31 per km but increased to Rs.3.53 per km in 2007-08. Thus, despite being a profitable activity, operation of hired buses was reduced from 91 (2004-05) to 51 (2006-07) and again increased to 79 in 2007-08 and 63 in 2008-09. The main reasons for decrease in hired buses were as below:

- Unauthorised charging of service tax from the private bus owners;
- the shortage of conductors ;
- irregular payment to the bus owners and
- increase in hire charges not commensurate with the hike in fuel prices.

5.2.59 It was also observed in audit that liabilities arising on account of the operation of hired buses had not been properly managed. It was seen from the records of the Divisional Manager, Dehradun that the Nigam had paid compensation for victims of accidents caused by hired buses on the orders of courts. However, the amounts paid had not been recovered from the bills of the hired bus owners. It was also observed that the Nigam's interest in such matters had not been appropriately protected by the agreements entered with the private bus owners. The Nigam thus failed to recover the compensation paid amounting to Rs.44.95 lakh from the private owners and had even returned the security deposits to some bus owners on the expiry of the agreement.

5.2.60 The Nigam stated (June 2009) that payments due to the concerned private bus owners had been withheld. The reply is not based on facts as there is nothing on record to show that any amounts due to the private bus owners whose agreements have already expired, were withheld.

Body Building

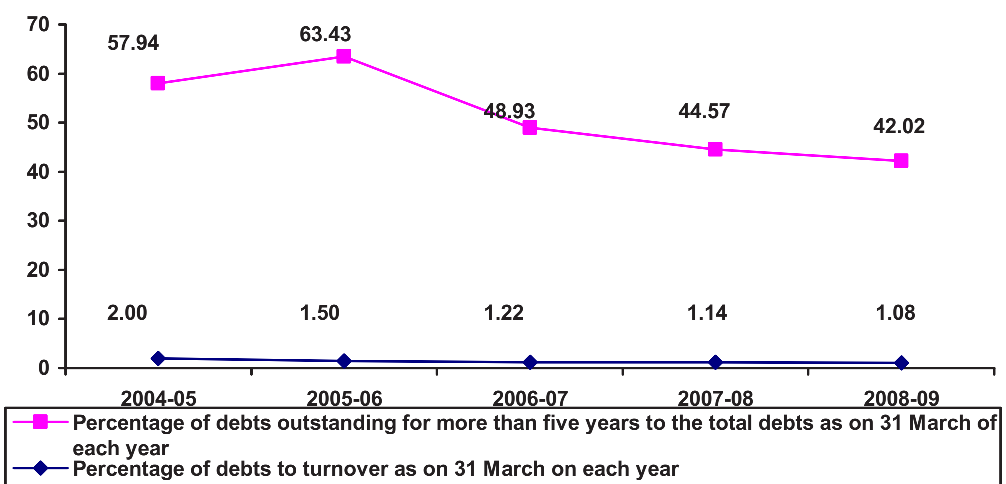
5.2.61 The fabrication of bus bodies was got done by the Nigam from UPSRTC, Himachal Road Transport Corporation and HMM Coach, Ambala upto 2004-05. Thereafter, the work of fabrication was awarded on the basis of open tenders. Orders for seats are given to separate vendors. During 2004-09, the Nigam got 980 bus bodies of different makes and wheel bases fabricated from different firms at a total cost of Rs.41.09 crore.

Financial Management

Claims and Dues

5.2.62 The Nigam did not give its buses on hire to schools or any other party during review period. The Nigam also does not provide free or concessional passes to students and senior citizens and as such no claims on this account has been raised against the State Government. However, the Nigam had outstanding debts of Rs.4.86 crore on 31 March 2009 recoverable from Central/ State Government departments on account of public administration, Railway etc and a few private parties on account of services hired by political parties. Before the formation of the Nigam, buses were given on hire for which an amount of Rs.2.05 crore was due for over 5 years from various Government departments and a private party.

5.2.63 An analysis in Audit of the debts outstanding as a percentage of turnover and the percentage of outstanding debts for more than five years to the total debts for the five years ending March 2009, is depicted in the graph below:



5.2.64 As already mentioned, UPSRTC was bifurcated and Uttarakhand Parivahan Nigam was established under the Road Transport Act, 1950 vide Government of India notification dated 31 October 2003. The assets and liabilities were to be divided as per the Government of India notification. The dues relating to the employees like pension, GPF, welfare etc. were to be divided in the ratio of 95:5 as per the orders of the Government of Uttar Pradesh dated 12 November 2003. Accordingly, the employees dues for the period October 2003 to March 2008 and tax etc were to be realized from UPSRTC to the extant of Rs.55.40 crore at the end of 2008-09. However, efforts were not made by the Nigam to recover these huge debts despite a period of more than five years elapsed.

5.2.65 Further, the assets pertaining to UPSRTC which were outside Uttarakhand and were treated as common assets like (i) Workshop at Kanpur (two) (ii) Training Centre at Lucknow (iii) UPSRTC Hqrs. and Car Section in Lucknow and (iv) Guest House in Delhi were required to be valued at present market rate and distributed between UPSRTC and the Nigam The value of these assets itself has not been ascertained so far (March 2009).

The Nigam stated (July 2009) that the action for settlement of the matter is being taken by both the States and the Central Government.

Payment of passenger tax

5.2.66 As per Government of Uttarakhand Gazette Notification (October 2003), the Nigam was collecting passenger tax from passengers traveling by the Nigam's buses along with other traffic revenue. A test check of the records of the Nigam revealed that it did not pay the passenger tax amounting to Rs.52.68 crore as on March 2009 to the State Government since its creation. It was also observed that in addition Rs 63.43 crore pertaining to the period before creation of Nigam was also pending for payment up to March, 2009.

5.2.67 The Nigam stated (October 2007) that State Government has been requested to convert the liability of tax into grant. It was also stated that the amount so collected had been spent in purchasing new buses and in paying the arrears of salary of the employees. Utilisation of passenger tax for other purposes, without the approval of the State Government, was irregular.

Realignment of business model

5.2.68 The Nigam is mandated to provide efficient, adequate and economical road transport to the public. Therefore, the Nigam cannot take an absolutely commercial view in running its operations. It also has to cater to uneconomical routes to fulfill its mandate and keep its fares affordable. In such a situation, it is imperative for the Nigam to tap non- traffic revenue sources to cross subsidies its operations. However, the quantum of non-traffic revenues at Rs.29.45 crore earned during 2004-05 to 2008-09 was meager. This revenue mainly came from advertisements, sale of scrap and restaurants/ shop rentals etc. Audit however, observed that the Nigam has not fully tapped the all the potential for raising non-traffic revenues. For example, the Nigam has land at important locations measuring 5.89 hectares valued at Rs.33.66 crore as detailed below:

Particulars	Cities (Municipal area)	District Headquarters	Tehsil Headquarters	Total
Number of sites	2	1	9	12
Occupied land (in hectares)	2.65	1.39	1.85	5.89
Present market value (Rs.in crore)	32.58	0.20	0.87	33.66

5.2.69 The Nigam's efforts to commercially utilize a piece of land owned by it at old bus station in Dehradun have been mired with problems. The land had become available due to the operation of the ISBT at another location. A decision was taken (October 2004) for commercial utilisation of the land. The Nigam had executed (July 2008) an agreement for 30 years with a contractor for building a commercial complex on this land in the Public Private Partnership (PPP) mode. The contractor paid Rs.2.16 crore in July 2008 as first concessional payment (Rs.1.08 crore) and performance guarantee (Rs.1.08 crore) to the Nigam. However, in the Master Plan declared (November 2008) by the State Government the said land was demarcated for "Local Bus Stand and Thela Parking". The Nigam thereafter, approached the State Government for change of use of the land but a decision is still pending. Meanwhile, construction work on the land has been stopped since the declaration of the Master Plan. The above shows lack of coordination with other departments and weak planning.

Fare policy and fulfillment of social obligations

Existence and fairness of fare policy

5.2.70 The Nigam adopted (2003) the fare structure prevalent in UPSRTC. The Government of Uttarakhand empowered (May 2005) the Nigam to increase fares upto 10 *per cent* in a year on account of increase in diesel prices and dearness allowances (DA) on employees' salary. A test check has revealed that the Nigam has not increased the fares with reference to increase in diesel prices and DA rates as allowed by the State Government. However, the Nigam increased its fare five times disproportionately with increase of diesel prices and D. A. rates as detailed below:

Date	Fare per KM. (in paisa)
From 05 March 2003	41.68
From 10 June 2005	43.92
From 30 June 2005	45.00
From 09 September 2005	46.00
From 09 March 2006	49.00
From 22 April 2008	54.00

5.2.71 The Nigam stated (July 2009) that the revision of rates of fare needs approval of the State Government. The reply is not convincing because as per orders of the State Government the Nigam could increase the fare upto 10 *per cent*. It was noted that there is no independent regulatory body or mechanism for fixing fares after taking into account costs and scope for effecting reductions in the same.

5.2.72 The fare structure of UPSRTC adopted by the Nigam has no scientific basis as it does not take into account the normative cost. Thus, there is a risk of commuters paying for inefficiency of the Nigam since excess cost was being incurred on manpower and fuel as discussed in the earlier paragraphs.

5.2.73 The above facts lead to conclude that it is necessary to regulate the fares on the basis of a normative cost and it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address the grievances of commuters.

Adequacy of services on uneconomical routes

5.2.74 The Nigam had about 27 *per cent* profit making routes as of March 2009 as shown in Table under paragraph 5.2.41. However, the position would change if the Nigam improves its efficiency. Though the Nigam is required to provide service on some routes even if they are uneconomical but the Nigam has not formulated any norms for providing services on these routes. In the absence of norms, the adequacy of services on uneconomical routes could not be ascertained during audit. The setting up of an independent mechanism for specifying quantum of services on uneconomical routes, taking into account the specific needs of commuters, is essential. A large number of routes in the hilly areas are not covered by the Nigam and the commuters totally depend upon private operators whose services are not always available and reliable.

5.2.75 Due to operation on uneconomic routes, the Nigam is suffering huge losses every year and claimed Rs.20.70 crore per year from the Government of Uttarakhand as compensation for losses incurred due to operating in hill routes only. However, there are 14 other routes in the plain area which also suffer huge loss having very low load factor. Thus, the claim of the Nigam that only hill area routes were uneconomical, is not based on facts.

5.2.76 The Nigam stated (July 2009) that bus services are often provided on different routes on the demand of public representatives and on Government orders. The reply of the Nigam underscores the fact that route planning by the Nigam is not based on objective traffic assessments and in terms of a conscious and carefully laid down policy of providing services on uneconomical routes.

Monitoring by top management

MIS data and monitoring of service parameters

5.2.77 For an organisation like a Road Transport Corporation to operate economically, efficiently and effectively, there has to be written norms of operation, service standards and targets. Further, there has to be a Management Information System (MIS) to report on achievement of targets, and norms. The achievements need to be reviewed to address deficiencies and also to set targets for subsequent years. The targets should generally be such that the achievement of which would make an organisation self-reliant. In the light of this, Audit reviewed the system prevailing in the Nigam and noticed that the Management set the targets for important parameters except fleet utilisation and load factor. The top Management never gave any direction/ instruction on various short comings with a view to further improve the operations.

5.2.78 The top management of the Nigam is expected to demonstrate managerial capability to set realistic and progressive targets, address areas of weakness and take remedial action wherever the things are not moving on expected lines. However, such ability was not seen either from records or performance of the Nigam during period under review.

Acknowledgement

Audit acknowledges the cooperation and assistance extended by different levels of the Management at various stages of conducting the performance audit.

Conclusion

Operational Performance

- The Nigam could not keep pace with the growing demand for public transport as its share declined from 20.07 to 17.58 *per cent* in 2008-09.
- The Nigam could not recover the cost of operations in any of the five years under review. The Nigam has suffered operational loss of Rs.63.87 crore during the five years. This was mainly due to operational inefficiencies and inadequate/ ineffective monitoring by top management.

Financial management

- **The Corporation did not follow up recovery of its dues to logical end.**
- **The Corporation has tremendous potential to tap non-conventional sources of revenue but it did not have a policy in place to undertake large scale tapping of such funds.**

Fare policy and fulfillment of social obligations

- The Nigam has not framed any fare policy.
- There is no regulatory body to fix the fares, specifying the operation on uneconomical routes.

Monitoring by top management

- There is no MIS system in the Nigam and the monitoring by top management of key operational parameters and service standards was largely ineffective.

On the whole, there was immense scope to improve the performance of the Nigam. However, the present set-up of the Corporation does not seem to be equipped to handle this. Effective monitoring of key parameters, coupled with certain policy measures, can see improvement in performance.

Recommendations

The Nigam may:

- increase its percentage share in passenger transport.
- hire more number of buses, being a profitable activity.
- rationalise manpower to achieve economy in operations.
- consider devising a policy for tapping non-conventional sources of revenue on a large scale, which will result in steady inflow of revenue without additional investment.

The State Government should :

- consider creating a regulator to regulate fares and also services on uneconomical routes.

Transaction Audit Observations

POWER TRANSMISSION CORPORATION OF UTTARAKHAND LIMITED

5.3 Blockage of funds

Failure of the company in exercising due diligence in land acquisition has resulted in blocking up of Rs.3.67 crore and consequential loss of Rs.72.36 lakh on account of interest.

In order to provide reliable, uninterrupted and quality power at affordable cost and to reduce load of existing sub-stations, a Detailed Project Report (DPR) was prepared (January 2003) by the Company for construction of a 220 KV sub-station at Dehradun. It was anticipated that the cost (Rs.29.05 crore) of sub-station would be recovered within two years on account of benefits from reduction in energy losses and by way of additional sale of energy. The scheme was to be financed through loan of Rs.176.46 crore from National Bank of Agricultural and Rural Development (NABARD) at 6.5 *percent* interest and Rs.49.47 crore from the State Government as equity, which was provided in January 2004. The construction of sub-station in Dehradun Circle was part of that scheme.

With a view to implement the work of construction of the sub-station at Dehradun, the Company selected (March 2005) land measuring 22.128 hectare (ha) of which 15.949 ha belonged to the State Government and 6.179 ha belonged to private parties. An application for acquisition of private land was filed in (March 2005) with the Special Land Acquisition Officer (SLAO), Dehradun. SLAO asked (July 2005) the Company to deposit 10 *per cent* of cost of land (Rs.408.22 lakh) i.e. Rs.40.82 lakh to enable initiation of land acquisition. The Company deposited the amount (August 2005) and a Gazette Notification for acquisition of the land was published in newspapers on 4 December 2005.

On publishing of the Gazette Notification in newspapers, a Co-operative Society (Dron Vihar Avas Vikas Sahkarita, Dehradun) filed (December 2005) an objection against the acquisition of land with the State Government in terms of orders issued (October 1986) by Government of Uttar Pradesh (GoUP) prohibiting acquisition of land which was held by Co-operative Societies for residential purposes. The SLAO further demanded (January 2006) 80 *per cent* cost amounting to Rs.3.27 crore and the same was deposited (February 2006) by the Company but the land in question could not be acquired (February 2009).

Audit Scrutiny revealed (February 2009) that while undertaking acquisition of the land for construction of sub-station, it did not keep in view the following:

- The order of the GoUP (October 1986) prohibiting acquisition of land which was held by Cooperative Societies for residential purposes;
- A Co-operative Society had already published its intention in newspapers on 3 June 2005 to purchase the same land; and
- The Dron Vihar Avas Vikas Sahkarita, Dehradun had already filed (December 2005) their objection with the State Government well before 80 *per cent* cost of the land was deposited by the company stating that the land belonged to the Cooperative Housing Society and was held for the residential purposes.

The obstacles of land acquisition for the sub-station were discussed (January 2007) in a meeting chaired by the Additional Chief Secretary. It was decided that alternate land would be identified for a sub-station of a higher capacity and the deposit already made with the SLAO would be used for the purpose. The work relating to construction of sub-station was, however, finally dropped from the scheme (July 2007) even after an expenditure of Rs.3.67 crore towards cost of land acquisition.

The Management stated (June 2009) that the verification and other formalities relating to acquisition were required to be done by the District Authorities and the amount was deposited as per demand raised by the SLAO under the provisions of Land Acquisitions Act, 1894. The demand for refund of the amount had not been made in view of decision of the January 2007 meeting that this amount would be utilized for purchase of alternate land for construction of a sub-station.

The reply is not convincing as the site had been identified by the Company and since the plan of constructing a sub-station was finally dropped (July 2007), there was no question of utilizing the amount deposited for acquisition of alternate land. Further, 80 *per cent* of the cost of the land had been deposited after the Society had filed its objection with the State Government. The Company has also not initiated any action for a refund of the cost of land, deposited with the SLAO since February 2006. The Company should have verified status of land before requesting the SLAO for acquisition of the said land.

Thus, due to failure in exercising due diligence an amount of Rs.3.67 crore remained blocked resulting in a loss on account of interest of Rs.72.36 lakh. The Company was also deprived of financial benefits to the tune of Rs.14.50 crore per year envisaged in the DPR. Besides, due to non-implementation of the work, envisaged benefit of reliable and uninterrupted quality power could not be achieved.

The matter was reported to the Government (August 2009), reply had not been received (November 2009).

STATE INFRASTRUCTURE AND INDUSTRIAL DEVELOPMENT CORPORATION OF UTTARAKHAND LIMITED

5.4 Avoidable payment of interest on Income Tax

Incorrect assessment of estimated profit for payment of Income tax resulted in avoidable payment of interest of Rs.89.90 lakh.

Under section 208 read with section 210 of the Income Tax Act, 1961 (Act), it was obligatory to pay Advance Income Tax (AIT) during the financial year in every case where amount of tax payable exceeded Rs.5,000. AIT on the current income (as calculated under section 209 of the Act) was payable in four installments between June and March for each financial year (Section 211 of the Act). If the amount of AIT falls short by more than 10 *per cent*, the assessee is liable to pay simple interest for default in payment of balance tax at the rate of one *per cent* per month under section 234 B of the Act. Further interest at the rate of one *per cent* for deferment of AIT under section 234 C of the Act is also payable if total AIT fell short of total tax liability. Simple interest at 12 *per cent* per annum on amount of TDS not collected or paid short from the date on which such tax was deductable to the date on which it is actually paid will be charged under Section 201 (1A) of the Act.

In case assessee has paid advance tax in excess of actual income tax then as per provision of section 214 of Income Tax Act, 1961, Income Tax Department will pay simple Interest @ 15 *per cent* per annum on such excess amount.

The company did not deposit the AIT due on 15 June 2006, 15 September 2006 and 15 December 2006 for the assessment year 2007-08, but deposited an amount of Rupees two crore on 14 March 2007. In addition an amount of Rs.4.71 crore deducted at source was also paid. The total payment of Rs.6.71 crore, however, fell short by Rs.8.22 crore of total Income Tax of Rs.14.93 crore payable by the Company on its profit of Rs.44.36 crore for the year 2006-2007, which was more than 10 *per cent.* The Company paid interest of Rs.40.28 lakh and Rs.49.62 lakh under section 234-B and 234-C of the Act respectively alongwith balance Income Tax of Rs.8.22 crore (Rs.5.10 crore in June 2007 and Rs.4.02 crore in November 2007) despite having sufficient Bank balances in its current account with Bank earning no interest.

Audit observed that the company failed to consider the interest income on realistic basis to arrive at the tax payable. Had the Company deposited AIT based on income on realistic basis after taking into account all contributing factors and available data, the installments of AIT would have been paid in time and payment of interest to Income Tax department could have been avoided.

The Management stated (December 2008) that the tax amount was calculated on the estimated interest income of Rs.15.11 crore but the interest income was

Rs.32.98 crore and due to non consideration of income from sale of land being share from Eldeco Sidcul. This resulted in short deposit of Advance Tax, which was deposited in June 2007 and November 2007 alongwith interest of Rs.89.90 lakh.

The reply is not convincing as the interest income from Bank should have been calculated accurately and revenue share of income on sale of land should have been estimated on realistic basis. It is also recommended that the AIT should be estimated on slightly higher side as Income Tax Department return the overpayment of Tax alongwith interest at the same rate as Nationalised Banks.

Thus, the failure of the management in estimating its income with reasonable accuracy resulted in avoidable payment in the form of interest of Rs.89.90 lakh paid to Income Tax Department.

The matter was reported to Government (April 2009), the reply is awaited (November 2009).

5.5 Loss due to restoration of a plot

Loss of Rs.54.95 lakh due to irregular and unjustified restoration of industrial plot.

As per condition for allotment of plots and grant of lease in Integrated Industrial Estate in BHEL, Haridwar and Pantnagar, the allottee shall take possession of the allotted land within sixty days from the date of allotment or from the date of execution of license agreement whichever is earlier. The allottee will have to complete construction of the factory building, install plant and machinery and start commercial production therein, within the specified time period subject to a maximum period of two years, failing which the allotment of plot is liable to be cancelled with forfeiture of deposit. Besides, as per the extant policy of restoration of cancelled plots, a plot can not be restored once cancellation has happened.

Scrutiny (September 2008) of the records of the company revealed that a plot having area of 4,995 sqm was allotted (May 2004) to Smt Kavita Aggarwal (allottee) at the rate of Rs.560 per sqm for setting up an industrial unit to manufacture packing material. The allottee did not comply with the terms and conditions of the allotment and hence her allotment was cancelled (November 2005) by the Company. The allottee again requested for restoration of plot and plot was restored only up to 26 January 2006 violating the policy of restoration.

The allotment was again cancelled (July 2006) as the allottee once again did not comply with the terms and conditions of the allotment. The allottee filed a writ petition (July 2006) in the Hon'ble High Court of Uttarakhand at Nainital, against the cancellation order. The Hon'ble Court dismissed (July 2006) the petition as the Court did not find any ground for grant of the interim relief sought by the petitioner and passed an order that the Company shall be free to re-allot the plot in question but the re-allotment shall be subject to the final decision in the writ petition. The petition was finally dismissed as withdrawn by the petitioner (September 2006) as the applicant/petitioner did not want to press the writ petition. In the meanwhile, the Company invited bids (August 2006) for re-allotment of the plot and the plot was allotted to Lakhani Sheet Metal Private Limited at the rate of Rs.2,600 per sqm, being highest bidder. However, the plot was once again restored (January 2007) to the original allottee at the current base price of Rs.1,500 per sqm even though the allottee had withdrawn her petition from Court after which the petition was dismissed (September 2006). Lakhani Sheet Metal Private Limited was allotted another plot at the same rate of Rs.2,600 per sqm. Restoration of the plot for a second time at the base rate was unjustified and lacked prudence as this should have been done at the prevailing market rates of Rs.2,600 per sqm.

The management stated (December 2008) that decision of restoration of plot was taken in view of the direction of Hon'ble High Court to take a more lenient view and grant some more time to allottees for commencing commercial operation in various cases. The reply is misleading as the Hon'ble Court did not give any such directions in this case at any time. On the contrary the writ petition filed by the allottee was dismissed as withdrawn before restoration of the allotment. The plot in question should have been allotted afresh to the party, at the rates prevailing in August 2006 through a bidding process.

Thus, due to irregular and unjustified restoration of the plot at the base rate without applying available current market rates, the Company suffered a loss of Rs.54.95 lakh. It is recommended that the Company should have a strong independent internal control for allotment of plots and responsibility should be fixed on the officers responsible for such lapses.

The matter was reported to Government (April 2009), the reply is awaited (November 2009).

5.6 Loss due to wrong transfer of plots

The Company suffered a loss of Rs.1.16 crore by taking a decision for transfer of plots against its policy banning transfer of plots.

The company was making allotment of Industrial Plots at the Integrated Industrial Estate (IIE) BHEL, Haridwar on "First come first serve basis" as a regular practice till November 2005. The Company allotted (December 2004) one plot measuring 1,06,706 sqm to Global Auto Tech (P) Limted (GATL) and plots of 4,000 sqm each to Prima Telecom Limited (PTL) and Damus Crafts Pvt. Limited (DCL) as ancillaries to GATL out of turn and on preferential basis against regular practice and even without approval of the Board. Ex-post facto approval was granted by the Board only in April 2005. Later, a decision was taken (November 2005) by the Chief Secretary, Government of Uttarakhand, ex-officio & Chairman of the Company, that in view of the high demand for land at IIE, Haridwar, plots will thereafter be sold only through competitive bidding.

GATL surrendered the plot allotted to it and money was refunded (May 2006) at the rate of Rs.900 per sqm (i.e. after deducting 10 *per cent* from the prevailing base price of Rs.1,000 per sqm.) against the rate of allotment of

Rs.560 per sqm. Subsequently, bids were called from prospective bidders and the plot in question was allotted (May 2006) to Sterlite Transmission Limited at the highest bid price of Rs.2,351 per sqm as per extant policy. After the surrender of the plot of GATL, both the ancillaries PTL and DCL applied for transfer of their plots to GDK Solutions and Printworld and the transfer of these plots was permitted (May 2006) which was contrary to the Board's decision (May 2006) to ban the transfer of Industrial Plots till March 2010 to stop speculative trading. On receipt of permission for transfer of the plots in question, these were transferred (May 2006) to GDK Solutions and Printworld respectively.

Audit scrutiny (September 2008) revealed that the plots allotted to GATL and their ancillaries had been identified and listed as "Non-transferable" but this fact was not mentioned in the allotment letters issued by the Company.

Thus, the Company allowed the transfer of Industrial Plots in question and gave undue benefit to the extent of Rs.1.16 crore[21] to the concerned parties.

Management stated (December 2008) that on the request of ancillaries for transfer of plots, the Company proposed two options before the Board for consideration (a) since the main unit has surrendered the land, the ancillaries cannot be set up. Therefore, they must also surrender the land back to the Company for further allotment (b) that because their setting up of the unit was contingent on the main unit being set up and they cannot be faulted for not setting up of their unit they may be permitted to transfer their land in the manner that other allotees have been permitted. The Board approved option (b) and granted permission (May 2006) to transfer these plots.

The reply is not convincing as the decision of the Board is against the policy banning transfer adopted by the Board in the same meeting and the interest of the Company because plots in question were identified and listed as "Non-transferable" at the time of their initial allotment on preferential basis. Further, had the plots been surrendered and subsequently auctioned as per policy, in the same manner as was done in case of the plot allotted to GATL, the Company would have realised additional revenue of Rs.1.16 crore from the sale of these plots.

Hence, the Company contrary to its policy allowed speculative trading and suffered a loss of Rs.1.16 crore. It is recommended that Company should adhere to the laid down policy and should not compromise its financial interest by deviating from the policy.

The matter was reported to the Government (August 2009); reply is awaited (November 2009).

5.7 Unfruitful expenditure

The Company suffered a loss of Rs.15.50 lakh by paying remuneration package to an Advisor without having done any work for the Company.

[21] (Rs.2,351x8,000 - Rs.900x8,000 = Rs.1,16,08,000)

State infrastructure of Industrial Development Corporation of Uttarakhand Limited (Company) was incorporated on 18 July 2002 as a Company under the Companies Act, 1956 with the objectives of the development of Industrial Estate and Industrial Parks.

Scrutiny (September 2008) of records revealed that Shri D.S. Mehta after his retirement as Director, Department of Mines and Geology, Government of Rajasthan in November 2001, joined Uttaranchal Government as Advisor (Mining) and offered to join the company as Advisor/Consultant (Mining). The Company appointed (February 2003) Shri D.S. Mehta as Advisor (Mining) for a period of two years on contract basis. His appointment was made considering his long experience in the field of Mineral Exploration and Mineral Management on the plea that his presence in the Company would be of a great help with mining based projects. Even though no mining activity was taken up by the Company, his contract period was extended three times i.e. upto 29 February 2008.

The Board of Directors (BoD) of the Company in its meeting held on 13 September 2007 reviewed the engagement of Shri D.S. Mehta, Advisor (Mining) and found that till September 2007 no mining activity had been taken up by the Company and that there was no possibility of mining related work being taken up in the near future. It was decided to discontinue the services of Shri Mehta and accordingly Shri D.S. Mehta was relieved on 31 January 2008. During the period from March 2003 to January 2008 Company paid Rs.15.50 lakh to Shri D.S. Mehta as salary without any fruitful service to the Company.

The management stated (December 2008) that the then Managing Director (MD) proposed that services of Shri D.S Mehta might be taken. Further, the Vice-Chairman of the Company in consultation with the then Chief Secretary, Uttarakhand and Principal Secretary (Finance) decided that Shri D.S Mehta would work in the Company as a whole time Advisor and his remuneration package may be fixed accordingly which would be paid by the Company. Thus, an appointment letter was issued by the Company to Shri D.S. Mehta. Further, the services of Shri D.S. Mehta were being utilised by the Government of Uttarakhand as Consultant (Mining) and for this no additional payment was made to him by the Government. The Management further stated that from 2003 to 2007 Managing Directors of the Company were holding the charge of both MD, SIDCUL as well as Additional Secretary/Secretary, Industrial Development Department, Government of Uttarakhand, and as mining activity comes under the Industrial Development Department, Shri D.S. Mehta was continued in the Company as an Advisor (Mining).

The reply is not convincing because the Company itself admitted that no mining activity was undertaken by the Company. Further, the services were utilized by the State Government and no specific work in the Company had been assigned to him. As the initial appointment of Shri D.S. Mehta was not approved by the BoD the appointment was unauthorized. Thus, the company engaged Sh. D.S. Mehta as a consultant for more than four years without any work for the company. Besides being irregular, the engagement of Sh. D.S.

Mehta as Advisor (Mining) caused the Company to incur unfruitful expenditure of Rs.15.50 lakh on account of remuneration and other benefits provided to him, which was a loss to the company.

The matter was reported to the Government (August, 2009); reply is awaited (November 2009).

Dehradun **(PRAVIR PANDEY)**

The **Accountant General (Audit), Uttarakhand**

Countersigned

New Delhi **(VINOD RAI)**

The **Comptroller and Auditor General of India**