

## CHAPTER III

### 3 Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government companies/corporations are included in this Chapter.

#### Government companies

##### Himachal Pradesh State Industrial Development Corporation Limited

#### 3.1 *Payment of Gratuity in excess of the prescribed limit*

**Failure of the Company to restrict the payment of gratuity to the prescribed limit resulted in excess payment of gratuity of ₹ 22.82 lakh to the retired officers.**

Chapter 17 of the Himachal Pradesh State Industrial Development Corporation Limited Employees Service by-laws provides that the Gratuity to the employees shall be payable in accordance with the rules and rates as applicable to the Government employees from time to time.

The Government of Himachal Pradesh notified (August 2009) the Himachal Pradesh Civil Services (Revised Pay) Rules, 2009 in which the pay scales of the employees were revised with effect from 1 January 2006. Consequent upon the revision of the pay scales the Government of Himachal Pradesh also increased the maximum limit of Gratuity from the existing limit of ₹ 3.50 lakh to ₹ 10.00 lakh in October 2009 with effect from 1 January 2006. As the Company follows the pay structure of the State Government for its employees, the Board of Directors (BOD) approved (30 September 2009) the adoption of the revised pay scale for its employees by a notification issued by the Government.

Audit scrutiny revealed that the Company while paying the retirement gratuity to its officers/employees did not restrict the payment to the maximum prescribed limit of ₹ 3.50/10.00 lakh. This resulted in excess payment of ₹ 22.82 lakh to its seven officers<sup>#</sup> retired up to May 2011.

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<sup>#</sup> Two officers were paid in excess of the ₹ 3.50 lakh limit and five officers in excess of the ₹ 10 lakh limit.

The Management stated (June 2011) that in view of the audit observation the matter has now been referred to the State Government for approval/ratification. It further stated that the Government has also been requested that in case any limit on gratuity is now to be desired, it may be from the prospective date for the employees to be appointed on or after such date. The fact however remained that payment of gratuity in excess of limit prescribed by the Government was not only irregular but the approval/ratification thereof was also unlikely as it infringes the service rules and might lead to similar claim from other State PSUs/Organisations.

The Company should strictly restrict the payments of gratuity and other allowance in accordance with the rules and rates as applicable to the state Government employees as provided in the service bye laws approved by the Government.

The matter was referred to Government in May 2011; their reply is awaited (September 2011).

### **Himachal Pradesh Power Corporation Limited**

#### **3.2 Excess EPF contribution**

**Failure to limit employer's contribution towards Employees' Provident Fund as prescribed in the Employees' Provident Funds Scheme, 1952 resulted in excess contribution of ₹ 32.40 lakh.**

Para 29 (1) of the Employees' Provident Funds Scheme, 1952 (Scheme) provides that the contribution payable by an employer under the scheme shall be twelve *per cent* of the basic wages, dearness allowance and retaining allowance (if any) payable to each employee to whom the Scheme applies. Para 26 A (2) of the Scheme further provides that where the monthly pay of an employee exceeds ₹ 6,500, the contribution payable by the employer shall be limited to the amount payable on a monthly pay of ₹ 6,500. Para 29 (2) of the Scheme also provides that the contribution payable by an employee to whom the Scheme applies, if he so desires, could be an amount exceeding the above limit subject to the condition that employer shall not be under an obligation to pay any contribution over and above his contribution payable under the Scheme. Accordingly, all Public Sector Undertakings covered under the Scheme were required to restrict their contribution to the prescribed limit.

Audit noticed that the Himachal Pradesh Power Corporation Limited (Company) contributed employer's share at the rate of twelve *per cent* of the pay without applying the prescribed limit of ₹ 6,500 in contravention of the *ibid* provisions of the Scheme. This resulted in excess contribution of ₹ 32.40 lakh during September 2008 to March 2011 by the Company in contravention to the provisions of the Scheme.

The Management stated (May 2011) that para 26 A (2) of the Employees Provident Funds Scheme, 1952 has to be read with para 26 (6) which provides for the Assistant Provident Fund Commissioner to permit any employee to contribute 12 *per cent* of his pay, without applying ₹ 6,500 ceiling of pay, if his employer undertakes to comply with the statutory provisions in respect of such employee which includes contributing a matching amount as employer's contribution and paying the administrative charges. All employees of the Company have opted to contribute twelve *per cent* of pay without applying the ceiling of ₹ 6,500. Board of Directors of the Company has agreed to comply with all statutory provisions keeping in view the option exercised by the employees as stated above. Contributions made in accordance thereof have been accepted by the Provident Fund Authorities.

The reply is not acceptable as para 26 (6) and para 26 A (2) of the Scheme do not empower the employer to contribute over and above the limit fixed under para 29 and as such, the excess contribution was in violation of the Employees Provident Funds Scheme, 1952.

The Company needs to review this practice to avoid such excess payment in future and also strengthen internal control mechanism to avoid such lapse.

The matter was referred to the Government in April 2011; their reply is awaited (September 2011).

### **Himachal Pradesh State Civil Supplies Corporation Limited**

#### **3.3 Avoidable expenditure on the purchase of excess refined oil**

#### **The Company incurred an avoidable expenditure of ₹ 29.80 lakh on procurement of excess refined oil under Public Distribution System.**

Himachal Pradesh State Civil Supplies Corporation Limited (Company) is procuring refined oil on monthly basis for the distribution amongst ration card holders in the State. The average monthly requirement of the State for refined oil was about 14.50 lakh litres. The Company finalised tenders on 6 January 2009 for the procurement of Soya Refined Oil for the month of February 2009. Since there was single tender for supply of Soya Refined Oil, the Purchase Committee<sup>♦</sup> recommended purchase of 15 lakh litres of Soya Refined Oil from M/s Gujarat Ambuja Export Limited at their quoted rates of ₹ 53.11 per litre after obtaining approval of the State Government before placing the purchase order. In addition to above the Purchase Committee in its

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♦ Purchase committee comprises the Managing Director of the Company, Registrar Co-operative Societies, Director Food, Civil Supplies and Consumers Affairs and Dy. Controller (Finance), Directorate, Food, Civil Supplies and Consumers Affairs.

meeting held on 19 January 2009 again processed second tender for the procurement of 10 lakh litres additional quota for the month of February 2009. The purchase order on M/s Ruchi Soya Industries, Indore at the rate of ₹ 50.94 per litre was also placed on same day. The purchase order was placed by the purchase committee without considering the closing stock of previous month and without any justification for purchase of additional quantity in February 2009.

Audit scrutiny revealed that there was no necessity to place second purchase order for the month of February 2009 for additional quantity of 10 lakh litres as the Company's requirement of 16.13 lakh litres could have been met from first order of 15 lakh litres and closing stock of 13.80 lakh litres for January 2009. Further, there was decreasing trend in the market contrary to the position of increasing trend of prices as brought out to the notice of the purchase committee. This was evident from the fact that per litre rates of Soya Refined Oil decreased from ₹ 53.11 in January 2009 to ₹ 47.96 per litre on which 12 lakh litres Soya Refined oil was procured on 6 February 2009 for the month of March 2009. Thus, the rates of ₹ 47.96 per litre obtained in February 2009 for the supply to be distributed in March 2009 were cheaper by ₹ 2.98 per litre as compared to the second purchase order placed on 19 January 2009 at ₹ 50.94 per litre. Due to procurement of 25 lakh litres of soya Refined Oil for the month of February 2009 the inventory for the month of February 2009 also increased to 20.09 lakh litres which otherwise had ranged between 5.21 lakh to 13.80 lakh litres during the period between April 2008 to January 2009. Thus, the Company incurred an avoidable expenditure of ₹ 29.80 lakh on procurement of additional quantity of 10 lakh litres for the month of February 2009.

The State Government/Management stated (August 2011) that second tender invited on 19 January 2009 for the procurement of 10 lakh litre Soya Refined Oil was not the requirement of February 2009 but in fact was backlog of the previous months *i.e.* September 2008 to November 2008 merged with the regular supply of February 2009.

The reply is an after thought as the committee in fact recommended acceptance of single tender in its meeting held on 6 January 2009 to make purchases of 15 lakh litres for the month of February 2009 after considering the backlog. Further, it was noticed from the supply and the stock details that there was neither any backlog nor any such additional allocations were made to consumers. On the contrary, lesser purchases (12 lakh litres) made during March 2009 proved that there was sufficient stock of oil available due to purchase of excess quantity during the month of February 2009.

<b>Himachal Pradesh State Handicrafts and Handloom Corporation Limited</b>
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### 3.4 Avoidable payment of idle wages

<b>Failure of the Company to retrench workers of its closed footwear factory, Chamba resulted in payment of idle wages of ₹ 15.68 lakh.</b>
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The Company was running a footwear factory at Chamba, (Factory) to manufacture shoes for Class-IV employees of the State Government. The supply was discontinued by the State Government in September 2002 after which there was no demand for its products. Consequently, the operation of this factory was rendered unviable. The Board of Directors (BOD) approved (28 June 2003) the proposal for retrenchment of workers by paying “Goodwill Gesture” Package to them and decided that before offering the schemes to workers, such proposal be got approved from the State Government. The Finance Department of the State Government, however, did not approve the proposal of the Company. After this the management decided (September 2003) to revive the factory by diversifying its activities by installing new machinery so that marketable product could be manufactured. The workers, however, showed their inability to produce any other design except livery shoes.

Accordingly, the BOD decided (23 June 2004) to retrench all the 14 workers deployed in the factory under the Industrial Disputes Act, 1947. A proposal was submitted (October 2004) to the State Government to close down the factory and to retrench the workers. The issue was again raised after two years during review meeting held (December 2006) under the Chairmanship of Hon’ble Chief Minister and it was decided to retrench the workers after payment of one time package. The State Government released (May 2007) *grant-in-aid* of ₹ 20.18 lakh to pay retrenchment compensation to the workers. The Company could, however, retrench only five workers during 2007 by utilising *grants-in-aid* amounting to ₹ 9.43 lakh. The remaining nine workers were neither retrenched nor transferred to other units of the Company and balance *grants-in-aid* amounting to ₹ 10.75 lakh was utilised by the Company. These nine workers of the factory were, however, not retrenched and being paid their pay and allowances without any work (March 2011).

Thus, failure of the Company to retrench the idle workers immediately after receipt of *grants-in-aid* in May 2007 resulted in avoidable payment of idle wages of ₹ 15.68 lakh (May 2007 to March 2011).

The Management stated (June 2011) that efforts were being made to utilise these workers in the project sanctioned by the Government of India, Ministry of Textile after upgrading their skill in new products of modern design. After skill upgradation of these workers efforts shall be made to put them on actual production by diversifying the production and if the results are not encouraging then some of the workers shall be considered for deployment in other Government Departments. However, the fact remains that the Company failed to take any action either to revive the factory or to utilise the services of these idle workers elsewhere.

The Management should take immediate action to either retrench or utilise their services in other units of the Company so as to avoid payment of idle wages.

The matter was referred to Government in May 2011; their reply is awaited (September 2011).

### **Himachal Pradesh State Forest Development Corporation Limited**

#### **3.5 Extra payment to contractors**

#### **Failure of the Company in adjusting the actual weight of *Sakki* from the bills of the LSMs as per the terms and conditions of the agreements resulted in avoidable payment of ₹ 20.21 lakh.**

The Himachal Pradesh State Forest Development Corporation Limited (Company) extracts resin from pine trees for further processing into rosin in its two Rosin and Turpentine (R&T) factories at Nahan and Bilaspur. The extraction work is got done through various contractors, known as Labour Supply Mates (LSMs). As per clause 29 of the agreement executed with the LSMs the payments were to be made to them only for pure and neat resin. The quantity of pure and neat resin for the purpose of payments shall be determined by deducting *sakki*\*. The weight of *sakki* is being determined on the basis of resin sampling (conventionally done for two *per cent* of stock) done by the Company. The actual weight of *sakki* is known to the Company only after processing of resin at R&T factories.

Audit noticed that the actual weight of *sakki* found after processing was higher as compared to the weight determined on the basis of sampling. R&T Factory, Nahan was intimating the actual weight of *sakki* to the respective Forest Working Divisions (FWD) from where the supply of resin was received at the end of each year so as to enable them to make final adjustment from the bills of LSMs. However, no such figures of actual weight of *sakki* were being intimated by the R&T factory, Bilaspur and the final payments were being released by the respective FWDs by determining the weight of *sakki* on the basis of random sampling only. Against the deduction of 6,456.15 quintals of

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\* Impurities such as clay, sand, etc.



*sakki* made from the bills of LSMs as determined on the basis of random sampling, actual *sakki* after processing was 8,457.02 quintals during the last four years ending 2009-10. The R&T factory, Bilaspur at a very belated stage proposed (May 2010) to the Managing Director of the Company to allow it to make the final payment after adjusting the actual *sakki* and sought the approval to change the accounting system in future.

Thus, the failure of the Company in regulating the extraction charges by deducting the actual weight of *sakki* in respect of resin extracted in its R&T factory, Bilaspur resulted in avoidable payment of ₹ 20.21 lakh\* to LSMs on 2,000.87 quintals of *sakki*.

The Company should adopt uniform procedure for both its R&T factories and release the extraction charges to the LSMs only for the pure and neat resin supplied by them after adjusting the actual weight of *sakki* determined after processing.

The matter was referred to the Government/Company in April 2011; their reply is awaited (September 2011).

### 3.6 Loss due to avoidable payment of Tax Deducted at Source

**Failure of the Company to deduct rebate/cash discount allowed for early payment on sale of timber before computation of TDS resulted in loss of ₹ 0.56 crore.**

The Himachal Pradesh State Forest Development Corporation Limited (Company) sells timber through its *Himkashtha* Sale Depots (HSDs) in open auction. As per the terms and conditions of sale/auction, the bid by the bidders shall be inclusive of Value Added Tax (VAT) and Tax Deducted at Source (TDS) (except surcharge and education cess thereon). The purchase price *i.e.*, bid amount as reduced by the element of VAT, Market Fee and TDS shall constitute the consideration of the sale. The bidders shall also be allowed a rebate of five, four and three *per cent* for payment within 15, 30 and 45 days respectively from the effective date of issue of auction letters.

Audit observed that the Company allowed rebate/cash discount of ₹ 22.57 crore for payment received within 15, 30 and 45 days from the bidders during the last six years ended March 2011. The Company, however, failed to deduct the amount of rebate/cash discount of ₹ 22.57 crore from the gross sale amount while working out the amount of TDS under section 206C of the Income Tax Act, 1961. This resulted in excess deduction of TDS amounting to ₹ 56.44 lakh on the total cash rebate/discount of ₹ 22.57 crore allowed to the buyers with consequential undue credit of TDS to the buyers on the cash rebate/discount element which were neither received by the Company nor paid by the buyers. Thus, failure of the Company to deduct the element of rebate

\* Excess *sakki* for 2006-07: 144.97 Qtls (₹ 1.29 lakh), 2007-08: 14.27 Qtls (₹ 0.15 lakh), 2008-09: 931.08 Qtls (₹ 8.34 lakh) and 2009-10: 910.55 Qtls (₹ 10.43 lakh).

before arriving at net sale for computation of TDS resulted in avoidable payment of tax to the tune of ₹ 56.44 lakh.

The Management, while accepting the audit observation stated (June 2011) that the existing system of rebate/cash discount on sale of timber has been changed and modified system has been implemented in all the Sale Depots with effect from April 2011.

The Company ought to streamline the internal control mechanism to avoid such omissions in future and also fix responsibility for the lapse.

The matter was referred to the Government in April 2011; their reply is awaited (September 2011).

### **Himachal Pradesh State Electricity Board Limited**

#### **3.7 Unjustified drawal of loan**

**Drawal of loan without initiating a process for acquisition of required land for the construction of sub-station resulted in a loss of interest of ₹ 32.65 lakh.**

Rural Electrification Corporation Limited (REC) accorded approval (January 2008) to finance the construction of two electrical sub-stations of 132/33 KV, 1x25/31.5 MVA capacity for Himachal Pradesh State Electricity Board Limited (Company)<sup>♦</sup> at Maliana, Shimla at a cost of ₹ 21.44 crore. Ninety *per cent* (₹ 19.30 crore) of the construction cost was to be financed by REC at an interest rate of 10.90 *per cent per annum* and balance 10 *per cent* (₹ 2.14 crore) by the Company. Condition No. 2 (i) of the sanction stipulates that if the Company has to provide advance to contractors, REC would consider providing equivalent advance towards first instalment, subject to ceiling of 15 *per cent* of loan amount of ₹ 19.30 crore *i.e.* ₹ 2.89 crore and on completion of loan documentation, acquisition of land, *etc.* A loan agreement to this effect was entered (June 2008) into with REC.

Audit observed (April 2010) that the REC released first instalment of ₹ 2.89 crore in July 2008. The funds were, however, drawn by the Company even though acquisition of land and award of construction work were still pending. As the funds were not required immediately, the Company deposited (July 2008) ₹ 1.42 crore in Vijaya Bank against overdraft being availed at an interest rate of 8.65 *per cent*. Similarly, the remaining amount of ₹ one crore and ₹ 47.46 lakh were deposited (July 2008) by the Company in Canara and Syndicate Bank against their overdrafts drawn at an interest rate of 5.83 and 7.15 *per cent* respectively. The Company also blocked ₹ 33.61 lakh in Default

<sup>♦</sup> The erstwhile Board was registered as a Company under the Companies Act, 1956 in December 2009.



Escrow account by incurring an interest loss of ₹ 7.26 lakh up to January 2011 as no interest was payable on this account.

Thus, the drawal of first instalment of loan bearing interest at 10.90 *per cent* without acquisition of land and subsequent utilisation of same against overdrafts having lower rate of interest ranging between 5.83 and 8.65 *per cent* resulted in avoidable interest loss of ₹ 32.65 lakh (calculated on differential rate of interest up to January 2011). The loss would increase further as the acquisition of land would take more time as various clearances for the diversion of forest land, *etc.* were yet to be obtained (September 2011).

The Management stated (January 2011) that on scrutiny of availability of Government/private land at Mehli and its surrounding area, it was found that no suitable land for the construction of sub-station was available. Due to non-availability of sufficient land necessity to acquire the additional land adjoining the Company's land at Maliana was felt. The Management further stated that although all out efforts are being made it is not clear when the final out come of the case will arrive to its conclusion to commence with the designated job.

The reply confirms audit contention that there was no justification to draw the loan from REC for construction of sub-station at a stage when the process for acquisition of required land was yet to be initiated by the Company.

The Company should investigate the reasons for this delay in acquisition of land and drawal of loan much ahead of its requirement and ensure in future that financial interest of the Company are kept in view while taking such decisions.

The matter was referred to the Government/Company in April 2011; their reply is awaited (September 2011).

### **3.8 Short recovery of cost of independent bay**

**The Company extended undue favour to two consumers amounting to ₹ 33.72 lakh by recovering cost of works at lower rates.**

Regulation 4 (b) of the Himachal Pradesh Electricity Regulatory Commission Regulations, 2005 envisaged that in the case of applications where there is a need to erect a new power transformer or augment the capacity of existing power transformer for extending supply to the applicant, the distribution licensee shall estimate and recover the cost of works involved in the manner mentioned in clause (b) of sub-section 1 of Regulation 3. The Regulation *inter-alia* further provides that in the case of application where there is a need to erect new electrical plant such as distribution transformer alongwith switch gear, *etc.* for extending supply to the applicant for low tension connection, the licensee shall estimate and recover the cost of electrical plant. The erstwhile Himachal Pradesh State Electricity Board (now Company) issued the sanction

orders in September 2005 in favour of two consumers<sup>♦</sup> for a connected load of 2,799 KW and 3600 KW respectively which also stipulated that in addition, the cost of 33 KV dedicated independent/joint feeder or augmentation of existing feeder along with bay and associated equipment at both ends, if required will have to be borne by the firms. The cost of all these components would be intimated to them by Superintending Engineer (OP) Circle, Nahan.

The power supply to both the consumers were released from existing 33 KV sub-station, Kala Amb combined feeder during September 2006 and March 2007. Additional Superintending Engineer, Transmission Division, Nahan prepared an estimate for ₹ 46.11 lakh (July 2007) for providing 33 KV bay (New) on the rates of cost data applicable for Extra High Voltage (EHV) transmission lines and sub-stations. The cost estimate was submitted (August 2007) for approval of the competent authority (Chief Engineer Transmission, Hamirpur). The Superintending Engineer, Operation Circle, Nahan, however, without awaiting for the approval and confirming the actual cost of construction from the Transmission Wing (which was the executing authority for EHV related works) allotted spare bay in August 2007 to the above said consumers and asked them to deposit ₹ 12.39 lakh only for 33 KV dedicated feeder. The connections released to these consumers earlier (September 2006 and March 2007) were shifted to an independent 132/33 KV bay during August 2007 on receipt of above amount. The Operation Wing was given permission to connect the supply in the system after obtaining undertaking from them that any difference between the cost so deposited and the cost estimate approved by the competent authority shall be recovered from the consumers after the approval of the estimate. However, the cost estimate submitted in August 2007 has neither been approved by the competent authority nor any difference in cost intimated/recovered from the consumers so far (April 2011).

Audit observed that the cost of ₹ 12.39 lakh was recovered by the concerned circle on the basis of rates applicable for 33/11 KV sub-station which was lower as compared to actual cost of ₹ 46.11 lakh recoverable on the basis of rates applicable for bay emanating from 132/33 KV sub-station from which the connections were actually released to both the consumers. This resulted in short recovery of ₹ 33.72 lakh from these consumers.

The Company should investigate the reasons for this and fix the responsibility for the loss, besides expediting recovery from the consumer as per the terms and conditions of the HPERC Regulations.

The matter was referred to the Government/Company in May 2011; their reply is awaited (September 2011).

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♦ M/s Shree Parawati Steel Alloys and M/s Hi-Tech. Industries.

### 3.9 Avoidable loss due to non-commissioning of SCADA system

**Due to delay in commissioning of the SCADA system in the sub-station, the Company had to run the unmanned sub-station on manned mode by incurring an avoidable expenditure of ₹ 28.70 lakh on pay and allowances of staff deployed to run sub-station.**

The erstwhile Himachal Pradesh State Electricity Board (now Company) awarded (December 2006) the work relating to design, engineering, manufacturing, testing of equipment and commissioning of unmanned 132/33/11 KV sub-station, Gagret at a cost of ₹ 8.60 crore to M/s UB Engineering Ltd., New Delhi (contractor) on turn key basis. The work was to be completed within a period of 12 months from the date of award.

The sub-station was commissioned (December 2009) on “manned” mode by deploying staff on temporary basis till commissioning of Supervisory Control and Data Acquisition (SCADA). SCADA is a computerised system that was to monitor and control the running and operation of sub-station on unmanned mode which was one of the essential components in the scope of work of the contractor. As the contractor failed to supply the fiber optic cables required under the scope of work, the SCADA could not be installed.

Audit noticed that complete material (except fiber optic cables) required for the commissioning of SCADA system costing ₹ 19.50 lakh had already been received at the concerned division in December 2009. In the absence of fiber optic cables the SCADA could not be commissioned and the Company has not initiated any action to install the same. The Company decided (December 2009) to make the SCADA functional departmentally at the risk and cost of the contractor. Accordingly, regular staff to run the sub-station on manned mode was also sanctioned during June 2010.

Thus, due to non-commissioning of SCADA system, the Company had to incur an avoidable expenditure of ₹ 28.70 lakh on the pay and allowances of staff deployed for this purpose till February 2011 besides blockage of the fund of ₹ 19.50 lakh on the procurement of material required for installation of SCADA system. The Company however, has not initiated any action to recover the expenditure from the contractor in accordance with the decision to undertake the work at the risk and cost of contractor taken in the CE’s meeting. The expenditure will increase further till the system is actually commissioned and the sub-station is put on unmanned mode as planned.

The State Government/Management stated (August 2011) that after discussion, the firm had commissioned the SCADA through Power Line Carrier Communication (PLCC) on 12 March 2011 but the same was not put to use due to non-availability of skilled staff.

The Company should take immediate action to commission SCADA system to avoid further avoidable expenditure on pay and allowances and also to recover the amount from contractor.

**3.10 Power generation loss due to delay in up-rating the capacity of the Generator Transformer**

**The Board suffered generation loss of ₹ 1.99 crore due to delay in up-rating the capacity of the transformers required to evacuate the increased power generation of the associated Bassi Power House.**

The work for Renovation, Modernisation, up-grading and Life Extension (RMU&LE) of all the four units (15 MW each) of 60 MW Bassi Power House was awarded (March 2007) to M/s V.A. Tech in two parts *i.e* supply of material and erection/service at a total cost of ₹ 70 crore. The revised cost of the scheme increased to ₹ 109.98 crore for which the sanction was accorded by the Board in September 2007. The scheme had provisions for the renovation and up-gradation of generating units from existing 60 MW to 66 MW but no provision for up-rating the capacity of 11/132 KV single phase 5.667 MVA generator transformers was made. This was required to transmit the additional generation of 6 MW up-rated capacity as the existing transformers were capable of evacuating only up to 60 MW of the power generated.

Audit noticed that contractor supplied the required material for the up-gradation on of all the four units but could re-commission only one unit (No. IV) which was synchronised with the grid in March 2010 after incurring total expenditure of ₹ 103.98 crore. Audit further observed that re-commissioned unit could not be operated to its maximum upgraded capacity of 16.5 MW as the power evacuation capacity of existing generator transformers was 17 MVA against the required capacity of 18.33 MVA. A supplementary scheme to up-rate the capacity of these existing transformers was prepared in September 2008 and the work was actually awarded in January 2010 to M/s Aditya Vidyut Appliances for ₹ 4.19 crore after a delay of 33 months from the award (March 2007) of up-gradation work of generating units. The delay in award of work was due to delay in preparation of scheme (17 months) and award of work after preparation of scheme (16 months) mainly due to non-finalisation of rates. The firm completed the up-rating work in October 2010 and after this the capacity utilisation of the up graded unit to its maximum designed level of 16.5 MW could be achieved.

Thus, failure of the Board to prepare the scheme to synchronise the up-rating of transformers along with the up gradation of generating capacity resulted in generation loss of 6.76 MUs valued at ₹ 1.99 crore during the period

(April 2010 to August 2010<sup>\*</sup>) when the additional generation capacity was available but could not be operated due to non-availability of matching capacity transformer.

The Management stated (July 2011) that the action to either replace or to up-rate the existing generator transformer was actually initiated in May 2007. However, the provision for replacement of all generator transformers was made in the RMU&LE scheme of Bassi Power House and the case regarding replacement/retrofitting of existing generator transformer was approved by the Board in July 2008. The reply itself points towards abnormal delay in processing the case for which no justification has been furnished.

The Board should investigate the reasons for this delay besides strengthening the internal control mechanism to avoid re-occurrence of such delays.

The matter was referred to the Government in June 2011; their reply is awaited (September 2011)

### 3.11 Non-recovery of worker welfare cess

**Failure of the Company in recovering the Workers' Welfare Cess from the contractors resulted in non-recovery of ₹ 2.29 crore besides attracting penalty for non-payment of cess to the cess authorities.**

Government of India notified 'The Building and Other Construction Workers Welfare Cess Act, 1996' with a view to augment the resources for the Building and Other Construction Workers Welfare. As per the Act, cess was to be levied and collected at such rates not exceeding two *per cent* but not less than one *per cent* of cost of construction incurred by an employer. Accordingly, the Government of Himachal Pradesh belatedly framed (4 December 2008) rules there under which became applicable with effect from 8 December 2008. The State Government also constituted (March 2009) the Workers Welfare Board for this purpose. According to the Rules, all Government Departments and Public Sector Undertakings carrying out construction activities were required to deposit cess to Himachal Pradesh Building and Other Construction Workers Welfare Board on total cost of construction incurred by it excluding cost of land and compensation paid to workers under the Workmen Compensation Act.

In view of the above, the Company was required to deduct labour welfare cess at the rate of one *per cent* of the cost of construction from the bills of turnkey contracts entered into for construction of sub-stations and transmission lines and remit the amount of cess so deducted to the cess authorities.

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\* The loss has been calculated up to August 2010 instead of October 2010 when the matching capacity transformer was made available due to the reason that after August 2010 the generation machine remained closed due to some defects.

We noticed that despite the above instructions of the Government, the Company had not started effecting recovery of cess from the Contractors' bills so far (July 2011). Resultantly during 2009-10 and 2010-11 against the expenditure of ₹ 229.38 crore incurred by eight Operational Circles on various turnkey contracts and some other contracts, the Workers' Welfare Cess amounting to ₹ 2.29 crore could not be recovered from the contractors.

Non-recovery from the contractors not only violated the provisions of Cess Rules, 1998 but could also attract imposition of penalty for non-payment of cess to the authorities as per Section 9 of the *ibid* Act.

The Company should investigate the reasons for the same besides initiating immediate action to recover and remit the same in compliance with the statutory provisions.

The matter was referred to Government/Company in August 2011; their reply is awaited (September 2011).

### 3.12 Avoidable expenditure on purchase of conductor

**Failure of the Board in placing the purchase order within the validity period resulted in extra expenditure ₹ 39.82 lakh on the purchase of conductor from the same supplier at higher rates after the expiry of validity period.**

The erstwhile Himachal Pradesh State Electricity Board (Board) opened tenders (June 2007) for the purchase of ACSR\* and AAA\*\* conductor of various sizes (12 Nos.) measuring 5,388 Kms. (final & firm requirement for 2007-08). The rates quoted for different sizes of conductor by M/s Venketshwara Wire, Jaipur and M/s Durable conductor, Solan were found first and second lowest respectively amongst five participating firms. The tenders were valid up to 4 October 2007. As per instructions of the State Government and terms and conditions of the NIT the suppliers were requested to open dumps/depots. M/s Venketshwara Wire, Jaipur however, refused to open dumps/depots in Himachal and as such was not considered for award of work. The negotiation was held (28 December 2007) with M/s Durable Conductor, Solan to bring his L-II rates at par with the rates of L-I firm. The firm agreed (December 2007) to reduce the rates of few sizes of conductor ranging between ₹ 50 and ₹ 900 per Kms. The Store Purchase Committee approved (January 2008) the partial purchase of only 613 Kms. (two types of conductor *i.e.*, ACSR weasel and Rabbit) against the tendered quantity of 1,883 Kms (weasel: 898 Kms and Rabbit: 985 Kms.) from M/s Durable

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\* Aluminum Conductor Steel Reinforced.

\*\* All Aluminium Alloy.



Conductor, Solan for which no reasons were found on record. The firm, however, did not agree to reduce the rates at par with other L-I firm for the remaining quantity of other different sizes of the conductors. Meanwhile the validity period of offer was extended twice by the supplier (first up to January 2008 and again up to March 2008) on the request of the Board due to delay in finalisation of purchase order. The purchase order for 613 Kms. was placed (February 2008) on M/s Durable Conductor, Solan (its quoted L-I rates).

The Board further placed (May and October 2008) purchase orders for 2,074.52 Kms (1,481.80 Kms. and repeat order 592.72 Kms.) against the requirement of 2007-08 on the firm at negotiated rates of December 2007 which was accepted by the firm subject to the condition that the order for the balance quantity of 3,294 Kms. would also be placed simultaneously at the increased rate of 5.7 and 7.96 *per cent*.

The Board placed (July 2008 and October 2008) orders for 3,077.60 Kms. (2000+1077.60 Kms.) at the negotiated increased rates of 5 *per cent*. The supplies against these purchase orders were received between August 2008 and January 2009. Thus, the delay in finalisation of purchase even within the extended validity period as well as not placing the order for the entire quantity initially, resulted in an extra expenditure of ₹ 39.82 lakh on procurement of 3,077.60 Kms. conductor at increased rates when the rates were showing reducing trend in December 2007.

The Chief Engineer (MM) stated (August 2011) that the purchase order was placed with 5 *per cent* hike, when there was about 10.73 *per cent* hike in the price of aluminium from May 2007 to July 2008. As such the purchase order issued with 5 *per cent* price hike was considered to be genuine. The reply does not address the core issue regarding non-placement of purchase order for the entire tendered quantity at the negotiated rates which had to be purchased subsequently at higher rates from the same firm.

The Board should fix the responsibility for this delay in finalisation of purchase orders besides strengthening the internal control mechanism so as to avoid recurrence of such lapses.

The matter was referred to Government in July 2011; their reply is awaited (September 2011).

### 3.13 *Avoidable loss of interest*

**Failure to make specific provisions in the contract agreement to release the interest free advance to contractor as per actual handing over schedule of each machine for service resulted in loss of interest of ₹ 28.65 lakh.**

The erstwhile Himachal Pradesh State Electricity Board awarded (March 2007) the work of providing services in respect of renovation,

modernisation, up-rating and life extension of all the four machines of 60 MW Bassi Power House (BPH) to M/s VA Tech Escher Wyss Flovel Limited (contractor) at a total contract price of ₹ 12.08 crore. Clause 14 (Appendix 1) of the contract agreement stipulates that ten *per cent* of the total contract price as indicated in the notice of the award shall be paid as an interest free advance against receipt of invoice. Further 100 *per cent* service tax and education cess on progressive payment shall be paid extra as per prevailing rates at the time of their invoicing. These four machines were to be handed over to the contractor for renovation in phased manner during June 2007, March 2008, December 2008 and January 2009. The completion time of work was 31 months from the notification of award which was subsequently revised to 38 months.

The contractor submitted (July 2007) the invoices for ₹ 1.35 crore (10 *per cent* advance: ₹ 1.21 crore and taxes: ₹ 0.14 crore) as per clause *ibid* for all the four machines at a time whereas the actual work of each machine was to be done in phases. Despite knowing that the contractor would take up the services of these machines in phases, the Board failed to include the same in the agreement in order to release the phase-wise proportionate amount of advance and released (September 2007) the payment of ₹ 1.35 crore. This enabled the contractor to draw advance in respect of three machines much before the actual commencement of the work besides drawal of inadmissible extra advance payment of ₹ 0.14 crore on account of taxes.

Audit noticed that machines No. IV, III, II and I were actually handed over to the contractor for renovation in November 2007, September 2008, November 2010 and December 2010 respectively. The contractor has completed the services (March 2010) of one machine only (unit no. IV) and the remaining three machines were yet to be commissioned (April 2011).

Thus, non-insertion of specific provisions in the agreement to release the interest free advance as per actual handing over schedule of each machine to contractor for service resulted in loss of interest of ₹ 28.65 lakh on payment of advance in respect of three machines.

The Management stated (July 2011) that the payment of 10 *per cent* advance was a standard condition as was being followed for other contracts although it may not be possible to adhere to the figure of 10 *per cent* only as some contractors may even demand more in their bid.

The reply is not acceptable as the conditions of work in this case were different and the work was to be taken up in different phases as such the relevant clause regarding payment of advance linking with the handing over schedule should have been inserted in the agreement. Moreover, the payment of advance includes ₹ 14 lakh on account of taxes not even covered in the agreement for which no justification has been furnished.

The Company should investigate the reasons for non-inclusion of the provisions of proportionate release of advance in line with the commencement of actual service schedule of each machine

The matter was referred to the Government in June 2011; their reply is awaited (September 2011).

### 3.14 Avoidable loss due to non-recovery of infrastructure cost

**Failure of the Board in correctly estimating infrastructure cost and not restricting the expenditure within the limit prescribed by the HPERC Regulations, 2005 resulted in non-recovery of ₹ 2.55 crore from a consumer.**

Regulation 5 (1) (a) of the Himachal Pradesh Electricity Regularity Commission (Recovery of Expenditure for Supply of Electricity) Regulations, 2005 *inter-alia* envisaged that in case of application for new connection, where such supply requires only extension of extra high tension line from the existing transmission substation to the consumer's premises, the distribution licensee shall estimate and recover the cost of line and cost of terminal and metering arrangement at the premises of the consumer. Regulation 8 envisaged that the applicant shall, before the commencement of work, deposit 100 *per cent* on notice of demand for amount payable under regulation 5. Regulation 6 (2) (b) further provides that where the actual expenditure exceeds the initial estimated cost by more than three *per cent*, the applicant shall pay the difference between the estimated cost and actual expenditure to the extent of three *per cent* only and any amount in excess of three *per cent* shall be borne by the licensee.

The Power Availability Certificate issued (January 2005) to Jaypee Himachal Cement Project, Village Bagga (Consumer) for a connected load of 35 MW provided that the entire cost of dedicated feeder along with bay and terminal equipment at both ends if required, was to be borne by the consumer. Therefore, to recover the entire cost of infrastructure from the consumer, preparation of correct estimate was very essential.

The Board prepared (September 2005) an estimate of ₹ 6.91 crore for construction of 132 KV line and sub-station at Kharsi to provide power connection to the consumer. Against this, the consumer deposited (October 2005) an amount of ₹ three crore. Due to non-availability of land (to be provided by the consumer) at proposed site, the Board decided (October 2006) to construct the sub-station at consumer premises at Bagga for which the entire material was to be provided by the consumer. In view of this, an estimate for ₹ 2.19 crore for erection part only was sanctioned (April 2007)

and the excess amount of ₹ 0.81 crore out of ₹ three crore deposited earlier was refunded to the consumer. Subsequently, this estimate was again revised (July 2009) to ₹ 3.57 crore due to cost escalation and involvement of forest land, etc. and the differential cost of ₹ 1.37 crore was also deposited by the consumer (August and October 2009). The sub-station was, however, energised during November 2009 and the connection was released to the consumer after incurring an expenditure of ₹ 6.11 crore. The increase in expenditure was mainly due to increase in cost of construction of sub-station in the hilly terrain and expensive remote area whereas the estimate was prepared on the basis of construction on the levelled ground.

Audit observed that the main reasons for further increase in the cost was non-inclusion of some items of works (₹ 0.57 crore), increased payment of net present value to the Forest Department (₹ 0.12 crore), non/short-provision of civil works/erection charges of line and construction of sub-station on four benches against levelled ground proposed earlier. Consequently, the estimate was again revised to ₹ 6.11 crore (179 per cent higher as compared to first estimate of ₹ 2.19 crore) and the consumer was asked (August 2010) to deposit the balance amount of ₹ 2.55 crore against the actual recoverable amount of ₹ 10.68 lakh in accordance with the *ibid* provisions of HPERC regulation to hide the deficiency in preparation of estimate. Since the balance now demanded was much in excess of three per cent limit prescribed by the Regulations, the consumer (August 2010) termed the demand as unjustified and in violation of Regulations issued by the HPERC.

Thus, the failure of the Company in estimating infrastructure cost correctly coupled with not restricting the actual expenditure within the limit prescribed by the HPERC Regulations, 2005 resulted in avoidable loss due to non-recovery of ₹ 2.55 crore from the consumer.

The Company admitted (February 2011) that the balance amount of ₹ 2.55 crore is lying pending with the firm against the total revised cost of ₹ 6.11 crore.

The matter was referred to the Government/Company in April 2011; their reply is awaited (September 2011).

## General

### 3.15 Follow-up action on Audit Reports

#### *Explanatory Notes outstanding*

**3.15.1** The Audit Reports of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Governments. It is, therefore, necessary that they elicit

appropriate and timely response from the Executive. The State Finance Department issued (February 1994) instructions to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on paragraphs and performance audits included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 2008-09 and 2009-10 were presented to the State Legislature in April 2010 and April 2011, four departments did not submit explanatory notes on 18 out of 28 paragraphs/performance audits, as on 30 September 2011, as indicated below:

<b>Year of Audit Report (Commercial)</b>	<b>Date of presentation</b>	<b>Total paragraphs/performance audits in Audit Report</b>	<b>Number of paragraphs/performance audits for which explanatory notes were not received</b>
2008-09	April 2010	15	6
2009-10	April 2011	13	12
<b>Total</b>		<b>28</b>	<b>18</b>

Department wise analysis is given below:

<b>Name of department</b>	<b>2008-09</b>	<b>2009-10</b>
Power	6	9
Forest	-	1
Finance	-	1
Industries	-	1
<b>Total</b>	<b>6</b>	<b>12</b>

The Power Department was largely responsible for non-submission of explanatory notes, which did not submit explanatory notes on 15 out of 18 paragraphs/performance audits.

***Compliance to Reports of Committee on Public Undertakings (COPU)***

**3.15.2** The Action Taken Notes on the recommendations of COPU are required to be furnished within six months from the presentation of the Reports. Replies to 43 paragraphs pertaining to 22 Reports of the COPU, presented to the State Legislature between December 2008 and September 2011 had not been received as of 30 September 2011 as indicated below:

<b>Year of the COPU Report</b>	<b>Total number of Reports involved</b>	<b>No. of paragraphs where replies not received</b>
2008-09	4	4
2009-10	6	17
2010-11 (up to 30-9-2011)	12	22
<b>Total</b>	<b>22</b>	<b>43</b>

***Response to inspection reports, draft paras and performance audits***

**3.15.3** Audit observations made during audit and not settled on the spot are communicated to the heads of the Public Sector Undertakings (PSUs) and concerned departments of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of four weeks. Inspection reports issued up to March 2011 pertaining to 22 PSUs revealed that 4,155 paragraphs relating to 933 inspection reports remained outstanding at the end of 30 September 2011. The Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2011 is given in **Annexure 11**.

Similarly, performance audit reports and draft paragraphs on the working of Public Sector Undertakings are forwarded to the Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. However, one performance audit report and thirteen draft paragraphs forwarded to four departments between April 2011 and October 2011, as detailed in **Annexure 12**, had not been replied to so far (October 2011).



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

**Shimla**  
**The**



**(J.WILSON)**  
**Accountant General (Audit)**  
**Himachal Pradesh**

**Countersigned**

**New Delhi**  
**The**



**(VINOD RAI)**  
**Comptroller and Auditor General of India**