

OVERVIEW

1 Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2011, the State of Himachal Pradesh had 19 working PSUs (17 companies and two Statutory corporations) and three non-working PSUs (all companies), which employed 36,580 employees. The working PSUs registered a turnover of ₹ 4,964.59 crore for 2010-11 as per their latest finalised accounts. This turnover was equal to 9.47 per cent of State GDP indicating an important role played by the State PSUs in the economy. However, the working PSUs incurred overall loss of ₹ 189.15 crore in 2010-11 and had accumulated losses of ₹ 1,199.80 crore.

Investment in PSUs

As on 31 March 2011, the investment (Capital and long term loans) in 22 PSUs was ₹ 5,737.15 crore which increased by over 28.46 per cent from ₹ 4,465.96 crore in 2005-06. Power sector accounted for over 80 per cent of the total investment in 2010-11. The Government contributed ₹ 685.40 crore towards equity, loans and grants/subsidies during 2010-11.

Performance of PSUs

During the year 2010-11, out of 20 working PSUs (including Himachal Pradesh State Electricity Board converted into Government Company in 2010-11), seven PSUs earned profit of ₹ 10.09 crore and eight PSUs incurred loss of ₹ 199.24 crore. Three working companies have not prepared their profit and loss accounts while one Company has not prepared its first accounts since incorporation. In case of one working PSU, excess of expenditure over income was reimbursable by the State Government. The major contributors to profit were Himachal Pradesh State Civil Supplies Corporation Limited (₹ 3.15 crore) and

Himachal Pradesh Tourism Development Corporation Limited (₹ 3.08 crore). Heavy losses were incurred by Himachal Pradesh State Electricity Board (₹ 152.62 crore), Himachal Road Transport Corporation (₹ 23.07 crore) and Himachal Pradesh Financial Corporation (₹ 14.64 crore). The losses were attributable to various deficiencies in the functioning of PSUs. A review of three years Audit Reports of CAG shows that the state PSUs losses of ₹ 1,691.03 crore and infructuous investment of ₹ 3.69 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Of the 18 accounts of working companies finalised during October 2010 to September 2011, thirteen accounts received qualified certificates and five accounts received adverse certificates. There were 68 instances of non-compliance with Accounting Standards. During the year audit of accounts of two Statutory corporations was completed and received qualified certificates. The Reports of the Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Ten working PSUs had arrears of 12 accounts as of September 2011. Two non-working companies had not finalised their accounts for the year 2010-11. There were three non-working PSUs. As no purpose may be served by keeping these PSUs in existence, Government need to expedite closing down of the non-working PSUs.

2 Performance audit relating to Government Company

Performance audit relating to 'Power Distribution Activities of Himachal Pradesh State Electricity Board Limited' was conducted. Executive summary of the Audit findings is given below:

The business of distribution of power in Himachal Pradesh is carried out by Himachal Pradesh State Electricity Board Ltd. (Company). The Company was incorporated on 03 December 2009 under the Companies Act, 1956.

The Company sold 5,555.71 MUs of energy in 2006-07 and enhanced to 7,098.35 MUs in 2009-10 (an increase of 27.77 per cent). As on 31 March 2011, the Company had a distribution network of 0.87 lakh Circuit Kilometers, 184 feeding sub-stations and 22,472 distribution sub-stations of various categories servicing 19.69 lakh consumers. The Company's turnover was ₹2,978.35 crore in 2009-10.

Financial Position and Working Results

The Company has not finalised its accounts for the year 2010-11. The total loss amounted to ₹144.01 crore during four years from 2006-07 to 2009-10 even after adjusting profit of ₹34.19 crore earned during 2006-07 and 2008-09. The realisation per unit, increased from ₹3.70 in 2006-07 to ₹4.29 in 2009-10 but the same was not sufficient to cover the cost per unit which ranged between ₹3.70 to ₹4.51 per unit during the corresponding period.

Distribution Network Planning

Against the planned additions of 5,709 distribution sub-stations over the review period, only 4,217 distribution sub-stations were actually added. Further, as compared to the growth of connected load (up to 33 KV) of 3,368.19 MW in 2006-07 to 4,402.80 MW (4,892 MVA) in 2010-11 (30.72 per cent), the increase in transformer capacity was from 1,007.98 MVA to 1,228.257 MVA only (21.85 per cent).

Implementation of Centrally Sponsored Schemes

Out of 98 villages identified under the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) launched in March 2005 by the GOI, only 26 villages were electrified up to March 2011. As such, the achievement was only 26.53 per cent though funds amounting to ₹192.68 crore (89 per cent) were utilised against ₹216.29 crore received. The main reasons for under utilisation of funds were delay in award and execution of works by the Company/contractors.

Accelerated Power Development Reforms Programme

GOI sanctioned the APDRP scheme for ₹322.77 crore in 12 operation circles during 2002-03. The scheme had been closed (February 2009) after spending an amount of ₹389.19 crore.

Aggregate Technical & Commercial Losses

One of the main objectives of APDRP Scheme was to strengthen the distribution system with focus on reduction of AT & C losses to around 15 per cent. However, against this the losses remained between 23.65 per cent to 26.28 per cent in 2006-11 despite spending ₹101.44 crore on re-conductoring of HT/LT lines, re-placement of meters, service wire and conversion of LT to HT lines. Due to non-achievement of targets of AT & C losses at 15 per cent, the utility suffered loss of ₹1,322.37 crore.

State Government delayed the release of funds aggregating to ₹246.48 crore to the Company by 7 to 638 days. Delay in release of funds hampered the progress

with consequential cost escalation in seven circles. Resultantly in the initial three years only ₹59.36 crore (31.74 per cent) could be spent against sanctioned amount of ₹187.04 crore. Thus, the work could not be executed equitably over the scheme period. The cost escalation had to be borne by the Company by loan component from M/s REC on which payment of interest of ₹20.99 crore was made.

Restructured Accelerated Power Development Reforms Programme

GOI launched the Restructured APDRP in July 2008. Out of total funds of ₹125.57 crore only ₹8.15 crore had been incurred so far and funds amounting to ₹117.42 crore (93.51 per cent) were still lying un-utilised till March 2011.

Purchase of Power

During 2006-08, the actual purchase of power was much higher than the purchases approved by the SERC. Consequently, the Company had to purchase 2,759.49 MUs at higher rates in the form of overdrawal from grid and short term power purchase.

Performance of Distribution Transformers

Failure rate of DTRs was in excess of the norms fixed by SERC. The repair cost of ₹45.06 crore incurred on the repair of 4,161 transformers exceeded even the cost of same number of new transformers by ₹7.91 crore mainly due to excess supervisory staff.

Billing and Revenue Collection Efficiency

As revenue from sale of energy is the main source of income, the efficiency lies in timely billing of energy sold to consumers and prompt collection of revenue in time. The balances include outstanding dues against private categories of consumers which increased from ₹140.14 crore in 2006-07 to ₹250.63 crore in 2010-11. The Company failed to take timely action against the defaulting consumers.

Subsidy Support and Cross Subsidisation

The percentage of subsidy to sales of power decreased from 7.64 per cent in 2006-07 to 4.70 per cent in 2009-10.

The domestic consumers are largely benefited from the cross subsidisation at the cost of other categories of consumers.

Conclusion and Recommendations

The Company was not able to recover its cost of operation and its accumulated losses increased by 61.49 per cent during 2006-10. There were deficiencies in formulation of schemes. Distribution capacity could not match with the pace of load growth. The Company had incurred huge expenditure on purchase of power by over drawal from grid and under un-scheduled Inter-change due to ill planning of purchase. Huge revenue is outstanding from private categories of consumers, Government Departments and Municipal Corporations. The domestic consumers are largely benefited from cross subsidisation at the cost of other categories of consumers.

We have made seven recommendations to improve distribution segments of the power sector in the State. The Company needs to review the progress of incomplete schemes, Plan its purchase of power under long term and short term agreements to avoid purchases at higher rates; curtail its aggregate technical and commercial losses.

3 Transaction Audit Observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

- Loss of ₹ 3.51 crore in five cases due to non-compliance of rules, directives, procedure and conditions of contracts.

(Paragraphs 3.1, 3.2, 3.7, 3.8 and 3.11)

- Loss of ₹ 2.29 crore in two cases due to injudicious decision.

(Paragraph 3.3 and 3.10)

- Loss of ₹ 4.45 crore in seven cases due to inadequate/deficient monitoring.

(Paragraphs 3.4, 3.5, 3.6, 3.9, 3.12, 3.13 and 3.14)

Gist of some of the important audit observations is given below:

Himachal Pradesh State Forest Development Corporation Limited failed to deduct rebate/cash discount allowed for early payment on sale of timber before computation of TDS resulted in loss of ₹ 0.56 crore.

(Paragraph 3.6)

Himachal Pradesh State Electricity Board Limited suffered a 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 added after its up-gradation from 60 MW to 66 MW.

(Paragraph 3.10)

Himachal Pradesh State Electricity Board Limited failed to recover 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.

(Paragraph 3.11)

Himachal Pradesh State Electricity Board Limited failed in estimating infrastructure cost correctly and not restricting the expenditure within the limit prescribed by the HPERC Regulations, 2005 which resulted in non-recovery of ₹ 2.54 crore from a consumer.

(Paragraph 3.14)