



Chapter-I

Introduction



CHAPTER-1 INTRODUCTION

About the State Public Sector Undertakings

1.1 The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporations. In Himachal Pradesh, the State PSUs occupy an important place in the State economy. The investment in the PSUs as on 31 March 2014 stood at ₹ 8,909.84 crore. The working PSUs registered a turnover of ₹ 5,952.79 crore (**Appendix 1.1**) as *per* their latest finalised Annual Accounts as of September 2014. Major activities of Himachal Pradesh State PSUs are concentrated in power sector. All State PSUs had employed 34,992 employees (**Appendix 1.2**) as on 31 March 2014.

1.2 As on 31 March 2014, there were 19 Government companies and two Statutory corporations, of which Himachal Pradesh General Industries Corporation Limited is listed (April 1995) on the Delhi stock exchange.

1.3 No Company was created / merged or wound up during the year 2013-14.

Audit Mandate

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

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 the Comptroller and 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 the CAG as *per* the provisions of Section 619 (3) of the Companies Act, 1956.

1.6 Audit of Statutory Corporations is governed by their respective legislations. Out of the two Statutory Corporations, the CAG is the sole auditor for Himachal Road Transport Corporation. In respect of Himachal Pradesh Financial Corporation (HPFC), the audit is conducted by the Chartered Accountants and supplementary audit by the CAG.

Investment in State PSUs

1.7 As on 31 March 2014, the investment (capital and long-term loans) in 21 PSUs (including 619-B companies) was ₹ 8,909.84 crore as *per* details given in **Table 1.1**.

Table-1.1

(Amount: ₹ in crore)

PSUs	Type	Number	Capital	Loan	Total
Working PSUs	Government companies ¹	17	2,330.92	5,664.02	7,994.94
	Statutory corporations ²	2	640.91	195.20	836.11
	Total	19	2,971.83	5,859.22	8,831.05
Non working PSUs ³	Government companies	2 ⁴	18.64	60.15	78.79
	Statutory corporations	-	-	-	-
	Total	2	18.64	60.15	78.79
	Grand total	21	2,990.47	5,919.37	8,909.84

A summarised position of government investment in State PSUs is detailed in **Appendix 1.2**.

1.8 As on 31 March 2014, of the total investment in State PSUs, 99.12 *per cent* was in working PSUs and the remaining 0.88 *per cent* in non-working PSUs. The total investment consisted of 33.56 *per cent* as capital and 66.44 *per cent* as long-term loans. The equity has increased from ₹ 1,948.65 crore in 2009-10 to ₹ 3,260.73 crore in 2012-13, but decreased to ₹ 2,990.47 crore in 2013-14 and the long term loans increased from ₹ 2,672.18 crore in 2009-10 to

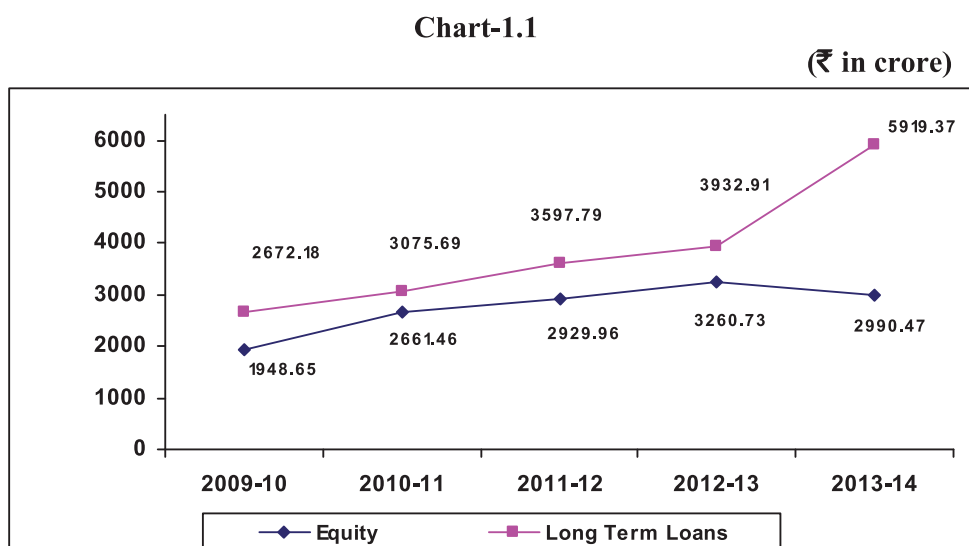
¹ Includes three 619-B companies (Beas Valley Power Corporation Limited, Himachal Pradesh Power Corporation Limited and Himachal Pradesh Power Transmission Corporation Limited).

² Himachal Pradesh Financial Corporation and Himachal Road Transport Corporation.

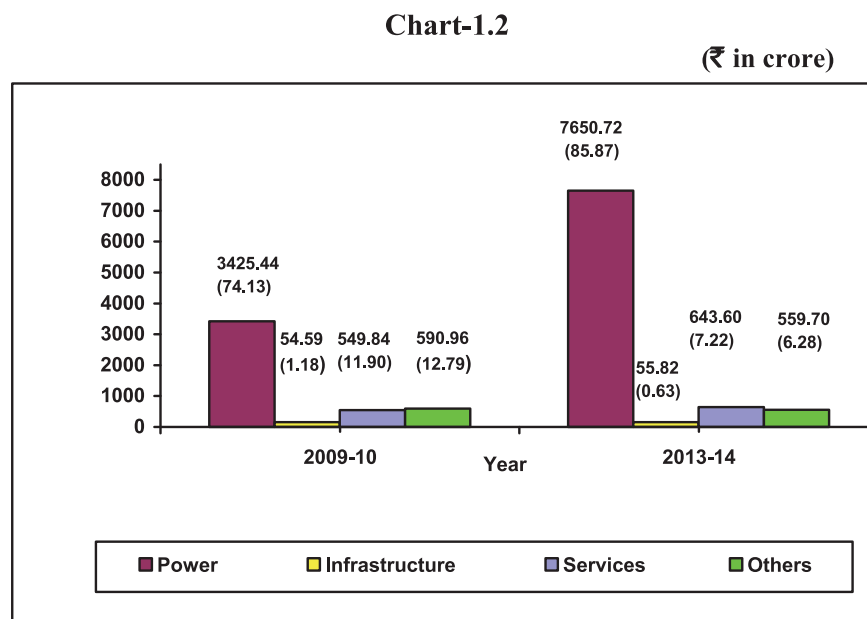
³ Non-working PSUs are those which have ceased to carry on their operations.

⁴ Agro Industrial Packaging India Limited and Himachal Worsted Mills Limited.

₹ 5,919.37 crore in 2013-14, as shown in the **Chart -1.1**.



1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2010 and 31 March 2014 is indicated below in the bar **Chart -1.2**.



(Figures in brackets show the Sector percentage to total investment)

During 2009-14, the major investment was in the power sector. The percentage of investment in power sector has increased from 74.13 per cent in 2009-10 to 85.87 per cent in 2013-14 of total investment mainly due to

increase in investment in Himachal Pradesh Power Corporation Limited and Himachal Pradesh State Electricity Board Limited.

Budgetary outgo, grants/subsidies, guarantees and loans

1.10 The details regarding budgetary outgo towards equity, loans, grants / subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Appendix 1.3**. The summarised details for the last three years ended 31 March 2014 are given in **Table 1.2**.

Table-1.2

(Amount: ₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	5	227.19	6	303.23	6	261.77
2.	Loans given from budget	-	-	1	5.00	1	49.20
3.	Grants / Subsidy received	7	495.50	7	710.37	7	417.84
4.	Total Outgo (1+2+3)	10 ⁵	722.69	10 ⁵	1,018.60	9 ⁵	728.81
5.	Loans converted into equity	-	-	1	0.50	1	7.05 ⁶
6.	Guarantees issued	6	1,278.60	7	1,567.31	9	2,332.54
7.	Guarantee Commitment	8	1,159.87	9	1,534.08	9	2,768.03
8.	Guarantee fee	1	0.01	2	0.07	2	0.09

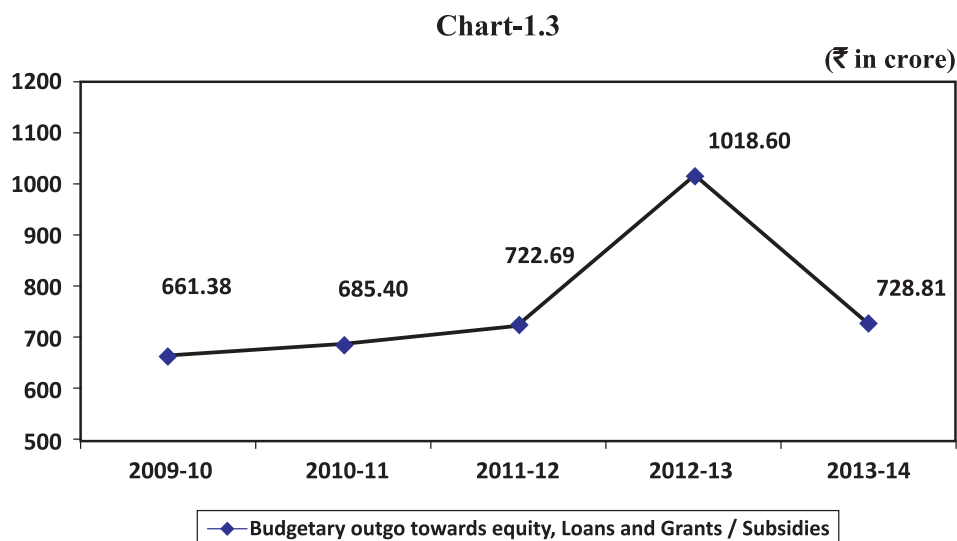
The decrease in Grant / Subsidy during the year 2013-14 was mainly due to decrease in grant / subsidy in respect of Himachal Pradesh Road and Other Infrastructure Development Corporation Limited (HPRIDC), Himachal Pradesh State Electricity Board Limited (HPSEBL) and Himachal Road Transport Corporation (HRTC). Further, the increase in Guarantees issued during 2013-14 was mainly due to loan guaranteed in respect of Himachal Pradesh State Forest Development Corporation Limited, Himachal Pradesh

⁵ Represent actual number of companies / corporations which received budgetary support in the form of equity, loans, grants and subsidies from the State Government during respective years.

⁶ State Government converted loans and interest into equity during 2008-09 in respect Himachal Pradesh Agro Industries Corporation Limited, but the Company has included it as share application money in annual accounts for the year 2011-12 finalised during 2013-14.

Financial Corporation (HPFC), HPSEBL and Himachal Road Transport Corporation (HRTC).

1.11 The details regarding budgetary outgo towards equity, loans and grants / subsidies for the past five years are given in the **Chart-1.3**.



The budgetary support in the form of equity, loans and grants / subsidies by the State Government during the years 2009-10 to 2013-14 showed a varying trend. The budgetary outgo which stood at ₹ 661.38 crore in 2009-10 increased to ₹ 1,018.60 crore in 2012-13, but decreased to ₹ 728.81 crore in 2013-14. The decrease was mainly due to less grants of equity / loans and grants / subsidies to HPRIDC, HPSEBL and HRTC.

1.12 During 2013-14, the Government had guaranteed loans aggregating ₹ 2,332.54 crore obtained by nine PSUs as given in the **Appendix 1.3**. At the end of 2013-14, guarantee commitment stood at ₹ 2,768.03 crore (nine PSUs) as against ₹ 1,534.08 crore (nine PSUs) during 2012-13. The increase was mainly due to increase in guarantee commitment in respect of HPSEBL and HRTC.

Reforms in Power Sector

1.13 *Unbundling of Himachal Pradesh State Electricity Board*

Pursuant to Electricity Act, 2003, the Government of Himachal Pradesh constituted three companies *viz*, Himachal Pradesh Power Corporation Limited (HPPCL) a generation utility, Himachal Pradesh Power Transmission Corporation Limited (HPPTCL) a transmission utility and Himachal Pradesh State Electricity Board Limited (HPSEBL) a distribution utility in December 2006, August 2008 and December 2009, respectively to unbundle the Himachal Pradesh State Electricity Board (HPSEB). The Government of

Himachal Pradesh notified the Himachal Pradesh Power Sector Reforms Transfer Scheme, 2010 (June 2010) to transfer the assets amongst the three companies.

All assets, properties, interest on properties and contingencies already transferred to HPPCL would remain vested in HPPCL. However, 21 hydroelectric power projects having total generating installed capacity of 477.450 MW along with distribution activities would be maintained by HPSEBL and only six new hydroelectric projects having generating capacity of 986 MW had been transferred to HPPCL for construction. In addition, the HPSEBL has one project of 10 MW capacity under execution and the state government has also allotted four new hydroelectric projects having total installed capacity of 70.50 MW to HPSEBL for construction in April 2013.

All assets and liabilities relating to transmission lines (not being essential part of distribution system or the dedicated lines from existing or future power house of HPSEBL) shall stand vested / transferred to HPPTCL. Accordingly 14 existing transmission lines of 66 KV and above (278.860 CKM) were transferred to HPPTCL during 2009-11.

Thus HPSEBL is still managing / operating all its existing generating and transmission network except 14 transmission lines *ibid*, along with distribution activities, therefore, the very purpose of unbundling of the Board in true spirit as envisaged in Electricity Act, 2003 has not been achieved.

1.14 Implementation of Financial Restructuring Plan

A Financial Restructuring Plan (FRP) for debt ridden State Distribution Companies (DISCOMS) to enable their financial turnaround by restructuring their debt was notified by the Government of India (GoI), Ministry of Power in October 2012.

The scheme *inter alia* covers 50 per cent of the outstanding short term liabilities (on account of outstanding short term loans and payable for power purchase) of the DISCOMS corresponding to accumulated losses of the DISCOM as on 31.03.2012. This was first to be converted into bonds to be issued by the DISCOM to participating lenders, duly backed by the State Government guarantee. The State Government had to take over the liabilities during the next 2-5 years by issuance of special securities in favour of participating lenders in a phased manner keeping in view the fiscal space available. Balance 50 per cent of STL has to be rescheduled by lenders with moratorium period of three years on principal and the repayment of principal and interest to be fully secured by the State Government guarantees.

As per the FRP, the reference date of restructuring of loans was 31.03.2012. It was noticed in audit that the reference date for the purpose was taken as 31.07.2013. This was in contravention of GoI Guidelines and was not approved by GoI as on date.

As per the Scheme the amount to be re-structured was limited to 50 per cent of the STL as on 31.03.2012 limited to amount of accumulated losses as on 31.03.2012. Since the accumulated losses as on 31.03.2012 were ₹ 1,398.35 crore, the amount of STL to be re-structured should not exceed ₹ 1,398.35 crore. However, the Company got approved from State Government, an amount of ₹ 1,462.50 crore under FRP, 50 per cent of this amount (₹ 731.25 crore) was to be issued as bonds by the Company initially and had to be taken over by the State Government during the next 2 to 5 year by issuance of special security in favour of participating lenders. It was noticed in audit that the state government has approved issue of bonds of ₹ 564.25 crore only, out of which bonds worth ₹ 265.29 crore have been issued as on date. Thus the company is yet to restructure ₹ 429.27 crore (₹ 1,462.50-₹ 767.94-₹ 265.29). Against an amount of ₹ 731.25 crore, 50 per cent of ₹ 1,462.50 crore the company had restructured the loans with the banks for an amount of ₹ 767.94 crore.

It was further noticed in audit that the mandatory conditions regarding payment of subsidy upfront by State Government as per section 65 of Electricity Act, 2003, installing of prepaid meters in the premises of frequent defaulters and preparation of accounts in alignment with the provisions of Companies Act, 1956 (accounts for the year 2012-13 and 2013-14 were yet to be finalised) have not been complied with (November 2014). Tariff order was required to be notified by 30 April of each financial year. However, it was noticed in audit that the tariff order for the year 2013-14 & 2014-15 were issued in May 2013 & June 2014 respectively.

Thus, it may be concluded that the company had not carried out the FRP as per the scheme approved by GoI and may result in non-receipt of incentives provided in the scheme. Moreover the stated objectives of scheme for bringing the financial discipline and commercial orientation to the functioning of DISCOMS remained unachieved.

The Management stated (September 2014) that as most of the STL outstanding as on 31 March 2013 had been repaid by the Company, therefore STL outstanding as on 31 July 2013 were taken for restructuring. As on August 2014 out of approved amount of ₹ 1,462.50 crore, the loans of ₹ 1,033.23 crore have been got restructured / converted in to bonds and new loans have been received from the banks. The fact remains that FRP is not in accordance with the scheme of GoI and the mandatory conditions have not been implemented so far.

Reconciliation with Finance Accounts of the Government

1.15 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the Government. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation

of differences. The position in this regard as at 31 March 2014 is indicated in **Table 1.3.**

Table-1.3

(Amount: ₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	1,830.50	1,897.86	(-) 67.36
Loans	- ⁷	1,759.18	-
Guarantees	2,755.12	2,768.03	(-) 12.91

Audit observed that the difference of ₹ 67.36 crore occurred in respect of eight⁸ PSUs. The difference in guarantees was also observed in respect of three PSUs viz. Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited, Himachal Pradesh Minorities Finance and Development Corporation and Himachal Financial Corporation Limited. The concerned administrative departments, PSUs and Finance Department were requested every quarter to take necessary action to reconcile the differences.

Performance of Public Sector Undertakings (PSUs)

1.16 Out of 19 working PSUs⁹ for which the latest accounts were finalised up to 30 September 2014, nine PSUs earned profit of ₹ 23.62 crore and six PSUs incurred loss of ₹ 646.37 crore. Three¹⁰ working Government companies have not prepared their profit and loss accounts whereas in respect of one working Government company viz. (Himachal Pradesh Road and Other Infrastructure Development Corporation Limited), excess of expenditure over income is reimbursable by the State Government. The major contributors to profit were Himachal Pradesh Horticulture Produce Marketing and Processing Corporation Limited (₹ 6.53 crore), Himachal Pradesh State Industrial Development Corporation Limited (₹ 3.89 crore) and Himachal Pradesh General Industries Corporation Limited (₹ 3.66 crore). The heavy losses were incurred by Himachal Pradesh State Electricity Board Limited (₹ 512.76 crore), Himachal Road Transport Corporation (₹ 110.95 crore), and Himachal Pradesh Financial Corporation (₹ 16.49 crore). Further, Summarises Financial Results including net profit / loss, turnover, return on capital employed, etc. of Government companies and Statutory corporations for the year for which accounts were finalised as of 30 September 2014 is given in **Appendix 1.1.**

1.17 A review of latest three years Audit Reports of the CAG shows that the State PSUs incurred controllable / avoidable expenditure of ₹ 2,053.29 crore,

⁷ Government companies and Statutory corporations wise statement of outstanding loans is not included in the Finance Accounts for 2013-14.

⁸ HPAIC, HBCF&DC, HPMF&DC, HPSIDC, HPGIC, HPPTCL, HPSEBL and HPFC.

⁹ For the year 2010-11 (two PSUs), 2011-12 (four PSUs), 2012-13 (nine PSUs) and 2013-14 (four PSUs).

¹⁰ Beas Valley Power Corporation Limited, Himachal Pradesh Power Corporation Limited and Himachal Pradesh Power Transmission Corporation Limited.

expenditure which was not recoverable ₹ 128.82 crore and infructuous investment of ₹ 2.42 crore which were controllable with better management. The year wise details from Audit Reports of CAG as given in **Table 1.4** below:

Table-1.4

(Amount: ₹ in crore)

Particulars	2011-12	2012-13	2013-14	Total
Expenditure not recoverable	10.05	95.01	23.76	128.82
Controllable/avoidable expenditure	1,323.52	318.72	411.05	2,053.29
Infructuous Investment	1.91	0.51	-	2.42
Total	1,335.48	414.24	434.81	2,184.53

1.18 The State Government had formulated (April 2011) a dividend policy under which all profit making PSUs (except those in welfare and utility sector) are required to pay a return at the rate of five *per cent* on government equity subject to a ceiling of 50 *per cent* of profit after tax. As *per* their latest finalised accounts, nine PSUs earned an aggregate profit of ₹ 23.62 crore out of which only one company *viz.*, Himachal Pradesh State Industrial Development Corporation Limited paid a dividend of ₹ 1.54 crore at the rate of 5 *per cent* of its paid up capital (₹ 30.82 crore).

Arrears in finalisation of accounts

1.19 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 details of progress made by working PSUs in finalisation of accounts by September of respective year are given in **Table 1.5**.

Table-1.5

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
1.	Number of working PSUs	21	19	19	19	19
2.	Number of accounts finalised during the year	22	21	15	15	16
3.	Number of accounts in arrears	14	12	16	20	23
4.	Average arrears <i>per</i> PSU (3/1)	0.67	0.63	0.84	1.05	1.21
5.	Number of working PSUs with arrears in accounts	12	10	10	12	15
6.	Extent of arrears	1 to 2 years	1 to 2 years	1 to 2 years	1 to 3 years	1 to 3 years

1.20 The average number of accounts in arrears *per* working PSUs decreased from 0.67 in 2009-10 to 0.63 in 2010-11 but again increased to 0.84 in 2011-12 to 1.21 in 2013-14. The PSUs having arrears of accounts need to take effective measures for early clearance of backlog and finalise the accounts up to 2013-14.

1.21 Out of two non-working PSUs, Himachal Worsted Mills Limited had gone into liquidation process and Agro Industrial Packaging India Limited had finalised its accounts up to date.

1.22 The State Government had invested ₹ 363.81 crore (Equity: ₹ 133.79 crore, loans: ₹ 49.20 crore and grants: ₹ 180.82 crore) in nine PSUs during the years for which accounts have not been finalised as detailed in **Appendix 1.4**. 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. Thus, Government's investment in such PSUs remains outside the scrutiny of the State Legislature.

1.23 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 were informed every quarter by 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 (October 2014) with the Chief Secretary / Director, Institutional Finance and Public Enterprises to expedite clearance of backlog of arrears in accounts in a time bound manner.

Winding up of non-working PSUs

1.24 There were two non-working PSUs (all companies) as on 31 March 2014. The stages of closure in respect of non-working PSUs are given in **Table 1.6**.

Table-1.6

Sl. No.	Particulars	Companies
1.	Total No. of non-working PSUs	2 ¹¹
2.	Of (1) above, the No. under:	
	(a) Liquidation by Court (liquidator appointed)	-
	(b) Voluntary winding up (liquidator appointed)	1
	(c) Closure, <i>i.e.</i> closing orders/ instructions issued but liquidation process not yet started	1

¹¹ Agro Industrial Packaging India Limited and Himachal Worsted Mills Limited.

Of these, Himachal Worsted Mills Limited has commenced liquidation process.

Accounts Comments

1.25 Fifteen working companies forwarded their 16 accounts to Audit during the period from October 2013 to September 2014. Of these, 14 accounts of 13 working companies were selected for supplementary audit. The details of aggregate money value of comments of the Statutory auditors and the CAG for Government companies are given in **Table 1.7**.

Table-1.7

(Amount: ₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	2	56.40	3	32.81	5	92.42
2	Increase in loss	3	12.49	2	370.13	4	636.59
3.	Decrease in loss	-	-	1	0.63	-	-
4	Increase in profit	-	-	2	1.06	1	0.85
	Total	5	68.89	8	404.63	10	729.86

It can be seen that average impact of audit comments *per* account causing 'increase in profit/loss' or 'decrease in profit/loss' increased from ₹ 13.78 crore (2011-12) to ₹ 72.99 crore (2013-14). The audit reports of Statutory auditors appointed by the CAG and the supplementary audit of the CAG indicate that the quality of maintenance of accounts needs to be improved substantially.

1.26 During the year, the Statutory auditors had given qualified certificates in respect of 15 accounts. Out of these, adverse certificates (which mean that accounts do not reflect a true and fair position) in respect of six accounts were given by the Statutory auditors. The compliance of companies with regard to the Accounting Standards remained poor as there were 59 instances of non-compliance in 8 Annual Accounts during the period from October 2013 to September 2014.

1.27 Some of the important comments in respect of the Annual Accounts of the companies finalised during the period from October 2013 to September 2014 are stated below:

Himachal Pradesh State Forest Development Corporation Limited (2010-11)

- Work in progress includes ₹ 2.54 crore being royalty of 13 timber lots for the year 2011-12 in respect of Forest Working Division, Shimla. These lots should have been accounted for during 2011-12 instead of 2010-11.
- Work in progress also includes an amount of ₹ 2.40 crore representing value of rotten/hollow trees from which timber could not be extracted. The value of these rotten/hollow trees was to be adjusted against royalty payable to the state government. Non adjustment has resulted in overstatement of Current Assets – Work-in-progress as well as Current Liabilities – Sundry Creditors.
- Sundry creditors does not include an amount of ₹ 2.91 crore being interest payable to Forest Department due to non payment of royalty on due dates.

Himachal Pradesh State Electricity Board Limited (2011-12)

- Trade payable does not include ₹ 16.08 crore on account of transmission charges payable to Himachal Pradesh Power Transmission Corporation Limited (₹ 11.71 crore) and Power Grid Corporation of India Limited (₹ 4.37 crore), and also
- ₹ 16.39 crore on account of purchase of Power from National Hydro Power Corporation Limited.
- Other current liabilities does not include ₹ 1.36 crore being interest payable on delay in payment of energy bills to Power Trading Corporation.

Himachal Pradesh State Industrial Development Corporation Limited (2012-13)

- Other non-current assets do not include an amount of ₹ 85.32 lakh recoverable from Life Insurance Corporation on account of gratuity paid to the employees of the Company on superannuation during 2011-12 and 2012-13.
- Sundry creditors for supplies includes an amount of ₹ 11.43 crore being advance payment made by Himachal Pradesh Public Works Department to Indian Oil Corporation for supply of bitumen. The Company has shown this amount under head Trade Payable Sundry Creditors for supplies with corresponding debit to short term loans and advances other recoverable in the accounts. This has resulted in overstatement of trade payable sundry creditors for supplies as well as loan and advances other recoverable by ₹ 11.43 crore.

1.28 Similarly, out of two working statutory corporations, HPFC forwarded its accounts for the year 2013-14 to Audit during the period from October 2013 to September 2014 and one account in respect of HRTC (2012-13) was finalised during the same period. Of these, one account of a statutory corporation (HRTC) pertains to sole audit by the CAG. The audit reports of

statutory auditors and the sole/supplementary audit of the CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of the Statutory auditors and the CAG for statutory corporations are given in **Table 1.8**.

Table-1.8

(Monetary value: ₹ in crore)

Sl. No.	Increase in loss	2011-12		2012-13		2013-14	
		No. of accounts	Monetary value	No. of accounts	Monetary value	No. of accounts	Monetary value
1.	Statutory Auditors' comments	-	-	-	-	1	-
2.	CAG's comments	1	2.74	2	70.32	2	0.47
	Total	1	2.74	2	70.32	3	0.47

The major impact of audit comments pertains to HPFC during 2011-12 and HRTC during 2012-13.

1.29 From October 2013 to September 2014, the audit of accounts of HPFC for the year 2013-14 and HRTC for the year 2012-13 were completed. Some of the important comments in respect of the accounts of these statutory corporations are stated below:

Himachal Road Transport Corporation (2012-13)

- Current liabilities does not include ₹ 2.12 crore being Himachal Pradesh Special Road Tax recovered from passengers despite exemption granted by the state government in respect of buses operated under Jawahar Lal Nehru National Urban Renewal Mission.

Himachal Pradesh Financial Corporation (2013-14)

- Share application money includes an amount of ₹ 3.00 crore paid to the Himachal Road Transport Corporation as subsidy by the Government of Himachal Pradesh routed through the Corporation. Treating this as investment instead of subsidy has resulted in overstatement of both Share Application Money and Investment.

Internal Control / Internal Audit

1.30 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 one company for the year

2010-11¹², four companies for the year 2011-12¹³, seven companies¹⁴ for the year 2012-13 and three companies¹⁵ for the year 2013-14 are detailed in **Appendix 1.5**. It shows that PSUs need to improve their internal audit systems commensurate with the nature and size of business, devise suitable systems for provision of retiral dues, inventory management, introduction of information technology *etc.* for better results.

Recoveries at the instance of audit

1.31 The audit findings involving recoveries that came to notice in the course of test audit of accounts of the PSUs were referred to the PSUs / State Government through Audit Inspection Reports for further investigation and in case of overpayments / excess payment, recovery of the same under intimation to audit.

During the course of audit in 2013-14, recoveries of ₹ 63.41 crore were pointed out to the Management of various PSUs, which were admitted by PSUs. Against this, an amount of ₹ 5.30 crore was recovered during the year 2013-14.

Response of the departments to Audit Report material

1.32 For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2014, one performance audit involving ₹ 401.38 crore and 10 audit paragraphs involving ₹ 33.43 crore were issued to the Additional Chief Secretaries / Principal Secretaries of the respective Departments with request to furnish replies within six weeks. However, reply in respect of performance audit and four transactions audit paragraphs involving a money value of ₹ 4.07 crore was awaited from the State Government (November 2014).

Follow-up on Audit Reports

Explanatory Notes outstanding

1.33 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 Government. 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

¹² Sr. No. 6 of **Appendix 1.1**.

¹³ Sr. No. 1, 3, 5 and 13 of **Appendix 1.1**.

¹⁴ Sr. No. 2, 8, 11, 12, 14, 16 and 17 of **Appendix 1.1**.

¹⁵ Sr. No. 7, 10 and 15 of **Appendix 1.1**.

Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 2011-12 and 2012-13 were presented to the State Legislature in April 2013 and February 2014 respectively, four departments had not submitted explanatory notes on 19 out of 28 paragraphs / performance audits as of 30 September 2014, as indicated in **Table 1.9**.

Table-1.9

Year of Audit Report on PSUs (Economic Sector)	Date of presentation	Total paragraphs/ performance audits in Audit Report	Number of paragraphs / performance audits for which explanatory notes were not received
2011-12	April 2013	14	6
2012-13	February 2014	14	13
Total		28	19

Department wise analysis is also given in **Table 1.10**.

Table-1.10

Name of department	2011-12	2012-13
Power	5	7
Food & Supplies	1	1
Forests	-	4
Industries	-	1
Total	6	13

The Power Department was largely responsible for non-submission of explanatory notes, as it did not submit explanatory notes on 12 out of 19 paragraphs / performance audits.

Compliance to Reports of Committee on Public Undertakings (COPU)

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 14 paragraphs pertaining to 9 Reports of the COPU, presented to the State Legislature between August 2013 and February 2014 had not been received as of September 2014 as indicated in **Table 1.11**.

Table-1.11

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where replies not received
2013-14 (up to 30.09.2014)	9	14
Total	9	14

Response to inspection reports, draft paras and performance audits

Audit observations made during audit and not settled on the spot were communicated to the heads of the Public Sector Undertakings (PSUs) and concerned departments of the State Government through inspection reports. The heads of PSUs were required to furnish replies to the inspection reports through respective heads of departments within period of four weeks. Inspection reports issued up to March 2014 to 20 PSUs revealed that 4,522 paragraphs relating to 1,054 inspection reports remained outstanding at the end of 30 September 2014. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2014 is given in **Appendix 1.6**.

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 four draft paragraphs forwarded to four departments between April 2014 and August 2014, had not been replied so far (November 2014).

It is also recommended that the Government may ensure (a) sending of replies to inspection reports / draft paragraphs / Action Taken Notes on the recommendations of COPU as *per* the prescribed time schedule, (b) recovery of loss / outstanding advances / overpayments within the prescribed time schedule, and (c) revamping of the system of responding to audit observations.

Status of placement of Separate Audit Reports

1.34 Separate Audit Reports (SARs) issued by the CAG on the accounts of the two Statutory Corporations for the period up to 2012-13 have been placed (December 2013) in the State Legislature by the State Government.

Disinvestment, Privatisation and Restructuring of PSUs

1.35 During the year 2013-14, there was no case of disinvestment and privatisation of Government companies and statutory corporations. The State Government had not prepared any plan for disinvestment of State PSUs.

Coverage of this Report

1.36 This Report contains 10 paragraphs and one Performance audit on 'Sawra Kuddu Hydro Electric Project' (executed by Himachal Pradesh Power Corporation Limited) involving a financial effect of ₹ 434.81 crore.