CHAPTER-VI

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

6.1 Overview of Government companies and Statutory corporations

Introduction

6.1.1 As on 31 March 2005, there were 18 Government companies (14 working companies and four non-working companies[#]) and three working Statutory corporations as against same number of companies/corporations as on 31 March 2004 under the control of the State Government. The accounts of the 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 provision of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangements of the Statutory corporations are as shown below:

Table: 6.1

Name of the Corporation	**Authority for audit by the CAG**	**Audit arrangement**
Himachal Pradesh State Electricity Board (HPSEB)	Under Rule 14 of the Electricity (Supply) (Annual accounts) Rules 1985 read with Section 185 (2) (d) of the Electricity Act, 2003[*]	Sole audit by the CAG
Himachal Road Transport Corporation (HRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by the CAG
Himachal Pradesh Financial Corporation (HPFC)	Section 37(6) of the State Financial Corporations Act, 1951	Audit by the Chartered Accountants and supplementary audit by the CAG

The State Government had formed (December 2000) the Himachal Pradesh Electricity Regulatory Commission and its audit is entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003[**].

Non-working companies are those which are under the process of liquidation/closure/merger, etc.

* The earlier provision of Section 69 (2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003.

** Earlier Section 34 (4) of the Electricity Regulatory Commissions Act, 1998 repealed by the Electricity Act, 2003.

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

6.1.2 As on 31 March 2005, the total investment in 17 working Public Sector Undertakings (14 Government companies and three Statutory corporations) was Rs 3,561.30 crore[#] (equity: Rs 693.45 crore, long-term loans*: Rs 2,865.77 crore and share application money: Rs 2.08 crore) as against 17 working PSUs (14 Government companies and three Statutory corporations) with a total investment of Rs 3,683.54 crore (equity: Rs 677.33 crore, long-term loans: Rs 3,006.19 crore and share application money: Rs 0.02 crore) as on 31 March 2004.

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2005 and 31 March 2004 are indicated below in the pie charts:

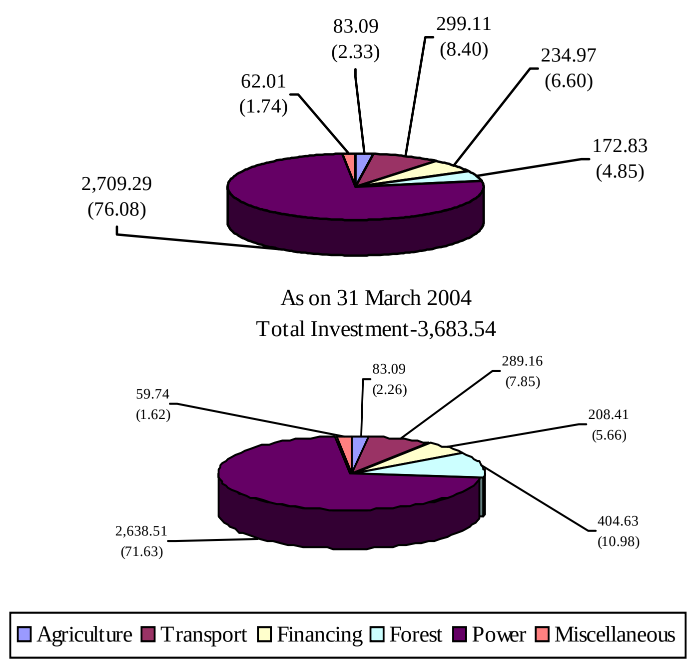
Sector-wise investment in working Governemnt companies and corporations

(Rupees in crore)

(Figures in brackets are percentage)

As on 31 March 2005

Total Investment-3,561.30



The analysis of investment in working PSUs is given in the

\# State Government's investment in working PSUs was Rs 725.71 crore (others: Rs 2,835.59 crore). Figure as per Finance Accounts 2004-2005 is Rs 705.98 crore. The difference is under reconciliation.

* Long-term loans mentioned in paragraphs 6.1.2, 6.1.3, 6.1.4 and 6.1.15 are excluding interest accrued and due on such loans.

following paragraphs.

Working Government companies

6.1.3 Total investment in working Government companies at the end of March 2004 and March 2005 was as follows:

Table: 6.2

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2003-2004	14	128.95	0.02	464.78	593.75
2004-2005	14	130.66	2.08	225.46	358.20

The decrease in investment was mainly due to repayment of long-term loans by the three companies (serial number 8,12 and 14 of **Appendix-XXX**).

The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in **Appendix-XXX**.

As on 31 March 2005, the total investment in working Government companies comprised 37.06 *per cent* of equity and 62.94 *per cent* of loans as compared to 21.72 and 78.28 *per cent*, respectively, as on 31 March 2004.

Due to significant decrease in long-term loans mainly in three companies, the debt equity ratio of working Government companies as a whole decreased from 3.60:1 in 2003-2004 to 1.70:1 in 2004-2005.

Working Statutory corporations

6.1.4 The total investment in the three working Statutory corporations at the end of March 2004 and March 2005 was as follows:

Table: 6.3

(Rupees in crore)

Name of corporation	2003-2004		2004-2005	
	Capital	Loan	Capital	Loan
Himachal Pradesh State Electricity Board (HPSEB)	280.00	2,358.51	282.11	2,427.18
Himachal Road Transport Corporation (HRTC)	240.21	48.95	252.51	46.60
Himachal Pradesh Financial Corporation (HPFC)	28.17	133.95	28.17	166.53
Total	**548.38**	**2,541.41**	**562.79**	**2,640.31**

The increase in investment was mainly due to increase in capital (serial number 15 and 16 of **Appendix-XXX**) and long-term loans (serial number 15 and 17 of **Appendix-XXX**).

The summarised statement of Government investment in the working Statutory corporations in the form of equity and loans is detailed in **Appendix-XXX**.

As on 31 March 2005, the total investment in the working Statutory corporations comprised 17.57 *per cent* equity capital and 82.43 *per cent* loans as compared to 17.75 and 82.25 *per cent*, respectively, as on 31 March 2004.

Due to significant increase in long-term loans, the debt equity ratio of the working Statutory corporations as a whole increased from 4.63:1 in 2003-2004 to 4.69:1 in 2004-2005.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

6.1.5 The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of the working Government companies and working Statutory corporations are given in **Appendices-XXX and XXXII**.

The budgetary outgo in the form of equity and loans and grants/subsidies from the State Government to the working Government companies and Statutory corporations for the three years up to 2004-2005 is given below:

Table: 6.4

(Amount: Rupees in crore)

	2002-03				2003-04				2004-05			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity	3	1.42	1	11.00	3	1.90	2	30.70	3	1.70	2	14.41
Loans	-	-	-	-	-	-	-	-	-	-	1	6.76
Grants	2	1.07	-	-	1	1.07	-	-	-	-	-	-
Subsidy	4	11.61	3	57.34	2	2.39	3	94.09	3	5.39	3	79.25
Total outgo	**9***	**14.10**	**3***	**68.34**	**6***	**5.36**	**3***	**124.79**	**6***	**7.09**	**3***	**100.42**

* These are actual number of companies/corporations which received budgetary support in the form of equity, loans, grants and subsidy from the State Government during respective year.

During 2004-2005, the Government guaranteed loans aggregating Rs 243.10 crore obtained by four Government companies (Rs 22.60 crore) and two Statutory corporations (Rs 220.50 crore). At the end of the year guarantees amounting to Rs 2,896.33 crore against eight Government companies (Rs 179.04 crore) and three Statutory corporations (Rs 2,717.29 crore) were outstanding. There was no case of default in repayment of guaranteed loans during the year. The Government had not forgone any amount by way of loans written off or interest waived or given moratorium on loan repayment during the year. During 2004-2005, Government converted interest of Rs 2.06 crore on loan into equity in respect of one working Government company (serial number 4 of **Appendix-XXX**). The guarantee commission payable to Government by one Statutory corporation (HPSEB) during 2004-2005 was Rs 1.19 crore.

Finalisation of accounts by PSUs

6.1.6 The accounts of 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 read with Section 19 of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year. Similarly, in the case of Statutory corporations their accounts are finalised, audited and presented to the Legislature as per the provisions of the respective Acts.

However, as can be seen from **Appendix-XXXI**, out of 14 working Government companies and three working Statutory corporations, seven companies and all the three corporations had finalised their accounts for 2004-2005 as on 30 September 2005. During October 2004 to September 2005, six Government companies finalised six accounts for the previous years. The accounts of seven Government companies were in arrears for periods ranging from one to five years as on 30 September 2005, as detailed below:

Table: 6.5

Sr. No.	Number of working companies	Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial number of Appendix-2
1	1	2000-2001 to 2004-2005	5	8
2	1	2003-2004 and 2004-2005	2	10
3	5	2004-2005	1	1, 2, 9, 11 and 13

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the 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 had been taken, as a result, of which the net worth of these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

6.1.7 The summarised financial results of working PSUs (Government companies and Statutory corporations) as per the latest finalised accounts are given in **Appendix-XXXI**. Besides, statements showing the financial position and the working results of individual working Statutory corporations for the latest three years for which accounts have been finalised are given in **Appendices-XXXIII and XXXIV** respectively.

According to the latest finalised accounts, eight companies and all the three corporations had incurred an aggregate loss of Rs 17.67 crore and Rs 71.65 crore respectively and six companies had earned an aggregate profit of Rs 8.90 crore.

Working Government companies

Profit earning working companies and dividend

6.1.8 Out of seven working Government companies which finalised their accounts for 2004-2005 by September 2005, four* companies earned an aggregate profit of Rs 7.25 crore and only one company (serial number 12 of **Appendix-XXXI)** declared dividend aggregating Rs 70.30 lakh. The dividend as a percentage of share capital (Rs 42.73 crore) in the above four profit making companies worked out to 1.65. The remaining three profit making companies did not declare any dividend. The total return by way of dividend of Rs 70.30 lakh worked out to 0.59 *per cent* in 2004-2005 on total equity investment of Rs 119.91 crore by the State Government in all the Government companies as against 0.21 *per cent* in the previous year. The State Government has formulated (August 1982) a dividend policy for payment of minimum dividend of three *per cent.* However, these guidelines were complied with by only one company.

Similarly, out of six working companies which finalised their accounts for the previous years during October 2004 to September 2005, only one company

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* **Serial number 4, 5, 12 and 14 of** Appendix-XXXI.

(serial number 2 of **Appendix-XXXI**) earned a profit of Rs 1.28 crore (this company earned profit for two successive years).

Loss incurring working companies

6.1.9 Of the eight loss incurring working Government companies, four companies (serial number 3, 6, 7 and 8 of **Appendix-XXXI**) had accumulated losses aggregating Rs 80.36 crore which exceeded their aggregate paid-up capital of Rs 37.66 crore. Further, one company (serial number 2 of **Appendix-XXXI**) earned profit as per latest available accounts, and its accumulated losses of Rs 26.16 crore exceeded its paid up capital of Rs 17.81 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of subsidy, etc. According to available information, the total financial support provided by the State Government by way of subsidy during 2004-2005 to two out of these four companies (serial number 3 and 7 of **Appendix-XXXI**), amounted to Rs 4.24 crore.

Working Statutory corporations

Loss incurring Statutory corporations

6.1.10 All the three working Statutory corporations incurred losses aggregating Rs 71.65 crore as per their latest annual accounts. Himachal Road Transport Corporation and Himachal Pradesh Financial Corporation had accumulated losses aggregating Rs 452.12 crore which exceeded their aggregate paid-up capital of Rs 280.68 crore. Despite their poor performance, State Government assisted these corporation through equity and subsidy of Rs 59.32 crore during 2004-2005.

Operational performance of working Statutory corporations

6.1.11 The operational performance of the Statutory corporations is given in **Appendix-XXXV**.

Return on Capital Employed

6.1.12 As per the latest finalised accounts (up to September 2005), the capital employed* worked out to Rs 739.18 crore in 14 working companies and total return+ thereon amounted to Rs 4.17 crore, which is 0.56 *per cent* as compared to total return of Rs 13.22 crore (2.37 *per cent*) in the previous year (accounts finalised up to September 2004). Similarly, during 2004-2005, the capital employed in case of three working Statutory corporations as per their latest finalised accounts (up to September 2005) worked out to Rs 3,181.47 crore and total return on capital employed was Rs 73.56 crore in 2004-2005, which is 2.31 *per cent*. The return on capital employed was Rs 41.56 crore (1.40 *per cent*) in 2003-2004. The details of capital employed and total return on capital employed in case of Government companies and Statutory corporations are given in **Appendix-XXXI**.

Reforms in the power sector

Status of implementation of the Memorandum of Understanding between the State Government and the Central Government

6.1.13 In pursuance to the decisions taken at the Chief Ministers' conference on Power Sector Reforms, held in March 2001, a Memorandum of Understanding (MOU) was signed on 31 March 2001 between the Ministry of Power, Government of India (GOI) and the Department of Power, Government of Himachal Pradesh as a joint commitment for implementation of a reforms programme in the power sector with identified milestones. The Board was able to meet all the milestones set out in the MOU.

State Electricity Regulatory Commission

6.1.14 Government of Himachal Pradesh constituted (30 December 2000) the Himachal Pradesh Electricity Regulatory Commission (HPERC), with one member under Section 17 (1) of the Electricity Regulatory Commissions Act, 1998*. HPERC had not finalised any accounts so far (September 2005).

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* Capital employed represents net fixed assets (including capital works-in-progress) *plus* working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves and borrowings (including refinance).

\+ For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

* Since replaced with Section 82 (1) of the Electricity Act, 2003.

Non-working Public Sector Undertakings

Investment in non-working PSUs

6.1.15 As on 31 March 2005, the total investment in four non-working Government companies was Rs 1,359[#] crore (equity: Rs 34.79 crore and long-term loans: Rs 1,324.21 crore) against Rs 1,419.96 crore (equity: Rs 34.79 crore and long-term loans: Rs 1,385.17 crore) as on 31 March 2004.

The classification of the non-working Government companies was as under:

Table: 6.6

Sr. No.	Status of non-working PSUs	Number of non-working companies	Investment	
			Equity	Long-term loans
(i)	Under liquidation	1[A]	0.92 (0.92)	-
(ii)	Under closure	3[B]	33.87 (33.87)	1,324.21 (1,385.17)
	Total	**4**	**34.79 (34.79)**	**1,324.21 (1,385.17)**

(Figures in brackets are for previous years)

In respect of one non-working Government company *viz*. Himachal Worsted Mills Limited, an official liquidator has been appointed and process of liquidation is in progress (September 2005). Three other non-working Government companies were under closure under Section 560 of the Companies Act, 1956 for three to 16 years with substantial investment of Rs 1,358.08 crore. Effective steps need to be taken for their expeditious closure.

**State Government's investment in non-working PSUs was Rs 33.87 crore (others Rs 1,325.13 crore). Figures as per Finance Accounts 2004-2005 is Rs 33.87 crore.**

A **Serial number 18 of Appendix-XXX.**

B **Serial number 19, 20 and 21 of Appendix-XXX.**

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

6.1.16 During the year, the State Government had not provided any budgetary support in the form of equity, loan, subsidy, grants, etc. to these non-working companies.

At the end of 2004-2005, guarantees amounting to Rs 1,324.21 crore against two non-working Government companies were outstanding as against Rs 1,385.17 crore against these non-working Government companies during 2003-2004.

Finalisation of accounts by non-working PSUs

6.1.17 The accounts of the non-working companies were not in arrears.

Financial position and working results of non-working PSUs

6.1.18 The summarised financial results of non-working Government companies as per the latest finalised accounts are given in **Appendix-XXXI**.

Out of these four non-working Government companies, excess of expenditure over income in respect of two non-working companies (serial number 20 and 21 of **Appendix-XXXI**) is reimbursed by the State Government.

The year wise details of paid-up capital, net worth, cash loss/cash profit and accumulated loss/profit of non-working PSUs as per their latest finalised accounts are given below:

Table: 6.7

(Rupees in crore)

Year	Paid-up capital	Net worth	Cash loss (-)/cash profit (+)	Accumulated loss (-)/ accumulated profit (+)
2000-2001	0.92	(-) 8.95	(-) 0.47	(-) 5.44
2004-2005	33.87	29.55	-	(-) 4.32

Status of placement of Separate Audit Reports of Statutory corporations in Legislature

6.1.19 Separate Audit Reports (SARs) on the accounts of all the three Statutory corporations for the period up to 2003-2004 have been placed in the State Legislature by the Government.

Disinvestment, Privatisation and Restructuring of Public Sector Undertakings

6.1.20 During the year 2004-2005, there was no case of disinvestment and privatisation of Government companies and Statutory corporations. The Government decided (July 2002) to close two Government companies (serial number 20 and 21 of **Appendix-XXX**) and transfer w.e.f. April 2002, their assets and liabilities to the newly created Himachal Pradesh Infrastructure Development Board. However, the winding up process of these two companies under the Companies Act, 1956 has not been initiated (September 2005).

Results of audit of accounts of PSUs by Comptroller and Auditor General of India

6.1.21 During October 2004 to September 2005, the accounts of 12 companies were selected for review. Comments on accounts in respect of one company (serial number 8 of **Appendix-XXXI**) were issued. The net impact of the comments was decrease in loss by Rs 76.65 lakh.

Some of the major errors and omissions noticed in the course of review of annual accounts of this company are mentioned in the succeeding paragraph.

Error and omissions noticed in case of Government companies

6.1.22 Himachal Pradesh State Forest Corporation Limited (1999-2000)

- Loans and advances did not include Rs 56.03 lakh being the amount of interest allowed by Income Tax Department on advance income tax deposit and treated as adjustment against the advance income tax for the assessment years 1987-88, 1997-98 and 2001-2002. This has resulted in understatement of 'Advance Income Tax' and overstatement of loss for the year by the same amount.

- Current liabilities and provisions included an amount of Rs 20.62 lakh on account of royalty which was not payable. This resulted in overstatement of other liabilities and loss for the year by the same amount.

Audit assessment of the working results of the State Electricity Board

6.1.23 Based on the audit assessment of the working results of the Board for three years up to 2004-2005 and taking into consideration the major irregularities and omissions pointed out in the Separate Audit Reports (SARs) on the annual accounts of the Board and not taking into account the subsidy/subventions receivable from the State Government, the net surplus/deficit and the percentage of return on capital employed of the Board is as given below:

Table: 6.8

(Rupees in crore)

Sr. No.	Particulars	2002-2003	2003-2004	2004-2005 (Provisional)
1	Net surplus/(-) deficit as per books of accounts	(-) 52.24	(-) 46.22	(-) 37.25
2	Subsidy from the State Government	Nil	Nil	Nil
3	Net surplus/(-) deficit before subsidy from the State Government (1-2)	(-) 52.24	(-) 46.22	(-) 37.25
4	Net increase/decrease in net surplus/(-) deficit on account of audit comments on the annual accounts of the Board	(-) 31.82	(-) 7.82	@
5	Net surplus/(-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-) 84.06	(-) 54.04	@
6	Total return on capital employed*	(+) 11.68	(+) 36.87	@
7	Percentage of total return on capital employed	0.47	1.30	@

Persistent irregularities and system deficiencies in financial matters of PSUs

6.1.24 The following persistent irregularities and system deficiencies in Himachal Pradesh State Electricity Board had been pointed out during the course of audit of its accounts but no corrective action had been taken so far:

- Register of fixed assets had not been completed by various units of the Board.
- Function-wise break up of assets had not been prepared since 1985-86.
- Physical verification of assets had not been carried out.
- Consolidated statement showing year wise break-up of sundry debtors and further segregating them into good, bad and doubtful debts was not prepared.

@ Since the accounts for the year 2004-2005 have not been finalised, these figures are not indicated.

* Total return on capital employed represents net surplus (+)/deficit (-) (after taking into account impact of comments) plus total interest charged to profit and loss account (less interest capitalised).

- An amount of Rs 5.57 lakh in respect of Electrical Maintenance Division, Bhabanagar was recoverable from various firms since 1989-90.

Recoveries at the instance of Audit

6.1.25 Test-check of records of the Himachal Pradesh State Electricity Board/other PSUs conducted during 2004-2005 disclosed wrong fixation of tariff/non-levy/short levy of tariff/short realisation of revenue, etc. aggregating Rs 47.47 crore in 522 cases. During 2004-2005, a sum of Rs 7.37 crore relating to 576 cases was recovered at the instance of Audit.

Internal Audit/Internal Control

6.1.26 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal control/internal audit systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which need improvement. Directions/sub-directions under the Act, *ibid*, were issued to the Statutory Auditors in respect of 16 Government companies. In pursuance of directions so issued, reports of Statutory Auditors involving ten accounts of ten Government companies were received (September 2005).

An illustrative resume of major recommendations/comments made by Statutory Auditors on possible improvement in the internal audit/internal control system in respect of State Government companies is indicated in **Appendix-XXXVI**. The major comments were of the following nature:

- An amount of Rs 5.57 lakh in respect of Electrical Maintenance Division, Bhabanagar was recoverable from various firms since 1989-90.
- Internal audit system was not commensurate with the size and nature of business.
- Internal audit coverage was inadequate and internal audit was conducted after close of the financial year.
- Four companies had not fixed maximum and minimum limit and economic order quantity for procurement of stocks and stores.

Recommendations for closure of PSUs

6.1.27 One Government company viz. Agro Industrial Packaging India Limited had incurred losses for the last five years and had a negative net worth. The turnover of one Government company, Himachal Pradesh State

Electronics Development Corporation Limited has been less than Rs five crore in each of the preceding five years ended 31 March 2005. In view of the continuous losses and poor turnover, Government may either improve the performance of these companies or consider their closure.

Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)

6.1.28 The position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings as on 30 September 2005 was as under:

Table: 6.9

Period of Audit Report	Number of Reviews and Paragraphs			
	Appeared in the Audit Report		Pending for discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1998-1999	5	18	1	-
1999-2000	3	17	2	15
2000-2001	2	15	1	11
2001-2002	3	13	3	9
2002-2003	2	10	2	7
2003-2004	1	14	1	14
Total	**16**	**87**	**10**	**56**

During 2004-2005, COPU met 12 times and discussed two reviews and 28 paragraphs. The Audit Report (Commercial) for the year ended 31 March 2004 was placed before the State Legislature on 8 April 2005.

619-B Companies

6.1.29 There were three companies coming under the purview of Section 619-B of the Companies Act, 1956. **Appendix-XXXVII** indicates the details of paid-up capital, investment by way of equity, loans and grants and summarised working results of the three companies based on their latest available accounts.

TRANSACTION AUDIT OBSERVATIONS

Important audit findings noticed as a result of test check of transactions made by the State Government companies/corporations are included in this Chapter.

Government Companies

Himachal Pradesh State Forest Corporation Limited

6.2 Injudicious grant of rebate

The Company failed to benchmark the rate of rebate payable with the bank rate of interest on credit. This resulted in an injudicious grant of rebate of Rs 6.99 crore.

The Company, the only authorised seller of timber in the State, sells timber extracted from the forest through auction. Terms and conditions of sale, *inter alia,* provide for lifting of timber and payment of sale proceeds within 55 days of the auction. The purchasers are entitled to the rebate of five *per cent* on sale value if they make payment within 15 days from the date of the auction. Similarly, rebate of four *per cent* and three per cent is allowed when payment is made within 30 days and 45 days respectively. No rebate is admissible when payment is made after 45 days. For payment made after 55 days, interest at the rate of 25 *per cent per annum* is charged.

Audit analysis revealed that while fixing the rate of rebate, in the terms and conditions of sale, the Company did not keep in view the rate of interest charged by banks for 15, 30 and 45 days credit, which was 1.70, 1.30 and 0.57 *per cent* respectively. The Company allowed rebate at the rate of five, four and three *per cent* respectively for receiving payments.

The Company allowed rebate of Rs 9.92 crore on the sale of Rs 211.26 crore during 2001-2004. Failure of the Company to benchmark the rate of rebate with the credit interest rates of the banks resulted in an injudicious grant of rebate of Rs 6.99 crore.

Government stated (July 2005) that the contention of Audit had merit, but that the policy could not be revised due to resistance from the timber buyers and the dependence of the Company on the sale proceeds for running its day to day affairs. The reply is not tenable as the Company has to safeguard its interest.

Agro Industrial Packaging India Limited

6.3 Avoidable expenditure

Failure to maintain required power factor resulted in avoidable extra expenditure of Rs 11.67 lakh.

Himachal Pradesh State Electricity Board (Board) introduced (November 2001) the concept of recovering energy charges on KVAH* reading instead on KWH** reading basis. After introduction of KVAH based tariff, it was in the interest of the consumers to maintain required minimum power factor of 0.9 to avoid payment of higher energy consumption recorded in KVAH due to low power factor. Between November 2001 and May 2005, the power factor of the carton manufacturing plant of the Company was between 0.38 and 0.76 instead of the required minimum power factor of 0.9, which resulted in avoidable extra expenditure of Rs 11.67 lakh.

The Government stated (September 2005) that existing capacitors were designed for drawal of maximum load. These required some alteration to maintain the required power factor, for which action was being taken. Had the Company taken timely action to maintain the required minimum power factor, the extra expenditure could have been avoided.

Himachal Pradesh State Civil Supplies Corporation Limited

6.4 Unfruitful expenditure

Delay of more than five years in completion of a computerisation project resulted in unfruitful expenditure of Rs 10.89 lakh. The Company failed to recover penalty of Rs 29.06 lakh and interest of Rs 12.74 lakh due to non-completion of the project.

Integrated Computerisation of the Company from godown level upwards was entrusted (September 1995) to Himachal Pradesh State Electronics Development Corporation (HPSEDC) at an estimated cost of Rs 16.59 lakh, revised (March 1999) to Rs 18.63 lakh. The project was to be implemented in a phased manner and completed by December 1999. The Company envisaged annual saving of Rs 22 lakh due to reduction in time lag of different activities, generation of more revenue by reducing inventory, optimisation of resources and recovery of dues, etc.

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* *KVAH-Kilo volt ampere hour.*

** *KWH-Kilo watt hour.*

The software development part was further assigned by HPSEDC to Regional Computer Centre (RCC). Advance payments aggregating Rs 10.89 lakh (Hardware: Rs 9.05 lakh and Software: Rs 1.84 lakh) were made to HPSEDC between December 1998 and March 1999.

According to the agreement entered into between the Company, HPSEDC and RCC in March 1999, penalty at the rate of two *per cent* per month of the total project cost was to be imposed upon the defaulting party responsible for delay in implementation of the project. For incomplete implementation of the project, HPSEDC was liable to make good the cost incurred by the Company with 18 *per cent* interest thereon. HPSEDC could recover this amount from RCC in case incomplete implementation was due to failure of RCC.

Audit scrutiny revealed that the project has not been completed so far (September 2005) because Application software has not been developed by RCC. There were no reasons on record for delay in development of the software. The expenditure of Rs 10.89 lakh has, thus, remained unfruitful so far and the intended objective of computerisation has not been achieved. Despite delay of more than five years in completion of the project, the Company has also not taken action for the recovery of penalty of Rs 29.06 lakh and interest of Rs 12.74 lakh as per the agreement so far (September 2005).

Government stated (August 2005) that the delay was mainly because HPSEDC depended on RCC for its work. The RCC was being directed to complete the project immediately. The reply is not acceptable as the delay in development of software has deprived the Company of envisaged annual saving of about Rs 22 lakh since January 2000.

Statutory Corporation

Himachal Pradesh State Electricity Board

6.5 Non-recovery of revenue

Filing of incomplete tariff petition for 2004-2005 with the Himachal Pradesh Electricity Regulatory Commission resulted in delay in implementation of tariff and consequent lower realisation of revenue of Rs 43.83 crore.

Pursuant to Section 29(4) of the Electricity Regulatory Commissions Act, 1998, the Himachal Pradesh Electricity Regulatory Commission (HPERC) issued guidelines for methodologies and procedures to be adopted by the Board for calculating the expected revenue in determination of tariff. These procedures, *inter alia*, provided that the Board shall provide to the

Commission, at least three months before the ensuing financial year or part thereof, full details of its calculations of the expected aggregate revenue for that financial year.

Audit scrutiny revealed that the Board filed its tariff petition for 2004-2005 on 29 January 2004, which was incomplete. This was despite the fact that the contents of tariff petition to be filed were known to the management as it had earlier filed the tariff petition for 2001-2002 and the required information was available with the Board. The management, thus, had enough time and experience to file a complete tariff petition for 2004-2005.

The Board filed the revised complete tariff petition on 4 March 2004 and the revised tariff was made applicable from 5 July 2004 i.e. three months after the petition, complete in all respects, was submitted by the Board. The total enhancement in revenue for the whole year worked out to Rs 167.86 crore.

Due to delayed submission of the complete tariff petition, the Board realised Rs 43.83 crore lower than the revenue expected at the approved tariff rate during April to June 2004.

The matter was referred to the Board/Government in March 2005; their replies had not been received (September 2005).

6.6 Non-recovery of peak load violation charges

Delay in implementing the decision of the Himachal Pradesh Electricity Regulatory Commission resulted in non-recovery of peak load violation charges of Rs 1.79 crore from the consumers.

Schedule of Tariff applicable (w.e.f. 01 November 2001) to Large Supply consumers, *inter alia,* states that penal rate shall be applicable for consumption during the peak load hours to those consumers, who do not have exemption for running their units during peak load hours but are found using the electricity during such hours. The Himachal Pradesh Electricity Regulatory Commission (HPERC) further clarified (August 2002) that for a consumer, who had not been allowed any peak load exemption but drew power during peak load hours over and above the bonafide factory lighting and colony supply, the entire demand recorded during peak load hours should be billed at the penal rate of Rs 300 per KVA per month. During the course of audit (March 2004) of Electrical Sub-Divisions, Parwanoo, Nalagarh and Barotiwala, it was noticed that the Board did not implement the tariff as clarified by the HPERC, until pointed out by Audit in March 2004. The Board, thus, failed to recover peak load violation charges of Rs 1.79 crore (from November 2001 to March 2004).

The matter was referred to the Board/Government in February 2005; their replies had not been received (September 2005).

6.7 Avoidable expenditure

Failure to finalise the tender within the validityperiod, resulted in avoidable extra expenditure of Rs 59.82 lakh on the purchase of long steel tubular poles.

The Board invited (February 2002) tenders for the purchase of 12,700 long steel tubular poles of lengths 8, 9, 10 and 11 metre. The validity period of the firm offers received was 120 days from the date of opening of tenders i.e. up to 15 July 2002. The Board requested (02 July 2002) the tenderers to extend the validity period of their offers up to 31 August 2002 as no decision on purchase of poles could be taken within the validity period. The tenderers did not agree to extend the validity of the rates. The Store Purchase Committee (SPC) considered the matter on 26 August 2002 and directed fresh procurement action to be taken on the basis of minimum requirement to be worked out.

Short-term tenders were invited (September 2002) for revised quantity of poles and three purchase orders for 8,307 poles of various sizes were placed (November 2002) after negotiation. It was seen in audit that though the SPC had directed (August 2002) reduction in the quantity of steel poles, later on repeat purchase orders for 5,470 poles were placed (February 2003) on the same terms and conditions. Failure of the Board in finalising the tender within the original validity period resulted in additional cost of Rs 59.82 lakh on purchase of 13,777 poles as compared to the original quoted price.

In reply to the audit enquiry, the Board stated (July 2004) that the case for the procurement of these poles against the first enquiry was submitted to the SPC on 15 July 2002 but the meeting of SPC could not be held. The case could not be submitted to the SPC with in the validity period due to unavoidable circumstances. The reply is not tenable as the Board knew about the validity period and the validity period of 120 days was enough for taking a decision.

The matter was referred to the Government in February 2005; their reply had not been received (September 2005).

6.8 Non-recovery of cost share

Failure to recover cost share of Rs 35.20 lakh or service rentals of Rs 41.62 lakh, as per Abridged Conditions of supply of power, resulted in undue favour to the consumers.

Condition 12 (ii) of the Abridged Conditions of supply of power, which invariably forms part of the sanction order for the load, inter-alia, states that the consumer shall, at his option, either pay on demand the cost of service line and service equipment or monthly rentals. Condition 12 (iv) further states that after commencing the service if the consumer requires an additional load, the entire cost of such augmentation shall be borne by the consumer. Condition 14 of the sanction letters of the loads also states that the cost of sub-station and allied equipments, if required for releasing the load, will be borne by the consumer. Accordingly, the Chief Engineer (Commercial) conveyed (September 1998) to the Chief Engineer (Operations) South that the cost of augmentation of 132/66 KV sub-station at Barotiwala was to be recovered from the beneficiary consumers at the rate of Rs 4.40 lakh per 500 KW or part thereof from existing as well as new units.

Audit scrutiny revealed that during October 1998 to March 2003,[#] the Board neither recovered cost of service line and service equipment of Rs 35.20 lakh nor monthly rentals of Rs 41.62 lakh in lieu thereof from six consumers[*] to whom new connections or extension in existing loads were sanctioned during the period. During the same period, the Board had recovered such cost share of Rs 3.88 crore from 18 other consumers. This resulted in an undue favour to the consumers to that extent.

In reply to the audit enquiry, the Superintending Engineer, Operation Circle, Solan, under whose jurisdiction these consumers fall, stated (January 2004) that the amount was not recovered from these consumers as the Board had received Rs 2.75 crore from the State Government. The reply is not tenable as (i) the Board did not receive funds specifying consumer-wise contribution of the State Government against the augmentation cost of this sub-station, and (ii) during the same period, the Board had recovered such cost from other consumers.

The matter was referred to the Government in February 2005; their reply had not been received (September 2005).

6.9 Short recovery of demand charges

Failure to implement its own instructions regarding collection of charges for contract demand resulted in short recovery of Rs 21.98 lakh.

Gujrat Ambuja Cement Limited, Darlaghat (GACL), a large supply consumer of power, applied (December 2000) for extension of load from 41,605 KW to 42,255 KW with contract demand of 37,143 KW. The Board sanctioned (April 2001) extension of load with the stipulation that maximum demand of the consumer would be restricted to 36,493 KW. The contract demand was restored to 37,143 KW w.e.f. 22 May 2002 and the consumer was informed accordingly. The Chief Engineer (Commercial) also directed (September 2002) the Chief Engineer (Operation) to levy demand charges with effect from 1 November 2001 considering restricted load of 36,493 KW as contract demand and from 22 May 2002 on 37,143 KW.

By March 2003, load capacity of the sub-station was exhausted.

* Rine Engineering, Barotiwala; Surya Pharmaceutical Ltd., Baddi; Raja Forging Gear Ltd., Baddi; Morepen Lab, Baddi; Stesalit India Ltd, and Winsom Spiner.

The Board, however, continued to charge demand charges after 22 May 2002 on 36,493 KW, though the contract demand was restored to 37,143 KW w.e.f. from 22 May 2002. This resulted in short recovery of Rs 21.98 lakh during May 2002 to 7 January 2005.[@]

The matter was referred to the Board/Government in February 2005; their replies had not been received (September 2005).

General

6.10 Performance of Himachal Pradesh *Mahila Vikas Nigam*, Himachal Backward Classes Finance and Development Corporation and Himachal Pradesh Minorities Finance and Development Corporation

Introduction

6.10.1 Himachal Pradesh *Mahila Vikas Nigam* (HPMVN), Himachal Backward Classes Finance and Development Corporation (HBCFDC) and Himachal Pradesh Minorities Finance and Development Corporation (HPMFDC) were incorporated under Section 25 of the Companies Act, 1956 in April 1989, January 1994 and September 1996 respectively. Their main objective was to uplift economically weaker women, backward classes and religious minority communities respectively of the State by providing concessional finance and training.

HPMVN provides finance under 'Self employment scheme' in which the Company arranges 100 *per cent* finance from the banks, and bears interest subsidy equal to the difference between the rates charged by the bank and rate of the Company. HBCFDC and HPMFDC are State Channelising Agencies (SCAs) of the apex bodies, National Backward Classes Finance and Development Corporation (NBCFDC) and National Minorities Development and Finance Corporation (NMDFC) respectively and are funded by them. HBCFDC and HPMFDC provide finance under 'Term loan scheme' and 'Margin money loan scheme'. HBCFDC also provides finance under 'Swarnima scheme' to women belonging to backward classses living below poverty line. All the three companies provide interest free study loan besides arranging training in traditional and non-traditional trades under various programmes of the Government of India and Norwegian Agency for International Development (NORAD) and the apex bodies, which also bear the expenditure on training besides stipend.

@ **GACL has revised the contract demand to 32,000 KVA w.e.f. 8 January 2005 and the demand charges have been levied correctly thereafter.**

Audit findings, arising from a review of 10 per cent of the total loan cases are discussed in succeeding paragraphs.

Identification of beneficiaries

6.10.2 The companies had not identified the beneficiaries out of the total targeted population in the State. HPMVN, HBCFDC and HMFDC have provided assistance to only 0.16, 0.26 and 0.26 *per cent* women, minorities and backward classes population *(Census-2001)* respectively of the State till March 2005. The companies had not investigated the reasons for low coverage.

Targets of financial assistance fixed by these companies and achievements there against for last five years ended 31 March 2005 are given in **Appendix-XXXVIII**. HPMVN and HBCFDC achieved their targets only during 2000-2001 and HPMFDC during 2003-2005. HPMVN did not fix any target during 2001-2003.

Financial assistance

Analysis of loan cases

6.10.3 Disbursement of loan is done as per the bye laws governing such financial assistance by HBCFDC and HPMFDC. After disbursement of loan the companies are required to conduct post disbursement inspection.

In case of default of repayment by the loanee or breach of any terms and conditions, the companies are entitled to take possession of the mortgaged/hypothecated property and sell the same by public auction to realise its value and adjust the same against amount recoverable from the loanee. For the balance amount the companies are empowered to file suits in the Civil Court.

Test-check of 222 cases involving loan amount of Rs 5.07 crore in HBCFDC and 64 cases involving loan amount of Rs 34.40 lakh in HPMFDC disbursed between 1994-2004, revealed defaults in repayment of loans for Rs 3.53 crore (221 cases) and Rs 27.35 lakh (64 cases) including interest respectively.

In this connection the following also came to notice:

- In HBCFDC, against loan of Rs 14.71 lakh disbursed to 11 loanees between February 2000 to September 2003, the default in repayment was Rs 13.74 lakh (including interest of Rs 3.95 lakh). No notice has been issued in nine cases.

- Appraisal in respect of 29 cases involving loan of Rs 66.97 lakh and in 22 cases involving loan of Rs 10.61 lakh was not done by HBCFDC and HPMFDC respectively. Even where the appraisal was done, no project report was obtained.

- In four cases involving loan of Rs 8.94 lakh and in seven cases involving loan of Rs 4.13 lakh, hypothecation deeds of assets were not obtained from the loanees by HBCFDC and HPMFDC respectively.

- In HBCFDC, in respect of four cases involving loan of Rs 12.64 lakh, mortgage deed was not got registered with the revenue authorities; in respect of 134 cases involving loan amount of Rs 3.32 crore, though the mortgage deed was obtained, charge thereagainst was not entered in the revenue record. In HPMFDC, though the charge in respect of 25 loan cases involving Rs 17.11 lakh was entered in the revenue record, the mortgage deed was not obtained from the beneficiaries.

- In 220 cases, in HBCFDC, involving loan of Rs 5.02 crore and in 32 cases, in HPMFDC, involving loan of Rs 20.40 lakh, the insurance cover was not renewed either by the loanee or by the companies. In remaining 34 cases (HBCFDC-2 and HPMFDC-32), insurance cover was not obtained at all.

- In respect of 28 loans (Rs 31.49 lakh) in HBCFDC and four loans (Rs 30.79 lakh) in HPMFDC, no supporting evidence (bills/cash vouchers) about asset creation was received.

- The companies did not carry out post disbursement inspection in respect of 152 cases (HBCFDC-93 and HPMFDC-59).

- HBCFDC has not taken any action in any of the cases for effecting recovery of defaulted amounts.

- Both HBCFDC and HPMFDC have not initiated any action to take over the assets of the loanees, who defaulted in repayment or committed breach of terms and conditions of loan.

- In 23 cases involving default of Rs 10.55 lakh, HPMFDC had not forwarded the cases to the Collector for recovery under HP Public Money (Recovery of Dues) Act, 1973.

Disbursement of funds in contravention of lending policy

6.10.4 As per the lending policy of NBCFDC applicable w.e.f. April 1999, 75 *per cent* of its funds were to be utilised on projects where the loan component did not exceed Rs 1 lakh each so as to cover maximum beneficiaries. Out of Rs 12.77 crore disbursed to 1,150 beneficiaries between April 2000 and March 2005, HBCFDC disbursed Rs 6.24 crore in contravention of this policy. Had the Company followed the policy, it could have financed at least 623 additional beneficiaries. The Management accepted the audit findings and stated (March 2005) that in future loan would be disbursed as per policy of NBCFDC.

Undue favour under Swarnima Scheme

6.10.5 Between 2000-2005, HBCFDC granted loan of Rs 51.28 lakh, under 'Swarnima scheme' to finance women belonging to backward classes living below the poverty line. It was noticed during audit that Rs 35.81 lakh was given, in contravention of the scheme, to 58 loanees who were above the poverty line.

Recovery performance

6.10.6 Up to 31 March 2005, Rs 2.52 crore was outstanding from beneficiaries. HBCFDC and HPMFDC had not investigated the reasons for low recovery with a view to take remedial measures.

Analysis of cases, as discussed in paragraph 6.3.3, revealed that:

- the recovery mechanism was very poor. HBCFDC and HPMFDC did not implement the suggestions of the apex bodies to engage recovery agents for proper identification of beneficiaries, ascertaining credential of loanees and accelerating the recovery of loans.

- the companies did not take possession of hypothecated/mortgaged property despite massive defaults.

Payment of interest subsidy

6.10.7 During 1990-2005, HPMVN arranged finance of Rs 2.04 crore from banks for 4,845 women under the 'Self employment scheme'. As per the Company's bye-laws no interest subsidy was admissible in cases where there was default in repayment of three consecutive instalments by the beneficiary. The Company did not maintain loanee-wise recovery data to ascertain admissibility of interest subsidy and consequently paid interest subsidy of Rs 32.66 lakh as per claim submitted by banks despite this having being commented upon in the Audit Report (Commercial)-1998-99.

The Management stated (May 2005) that from the claim bills, it could not be ascertained whether loanee had defaulted in payment of due instalments. The reply substantiates the fact that the interest subsidy was being paid without actual verification.

Training

The companies either failed to arrange training or arranged inadequate training despite availability of funds as discussed below:

Training under NORAD Programme in HPMVN

6.10.8 During 1997-2005, HPMVN received Rs 46.84 lakh from the Government of India under NORAD programme and arranged training to 920 beneficiaries through Non-Government Organisations (NGOs) in different trades. Analysis of records in respect of 520 trainees of computer, type/shorthand and readymade garments on which Rs 26.71 lakh was spent between January 1998 and March 2005, revealed the following:

- Training was not arranged through specialised training institutions as per Government of India instructions.
- NGOs failed to cover requisite "O" level syllabus in computer training.
- NGOs neither associated the Company in purchase of fixed assets (*viz*. computers, machines, etc.) costing Rs 5.77 lakh nor submitted cash vouchers in support of the purchase. On completion of training, the Company did not ensure return of these equipment by NGOs.
- Benefits of the training programme could not be ascertained as no post training evaluation was done.

NBCFDC training in HBCFDC

6.10.9 Out of Rs 10.64 lakh allotted by NBCFDC during 2001-2005, HBCFDC could spent only Rs 2.40 lakh for providing training as the Company could not prepare training proposals. Thus, the beneficiaries were deprived of the benefit of the training.

Non-computerisation of records

6.10.10 HBCFDC and HPMFDC utilised Rs 5 lakh and Rs 2.31 lakh between April 2001 and September 2002 and in March 1998 respectively, out of Rs 5 lakh, granted to each by apex bodies for computerisation. However, the required software to computerise the information in respect of loanees was not developed. Consequently, the intended purpose of strengthening the information system and internal control was not served.

To sum up

The companies failed to identify the beneficiaries out of the total targeted population in the State. Financial assistance provided by the companies up to 31 March 2005 was insignificant. HBCFDC did not follow the lending policy of NBCFDC. HPMVN and HBCFDC failed to provide adequate training to the targeted population. The objective of the companies to uplift the economically weaker women/backward classes/religiously minority community of the State remained unfulfilled.

The matter was referred to the Managements/Government in July 2005; their replies had not been received (September 2005).

6.11 Corporate Governance in State Government companies

Introduction

6.11.1 Corporate governance is the system by which companies are directed and controlled by the management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. The Board of Directors are responsible for governance in their companies.

6.11.2 The Companies Act, 1956 was amended in December 2000 by providing, *inter alia*, Directors' Responsibility Statement (Section 217) to be attached to the Director's Report to the Shareholders. According to Section 217 (2AA) of the Act, the Board of Directors has to report to the shareholders that they have taken proper and sufficient care for the maintenance of accounting records for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

Further, in terms of Section 292A of the Companies Act, 1956, notified in December 2000, every public limited company having paid-up capital of not less than rupees five crore shall constitute an Audit Committee, at the Board level. The Act also provides that the Statutory Auditors, Internal Auditors, if any, and the Director in charge of Finance should attend and participate in the meetings of the Audit Committee, without any voting rights.

A similar concept has also been introduced through clause 49 of the listing agreements for listed companies as issued by Securities and Exchange Board of India (SEBI), which envisages that the Board of Directors shall have an optimum combination of executive and non-executive Directors with not less than fifty *per cent* of the Board of Directors comprising non-executive Directors. It also provides that listed companies having paid-up capital of rupees three crore and above should have a qualified and independent Director in the Audit Committee.

6.11.3 The main components of Corporate Governance are:

- matters relating to the Board of Directors;
- Directors' Report; and
- Constitution of the Audit Committee.

6.11.4 Out of 21 Government companies, the records of 16* working Government companies (14 Government companies and two deemed Government companies) as detailed in **Appendix-XXXIX** were examined

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* One deemed Government company (Pabbar Valley Power Corporation Limited) which was incorporated in October 2004 and four non-working Government companies were not covered.

with the objective of assessing the compliance by these companies of the various provisions that affect corporate governance and matters related thereto.

Audit findings are discussed in the succeeding paragraphs.

Listed Companies

Himachal Pradesh General Industries Corporation Limited (HPGIC) is the only listed company. The shares of HPGIC have not been traded since 1976. HPGIC had requested (December 1994) Delhi Stock Exchange to de-list it; the decision of the Delhi Stock Exchange is still awaited (September 2005).

Board of Directors

Frequent changes of Managing Directors

6.11.5 Only one Managing Director remained in HPGIC for a little more than a year during 2001-2005. The tenure of 10 Managing Directors ranged between 21 and 304 days.

Audit Committee

Role and function

6.11.6 The main functions of the Audit Committee are to assess and review the financial reporting system, to ensure that the financial statements are correct, sufficient and credible. It follows up on all issues and interacts with the statutory auditors before finalisation of annual accounts. The Committee also reviews the adequacy of the Internal Control System and holds discussion with Internal Auditors on any significant finding and follow up action thereon. It also reviews the financial and risk management and evaluates the findings of internal investigation where there is any suspected fraud or irregularities or failure of the Internal Control System of a material nature and reports to the Board.

Meetings

6.11.7 HPGIC constituted the Audit Committee in July 2001 only. The Committee held two, one and two meetings during 2001-2002, 2002-2003 and 2004-2005 (December 2004) respectively.

Discussions

6.11.8 In HPGIC, yearly/six monthly financial statements such as budget estimates for the ensuing year and performance of industrial units were never discussed/reviewed by the Audit Committee before submission to the Board for approval.

Unlisted Companies

Board of Directors

Meeting of Board of Directors

6.11.9 As per Section 285 of the Act, the Board of a company shall meet at least once in every three months and at least four such meetings shall be held in a year. Further, companies registered under Section 25 of the Companies Act, 1956 are required to hold at least one meeting within every six calendar months and two meetings in a year.

Audit analysis revealed that:

- HPTDC held only two meetings each in every year from 2000-2001 to 2002-2003 and three meetings each in 2003-2004 and 2004-2005.
- HPESC held three meetings (2003-2004); only one such meeting was held by HPSEDC (2004-2005) and HPJVVN (2003-2004).
- HBCFDC held one meeting each in 2002-2003, 2003-2004 and 2004 2005; HPMVN held one meeting each in 2001-2002, 2002-2003 and 2003-2004.

Attendance of Directors in the meetings of the Board

6.11.10 The attendance of Government Directors in the Board meeting in all the companies[*] except HPJVVN was not regular. Central Government nominee Directors in five[#] companies were not regular in attending the Board meetings. Non-official Directors in nine[$] companies also did not attend the Board meetings regularly. As the Directors are the nominees of the Government to the Board, their absence defeated the very purpose of the nomination.

Attendance in Annual General Meetings (AGMs)

6.11.11 The attendance of Government Directors in the AGM of four[&] companies was not regular. Central Government nominee Directors in HPAIC and nominee Directors of financial institutions (IDBI and SIDBI) were also not regular in attending the meetings during the last four years ending 31 March 2005. Non-official Directors in seven[*] companies also failed to attend the meetings regularly.

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* HPSIDC (April 2000 to December 2004), HPSSIEC (2000-2002 and 2003-2004), HPSEDC (April 2000 to December 2004), HPCFDC (April 2001 to December 2004), HPTDC. (2001-03), HPAIC (2000-05), AIPIL (2001-05), HPMC (2000-05), HPMFDC (2000-03), HPSHHC (2000-04), HPMVN (2000-05), HPSFCC (2001-04), HPSCSC (2000-05), HPESC (2002-03 & 2004-05).

\# HPSEDC (4/2000 to 12/2004), HBCFDC (4/2001 to 12/2004), HPAIC (2000-05), HPMC (2000-05) & HPMFDC (2000-05).

$ HPSIDC (4/2000 to 9/2004), AIPIL (2000-03), HPMC (16.5.2000 to 31.12.2002), HPSHHC (2000-02), HPMVN (2000-03), HPSFC (2000-05), HPSCSC (2000-01 & 2004-05), HPESC (2000-05) & HPGIC (2001-05).

& HPAIC, AIPIL, HPSEDC (4/2001 to 3/2005) and HPGIC (4/2003 to 3/2005).

* HPSIDC, HPAIC, HPGIC, HPTDC, AIPIL, HPSHHC (4/2001 to 3/2005), and HPSCSC (4/2002 to 3/2005).

Vacancy position and frequent changes of Managing Directors and vacancies of Directors

6.11.12 HPMFDC and AIPIL did not have whole time Managing Directors from January 2000 to June 2003 and March 2001 to March 2005 respectively. During the period, the charges were held as additional charges by the Director Welfare, Government of Himachal Pradesh (in respect of HPMFDC) and by the Managing Directors of other Government Companies (for AIPIL).

Directors' Report to shareholders

6.11.13 The Companies Act, 1956 {Section 217 (2AA)} requires that a report of the Board of Directors including a Directors' Responsibility Statement is to be attached to every balance sheet laid before a company in Annual General Meeting. Four[@] companies did not comply with the above requirement in the Directors' Report to the shareholders during the last four years ended 31 March 2004, up to which accounts have been prepared so far. HPSCSC did not comply with the above requirement during 2003-2004.

Audit Committee

Composition

6.11.14 The provisions of Section 292 (A) was effective from December 2000, HPGIC and HPSIDC constituted the Audit Committee consisting of four directors of the Board in July 2001 and September 2001 respectively.

6.11.15 Out of 14 private limited companies, which were not required to constitute Audit Committees, two companies viz., HPTDC and HPMC had constituted Audit Committees. Both the Audit Committees had three members each.

Terms of reference

6.11.16 Terms of reference of the Audit Committees of these Companies except HPSIDC did not include examination of frauds and fraud risks.

Meeting

6.11.17 HPMC and HPTDC had held only one meeting of Audit Committee so far (March 2005).

Discussion by the Audit Committee

6.11.18 The Audit Committee did not have discussion with the auditors before commencement and after completion of audit as required under Section 292 A (6) of the Act.

6.11.19 Neither the Statutory Auditors nor the Internal Auditors attended the Audit Committee meeting as required under Section 292 A (5) of the Act.

@ **HPSSIEC, HBCFDC, HPMFDC and HPMVN.**

6.11.20 The Audit Committee did not review the adequacy of the internal audit system pointed out by the Statutory Auditors as required under Section 292 A (6) of the Act.

6.11.21 The Audit Committee did not have any discussion on financial and business restructuring proposals before submission to the Board.

To sum up

- ***The functioning of the Audit Committee in the four Government companies was not effective as it failed to comply with the requirement of Section 292 A (5) of the Act in areas like discussion with the auditors before commencement and after completion of audit, review of the adequacy of the internal audit system as pointed out by the statutory auditors, discussion on financial and business restructuring proposals before submission to the Board, etc.***
- ***The Government Directors and non-official Directors were not regular in attending the meetings of the Board of Directors as well as the AGMs of all the companies except HPJVVN. Six companies did not hold the Board meetings as required under the Companies Act.***
- ***Compliance to the Directors' Responsibility Statement under Section 217 (2AA) was also lacking.***

The matter was referred to the Management/Government in April 2005; their replies had not been received (September 2005).

6.12 Environment Audit

6.12.1 The Government of India has enacted various Acts to enforce effective environmental protection and established regulatory bodies to monitor and enforce the provisions of the Acts. Amongst the various legislations, the following enactments have greater importance in environmental management:

1. The Water (Prevention and Control of Pollution) Act, 1974
2. The Water (Prevention and Control of Pollution) Cess Act, 1977
3. The Environment (Protection) Act, 1986
4. The Air (Prevention and Control of Pollution) Act, 1981
5. The Hazardous Waste (Management and Handling) Rule, 1989
6. The Forest (Conservation) Act, 1980.

The State Government also constituted (December 1974) the State Pollution Control Board in pursuance of Section 4 of the Water (Prevention and Control of Pollution) Act, 1974 for implementation of these legislations.

6.12.2 Out of 17 working Government companies and three Statutory corporations, the working of the following were reviewed in audit during January and February 2005:

- Two Cattle and Poultry Feed plants of Himachal Pradesh Agro Industries Corporation Limited,

- A Carton Manufacturing plant of Agro Industrial Packaging India Limited,
- Two Fruit Processing plants of Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited,
- Two Rosin and Turpentine factories of Himachal Pradesh State Forest Corporation Limited,
- Manali Tourist complex of Himachal Pradesh Tourism Development Corporation Limited,
- Eight* units, all the Divisional Managers office and the Head Office of Himachal Road Transport Corporation and
- Project and Transmission wings of Himachal Pradesh State Electricity Board, the functioning of which was likely to affect environment.

Audit findings are discussed in the succeeding paragraphs:

Air Pollution

Non-monitoring of polluting vehicles

6.12.3 With a view to check the extent of smoke emitted by vehicles, Himachal Road Transport Corporation provided smoke meters to its units. Audit scrutiny revealed that the smoke meters of seven@ units were out of order for most of the time during 2001-2004. While three# units obtained Pollution Under Control Certificates (PUCC) for their vehicles as required under the Motor Vehicles Rules after checking of smoke from other units/sources, the remaining four units plied their 304 vehicles without checking smoke level and obtaining PUCC for most of the time during 2002-2004. For the lapse, the Regional Transport Authority imposed a token fine of Rs 0.11 lakh on the vehicles of these units during April 2001 to December 2004.

Water pollution

Non-setting up of Effluent and Sewage Treatment Plants

6.12.4 Under the Water (Prevention and Control of Pollution) Act, 1974, industries likely to discharge sewage or trade effluent are required to set up Effluent Treatment Plants (ETPs) and Sewage Treatment Plants (STPs).

Audit analysis revealed that:

- the State Pollution Control Board pointed out (July 1998) deficiencies in the ETP installed (1992-93) in Carton Manufacturing Plant of Agro Industrial Packaging India Limited at Pragatinagar. The Company had not streamlined the ETP so far (September 2005) and flow of effluent

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* Regional Manager, Bilaspur, Hamirpur, Dharamsala, Mandi, Dhalli-II, Taradevi, Solan and Nahan.

@ Regional Manager, Nahan, Solan, Mandi, Dharamshala, Reckong Peo, Dhalli-I and Dhalli-II.

\# Regional Manager, Reckong Peo, Dhalli-I and Dhalli-II.

into the nearby river continues to pollute the water.

- Hotel Beas and Tourist Lodge of Himachal Pradesh Tourism Development Corporation Limited at Manali were operating without STP. The State Pollution Control Board had been issuing notices under the Water (Prevention & Control of Pollution) Act, 1974 since July 1996. The Company had not installed the STP so far (September 2005), although the State Government had also sanctioned (January 2004) Rs 5.25 lakh for the purpose.

Soil pollution

Non-functioning of ETPs

6.12.5 ETPs installed (1998-2000) in 14 units of Himachal Road Transport Corporation at a cost of Rs 40.50 lakh were out of order since their installation due to reasons such as leakage of tanks, depositing of silt in the tanks, inadequate water supply, non-availability of trained operators, defective electric motor, etc. The Corporation had not taken remedial measures so far (September 2005) and effluent was being absorbed in the soil.

Non-monitoring of compensatory afforestation

6.12.6 Himachal Pradesh State Electricity Board (Board) mostly acquires forest land for construction of projects and erection of high voltage lines. For compensatory afforestation, the Board deposited Rs 2.01 crore with the State Forest Department between 1991-2002. The Board did not obtain six monthly feed back in regard to physical and financial progress about compensatory afforestation as directed by the Ministry of Environment and Forests, Government of India. In the absence of required feed back, implementation of compensatory afforestation schemes could not be vouchsafed.

Dumping of muck and debris at undesignated sites

6.12.7 The Board did not ensure dumping of muck and debris at designated sites by the contractors engaged for the construction of Larji Hydel Project as required under the contract agreement. The muck and debris was required to be dumped at designated sites as stipulated in the Water (Prevention and Control of Pollution), Act, 1974 and the Air (Prevention and Control of Pollution) Act, 1981. This was commented in para 2.1.22 of the Audit Report (Commercial) for 2003-2004. For the lapse, the State Forest Department had imposed (November 2003) penalty of Rs 1.54 crore on the Board.

Corporate Social Responsibility- Environment Management System

Environment management system does not exist in any of the Public Sector Undertaking (PSU) test checked in audit. Top management had neither formed any environment protection group nor issued instructions to managerial persons to be environment conscious. There was nothing on record to show that the PSUs were aware of corporate social responsibility with regard to environmental protection. None of the PSUs had ever organised awareness campaigns for maintaining green cover in the campus and usage of devices/technology for reduction in energy consumption, water consumption, etc. The State Pollution Control Board had also not prescribed any return for the PSUs in regard to environmental protection.

To sum up

Environment management system did not exist in any PSU. One PSU had not installed STP for treatment of sewage. ETPs installed by two PSUs were not functioning. Monitoring guidelines of Government of India in regard to compensatory afforestation and dumping muck and debris were not followed by a PSU.

The matter was referred to the Management/Government in April 2005; their replies had not been received (September 2005).

6.13 Follow-up action on Audit Reports

Explanatory notes outstanding

6.13.1 The Comptroller and Auditor General of India's Audit Reports represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various Public Sector Undertakings. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Himachal Pradesh 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 reviews 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).

The Audit Reports for the years 2001-2002, 2002-2003 and 2003-2004 were presented to the State Legislature in July 2003, February 2004 and April 2005 respectively. Three departments did not submit explanatory notes on 29, out of 43 paragraphs/reviews, as on September 2005, as indicated below:

Table: 6.10

Year of Audit Report (Commercial)	Total paragraphs/reviews in Audit Report	Number of paragraphs/reviews for which explanatory notes were not received
2001-2002	16	10
2002-2003	12	6
2003-2004	15	13
Total	**43**	**29**

Department wise analysis is given below:

Table: 6.11

Name of department	2001-2002	2002-2003	2003-2004
Power department	10	6	9
Transport department	-	-	1
Finance department	-	-	3
Total	**10**	**6**	**13**

The department largely responsible for non-submission of explanatory notes was the Power department.

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

6.13.2 The replies to paragraphs are required to be furnished within six months from the presentation of the Reports. Replies to 43 paragraphs pertaining to 11 Reports of the COPU, presented to the State Legislature between December 2000 and March 2005, had not been received as on September 2005, as indicated below:

Table: 6.12

Year of the COPU Report	Total number of Reports involved	Number of paragraphs where replies not received
1992-93	1	1
1996-97	2	11
1997-98	3	13
1998-99	3	13
2001-02	1	3
2002-03	1	2
Total	**11**	**43**

Action taken on persistent irregularities in Audit Reports

6.13.3 With a view to assist and facilitate discussion of the paras of persistent nature by the State COPU, an exercise has been carried out to verify the extent of corrective action taken by the concerned auditee organisation and results thereof are indicated in **Appendix-XL**.

Statutory corporations

The irregularities relating to excess inventory holding (ranging between Rs 6.30 crore and Rs 13.35 crore), non-recovery of advance consumption deposits (Rs 7.07 crore), loss due to wrong application of tariff (Rs 0.41 crore), short recovery of peak load exemption charges (Rs 2.13 crore), undue favour to consumer (Rs 30.09 lakh) etc. pertaining to the Himachal Pradesh State Electricity Board were included in the Reports of the Comptroller and Auditor General of India for the years 1994-95 to 1998-99 and 2000-2001 to 2003-2004 (Commercial) - Government of Himachal Pradesh. Audit scrutiny revealed that the irregularities as detailed in **Appendix-XL** continued to persist, as the Government/Board had not taken corrective action.

The matter was referred to the Government in April 2005; their reply had not been received (September 2005).

6.14 Response to Inspection Reports, draft paras and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of the Public Sector Undertakings (PSUs) and departments of the State Government concerned 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 six weeks.

Inspection reports issued up to March 2005 pertaining to 18 PSUs disclosed that 2,403 paragraphs relating to 808 inspection reports remained outstanding at the end of September 2005. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2005 is given in **Appendix-XLI.**

Similarly, draft paragraphs 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. It was, however, observed that 10 draft paragraphs forwarded to the two departments during February and July 2005 as detailed in **Appendix-XLII** had not been replied to so far (September 2005).

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

The matter was referred to the Government in April 2005; their reply had not been received (September 2005).

(Suman Saxena)

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