CHAPTER III

PERFORMANCE REVIEWS RELATING TO STATUTORY CORPORATIONS

HIMACHAL PRADESH STATE ELECTRICITY BOARD

3.1 Implementation of Transmission and Distribution Schemes

Highlights

There was delay in completion of the schemes which resulted in cost overrun of Rs.65.80 crore and also deprived the Board of potential revenue of Rs.158.77 crore due to non-achievement of envisaged savings in T&D losses and additional sale of power.

(Paragraph 3.1.11)

Taking up of schemes without obtaining clearance from the concerned authorities resulted in unfruitful expenditure of Rs.12.32 crore besides interest loss of Rs.8.38 crore on this expenditure. Further, the intended benefits of reducing the T&D losses to the extent of 21.5 million units valued at Rs.3.76 crore could not be achieved.

(Paragraphs 3.1.13, 3.1.14 and 3.1.15)

Incorrect and unrealistic assessment of the power requirement of an area resulted in unproductive expenditure of Rs.6.01 crore on construction of three sub-stations.

(Paragraph 3.1.21)

Failure to execute ongoing system improvement schemes being financed by Rural Electrification Corporation under Accelerated Power Development Reforms Programme (APDRP) resulted in non-availing of grant of Rs.2.75 crore available under APDRP.

(Paragraph 3.1.23)

Failure to contain Transmission and Distribution losses within the level prescribed by the Himachal Pradesh Electricity Regulatory Commission resulted in the disallowance of 289 million units valued at Rs.72.25 crore at the time of fixation of tariff for the years 2004-06.

(Paragraph 3.1.26)

There was no system of performance appraisal of the schemes for assessing the achievement of the objectives set and also utilising the feed back for the preparation of schemes in future.

(Paragraph 3.1.28)

Introduction

3.1.1 Transmission and Distribution (T&D) Schemes are meant to evacuate power generated in power houses, draw share of power from various power houses in different states, improve and strengthen the existing system, reduce transmission and distribution losses and provide adequate power in already electrified/being electrified areas. This is done by setting up and upgrading sub-stations, laying and strengthening lines and augmenting capacities of the distribution transformers. Himachal Pradesh State Electricity Board (Board) implements T&D schemes through its Transmission and Operation Wings under a three fold system viz. 66 KV and above, 33 KV and below and system improvement schemes.

While T&D schemes of 66 KV and above are executed through the Transmission Wing under the supervision of Member (Technical), T&D schemes of 33 KV and below including system improvement schemes are executed through the Operation Wing under the supervision of Member (Operation).

Implementation of T&D schemes was last reviewed and commented in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 1992. The Committee on Public Undertakings discussed the review in June 1997 and gave (December 2000) its recommendations. Action taken report was received in March 2002.

Scope of audit

3.1.2 The present Performance review conducted between January and April 2006 covers the implementation of T&D schemes during the last five years ended 31 March 2006. Records were test checked in 23 out of 86 units of the Board selected on random sampling basis (Tippets Table).

Audit objectives

3.1.3 The audit objectives of the Performance review were to ascertain whether:

- the schemes were taken up in consonance with the guidelines of Central Electricity Authority (CEA)/Rural Electrification Corporation (REC);
- the schemes were properly planned and drawn up and executed as per policy and programme of the Board and in an economical and efficient manner;

- the funds provided were adequate and there was no diversion of funds;
- the control mechanism and the monitoring system evolved was effective to fulfil the objectives of the scheme;
- the intended benefits from the schemes to the Board and to the general public were actually derived.

Audit criteria

3.1.4 The following audit criteria were adopted:

- guidelines framed by CEA/REC for the schemes;
- policy, plan, schemes formulated by the Board;
- Project Report, cost estimates in respect of each scheme;
- norms fixed by Himachal Pradesh Electricity Regulatory Commission (HPERC)/CEA for T & D losses;
- targets fixed in the T & D schemes for various elements.

Audit methodology

3.1.5 The methodology adopted for attaining audit objectives with reference to audit criteria were examination of:

- Norms/guidelines of CEA/REC/HPERC;
- Analysis of basic data and procedure for preparation of schemes;
- Examination of records relating to implementation of the schemes and their progress with reference to completion schedule and cost estimates;
- Analysis of procedure for evaluation of schemes after completion;
- Analysis of data relating to achievement of envisaged benefits;
- Interaction with the management through entry and exit conferences.

Audit findings

3.1.6 Audit findings arising from the performance audit were reported to the Government/Board in June 2006 and were discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 18 August 2006. The Principal Secretary, Multi-purpose Project and Power, Government of Himachal Pradesh and Chairman, Himachal Pradesh State Electricity Board attended the meeting. The views expressed by the members have been taken into consideration while finalising the review.

3.1.7 Audit analysis of the implementation of the schemes revealed major short comings/deficiencies such as delay in completion of schemes, unrealistic assessment of load requirement, etc. These are discussed separately in the succeeding paragraphs under 66 KV and above, 33 KV and below T & D and system improvement schemes.

66 KV and above Transmission and Distribution Schemes

3.1.8 During the last five years ended 31 March 2006, the Board took up four 66 KV and above T&D Schemes and also worked on 15 on-going schemes continuing from earlier years.

Growth of transmission system

3.1.9 The table below indicates the transmission system built up vis-à-vis power availability during 2001-06

Table:3.1.1

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
Power available for sale within the State (MUs)	3,177.205	3,351.992	3,588.686	3,809.257	4,523.775
Energy sold within the State (MUs)	2,331.860	2,519.002	2,726.324	2,954.155	3,568.689
T&D losses (MUs)	845.345	832.990	862.362	855.102	955.086
Percentage of T&D losses	26.61	24.85	24.03	22.45	21.11
Transmission lines (circuit Kms) (At the end of each year)					
HT (including EHV*)	23,977	2,5060	25,678	26,638	28,012
LT	47,318	47,926	48,531	49,213	50,435
Transformation capacity (MVA#)					
220 KV	502.100	502.100	733.600	833.600	933.600
132 & 66 KV	882.469	895.069	1,057.270	1,118.710	1,177.600

The transmission and distribution losses in respect of power sold with in the State during 2001-2006 ranged between 21.11 and 26.61 *per cent.* The losses were above the norms fixed by the HPERC (23.5 to 19.5 *per cent*) in the respective years.

Financial outlay and actual expenditure

3.1.10 The Board prepared annually a budget for capital expenditure for execution of various schemes depending upon the physical targets fixed in the annual plans formulated by it.

---

* *Extra High Voltage*

\# *Mega Volt Ampere*

Year-wise budget allocation and actual expenditure incurred on 66 KV and above transmission schemes was as under:

Table: 3.1.2

(Rupees in lakh)

Year	Original Budget allocation	Revised Budget allocation	Actual expenditure	Difference (3-4) (short (-)/excess (+)
(1)	(2)	(3)	(4)	(5)
2001-02	4,500	4,950	3,875.01	(-) 1,074.99
2002-03	4,658	3,204	2,221.19	(-) 982.81
2003-04	2,347	2,075	2,066.48	(-)8.52
2004-05	1,780	821	873.76	(+) 52.76
2005-06	6,633	2,267	1,450.09	(-) 816.91

It would be seen from the table that there was substantial difference between the budget allocation and the actual expenditure in 2001-02, 2002-03 and 2005-06, which resulted in cost and time overrun of schemes as discussed in subsequent paragraphs.

The Board stated (August 2006) that shortfall in actual expenditure was due to delay in obtaining clearance and late receipt of ordered material, which was unavoidable. The reply is not tenable, as this could have been avoided by proper planning and effective monitoring.

A review of 19 schemes implemented during the 5 years period ended 31 March 2006 revealed the following deficiencies:

Delay in completion of schemes

Delay in completion of schemes resulted in cost overrun of Rs.65.80 crore and loss of potential revenue of Rs.158.77 crore.

3.1.11 Out of 19 schemes, there was time overrun ranging from 12 to 196 months in 17 schemes. This resulted in cost overrun of Rs.65.80 crore, loss of potential revenue of Rs.158.77 crore (Sr. No. 1 to 5 and 11 of Appendix-IX) due to non-achievement of envisaged savings in T & D losses/additional sale of power and non-drawal of free share of 84.6 million units valuing Rs.11.84 crore (Sr. No. 6) as detailed in Appendix-IX.

The time and cost overrun was mainly due to non-allocation of budget as per phasing in the schemes, delay in procurement of required material, delay in obtaining clearance from the various agencies and lack of monitoring during implementation.

The Board while accepting the delay stated (August 2006) that the reasons for cost overrun and time overrun were beyond control and stipulated targets were impossible to be achieved with the available resources. The reply is not tenable as such delays could have been avoided by efficient planning and monitoring and the targets fixed would have taken all relevant factors into account.

Erection of transmission lines

Unfruitful expenditure

Taking up of schemes without justification resulted in unfruitful expenditure of Rs.9.90 crore.

3.1.12 In order to draw the State Government share of power from Nathpa Jhakri Hydel Project (510 KW) and Baspa-II Project (36 MW), the Board approved (November 1996) a Scheme for construction of 440 KV single circuit transmission line along with the sub-station at Kunihar at Rs.75.73 crore even though the Board was entitled to only the 'State of Region Share'[#] of 2.47 *per cent* from these projects (44.46 MW). The Board had spent Rs.9.90 crore on preliminary works[*] and staff quarters up to March 2006. It was noticed during audit that the Himachal Pradesh Electricity Regulatory Commission (HPERC) had directed (July 2004) the Board to stop tendering/award of works of the scheme on the ground that power to be exported through the scheme did not belong to the Board. The HPERC had also directed the Board to get justification of the scheme examined in collaboration with the Central Electricity Authority (CEA) and the Power Grid Corporation of India Limited (PGCIL) and to submit the same to it for approval by November 2004. The requisite justification has not been submitted to the HPERC so far (August 2006). It was also noticed in this connection that the State Government had started (October 2003 and April 2005) selling its share of power from these two projects directly to other States indicating that the Board already had evacuation facilities for drawal of its share of power from these projects. Thus, the expenditure of Rs.9.90 crore incurred on this project was unnecessary.

The Board stated (August 2006) that the scheme was meant for drawal of power from the Grid for meeting the power requirements of various areas. The reply is not correct as the scheme was specifically sanctioned for drawal of State Government share from the Nathpa Jhakri and Baspa-II Hydro Electric Projects, and the expenditure of Rs. 9.90 crore incurred on the scheme has proved unfruitful so far.

Taking up of scheme without permission from the concerned authorities resulted in unproductive expenditure of Rs.9.81 crore.

3.1.13 The Board started (1988-89) a scheme for providing a second circuit of 220 KV line from Khodri to Majri on the existing single circuit line, meant for transmitting power from Yamuna Valley Power Houses in Uttaranchal (erstwhile Uttar Pradesh). The required permission of erstwhile Uttar Pradesh Electricity Board was not obtained before taking up the work. The work was stopped after spending Rs.2.71 crore for want of material. The Board restarted (1998-99) the work and spent a further amount of Rs.7.10 crore (up to October 2005) for laying 34.153 Km line. In the absence of permission of the concerned State Government, the second circuit could not be commissioned (March 2006) and the expenditure of Rs.9.81 crore has remained unproductive

The share of power to which a State is entitled in the Central Sector Projects situated in the State

* *Detailed survey, PTCC clearance, forest clearance and acquisition of land etc.*

defeating the objective of the scheme besides resulting in loss of interest of Rs.8.07 crore** up to March 2006.

Further, as the warranty period for the equipment (valued at Rs.97.59 lakh) purchased between September 2001 and April 2003 has lapsed, the Board will not be able to hold the suppliers responsible for any problem that may arise in the equipment later on.

The Board stated (August 2006) that the case for required permission of the State Government is being pursued with the Uttranchal Government/CEA. In spite of its efforts, the Board has not been able to obtain the permission so far (August 2006).

3.1.14 The Board spent Rs.2.51 crore between March 2004 to January 2005 on 'loop-in-loop out' (LILO) on 2nd circuit of Kunihar-Panchkula line (part of Bhabha-Panchkula double circuit inter-state line) at Baddi. The work on LILO was started without obtaining the required approval from Haryana Vidyut Prasaran Nigam Limited (HVPNL). After completion of the work in January 2005, the Board approached (September 2005) HVPNL for approval. HVPNL did not allow the Board to energise the LILO of this 2nd circuit on the ground that due to rapid industrialisation near Baddi and surrounding areas, the entire chunk of load of these areas would be reflected on their system resulting in overloading. Thus, the expenditure of Rs.2.51 crore was rendered unfruitful with consequent interest loss of Rs.30.79 lakh up to March 2006.

The Board stated (August 2006) that the matter was being pursued vigorously at Central Electricity Authority level as well as bilaterally and it was hopeful of obtaining clearance. The reply is not acceptable as the Board initiated action for obtaining clearance in September 2005 much after completion of the work in January 2005 and it is still awaited.

Without constructing 220 KV line and sub-station, the 22 KV line could not be utilised to the optimum and envisaged benefits of reducing the line losses to the extent of 21.5 million units could not be achieved.

3.1.15 To improve the voltage by reducing the length of line and to reduce T&D losses, the Board sanctioned (August 2002) a composite scheme for construction of a 220 KV double circuit transmission line from Nathpa to Kashang by LILO of Bhaba-Kunihar line and installation of a sub-station at Bokhtoo along with construction of a 22 KV single circuit line on 66 KV towers from Bokhtoo to Akpa. Erection of 22 KV single circuit line was completed in October 2005 at a cost of Rs.9.26 crore. The work of 220 KV line was awarded in June 2005. The work for construction of sub-station is yet to be tendered (August 2006). Without constructing 220 KV line and sub-station, the 22 KV line could not be utilised to the optimum and the intended benefits envisaged in the scheme of reducing the T&D losses by 21.5 million units valued at Rs.3.76 crore could not be achieved.

** *Interest calculated at an average borrowing rate of 10.5 per cent per annum during the period*

The Board stated (August 2006) that the 220 KV line and the sub-station at Bokhtoo did not have direct relevance with the 22 KV Bokhtoo-Akpa Line as the 220 KV D/C line from Nathpa to Kashang was basically meant for evacuating power from the Kashang Hydro Electric Project. The reply is not acceptable as by not constructing the 220 KV double circuit line and sub-station, the Board was not able to reduce the T & D losses as envisaged.

Award of work at higher rates

3.1.16 The Board awarded (June 2005) the work of erection of a 220 KV double circuit transmission line from Nathpa to Kashang on turnkey basis to Jyoti Structures Limited, Mumbai for Rs.12.34 crore. The awarded quantity included benching work of 58 cubic metre. As per the agreement, any deviation in the quantity at the time of actual execution was to be paid as per the rate determined under clause 12 and 12 A. As per clause 12 A of the agreement, in case deviation is in excess of deviation limit prescribed in tender documents (10 *per cent* in this case), the Engineer-in-Chief can revise the rates offered by the contractor having regard to the prevailing market rate. The actual quantity of benching work executed under the contract was 40,000 cubic metre i.e. an increase of 68,866 *per cent*. The Board instead of restricting the rates (as per clause 12 A) on the basis of prevailing market rates (Rs.256 per cubic metre) paid the contractor at the contracted price (Rs.360 per cubic metre), resulting in excess expenditure of Rs.41.60 lakh.

The Board stated (August 2006) that the firm quoted different rate for benching work and after negotiation of rates, extra work was awarded @ Rs.360 per cubic metre. The reply is not acceptable as the Board had the power to revise the rates under clause 12 A, having regard to the prevailing market prices, and could have avoided extra expenditure of Rs.41.60 lakh.

3.1.17 As per the Indian Electricity Grid Code, beneficiaries are expected to provide VAR[*] compensation/generation so that they do not draw/inject VAR (Reactive Power) from/to the EHV[**] Grid. VAR drawal/injection by the beneficiary (Board) is to be priced as follow:

- The beneficiary pays for VAR drawal when voltage at the metering point is below 97 *per cent*.
- The beneficiary pays for VAR return when voltage is above 103 *per cent*.

The reactive energy charges were to be paid at four paise per KVARH up to March 2001 and escalated by five *per cent* per year w.e.f. 1 December 2002. In order to avoid payment of reactive energy charges, voltage limits were to be maintained by installing and effectively operating shunt capacitors. It was noticed in audit that 11 sets of shunt capacitor banks of the rating of

[*] *Voltage Ampere Reactive*

[**] *Extra High Voltage*

Non-installation of capacitor banks resulted in avoidable payment of reactive energy charges of Rs.1.77 crore.

32 MVAR valued at Rs.1.07 crore along with cable purchased between December 1999 to September 2001 could not be installed so far (September 2006) under the jurisdiction of Transmission Circle Totu owing to space constraints. Besides, capacitor banks having a total rating of 16.27 lakh MVAR were defective. This resulted in non-maintenance of the required voltage limits and avoidable payment of reactive energy charges of Rs.1.77 crore between December 2002 and March 2006.

The Board admitted (August 2006) that the capacitor banks could not be installed due to space constraints and stated that the amount paid for reactive energy charges was less than the amount collected. The reply is not acceptable, as by ensuring effective functioning of capacitor banks, the payment of reactive energy charges could have been avoided.

33 KV and below Transmission and Distribution Schemes and System Improvement Schemes

3.1.18 The budget allocation and the actual expenditure on 33 KV and below T&D schemes and system improvement schemes financed by the REC during the last five years ended March 2006 was as under:

Table: 3.1.3

(Rupees in lakh)

T & D Schemes				System Improvement Schemes financed by REC		
Year	**Budget allocation**	**Actual expenditure**	**Percentage of actual expenditure**	**Budget allocation**	**Actual expenditure**	**Percentage of actual expenditure**
2001-02	220.00	150.15	68.25	645.00	474.75	73.60
2002-03	320.00	543.35	169.80	700.00	267.55	38.22
2003-04	406.00	295.35	72.75	260.00	204.08	78.49
2004-05	486.00	324.07	66.68	360.00	214.14	59.48
2005-06	1,089.00	505.23	46.39	200.00	115.79	57.89

It would be seen from the above table that the actual expenditure was always less than the budget allocation for the respective year, and ranged between 46.39 and 72.75 *per cent* (in respect of T & D schemes) and 38.22 and 78.48 *per cent* (in respect of system improvement schemes), except in the year 2002-03 when it was 169.80 *per cent* in respect of T & D schemes. Lower expenditure on these schemes was mainly due to inadequate monitoring.

Delay in energisation of schemes deprived the Board of saving of energy losses and additional sale of power.

Physical targets and achievements of closed 'System Improvement' schemes

3.1.19 Fifteen System Improvement Schemes were closed during the last five years ended March 2006 after constructing 140.39 Km of new lines and augmenting 30.20 Km of the existing lines. It was noticed that there was delay ranging between 9 and 59 months in energisation of 12 out of the above 15 schemes. Delay in energisation deprived the Board of saving of energy losses of 23.3 million units and additional sale of 113.5 million units of power.

Ongoing System Improvement Schemes

3.1.20 During the last five years ended March 2006, the work on 10 system improvement schemes was under execution. It was noticed that against the provision of erection of new lines of 87.400 Km (11 KV HT), only 67.854 Km had been erected i.e. a shortfall of 22.36 *per cent*. There was also a provision for augmentation of 12.150 Km of lines in two schemes, against which there is no progress so far (August 2006).

Audit scrutiny of these schemes revealed that there were delays ranging from 23 to 70 months in completion of the schemes. It was also noticed that for achieving the average physical completion of 62.61 *per cent*, the Board had spent 101.38 *per cent* of the amount sanctioned for completion of these schemes in all respects.

The Board stated (August 2006) that the actual erection of new lines was due to need based change depending upon the availability of land/corridor, etc. and the delay in completion of the schemes was due to problems faced in the acquisition of land, right of way, paucity of labour, etc. The reply is not acceptable as the delays due to the reasons cited by the Board could have been avoided by adequate planning and effective monitoring of implementation of the schemes.

Un-realistic assessment of demand growth

Incorrect and unrealistic assessment of power requirement of the area resulted in unproductive expenditure of Rs.6.01 crore.

3.1.21 The Board decided (between April 1998 and April 2000) to augment the existing capacity of three sub-stations (Kakkar, Chowari and Salooni) from their existing capacity of 4.89 MVA to 9.6 MVA. The Board envisaged capacity utilisation of 8.6 MVA (i.e. 89.58 *per cent* of the augmented capacity) by 2005-06. The augmentation works were completed at a cost of Rs.6.01 crore between May 2001 and January 2003. It was noticed that the demand of power at all the three sub-stations did not increase as expected; instead the demand at Kakkar and Chowari sub-stations actually came down from the original demand.

Thus, the incorrect and unrealistic assessment of load growth rendered the expenditure of Rs.6.01 crore incurred on the augmentation of these sub-stations unproductive.

The Board stated (August 2006) that the areas involved in these schemes were earlier facing acute low voltage problem and the implementation of the scheme was necessary. The expenditure had thus not remained unproductive. The reply is not acceptable as even after 3 to 5 years of their completion, the actual demand was far less than their capacity. Besides, in case of Kakkar and Chowari, it is less than even the maximum demand shown before construction of the schemes.

Avoidable extra expenditure on construction of a double circuit line

3.1.22 Detailed project report of Khauli Hydel Project (12 MW) provided for the construction of single circuit (S/C) transmission lines from Khauli to Shahpur and Khauli to Kotla- Jassure for evacuation of power from the powerhouse. Accordingly, the estimate for construction of 33 KV S/C line from Khauli Power House to 33/11 KV sub-station at Shahpur was approved (January 2004) for Rs.58.21 lakh. Material worth Rs.56.56 lakh has been booked to the scheme up to December 2004. In the meanwhile, the Sub-Transmission Committee decided (March 2004) to construct a double circuit line from Khauli Power House to Shahpur. In view of this, the estimate was revised and approved (March 2005) for Rs.1.95 crore. No justification for this change was, however, found on record. It was noticed in audit that the construction of a double circuit line was not need based as in case of break down of one circuit, shut down had to be taken for both the circuits and generation had to be stopped. The decision to construct a double circuit line, thus, resulted in extra avoidable expenditure of Rs.1.37 crore, which might increase owing to escalation in prices (expenditure of Rs.1.73 crore had already been incurred up to June 2006).

The Board stated (August 2006) that construction of a double circuit line helps in reducing the losses, corridor requirements and contingencies in a better way. The reply is not acceptable as the double circuit line had no additional benefit as already indicated above.

Avoidable loss

Non-execution of schemes under APDRP resulted in non-availing of grant of Rs.2.75 crore.

3.1.23 As per the Minutes of the Meeting held (September 2003) by the Power Minister of the State with the Board's officers, the system improvement works were to be executed under Accelerated Power Development Reforms Programme (APDRP). The Board was entitled to 90 *per cent* of the funds as grant from the Government of India. Audit noticed that during 2004-06, the Board incurred expenditure of Rs.3.06 crore on system improvement schemes out of funds availed from Rural Electrification Corporation (REC) instead of executing these schemes under APDRP. Had these schemes been executed under APDRP instead of by utilising borrowed funds from REC, the Board could have received grants of Rs.2.75 crore from the Government of India.

The Board stated (August 2006) that the schemes under APDRP were formulated for carrying out specific works and did not include system improvement schemes. The reply is not acceptable as the works under APDRP and system improvement schemes are for strengthening of the system up to 33 KV. The Board could have executed the work under APDRP after closing the schemes being executed with REC's funds prematurely.

Delay in completion

3.1.24 In order to overcome the problem of high voltage regulation and reliable evacuation of power from Baner Hydel Project, the Board sanctioned (August 1999) a scheme for construction of additional 33 KV single circuit line from Baner to Dehan for Rs.73.09 lakh. The scheme envisaged reduction in energy loss of 17.26 lakh units *per annum*. The scheme was to be completed within two years i.e. by August 2001, but it was completed in November 2004 after a delay of 38 months and at a cost of Rs.1.73 crore. Delay in completion of the scheme thus resulted in energy loss of 5.4 million units valued at Rs.46.46 lakh besides incurring of extra expenditure of Rs.one crore owing to price escalation in labour and material cost beyond the stipulated period.

The Board stated (August 2006) that the delay was due to right of way problems. The reply is not acceptable as the scheduled time was fixed after taking all these factors into account.

Non-augmentation of conductor resulting in avoidable losses

3.1.25 Two system improvement schemes (numbers 060308 and 060372) sanctioned in April 1997 and April 2000 respectively, had provision for augmentation of 28.25 Km 11 KV transmission lines at a cost of Rs.13.23 lakh from 6 SWG copper to ACSR 6/1/3.35 mm. Similarly, one 33 KV and below T&D scheme of Kakkar area sanctioned in April 1999 also had provision of augmentation of 9.5 Km transmission line from 6 SWG G.I to ACSR 6/1/3.35 at a cost of Rs.6.31 lakh. By augmentation of the above lines, T & D losses were to be reduced as envisaged in the schemes. These schemes were completed without carrying out the augmentation works. This deprived the Board of envisaged saving of T & D losses of 25.07 million units valued at Rs.2.13 crore up to March 2006.

The Board stated (August 2006) that the necessity of augmentation of the line under the scheme (060308) was not felt and hence was not taken up. It further stated that the augmentation work in respect of other scheme (060372) is being taken up under APDRP. The fact, however, remains that delay in taking up the augmentation has deprived the Board of potential saving in T & D losses as stated above.

Transmission and Distribution losses

Failure to contain T & D losses within permissible limit resulted in disallowance of losses of Rs.72.75 crore by the HPERC while revising the tariff.

3.1.26 As per the tariff order approved (October 2001) by the HPERC for 2001-02, T & D losses of 23.5 *per cent* with one *per cent* reduction per year were approved for energy sold within the State. The losses beyond this limit were to be treated as inefficiency and were to be borne either by the Board or the Government. Such excess losses were not to be passed on to the consumers through tariff. It was noticed in audit that the Board failed to achieve the approved level of losses during 2001-06 as the actual losses ranged between 21.11 and 26.61 *per cent*. The HPERC, thus, disallowed losses of 289 million units valued at Rs.72.25 crore while assessing annual revenue requirement to determine the tariff for 2004-05 and 2005-06. This resulted in a loss to the Board as this amount could not be recovered from the consumers.

Non-maintenance of ideal High Tension (HT)/Low Tension (LT) ratio

3.1.27 Long distance LT lines without adequate spacing of transformer are the major causes for line losses, LT faults and failure of distribution transformers. The Central Electricity Authority (CEA) had recommended 1:1 ratio of HT/LT line as an ideal ratio for minimising losses. During the last five years ended March 2006, the overall HT/LT line ratio of the Board was as under:

Table: 3.1.4

Year	Length of HT lines (in Kms)	Length of LT lines (in Kms)	Ratio of HT:LT
2001-02	23,977	47,318	1:1.97
2002-03	25,060	47,926	1:1.91
2003-04	25,678	48,531	1:1.89
2004-05	26,638	49,213	1:1.85
2005-06 (Provisional)	28,012	50,435	1:1.80

It can be seen from the table that during the period of last five years ended March 2006, the Board has not been able to achieve the ideal HT/LT ratio as recommended by the CEA. Consequently, the Board has not been able to reduce the T & D losses as prescribed by HPERC (refer paragraph 3.1.9).

The Board stated (August 2006) that there was regular improvement in the HT and LT ratio. The reply is not tenable as the Board has not been able to achieve the ratio of HT/LT as recommended by the CEA.

Non-appraisal of performance

3.1.28 The Board had no system of performance appraisal after completion of schemes with a view to assess the fulfillment of targets/benefits as envisaged in the schemes. It was not ascertained whether the desired results were actually obtained or not for taking remedial measures in preparation and implementation of the schemes in future.

The Board stated (August 2006) that the system of performance appraisal had been introduced in a limited way.

Acknowledgement

3.1.29 Audit acknowledges the co-operation and assistance extended by the Board and the officers of the State Government at various stages of conducting the performance audit.

Conclusion

The Board failed to complete various System Improvement schemes within the stipulated period. It also took up schemes without obtaining clearance from the concerned authorities resulting in cost overrun, unproductive expenditure and non-accrual of envisaged benefits through reduction in transmission and distribution losses and additional sale of power. The Board failed to assess the power requirements of the areas

correctly resulting in unproductive expenditure. The system of performance appraisal for assessing fulfillment of the objectives of the executed schemes and to utilise the feedback for preparation of schemes in future was not in place

Recommendations

- **The system of formulation of schemes and procedure for implementation and monitoring need to be streamlined to ensure that the schemes are completed within the stipulated period and without deviations to avoid time and cost overrun and non-accrual of benefits.**
- **Power requirement of the areas needs to be assessed correctly to avoid unproductive expenditure on the schemes.**
- **System of performance appraisal of the schemes should be put in place to judge their usefulness and utilise the feed back for preparation of schemes in future.**

3.2 Manpower Management

Highlights

The Board has been following the manpower norms of 1991, which have not been revised in spite of changes in working conditions and infrastructure. The recommendations of the Committees set up in 1996 and 2001 to review the norms were also not accepted for which no reasons were on record.

(Paragraph 3.2.8)

The Board could not justify regularisation of daily wagers to the Himachal Pradesh Electricity Regulatory Commission (HPERC) resulting in disallowance and consequent non-recovery of employees' cost of Rs.37.24 crore at the time of tariff fixation.

(Paragraph 3.2.9)

There was no independent monitoring unit at the corporate level to ensure proper deployment and optimum utilisation of available manpower. This resulted in improper deployment of manpower and non-utilisation of regularised daily wagers leading to payment of idle wages (Rs.100.49 crore), incurring of extra expenditure (Rs.1.42 crore) on getting the work assigned to the staff done from outside parties and delay in receipt of revenue (Rs.48.77 crore).

(Paragraphs 3.2.11, 3.2.12, 3.2.15, 3.2.18, 3.2.20, 3.2.21, 3.2.23, 3.2.24 and 3.2.27)

The Board deployed unskilled persons resulting in fatal/non-fatal accidents and payment of compensation of Rs.2.87 crore under the Workmen's Compensation Act, 1923.

(Paragraph 3.2.19)

Introduction

3.2.1 Manpower management is of paramount importance for the execution of a pre-determined set of activities of an organisation over a known period of time. Himachal Pradesh State Electricity Board (Board) is responsible for promoting the coordinated development of power potential, generation, transmission and distribution of electricity within the State in an efficient and economical manner. The Board had 25,996 men-in-position against a sanctioned strength of 30,439 employees as on 31 March 2006 for managing the installed capacity of 329.333 Mega Watt (MW), construction of on-going projects and providing electricity to 17.56 lakh consumers. The Board's expenditure on employees cost was Rs.412.76 crore out of total revenue expenditure of Rs.1,715.22 crore during 2005-06.

The Secretary of the Board acts as the Chief Executive Officer and as a link between the Board and the Chief Engineers and other Heads of units in respect of personnel matters.

Scope of audit

3.2.2 The Performance review on Manpower Management in the Board during the last five years ended 31 March 2006 was conducted during January to March 2006 through test check of records at the Head Office and 22 out of 52 offices of the Chief Engineers/Circles selected on random sampling basis.

Audit objectives

3.2.3 The audit objectives of the Performance review were to ascertain whether:

- norms of manpower were based on any scientific study;
- manpower was deployed in accordance with job specifications/requirements;
- the deployed manpower had yielded the desired results; and
- there was a system of imparting training to staff to be deployed on various jobs and the persons trained for a particular job were actually being deployed on those jobs.

Audit criteria

3.2.4 The audit criteria considered for assessing the achievement of audit objectives were:

- Staffing norms prescribed by the Government, State Electricity Regulatory Commission and the Board;
- Norms/requirement for placement of staff;
- Adequacy of training for staff and placement of trained staff.

Audit methodology

3.2.5 The methodology followed for attaining the audit objectives with reference to audit criteria were:

- Review of compliance of Memorandum of Understanding signed by the State Government/Board with the Government of India for reduction of manpower;
- Review of compliance of the directives of the Himachal Pradesh Electricity Regulatory Commission;
- Examination of records relating to review of manpower requirement from time to time;

- Analysis of data/returns in respect of sanctioned strength, men-in-position and excess/shortage of staff;
- Analysis of records relating to placement/transfer of staff according to norms/needs;
- Examination of training facilities and placement of trained staff;
- Analysis of working results of different units with reference to deployed manpower.

Audit findings

3.2.6 Audit findings arising from the performance audit were reported to the Government/Board in May 2006 and were discussed in the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 18 August 2006. The Principal Secretary, Multi-purpose Project and Power, Government of Himachal Pradesh and Chairman, Himachal Pradesh State Electricity Board attended the meeting. The views expressed by the members have been taken into consideration while finalising the review.

Audit findings are discussed in the succeeding paragraphs.

Employees cost analysis

3.2.7 The total revenue expenditure, million units (MUs) sold, expenditure per unit sold, employees cost per unit and percentage of employees cost to total revenue expenditure during the last five years ended 31 March 2006 was as under:

Table:3.2.1

Year	Million Units (MUs) sold	Total revenue expenditure (Rupees in crore)	Expenditure per unit (Rupees)	Employees cost (Rupees in crore)	Employees cost per unit (Rupees)	Percentage of employees cost to total revenue expenditure
1	2	3	4	5	6	7
2001-02	2,880.697	767.21	2.66	275.55	0.96	35.92
2002-03	3,207.028	846.72	2.64	309.85	0.97	36.59
2003-04	4,419.213	1,090.64	2.47	343.21	0.77	31.47
2004-05	4,613.153	1,339.83	2.90	372.91	0.80	27.83
2005-06	5,291.220	1,715.22	3.24	412.76	0.78	24.06

The employees cost per unit ranged between 0.77 and 0.97 paise, which was highest among all the 12 electricity boards of the country.

It would be seen from the table that between April 2001 and March 2006, the percentage of employees cost to total revenue expenditure ranged between 24.06 and 36.59. The employees cost per unit ranged between 0.77 and 0.97 paise, which was the highest among all the 12 electricity boards of the country. It was 78 paise in 2005-06 as against 45 paise of the Uttaranchal State Electricity Board.

The Board stated (August 2006) that efforts were being made to reduce the employee cost by introducing voluntary retirement scheme, ban on creation of new posts, abolition of vacant posts and ban on regularisation of daily wage staff.

Assessment of manpower

Staffing norms

The Board has not revised manpower norms of 1991 in spite of changes in working condition and infrastructure.

3.2.8 The Board has been following the staffing norms of 1991 which were based on the staffing norms being followed by the Punjab State Electricity Board at that time. The Board constituted (April 1996) a Committee of its officers to re-examine the staffing norms of 1991 to make them more realistic and need based with a view to effecting economy in establishment and other miscellaneous expenditure. After a model study in Kangra Operation Circle, the Committee observed (December 1996) that:

- there was imperative need to enhance the man power efficiency at least by 100 *per cent* at the earliest and by another 100 *per cent* in the next 10 years;
- in terms of employees per million units (MUs) sold, the Board was over staffed at least by two times and in terms of number of consumers per employee, at least by two and a half times;
- the labour productivity ranged only between 8 and 10 *per cent*, field and technical staff was grossly under loaded by 84.62 *per cent,* and 24 lakh man-hours *per annum* were being lost annually in Kangra circle alone due to defective organisational structure and wrong work placements.

The Committee, therefore, recommended (December 1996) re-organisation of divisions/sub-divisions with allocation of staff on need basis in terms of territorial jurisdiction and job analysis for putting up 100 *per cent* workload on deployed man power. The report was put up to the Whole Time Members of the Board after three years in November 1999 but the agenda item was “Dropped” without recording any reasons.

The Board constituted (December 2001) another committee headed by the Chief Engineer (Operation), South to review the norms of July 1991 for providing better and efficient services on commercial lines. While the Committee was in the process of finalisation of norms, Himachal Pradesh Electricity Regulatory Commission ordered (February 2005) disbanding of the Committee. The Committee was accordingly disbanded in February 2005.

It was noticed during audit that the affairs of the Board were still being managed with manpower engaged on the basis of staffing norms of 1991.

The Board stated (August 2006) that every possible effort was being made to reduce the employees cost and to make proper placement of staff in field units.

Non-implementation of the commitment to reduce the surplus manpower

3.2.9 In pursuance of the Memorandum of Understanding signed (March 2001) with the Ministry of Power, Government of India, the Government of Himachal Pradesh committed itself to reforms in the power sector with a view to achieving commercial viability and providing reliable and quality power at competitive prices to all the consumers in the State. It, *inter alia,* also agreed to progressively reduce surplus manpower. The Board, however, did not take any action to assess the actual requirement of manpower to enable it to reduce the surplus manpower. Himachal Pradesh Electricity Regulatory Commission (HPERC) took (November 2001) a serious view of the high employee cost and additional burden imposed through regularisation of 11,184 daily wage employees during 1992-93 to 2000-01. It allowed (November 2001) only Rs.24.12 crore out of Rs.36 crore of expenditure on daily wage employees to be passed on to the consumers while fixing the tariff for 2001-02. The HPERC also stated that in future it would not allow the Board to pass on any cost to the consumers that could not be demonstrated to have been incurred in a prudent and efficient manner. The Board, however, further regularised 1,934 daily wage employees between April 2001 and March 2005. The HPERC again (July 2004) disallowed employees cost of Rs.25.36 crore as the Board failed to justify the deployment of these workers either in terms of norms or on need basis. The Board was, therefore, not able to recover Rs.37.24 crore through tariff.

Regularisation of daily wagers without justification resulted in non-recovery of employee cost of Rs.37.24 crore through tariff.

The Board stated (August 2006) that efforts were being made to reduce the employees cost. During April 2001 to March 2005, the services of 1513 daily wage workers were regularised instead of 1,934 as reported by Audit. The reply is not correct as the Board had indicated regularization of 1,934 daily wage workers while filing tariff petition with the HPERC.

Utilisation of manpower

3.2.10 Manpower Planning is a continuous process involving planning of recruitment, training, re-training, labour reduction/changes in workforce according to requirement with reference to technological, legislative and Government policies. It needs constant study of the existing workforce profile (numbers, skills, age, sex, experience, capabilities, potentials, etc.) and adjustment therein keeping in view turn over, staff movements, retirements, etc. in accordance with the organisation’s goals and planning. The penalties for improper manpower planning are costly. Understaffing loses economics of scale and specialisation, orders, customers and profits whereas overstaffing is also wasteful, expensive and difficult to eliminate because of the prevalent legislations and also reduces competitive efficiency, and provision of services at reasonable/cheaper cost.

A review of utilisation of manpower by the Board revealed the following:

Non-implementation of decision to reduce the posts of JEs resulted in idle establishment cost of Rs.9.35 crore.

3.2.11 The Board decided (July 2000) to reduce the posts of Junior Engineers (JEs) in a sub-division from five to four. Although the Board informed (July 2004) the State Government that the decision to reduce the posts had been implemented, it did not actually implement the decision. Consequently, 51 to 64 JEs (Electrical) remained deployed in excess under the Chief Engineers Operation (North) and (Central Zone). This resulted in idle establishment cost of Rs.9.35 crore during August 2000 to July 2006.

The Board stated (August 2006) that the decision to reduce the posts of JEs was kept in abeyance on administrative grounds. The reply is not tenable as the Board has not given any specific reasons for keeping the decision in abeyance.

Extra expenditure of Rs.1.42 crore was incurred due to non-utilisation of regularised daily wagers.

3.2.12 The Board, in compliance with the instructions of the State Government, regularised (October 2001) 3,828 Trade Mates (T Mates) and Beldars. Out of above, 2,283 T Mates and Beldars were regularised in 10 Circles[@] in excess of the sanctioned strength of these circles. This resulted in payment of idle wages of Rs.66.80 crore to them during April 2002 to July 2006. Further, despite availability of this manpower for execution of work of carriage of poles and conductors, digging of pits, etc. (the work being done by them earlier), the Board executed such work through contractors in the five[#] circles test checked in audit. This resulted in incurring of extra expenditure of Rs.1.42 crore. Had the Board executed such works through the regularised T Mates and Beldars, this extra expenditure could have been avoided.

The Board stated (August 2006) that instructions for execution of work of carriage of poles and conductor, digging of pits, etc. to be got done from the available T Mates instead of contractors were being issued.

Non-implementation of State Government directions to abolish 15 posts resulted in extra expenditure of Rs.2.04 crore.

3.2.13 The State Government sanctioned (May 2001) 31 functional posts for HPERC with the condition that the officers/officials would be taken on absorption basis from the Board or other Government departments/Corporations. The posts falling vacant in the lending departments (as a result) were not to be filled in by any mode of recruitment even on officiating/temporary basis. The corresponding posts in the parent institutions were to be abolished. Instead of abolishing the posts of its 15 officers/officials, who were deputed to HPERC on deputation basis between January 2001 and May 2005, the Board filled these posts through promotions in contravention of the State Government's directions. This resulted in extra expenditure of Rs.2.04 crore on account of employees' cost during January 2001 to July 2006.

The Board stated (August 2006) that being a commercial organisation it could not afford to keep the posts vacant for a long time. None of the officials had been permanently absorbed in the HPERC. The reply is not acceptable as the Board did not comply with the instructions of the State Government. It has also lost an opportunity to adjust its manpower in the HPERC on permanent basis.

3.2.14 The Board had a policy of service tenure of two winters and three summers for its non-tribal employees in tribal areas. The non-tribal employees serving beyond this limit were entitled to overstayal allowance at the rate of 10 to 35 *per cent* of basic pay per month. The Board did not follow

---

@ *Operation Circle Nahan, Solan, Bilaspur, Mandi, Kullu, Kangra, Hamirpur, Shimla, Rampur and Dalhousie*

\# *Operation circle Mandi, Una, Nahan, Kullu and Solan* the above laid down policy and 85 non-tribal employees posted at Bhaba Power Project between 1979 and 2003 were still (July 2006) there. Transfer orders in 13 cases issued between September 1997 and February 2006 could not be implemented, as the incumbents did not join in the remote areas. Non-adherence to the transfer policy resulted in incurring of an avoidable higher employees cost of Rs.38.31 lakh on account of payment of overstayal allowance to 111 employees between October 1982 and July 2006 in Bhaba Power Project alone.

The Board stated (August 2006) that every endeavour was made to implement the transfer policy. Due to some unavoidable administrative exigencies, transfer orders of certain officials had to be cancelled. The reply is not acceptable as the Board has not recorded the reason for non-implementation of transfer orders.

3.2.15 In five* circles and one@ Electrical Division, 36 officials of various categories were retained without sanctioned posts in the concerned circle or division during March 2002 to July 2006 resulting in idle expenditure of Rs.2.09 crore.

The Board stated (August 2006) that necessary action to adjust the surplus staff in the needy units against the available vacancies was being taken.

3.2.16 Audit analysis of billing done in 21 sub-divisions with available manpower revealed that norms adopted for issue of 500 bills by one meter ledger clerk (MLC) were not adhered to. The shortfall in these sub-divisions ranged from 4 to 265 bills per month. This showed that the available manpower was not utilised efficiently in the above 21 sub-divisions.

The Board stated (August 2006) that it had deployed staff from less critical to more critical categories. The records, however, did not support the reply as stated above.

Improper deployment of staff

3.2.17 The placement of appropriate manpower is of utmost importance in powerhouses for their efficient operation and optimum generation. In Bhaba, Ganvi, Chaba and Nogli powerhouses, there was an overall shortage of 134 skilled/technical staff. The Board had deployed in these power houses 128 unskilled workers consisting of Trade Mates (T Mates), Beldars, Electricians, Fitters and Shift Engineers who were unsuitable for the activities of these power houses. The Shift Engineers deployed at Ganvi were not aware of the newly installed generating unit having microprocessor-based system as stated by the Superintending Engineer (Generation), Bhabanagar in August 2005. In Design and Transmission wings also qualified and trained

---

* *Operation Circle Bilaspur, Hamirpur, Shimla, Rampur, Maintenance and Testing Circle, Bilaspur*

@ *Electrical Division, Nalagarh*

staff was not provided, a fact brought to the notice of HPERC in the tariff petition for 2005-06.

The Board stated (August 2006) that efforts were being made to post appropriate officers/officials in power houses.

Retention of staff in excess of sanctioned strength resulted in payment of idle wages of Rs.15.15 crore.

3.2.18 Audit analysis of deployment of manpower in field units revealed that 394 officials of different categories (Sr. Assistant, Clerks, Assistant Line Men, T Mates, Drivers, etc.) were not posted according to the sanctioned strength in 14 circles. In 41 units of these circles, they were retained in excess of the sanctioned strength where as in other units there was shortage to that extent. This resulted in payment of idle wages of Rs.15.15 crore during April 2001 to July 2006.

The Board stated (August 2006) that steps were already afoot to set right the excess wherever it had occurred due to historical reasons.

The matter for transfer of 24 excess employees (four drivers and 20 others) of two units (out of 41 units indicated above) under the Executive Engineer, Paonta Division and Resident Engineer, Girinagar was taken up with the Secretary of the Board (November 2003) and the Chief Engineer, South (October 2005) respectively. While the three drivers were transferred in May 2005, action in case of others was still awaited (August 2006).

The Board stated (August 2006) that the transfer order of officials working under Electrical Division, Paonta had been issued and action to transfer the remaining four employees was being taken. The reply is not tenable as the transfer orders have not been issued so far (August 2006).

Deployment of unskilled staff on jobs specified for skilled staff resulted in avoidable payment of compensation of Rs.2.87 crore.

3.2.19 As per the specified duties, unskilled staff (T Mates/work charged/daily wager) are not to be deployed on work on lines or attend to complaints on live system. The Board, however, deployed unskilled staff for duty on lines/poles and to attend to complaints on live system. While discharging their assigned duties, 83 un-skilled employees met with fatal/non-fatal accidents and the Board had to incur avoidable expenditure of Rs.2.87 crore on account of compensation paid to them or their kiths and kin during 2001-06 under the Workmen's Compensation Act, 1923.

The Board stated (August 2006) that the routine duties being performed by the workmen were not so risky. The work on sub-stations and live lines was always being done by adopting safety measures. The workmen had met with fatal accidents suddenly. The units had been instructed from time to time to deploy only the authorised persons for the work on live lines. It was, however, observed in audit that the instructions issued by the Board are not being followed by the field units. The Board has itself admitted (May 1993, October 1996 and August 2006) the fact of deployment of un-skilled staff while reiterating instructions to the field units.

3.2.20 The Board adopted (March 2001) monthly and bi-monthly billing cycle for urban and rural areas respectively. The prescribed billing cycle was not adhered to in 11 circles because 198 clerks posted in sub-divisions and 427 matriculate T Mates regularised as per directions of the State Government were not being deputed in the field for billing purpose. No reasons for their non-deployment were on record.

The Secretary of the Board called for (December 2004) the details of clerks not posted on billing jobs with a view to transfer them to non-billing offices but no action has been taken so far (July 2006).

Non-adherence to prescribed billing cycle resulted in delayed receipt of revenue of Rs 48.77 crore.

The Chief Engineers (Operation), South also ordered (June 2002) the units under his control to depute matriculate T Mates and Sr. Assistants to perform the duties of Meter Readers after obtaining their options. Their deployment as per the above order was still awaited (July 2006). The reasons for non-implementation of order were not on record. Non-deployment of 198 clerks in the field for billing purpose resulted in backlog in billing of 1.39 lakh consumers per month and delayed receipt of revenue of Rs.48.77 crore by one to three months during April 2002 to March 2006.

The Board stated (August 2006) that some clerks working in billing sections had already been transferred to non-billing sections and efforts were being made in other cases in a phased manner.

Non-reduction of staff in proportion to the left over work resulted in payment of idle wages of Rs.4.94 crore.

3.2.21 On completion (March 2005) of construction work of major components of Larji Hydel Project, the Board did not reduce the staff of Division No. II and VI in proportion to the remaining workload. During April 2005 to December 2005, the Board incurred Rs.1.89 crore on the salary and allowances of 109 employees of different categories who executed the residual work valued at Rs.42.72 lakh only. The salary was 439.53 *per cent* of the work done whereas as per the detailed project report it should have been 15.7 *per cent* only. This resulted in payment of idle wages of Rs.1.82 crore. Similarly, on completion (May 2004) of work of Head Race tunnel, the Board did not take steps up to August 2005 to gainfully utilise the services of 69 employees elsewhere despite the fact that the Chief Engineer, Larji had informed (November 2004) the Board about staff becoming surplus. This resulted in incurring expenditure of Rs.3.12 crore on idle wages from June 2004 to August 2005.

The Board stated (August 2006) that the staff had carried out left over work of Larji Hydel Project and preliminary works of Sainj Project, besides, processing of final bills and closing of estimates. The reply is not tenable as the Board did not produce relevant records to Audit for verification of the reply.

3.2.22 In Larji Hydel Project, while the contractor on an average deployed 10 JEs and four Foremen for execution of construction work of gates and hoists under compressed schedule, the Board posted (April 2002 to December 2005) 17 JEs and five Foremen on whole time basis for supervision of the same work. This resulted in irrational payment of wages of Rs.1.13 crore as the posting of supervisory staff in excess of the work force deployed by the contractor was not justified.

The Board stated (August 2006) that there was no excess work force at Larji Hydel Project, rather the staff for supervision and quality control was short. The reply is not acceptable as the Board has considered deployment of staff in the Larji Hydel Project as a whole whereas Audit has commented upon the deployment of staff in one division dealing with construction work of gates and hoists under compressed schedule.

3.2.23 In the Maintenance and Testing Circle, Bilaspur, 23 JEs (Testing) were posted (April 2002 to December 2005) in meter repair shops to supervise the work of 34 Electricians as against the required strength of eight JEs based on the ratio of JEs to the electricians in transformers repair workshop. The deployment of 15 JEs in excess of the requirement resulted in incurring of Rs.1.38 crore towards idle wages.

The Board stated (August 2006) that the matter regarding redeployment of JEs (Testing) was being taken up.

3.2.24 The Board ordered (May 2001) closure of all its vehicle repair workshops except those in project areas. It also ordered abolition of vacant posts. Redeployment of surplus staff was to be done by the respective Chief Engineers within three months. The decision rendered 16 technical persons surplus at Bhaba project workshop. Though, their posts were diverted (September 2005) to surplus pool, the orders for their redeployment have still not been issued (July 2006). This resulted in retention of staff without work and payment of idle wages of Rs.78.26 lakh from April 2002 to July 2006.

The Board stated (August 2006) that the orders of closure were kept in abeyance and hence not implemented. The staff working at Bhaba project workshop had been adjusted in other needy units. The reply is not acceptable as the staff has not been adjusted in other units so far (August 2006).

Training

3.2.25 Training is a planned learning experience designed to bring about permanent change in an individual's knowledge, attitudes or skills. As knowledge has become a key economic resource and a source of competitive advantage, effective training is most important to instil knowledge. In particular, organisations rely on learned knowledge and skills being applied to the job.

3.2.26 The Board set up (September 1994) a training cell under the control of Director (Training) for imparting in-house training within the country and abroad to officers/officials of the Board for acquiring adequate knowledge and modern skills/techniques. The Board abolished (August 2003) the training cell as per a decision taken as part of Power Sector Reforms. The training cell imparted training to 673 employees during March 2001 to August 2003 after incurring an expenditure of Rs.7.98 lakh.

The Board also established two linemen training centres at Solan and Hamirpur in 1978 and 1985 respectively. But the Hamirpur centre was closed in July 2002 on the plea that everybody had been trained. These centres fixed a target of 20 and 30 individuals respectively for training in each batch. As against the target of 5,380 (Solan: 2,800 and Hamirpur: 2,580) candidates, these centres trained 4,523 (Solan: 2,611 and Hamirpur: 1,912) candidates in

226 batches (including 3,075 T mates and four helpers who were not supposed to work on electric lines) since inception to May 2006 and July 2002 respectively. It was noticed in audit that against the strength of 5,770 linemen and assistant linemen as on 31 March 2006, these centres had trained only 1,444 linemen and assistant linemen up to May 2006.

Further, the Board had no system of receiving feedback about deployment of the trained persons on the jobs meant for them and in regard to utility or appropriateness of training imparted to them from their controlling officers. It was indicative of lack of follow-up action to assess the impact of training being imparted after incurring huge expenditure.

The Board stated (August 2006) that the targets could not be achieved as the staff was engaged on the maintenance of the supply system. The system of feed back to assess the impact of training existed in the Board. The reply is not tenable as there was nothing on record to show that feed back was being received.

Monitoring

3.2.27 There was no independent monitoring unit at the corporate level to ensure proper deployment and optimum utilisation of available manpower. The periodical inspection of various units under different cadre controlling authorities was neither conducted nor was the opinion of controlling and supervisory officers sought in respect of placement and performance of manpower. This resulted in improper deployment of manpower, non-utilisation of regularised daily wagers, non-achievement of working targets leading to payment of idle wages, incurring of extra expenditure and delay in receipt of revenue as discussed above.

The Board stated (August 2006) that Human Resource Development Section dealing with the manpower availability and requirement thereof was being reoriented to effectively monitor proper deployment and optimum utilisation of manpower.

Acknowledgement

3.2.28 Audit acknowledges the co-operation and assistance extended by the Board and officers of the State Government at various stages of conducting the performance audit.

Conclusion

The Board had not revised its manpower norms after 1991 in spite of changes in the working conditions and improvement in infrastructure. Instead of reducing manpower as committed in the MOU signed with the Ministry of Power, Government of India for implementation of power sector reforms, the Board regularised large number of daily wage

ministerial staff and workers without assessing the actual requirement and their utility. The Board has also deployed un-skilled staff for the duties specified for skilled staff. There was no proper control mechanism at the corporate level to ensure proper deployment and optimum utilisation of available manpower resulting in improper deployment of manpower, non-utilisation of regularised daily wagers leading to payment of idle wages, incurring of extra expenditure and delay in receipt of revenue.

Recommendations

- **The Board needs to re-assess the requirement of manpower keeping in view the present working conditions and infrastructure. The Board should also take steps to reduce its surplus manpower so as to minmise the establishment cost.**
- **The Board should set up an independent unit at the corporate level to review deployment and performance of available manpower at regular intervals so that the available staff could be deployed strictly on need basis.**
- **The Board should not deploy un-skilled staff for the duties specified for skilled persons.**

3.3 IT Audit Review of Billing Applications

Highlights

There was undue delay in implementation of computerisation by the Electricity Board. Primary target of computerisation of industrial billing remain unfulfilled as billing in respect of 74.45 *per cent* of the HT revenue was not done through computers.

(Paragraph 3.3.6)

The Board purchased electronic meters worth Rs.15.98 crore which had no provision of ports for downloading the data to the SBMs which could have facilitated computerised billing.

(Paragraph 3.3.9)

The system was not being utilised to monitor recoveries resulting in loss of interest of Rs.2.04 crore on amounts remaining outstanding each month from LT and HT consumers.

(Paragraphs 3.3.13 and 3.3.14)

The System developer failed to upgrade the software on each tariff revision resulting in disruption of billing work and generating of wrong bills with consequential loss of Rs.20.83 lakh to the Board.

(Paragraph 3.3.16)

Deficiency in process control resulted in wrong billing of demand charges. The system failed to compute demand charges in HT billing to the tune of Rs.15.20 lakh and subsidy of Rs.11.84 lakh to be recovered from the Government. Failure of internal control in IT environment lead to non-plugging of these loopholes.

(Paragraph 3.3.29)

Master data was found to be incomplete. It was never compared with original records after feeding. It was unreliable and not useful for MIS.

(Paragraph 3.3.33)

Responsibilities, duties and access rights have not been fixed making the system vulnerable to unauthorised use and associated risks.

(Paragraph 3.3.34)

Introduction

3.3.1 The Board is responsible for promoting the coordinated development of power potential, generation, transmission and distribution of electricity within the State. A "Computer Master Plan" drawn by the Board, was approved (July 1994) for funding (Rupees five crore) by the World Bank. The

Board has spent Rs.1.26 crore under Phase I and II of the Plan on Low Tension (LT)/High Tension (HT) billing for purchase of computer hardware and software development. The Board has also spent Rs.30.71 lakh out of Rs.8.45 crore sanctioned under the Accelerated Power Development Reforms Programme (APDRP). Thus, the Board has only spent Rs.1.57 crore on computerised billing so far (August 2006).

Scope of audit

3.3.2 The audit of HT and LT billing component of the "Computer Master Plan" was conducted in 17 Electrical Sub Divisions (ESDs) **(Appendix-X and XII)** out of 45 ESDs in which computerised billing has been initiated during October to December 2005.

Audit objectives

3.3.3 The audit of HT and LT billing component of the "Computer Master Plan" was conducted with a view to assess:

- the effectiveness of the planned project in achieving its objectives within the stipulated time frame;
- whether the computerisation of billing was managed in the most economical and efficient manner; and
- the adequacy and effectiveness of controls in the system.

Audit criteria

3.3.4 The audit criteria considered for assessing the achievement of audit objectives were rules and procedures with regard to maintenance of manual data, electronic data, wherever made available, and manuals and procedures for implementation of HT and LT billing component of the "Computer Master Plan".

Audit methodology

3.3.5 The review of HT and LT billing component of the "Computer Master Plan" was done through evaluation of general and application controls and analysis of data[1], using IDEA[2].

---

1 *Data was not uniformly available in all cases prior to March 2005, therefore latest available data has been used.*

2 *Intractive Data Extraction & Analysis- a computer assisted auditing tool.*

System acquisition and implementation

Delay in computerisation of HT billing

Out of 226 operational ESDs, computerised LT billing has been initiated only in 45 ESDs.

3.3.6 As per the Computer Master Plan**,** computerisation was to be completed in three phases in 3 to 4 years time frame beginning from July 1994. While two phases were implemented, the third phase was not taken up due to shortage and non-availability of trained staff as well as closing of the World Bank funded schemes. Out of 226 operational ESDs having 17,55,751 consumers, computerised LT billing has been initiated only in 45 ESDs having approximately 4,63,748 consumers. It was noticed in audit that the Board purchased hardware for first phase in December 1997 and for the second phase in September 2001. It was further noticed that while the system costing Rs.11.59 lakh installed at four ESDs* were lying idle since installation (March 2002), system costing Rs.76.61 lakh also remained under-utilised in 17 ESDs **(Appendix-X)**, as only 41.07 *per cent* of monthly billing in these ESDs was being done through computers.

Even after the lapse of eleven years, only one circle has been billing consumers through computerised billing. The billing in respect of 74.45 p*er cent* of HT revenue was being done manually.

Sale of power (SOP) through large supply (HT) accounted for 49.31 *per cent* of the total revenue from SOP during 2005-06. As per the master plan, industrial billing and analysis was to be covered in the first year of Phase I. It was noticed that out of 12 circles, HT billing was being done through computers only in Nahan circle. Total revenue earned by SOP through HT during 2005-06 was Rs.527.83 crore whereas Nahan circle accounted for Rs.134.85 crore only. Thus, billing in respect of 74.45 *per cent* of the HT revenue was not being done through computers. Besides, Industrial LT billing (above 20 KW) is also being done manually for want of up-gradation of software (June 2006).

Thus, the Board could not complete the computerisation of HT and LT Billing even after the lapse of eleven years. The Management attributed tardy implementation to shortage and non-availability of trained staff. As the computerisation was expected to increase the revenue generation by more than 10 *per cent*, delay in implementation defeated this purpose.

Although the software was put to use in 1999, the Management has not yet conducted a post implementation review with a view to improving upon the working of the software.

The Board stated (October 2006) that LT and HT billing software were meant only for Shimla Division and the office of the Chief Engineer (Commercial) respectively. On decentralisation of HT billing in 1999, the modified software was put to use in all the circles except Rampur and Rohroo. The reply is not tenable as according to the status note on computerisation, LT billing was to be compterised in one operational circle and 21 divisions by the end of phase II, whereas HT billing software was being used in Nahan circle only and modifications in the software for industrial LT billing (having load of above 20 KW) are still (October 2006) being made.

* *Parwanoo, Nahan-II, Palampur-II and Hamirpur-I*

Development of software in non-specified backend leading to delay in web-enabling of data

Penalty clause was not implemented despite delay in implementation.

3.3.7 Regional Computer Centre (RCC), Chandigarh was hired (July 1995) for development of software for HT and LT billing at a cost of Rs.4.50 lakh. The work was to be completed by 20 January 1996 and implemented by 31 March 1996. There was also a provision for levying of penalty @ 1% for each fortnight of delay, of the total charges of the remaining incomplete software under the contract. However, the dates were extended many times up to July 1999 without invoking the penalty clause. While there was delay in development of LT software, most of the reporting features in HT software are still (December 2005) not functional.

As per agreement with RCC, the software for billing was to be developed in Oracle 7.0. The Board purchased (December 1997) four Oracle 7.0 software valued at Rs.1.60 lakh. However, RCC developed the billing software in Sybase instead of Oracle 7.0 and the same was implemented in each location. The Board had to again hire (October 2003) the services of RCC at a cost of Rs.4.27 lakh and added cost of Rs.46,000 per month per system analyst’s man months, for migrating database of billing and other modules from Sybase to Oracle 8i before installation of LT and HT billing software in remaining ESDs.

Development of the software in Sybase instead of Oracle as per the agreement resulted in injudicious payment of Rs.7.80 lakh.

The RCC was also to initiate the migration and installation in the second week of November 2003 and complete it within nine man months i.e. by July 2004. Further, database was to reside in divisional office with update facility at each sub-division in LT billing. The HT billing data was to reside in circle office and was to be available on the website of the Board. From the customer’s perspective both billings were to be made available on web. The work was still at migration stage at the time of completion of audit in December 2005. In the award letter for migration, the Board failed to include any penalty clause to ensure timely completion of the work.

Thus, the software was not developed as per agreement. Besides this, non-development in Oracle resulted in undue expenditure on migration with expenditure on purchase of Oracle 7.0 becoming infructuous.

The Board stated (October 2006) that the contract with RCC was extended many times due to delay in purchase of hardware by the Board. It was further stated that only four copies of Oracle 7.0 was purchased and an amount of Rs..4.27 lakh was given for replication and implementation of software. The reply is not tenable as the completion of software was not dependent on the purchase of hardware. Further, software was developed in Sybase rendering expenditure on purchase of Oracle 7.0 infructuous and incurring of further expenditure on migration of data from Sybase to Oracle which was part of the contract with RCC.

Development of parallel software due to non-coordination

3.3.8 Though RCC was to upgrade the software, on revision of tariff in November 2001, it was noticed that the Solan circle awarded (January 2002) this work to a different firm and paid Rs.0.69 lakh. Neither the software nor related data was available for scrutiny in audit as the same was reported to be lost due to crash of system in February 2003. The local management stated that the agreement with RCC was not in their knowledge.

The Board stated (October 2006) that neither the head office was informed of the parallel software developed by the Solan circle nor specific approval was sought. Thus, non-coordination between field offices and head office resulted in parallel development of different software for same ends.

Non-provision of ports in electronic meters

3.3.9 The billing was computerised in the Board with the prime motive of avoiding the risks associated with manual means of collecting and collating, which was not only time consuming and inaccurate but also germinates corrupt practices. This could have been ideally achieved by electronic transfer of data from consumption meters via ports to Spot Billing Machines (SBMs)*.

The Board purchased electronic meters worth Rs.15.98 crore having no ports for down loading the data to SBMs to facilitate computerised billing.

The Himachal Pradesh Electricity Regulatory Commission (HPERC) also directed the Board in its tariff order effective from November 2001 to replace all defective and dead stop meters after 31 March 2002 with electronic meters. The Board accordingly decided to procure and supply only electronic meters to the field units. It was noticed in audit that the Board purchased (June 2002 to April 2005) 3,40,332 LT-AC single phase electronic meters worth Rs.15.98 crore for use in domestic connections, which had no ports for downloading the consumption reading to the SBMs.

The local management during audit stated that in view of high prices it was not economical to provide meters with optical ports for all the consumers having single phase supply. The reply is not tenable as the prices of the meters quoted in the reply were for industrial use and had no correlation to the audit objection which relate to the domestic consumer meters. Further, during the procurement process in 2003, the participating firms had suggested for adding optical ports for communication with the meters categorically informing that the effect on the cost of meter will not be very high. But the Board did not insist on the provision of the ports in these meters and even did not call for prices for inclusion of porting feature to gauge cost of this feature. Moreover, SBMs are used in only two ESDs, out of 45 ESDs. Even in these two ESDs the data is being manually fed into SBMs by meter reader increasing the risk of data entry errors and manipulation.

Thus, the Board has neither used SBMs nor has acquired electronic meters with ports as a result the entire process of meter reading and data entry into the IT system is prone to risks of errors and data manipulations.

---

* *A portable hand held device capable of porting data from the meter to the computer without human intervention for bill generation*

The Board stated (October 2006) that it was in the process of introducing electronic meters with optical ports for commercial consumers. Later on, the facility of electronic meters with optical ports would be extended to cover the domestic consumers. It was further stated that complete billing through SBMs has been planned in the IT package awarded under APDRP.

Loss of interest on delayed revenue realisation

3.3.10 One of the prime objective for computerisation was timely realisation of the revenue. With this end in view, the Member (Operations) issued (March 2001) instructions for monthly billing in urban areas. None of the ESDs except Shimla City Electrical Division implemented the monthly billing. Scrutiny of data revealed that the billing cycle ranged from two to seven months in other ESDs. Test check of available data for the period January to November 2005 pertaining to six ESDs (Kangra, Dharamshala, Hamirpur, Dhalli, Nahan & Khalini) revealed loss of interest of Rs.7.97 lakh per month due to non-issue of bills on monthly basis. The Board attributed (October 2006) non-billing on monthly basis to shortage of trained billing staff.

Absence of cadre and non-training of the staff

Staff was not provided adequate training resulting in delay in commencement of computerised billing.

3.3.11 Computerisation needs acquisition of requisite skills by the work force. The Board has failed to create a specific cadre for manning the computer systems. Despite provision of Rs.13.50 lakh for purchase of training equipment, no in-house training system was operative in the Board. Only 115 persons had been given one week basic computer training. The consultants also failed to provide training as per agreement. Absence of trained man-power was also cited as the main reason by the local management for delay in commencement of computerised billing. It was further noticed that the Board also failed to provide training even under APDRP though provision for the same existed in the scheme.

The Board stated (October 2006) that extensive training has been planned in the IT package recently awarded under APDRP.

Non-utilisation of the IT system to monitor recoveries

3.3.12 Computerisation should facilitate effective and timely action. It was, however, revealed in audit that the information readily available from the computer system was not made use of by the management as discussed in following paragraphs.

Recovery of outstanding dues from LT consumers

3.3.13 Test check of billing data file for September 2005 relating to City Division, Shimla revealed that Rs.1.61 crore was outstanding against 8,002 consumers. Scrutiny of available data for March to September 2005 revealed

The system was not being utilised to monitor recoveries from LT and HT consumers, resulting in huge blockade of recoverable SOP and loss of interest of Rs.2.04 crore on the amount remaining outstanding each month.

that an amount ranging from Rs.1.42 crore to Rs.5.43 crore remained as SOP arrears each month. This resulted in interest loss of Rs.19.44 lakh to the Board computed at the rate of 12 *per cent per annum*. The Board stated (October 2006) that efforts are being made to recover the outstanding amount.

Loss of interest on amount recoverable from HT consumers

3.3.14 Scrutiny of data pertaining to City Division, Shimla revealed that Rs.22.58 lakh was outstanding as on October 2005 from different active HT consumers. Total advance consumption deposit of these consumers was Rs.8,950 only. During March 2004 to October 2005, amount ranging from Rs.1.71 lakh to Rs.28.18 crore remained outstanding each month on which the Board suffered interest loss of Rs.1.85 crore computed at the rate of 12 *per cent per annum*. The Board stated (October 2006) that efforts are being made to recover the outstanding amount.

Loss of revenue due to inaction

3.3.15 In case of abnormally high/low consumption or defective meter, immediate steps should be taken by the management to ascertain the reasons and change the meter if found defective. Test check of data for number of dead stop meters having zero consumption for consecutive number of months revealed the following position:

Table: 3.3.1

Sr. No.	ESD	Number of dead stop meters	Number of bills in this period	Number of months
1.	Solan	182	2 to 4	6 to 10 months
2.	Hamirpur	594	2 to 4	6 to 9 months
3.	Kangra	995	2 to 4	6 to 15 months
4.	Palampur	551	2 to 5	7 to 24 months
5.	Shimla City Division	3,521	5 to 8	6 to 12 months

The Board stated (October 2006) that necessary instructions are being issued to all concerned officers, where computerised billing is in place, to effectively monitor the status of dead stop meters.

System design and development

The system developer failed to upgrade the software on each tariff revision resulting in disruption of billing work and short billing.

Non-modification/delay in modification of software on each revision of tariff

3.3.16 Upgradation of software on each tariff revision should be a time bound process. However, no terms for penalty in regard to time limit for upgradation were stipulated in the agreement with RCC. Resultantly, there were perennial delays in upgradation of software after each tariff revision. It was noticed in audit that on revision of tariff in November 2001, the software was revised after a gap of four months in March 2002. Moreover, on subsequent revision of tariff in July 2004, in addition to the consumption charges, demand charges were also recoverable from LT consumers above 20 KW. However, the software was not upgraded for this feature till December 2005 as a result of which demand charges were not levied on such consumers. Test check of data of Shimla City Division revealed short billing of Rs.20.83 lakh (NDNCS LT billing: Rs.15.61 lakh and Commercial LT billing: Rs.5.22 lakh)*. Audit noticed that three ESDs reverted to manual billing due to non-upgradation of software.

The Board stated (October 2006) that the software was not upgraded to implement two part tariff, hence, some of the bills were generated without levying demand charges. The amount has now been recovered as arrears after it came to notice but the bills are now being prepared manually. It was further stated that software is being modified for making provision for two part tariff.

Non-compatibility of HT software with meter reading instrument (MRI) data software

HT billing software was not programmed for electronic transfer of data available from the software used in meter reading instruments of industrial meters.

3.3.17 The HT billing software had no provision for electronic transfer of data available from MRIs. Though data available from software such as Smart 2000, used by the Board, is convertible into database format, still the MRI data was being manually fed for billing purposes increasing the risk of errors and manipulations during data entry. Local management stated that the matter was discussed with DOEACC engineers but they had expressed inability to do so as the software for MRIs available with the energy meters and billing software developed by RCC were of different programming. This aspect should have been addressed during the planning stage of system development by the Board.

The Board stated (October 2006) that discussion have been held with software developer and meters suppliers for integration of data from the MRIs with HT billing software.

3.3.18 Other major shortcomings noticed in the HT billing software are as follows:

- The report showing list of consumers of exceptional power factor did not show the account number of the consumer listed. This made identification of such consumer difficult for any follow up action.

- Service Connection Order (SCO) date field was missing in master making it impossible to check regularity in issuance of bills.

---

* *Computed as per tariff formulae of 80 per cent of the connected load (computed in KVA assuming 0.9 power factor) in absence of Contract Demand*

- Record of disconnected consumers was not retained in Master file. As a result detailed status of disconnected consumer could not be ascertained in audit after disconnection.

- The software did not maintain old data on any change in the master data. In case of a consumer account at Nahan, Audit scrutiny revealed that in April 2004 a consumer was metered at 11,000 volts, as reflected in the bill generated at that time. However, creation of the same bill in November 2004 showed metered supply at 400 volts. Apparently, there was change in metering voltage in between, which was not traceable in the software.

- No modules for internal, external and energy audit were incorporated in the system.

The Board stated (October 2006) that modifications suggested by Audit have been conveyed to the system developer for incorporation the same.

Non-generation of reports for Management Information System (MIS)

3.3.19 The system should have been used to generate reports useful for management decisions. However, it was seen in audit that though the data was available in the system, the following reports were not generated by the system:

Even after seven years of development, reporting features of HT software were non-functional. In absence of functional report generating facilities, the purpose of effective Management Information System was defeated.

- Division-wise, sub-division wise and circle wise assessment summary were not generated, thus, depriving the management of important MIS reports.

- The system was unable to generate reports relating to inadequacy of average exceeding Advance Consumption Deposit (ACD), age-wise analysis of dead stop/burnt meters, Temporary Disconnection Order (TDCO) and Permanent Disconnection Order (PDCO) reports and peak load violation charges report.

- As per tariff, the monthly power factor should be maintained at 0.90. In case the consumer did not improve the power factor within a period of three months, the connection should be disconnected. The system neither monitors non-improvement in power factor nor creates reports in which there is continuous power factor default for three months and more, rendering it useless for proper MIS. Even power factor data fed is not reliable as LT City data contained power factors ranging from 1 to 2,91,946.

In the absence of functional report generating facilities, the purpose of an effective Management Information System (MIS) was defeated.

The Board stated (October 2006) that MIS reports suggested by Audit have been conveyed to the system developer for carrying out the modifications in the software.

Application control

Input control

There were gross deficiencies in input control. The software did not check duplicity of vital information; accepted data without mandatory fields. Features for validation of input data were not incorporated in the software.

The following deficiencies were noticed in the software on test check in Shimla City Division.

3.3.20 The software did not check duplicity of vital information such as receipt numbers in respect of SOP, ACD, etc. The data contained multiple records showing same receipt number. Data of LT consumers for March to September 2005 contained 77,837 records with duplicate receipt numbers, in which credit of Rs.3.02 crore was given to the consumers. There were 1,422 receipt numbers, which appeared against four or more records. This has the risk of giving undue credit to consumers by feeding same receipt numbers and consequent loss of revenue to the Board.

3.3.21 The software should not accept data if any of the mandatory components viz. amount, date of receipt or receipt number was missing. However, in 168 consumer records in ledger file in respect of which SOP of Rs.16.83 lakh was credited, the receipt number was not fed. This could lead to a risk of misappropriation of revenue as computer operator can give undue credit to a consumer in respect of uncollected sums.

3.3.22 It was noticed by Audit that during March to September 2005, SOP of Rs.2.19 crore was credited where cheque date was either not fed or was latter than the date of payment. In 2,851 cases, payment date was earlier than issue date of bills (through which SOP to the tune of Rs.32.22 lakh was recovered) indicating that the system did not validate dates. In 62 cases, SCO date was prior to the date of application indicating as if SCO were affected without receiving applications.

3.3.23 On feeding disconnection data, the software did not check for existence of disconnected consumer in the master file. Out of 10,491 records in disconnection file, 44 records were not found in the master database file. Thus, one could even feed such consumer records for the consumer which does not exist.

3.3.24 Scrutiny revealed that in six cases, kilo watt hour consumption was negative. Apparently the system did not validate new meter reading *vis-à-vis* old meter reading. This indicates that there is no check on input data and it is possible for the operators to give undue benefit to intended consumers.

3.3.25 As against available meters of maximum three phase, meters with 4 to 10 phases were noticed in 3,179 records. It not only makes this part of the data unreliable, but also it has possible financial implications as meter rent is different for single phase and poly phase meters and inaccurate data in this respect may result in loss to the Board.

3.3.26 Scrutiny of tariff files in many ESDs revealed non-retention of earlier tariff rates in the file. Resultantly, data earlier to the current tariff were not auditable.

3.3.27 The application accepted account number of any number of digits against specified eight digits. This will make data processing difficult for review purpose besides creating non-uniformity in consumer identification.

3.3.28 The system did not provide a limitation on double entry of the same record by two different operators. This could lead to risk of undue credit to consumers.

The Board stated (October 2006) that modifications suggested by Audit have been conveyed to the system developer for necessary action.

Process control

Non-computation of demand charges in HT billing

3.3.29 Consumers billed on the basis of KVAh tariff as applicable for the relevant category are also to be charged the 'Maximum Demand Charges' per month per KVA, at the specified rates, in addition to the KVAh charges per month. The Maximum Demand Charges are calculated on the Maximum Demand (in KVA) recorded on the energy meter during any consecutive 30 minute block period of the month or the Contract Demand (in KVA) or 80 *per cent* of the Connected Load (computed in KVA assuming 0.9 power factor) in the absence of Contract Demand, whichever is higher.

Deficiencies in process control resulted in short billing of demand charges of Rs.15.20 lakh, and short claim of subsidy of Rs.11.84 lakh from the Government. Failure of internal control in the IT environment led to non-plugging of these loopholes.

Test check of data relating to HT billing in City Division, Shimla revealed that in 68 bills processed after August 2005 in respect of Small and Medium Industrial power supply consumers, demand charges were not computed by the system resulting in short billing. This, when computed at the rate of 80 *per cent* of the Connected Load (computed in KVA assuming 0.9 power factor), comes to Rs.15.20 lakh.

The Board stated (October 2006) that for some of the consumers, demand charges were not computed due to some data entry errors, which has been corrected now. The recovery of arrears is being made from such consumers.

Loss of subsidy recoverable from the Government

3.3.30 As per instructions issued (August 2005) by the Board, consumer service charge of Rs.20 applicable to domestic supply consumers was to be subsidised at the rate of Rs.9 per consumer by the Government (in case consumption of electricity was below 45 units per month). The system was not able to process the bills correctly for such consumers. Test check of relevant data pertaining to 11 ESDs listed in **Appendix-XI** revealed that service charges were levied at Rs.11 per month in the bills of such consumers and Rs.9 per month recoverable from the Government was not shown. Thus, wrong processing of bills resulted in short claim of Rs.11.84 lakh in respect of consumers billed through Computers. The Management stated (July 2006) that the matter will be taken up with software developer while recovery is being effected.

The Board stated (October 2006) that necessary modification in the software has now been done to calculate the exact subsidy for consumers having consumption of electricity below 45 units per month.

3.3.31 The software does not validate consumption during the month with respect to connected load. In 2,118 cases, consumption was found to be incommensurate with connected load. In one case, it was seen that consumption for a consumer with the connected load of 94.48 KW was 99.02 lakh units for five months. Even with a full consumption for 24 hours during the entire billing period, the maximum consumption would have been about 3.51 lakh units only.

System does not validate consumption with respect to connected load, which could not only help in identifying cases of declaration of connected load on lower side but also identify inflated wrong bills.

The Board stated (October 2006) that at present calculation to check the consumption as per the connected load is not being done but the provision for the same would be made in the IT package under APDRP.

3.3.32 Though there was provision for billing in respect of slow metering in HT software but it did not print slow meterage percentage in final bill printed for disbursement. The software also calculated ED at metered KWH consumption instead of billed KWH arrived at after charging for slow metering resulting in less billing.

The Board stated (October 2006) that the system developer has been requested to show slow meterage percentage on the printed bills.

Utility of computerised data

3.3.33 The following shortcomings were noticed in analysed data **(Appendix-XII)** of the test- checked ESDs:

- ACD detail was not fed in 89.23 *per cent* data. As per instructions of the Board, if the ACD of a consumer fell below his average consumption, it was to be enhanced accordingly. Non-revision of ACD as per consumption would result in loss to the Board on default by the consumer.

Master data was found to be grossly incomplete. It was never compared with original records after feeding. It was unreliable and not useful for MIS.

- Duplicate meter numbers existed in 25.58 *per cent* records where replacement date and closing reading was shown as 'nil'. Complete meter details *viz*. initial reading, phase, replacement date, etc. was missing. Thus, meter detail data is defective for effective monitoring of meter related issues *viz.* meter change order, material management, levying of meter rent, etc.
- The application numbers, application dates, SCO numbers and SCO dates were not fed in 79.05, 79.04, 71.53 and 55.40 *per cent* data respectively. Thus, data is useless for effective MIS.
- Feeder data has not been fed in 63.22 *per cent* records. Feeder data is essential to monitor energy losses in a particular feeder by monitoring energy transmitted from the feeder transformer and energy consumed at the ends and to ascertain transmission losses, theft of energy, etc. Hence, data is not reliable for energy audit.

The Board stated (October 2006) that efforts are being made to cleanse the data before implementation of the IT package under APDRP.

General IT control

IT Security

3.3.34 Audit noticed that physical access to the computer site was not restricted. Moreover, each system was operated by number of Meter Ledger Clerks who have not been provided distinct IDs and responsibilities; duties and access rights were not fixed and documented. Thus, the systems were not only vulnerable to unauthorised use and associated risks but it was difficult to fix accountability.

The Board stated (October 2006) that software in the new IT package being implemented under APDRP would have provision for user level security.

Business Continuity Planning

3.3.35 Business Continuity Planning to recover key business processes following a disaster like fire, flood, power failure, and earthquake was found deficient. Offsite storage was not resorted to in any of the ESDs test checked. Audit also noticed that in Parwanoo ESD, data was abruptly lost in July 2004. Since, no backup of the data was maintained, it led to cessation of all computerisation activities in the ESD.

The Board stated (October 2006) that the new IT package being implemented under APDRP would ensure security of data and its restoration from centralised location in the minimal possible time.

Internal control system

3.3.36 The personnel of the Internal Audit wing were not trained in various aspects of Information Technology Audit and hard copies were being checked in the conventional manner without using IT tools. Though the Sales Manual prescribes a percentage of checks to be applied by the Upper Divisional Clerk (Commercial) and the Sub Divisional Officer on bills produced each month, wrong bills in respect of different consumers were still found to have been generated. Clearly the Internal Audit wing needs to be properly trained to perform its function in the computerised environment.

The Board stated (October 2006) that efforts are being made to create the internal IT audit system.

Conclusion

The Board has not been able to computerise its billing activities fully even after 11 years. While LT billing has been partially computerised in selected ESDs only, the main objective of computerisation of industrial billing remains unfulfilled. The Board failed to provide necessary training to the staff which was one of the main reasons for delay in computerisation. Master data is incomplete and it has never been compared after feeding.

The system has insufficient application controls and validation checks. Non-utilisation of the IT system to monitor recoveries was causing continuous revenue loss to the Board. Use of the system as an input to the Management Information System was virtually absent. The system is not able to process bills in many cases according to the business rules of the Board causing recurring revenue loss.

The billing system has poor general IT controls especially regarding the security features such as access controls, passwords, login attempts and security breach reports. Thus, the system was easily vulnerable to unauthorised access and data manipulation.

Recommendations

- **The Board should take immediate steps to fully computerise its billing system. The Board needs to impart training to its staff so as to avail the benefits of compterisation.**
- **Details in data should be completed and compared with original record and a certified authenticated hard copy of master data should be maintained at each ESD. Changes thereafter should be allowed only after proper authentication by the appropriate supervisory level officer.**

- **Internal control should be strengthened by providing adequate training to the supervisory staff *viz.* SDO in information technology so that they use the systems as an effective MIS and are able to undertake mandatory prescribed minimum checks.**

- **The Board should strengthen the security system by clearly fixing responsibilities, authority and duties at each level.**

- **Shortcomings in the system for audit trails need rectification. Effective audit modules suitable to internal and external auditors need to be developed.**

HIMACHAL PRADESH FINANCIAL CORPORATION

3.4 Internal Control System

Highlights

The Corporation prepared the annual Business Plan and Resources Forecasts (BPRF) after one to three months of the commencement of the respective year without any date base or market study.

(Paragraph 3.4.7)

Functional and Internal Audit Manuals have not been prepared by the Corporation.

(Paragraphs 3.4.8 & 3.4.10)

Appraisal of loan applications was deficient as there was inadequate managerial appraisal. Financial soundness of the promoters and acceptance of data furnished by the applicants was not backed by independent verification.

(Paragraph 3.4.12)

The system of monitoring and follow up was weak due to non-conducting of periodical pre and post disbursement inspections, non-obtaining of audited accounts and non-appointment of Directors on the Board of the financed units.

(Paragraphs 3.4.15 to 3.4.17)

The Corporation failed to bring down the level of non-performing assets (NPAs) to 10 *per cent.* Percentage of NPAs to total loan assets ranged between 48.30 and 75.47 *per cent* during 2001-02 to 2005-06.

(Paragraph 3.4.21)

The Corporation neither followed the guidelines of the Small Industries Development Bank of India nor its own guidelines for settlement of cases under One Time Settlement scheme. This resulted in settlement of many cases for amount less than the outstanding principal amounts of loans.

(Paragraph 3.4.24)

Introduction

3.4.1 Internal control is an integral part of the process designed and effected by the management of an organisation to achieve its specified objects ethically, economically and efficiently. It helps in creating reliable financial and management information system besides effective decision making.

Internal Control System is most effective when it is built into the entity's infrastructure and is an integral part of the essence of the organisation. Internal control in the Government financial institutions assumes more significance in view of the fact that these institutions have to appraise all applications critically to reduce the risk of default by the borrowers to the minimum.

Himachal Pradesh Financial Corporation (HPFC) was incorporated in April 1967 with the main objective of promoting industrial growth in the State by providing financial assistance in the form of term loans to the small and medium scale industries. The affairs of the Corporation are managed by the Board of Directors consisting of nine Directors including a Chairman and a Managing Director, all appointed by the State Government. During the last five years ended March 2006, the Corporation had six Managing Directors and the tenure of four Managing Directors ranged between 3 to 9 months only. The post of the Managing Director, who is the Chief Executive, was in continuous transition and therefore, the incumbents would have had little time to draw a long-term strategy. The Corporation incurred losses since 1998-99 and its net worth decreased from Rs.(-) 31.86 crore as on 31 March 2001 to Rs.(-) 56.05 crore as on 31 March 2006.

A sectoral review on Loan Recovery Performance of the Corporation was included in the Report of Comptroller and Auditor General of India (Commercial) for the year ended 31 March 1999. This review was discussed by the Committee on Public Undertakings and its recommendations were finalised in December 2004.

Scope of audit

3.4.2 The present Performance review conducted during December 2005 to April 2006 examines the internal control system in respect of lending functions of the Corporation during the last five years ended 31 March 2006.

Audit objectives

3.4.3 The audit objectives of the performance review were to ascertain whether:

- an effective internal control system with regard to lending operations of the Corporation was in place;
- a proper management information system was in place with regard to lending operations;
- there was adequate monitoring and follow up;

- the Corporation had manualised its working procedures and had used internal audit to make internal control more effective.

Audit criteria

3.4.4 The following audit criteria were adopted:

- Guidelines issued from time to time by Small Industries Development Bank of India (SIDBI) in this regard;
- Working procedures for scrutiny of applications and disbursements;
- Procedures prescribed for monitoring and follow up and for recovery;
- Targets fixed for disbursement of loans; and
- Internal audit procedures and Management Information System requirements.

Audit methodology

3.4.5 The methodology adopted for attaining audit objectives with reference to audit criteria was as follows:

- Study of guidelines issued from time to time by SIDBI;
- scrutiny of records relating to project reports and other information furnished by the promoters, system of appraisal done by the Corporation and procedure of inspection of financed units at their implementation and post disbursement stage;
- examination of records relating to default by financed units and system of their monitoring;
- scrutiny of system of management of non-performing assets, implementation of one time settlement scheme and pursuance of cases in litigation;
- scrutiny of internal audit system, internal audit reports and management information system;
- interaction with the management by way of Entry and Exit conference.

Audit findings

3.4.6 Audit findings emerging from performance audit were reported to the Government/Corporation in June 2006 and were discussed in the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 14 August 2006. The Director (Industries), Government of Himachal

Pradesh and Managing Director, Himachal Pradesh Financial Corporation attended the meeting. The views expressed by the members have been taken into consideration while finalising the review.

Tools of Internal Control

Budgetary control

The Corporation did not prepare annual BPRF well before the commencement of respective financial year. The annual BPRF were not based on any data base or market study.

3.4.7 Budget is a quantitative, financial expression of a programme of measure planned for a given period. The budget is drawn up with a view to plan future operations and to make *ex-post-facto* checks on the results obtained. Timely preparation of budget and analysis of the variations noticed during actual execution serve the purpose of internal control. The following deficiencies were observed in the use of the budget for internal control:

- The Corporation did not prepare an annual Business Plan and Resources Forecast (BPRF) before the commencement of the financial year. BPRF for the relevant years (except 2005-06) were finalised after one to three months of the commencement of the year.
- The Corporation did not also prepare the annual BPRF on the basis of any data base or market study.

The targets fixed for disbursement of term loan including soft loan, amount actually disbursed and the shortfall was as under:

Table: 3.4.1

(Rupees in lakh)

Year	2001-02	2002-03	2003-04	2004-05	2005-06
Target	2,450.00	1,600.00	1,600.00	6,200.00	12,150.00
Achievement	2,379.34	1,006.69	1,845.36	4,654.38	3,714.27
Shortfall (-)/excess (+)	(-) 70.66	(-)593.31	(+)245.36	(-)1,545.62	(-)8,435.73
Percentage shortfall (excess)	2.88	37.08	(15.33)	24.93	69.42

It would be seen from the above table that except in 2003-04, there was shortfall in achievement of targets of disbursement ranging from 2.88 to 69.42 *per cent*. It was noticed that whereas the target for 2002-03 was reduced, the targets for 2004-05 and 2005 06 were more than doubled with reference to the previous years' target. The Corporation also did not analyse the reasons for variations periodically to take corrective action.

The Management stated (August 2006) that BPRF were sent to Small Industries Development Bank of India (SIDBI) generally during the month of July every year after finalisation of accounts. All out efforts were made to achieve the targets. The shortfall in achievement was due to fixation of optimistic targets to put pressure on the staff of the Corporation. The reply is not acceptable, as due to belated approval of BPRF and preparation of over optimistic targets without any reference to data or market study, the Corporation was not able to use the budget as a tool of internal control.

Functional Manual

3.4.8 Functional manual provides guidance to the personnel in-charge of appraisal, disbursement and recovery and also helps them in taking recourse to legal action as and when required according to the terms and conditions of sanctions. It was noticed during audit that the Corporation had not prepared a functional manual so far (July 2006). Non-preparation of a functional manual for the above activities even after four decades of its existence indicates the lackadaisical approach of the Corporation towards developing an effective control system for proper scrutiny of applications, disbursement and monitoring of loans given and effective post sanction recovery.

The Management stated (August 2006) that the manual would be ready by the end of the year.

Management Information System

The Corporation did not have a well-defined MIS. It also did not have a system of periodical reporting to the top management on different areas of its working.

3.4.9 A well-defined Management Information System (MIS) is a very vital part of the internal control system and is necessary for providing timely, adequate and accurate information to the relevant persons in the organisation. It helps in enabling right decisions to be taken at right time. The review of the MIS enables weak spots to be identified for corrective action so as to make the system more effective. Audit noticed the following deficiencies in this regard:

- The Corporation did not have a well-defined MIS. It did not maintain a centralised database, and information-source-centers and information-use-centers were not identified to effectively channelise the flow of information for decision making.
- The information and statistics available in areas like portfolio management, change of management, rehabilitation of sick units, size-wise investment, analysis of performance parameters, discipline-wise, category-wise, size-wise recovery performance, post review of appraisals, inter corporate comparison, etc., were inadequate and insufficient to identify areas of deficiencies for suggesting remedial measures.
- The Corporation also did not have a system of periodical reporting to the top management in respect of different areas of working *viz*. applications received, appraised, recommended for sanction, actually sanctioned, disbursement, default, action taken, etc.

The Management admitted (August 2006) that there was need for strengthening the management information system.

Internal Audit

3.4.10 Internal Audit is an appraisal activity established within an entity as a service to the entity. Its functions include *inter alia* examining, evaluating and monitoring the adequacy and effectiveness of the accounting and internal control system. The Corporation had an Internal Audit Cell comprising a Manager and an Assistant Manager. The Manager was an officer of the State Accounts Service appointed by the State Government. The Corporation has not prepared an Internal Audit Manual. The Corporation has also not been preparing an annual internal audit plan. The scope of internal audit was restricted to routine functions e.g. checking of interest on deposits, bonds, staff advances and administrative matters. The Management agreed (August 2006) to prepare an internal audit manual to widen its scope and coverage.

Internal Control in regard to major activities

3.4.11 The lending function involves three major activities *viz*;

- Appraisal and sanction,
- Disbursement (obtaining security and documentation) and monitoring,
- Demand and recovery.

Internal controls in respect of these functions are discussed in the following paragraphs.

Appraisal and sanction

3.4.12 Appraisal is the critical examination of technical, financial and commercial feasibility of a project and judging the managerial competence of promoters to implement and run the project successfully. Appraisal of projects is necessary to determine whether it would be worthwhile to make investment in those projects. The quality of appraisal depends on the degree of accuracy of estimates on which the project is based. Preparation of appraisal report becomes easier if the project report is prepared after considering all the relevant information/data, giving due importance to the different factors concerned with the project.

In the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 1999, deficiencies noticed in pre-sanction appraisal were brought out. The Corporation informed (November 2000) the COPU that the procedures were being tightened up wherever required based on the experience gained. It was, however, noticed during the current performance review that there was still (August 2006) no improvement in the system.

A test check of 66 cases (involving Rs.33.13 crore) out of 158 cases (industrial units) of financing done by the Corporation during 2001-06 revealed the following shortcomings/deficiencies:

The system of appraisal of loan applications was deficient in as much as there was inadequate managerial appraisal, inadequate appraisal of financial soundness of promoters and acceptance of data without any independent verification.

Table: 3.4.2

Sr. No.	Deficiency	No of cases	Percentage of cases checked
1	Acceptance of data furnished by the applicants (regarding availability of raw material, marketing tie-up, availability of working capital, etc). without independent verification.	63	95.45
2	Deficient technical appraisal (the technical know how of applicants, selection of suitable product line and machinery and availability of technical personnel was not assessed).	25	37.88
3	Inadequate commercial and marketing appraisal (no market study was conducted independently to judge viability of the projects).	54	81.82
4	Inadequate managerial appraisal.	45	68.18
5	Inadequate appraisal of financial soundness of the promoters.	34	51.52
6	Statutory clearance not obtained at the time of appraisal.	19	28.79

The above deficiencies led to un-satisfactory performance of these 66 financed units, in turn resulting in failure to meet their commitments towards repayment of loans.

The Management stated (August 2006) that projections submitted by the promoters in the project reports were not accepted in totality at the time of appraisal. It also stated that it was difficult to foresee marketing, technical and financial problems at the initial stages. Although there was no system for carrying out market survey/industries-wise study in view of time and cost involved yet there could be problems and mismanagement at a later stage. Improvements being a continuous process, the appraisal standards were being updated. The reply confirms the audit observation that the pre-sanction appraisal system in the Corporation was deficient.

Further, SIDBI had also suggested (January 2006) the preparation of a comprehensive project appraisal manual for the benefit of the officers engaged in the appraisal of the projects.

Disbursement and monitoring

Disbursement

3.4.13 During the last five years ended 31 March 2006, the Corporation disbursed Rs.85.26 crore to 158 industrial units and 103 transporters.

Monitoring

The system of monitoring and follow up was weak due to non-conducting of pre and post disbursement inspections, non-obtaining of audited accounts and non-appointment of Directors on the Board of financed units.

3.4.14 Effective monitoring is essential for the success of all programmes. For effective monitoring, spot inspection of financed units and scrutiny of their working results/balance sheet are important both as a tool of internal control and to enable on-time corrections, wherever necessary. Audit observed the following deficiencies in this regard.

Pre and post disbursement inspections

3.4.15 Pre and post disbursement inspection of all financed units is necessary to enable the management to keep itself abreast of the latest development in the financed units. Though, the Corporation is conducting inspections of the financed units but no system had been devised for conducting such inspections at regular intervals. The Corporation also did not maintain any record to keep detail of inspections actually conducted in respect of each unit. No checklist was designed for the use of inspecting officers. SIDBI also recommended (January 2006) the introduction of the practice of preparing a branch-wise unit visits schedule and monitoring of units visited by the Branch Managers and reviewing by the Head Office. The Management stated (August 2006) that it had identified units for inspection during 2006-07 and the work had already started. Visit to assisted units was a regular feature earlier also. In the absence of record of inspections, the exact status could not be verified in audit.

Obtaining of audited accounts

3.4.16 The Corporation had no system of receipt and scrutiny of working results/balance sheets of financed units. Scrutiny of 66 financed industrial units during 2001-2006 revealed (February 2006) that in 30 cases, audited accounts were not obtained for review. In the remaining 36 cases, audited accounts were received but the Company had not initiated any action on the basis of their scrutiny. The Management assured (August 2006) that audited accounts would be insisted upon in future during the course of inspections.

Appointment of nominee directors

3.4.17 In term of Section 27 (2) of the State Financial Corporations Act, 1951, the Corporation, by express provision in the agreement, could appoint its nominees on the Board of Directors (BOD) of the financed units. This is one of the important ways to ascertain the status and to have control over the affairs of the assisted units. It was, however, observed by Audit that during 2001-2006, the Corporation had not appointed any nominee on the BODs of financed units. The Management stated (August 2006) that the institution of nominee directors had not proved very effective. Instead, it led to entanglement of nominee directors in some of the cases. It had, however, now decided to appoint nominee directors in assisted units wherever considered necessary.

Demand and recovery

3.4.18 As per generally accepted procedures, recovery of loans and advances is one of the most important operations for a lending institution as it enables it to plough back the funds and recycle the same for expansion of industrial activities in the State. The position of demand and recovery in the Corporation during the last five years ended 31 March 2006 was as under:

Table: 3.4.3

(Rupees in lakh)

	2001-02		2002-03		2003-04		2004-05		2005-06	
	Pl	Intt.	Pl	Intt.	Pl	Intt.	Pl	Intt.	Pl	Intt.
(A) (i) Arrear at the beginning of the year excluding re-schedulement etc	7,643	10,295	7,836	10,793	7,783	10,922	7,868	11,475	6,741	9,008
(ii) Recovery during the year	387	767	220	719	282	1000	623	993	269	806
Balance	7,256	9,528	7,615	10,074	7,500	9,922	7,246	10,482	6,472	8,202
%age of (ii) to (i)	5.06	7.45	2.81	6.66	3.63	9.15	7.91	8.65	3.99	8.95
(B) (i) Current demand less re-schedulement	1,759	2,410	1,730	1,950	1,514	2,340	1,058	1,129	2,202	1,733
(ii) Recovery out of current demand	904	990	1,060	893	1,146	787	959	801	1,798	1,056
Balance	855	1,420	670	1,047	368	1,553	98	328	404	677
%age of (ii) to (i)	51.39	41.07	61.28	46.04	75.70	33.62	90.70	70.97	81.65	60.93

It would be seen from the table that the percentage recovery of principal in respect of arrears and principal and interest in respect of current demand declined substantially in 2005-06 as compared to 2004-05. It was noticed during the performance audit that the management had not analysed the reasons for decline in recovery with a view to taking remedial measures. The Management stated (August 2006) that there was increase in the absolute recovery of loans during the period. The reply is not acceptable since, for better comparison, the increase/decrease in recovery percentage is more relevant than the absolute recovery.

3.4.19 Scrutiny of records during the performance audit revealed that out of 158 financed industrial units for Rs.80.86 crore during 2001-2006, 75 units were in default as on 31 March 2006. These units had been in default ever since the first instalment became due. They had only made repayment of small amounts to avoid takeover of their units. Though SIDBI recommended (January 2006) review of all cases for taking suitable legal action in cases which were in default for a period exceeding 18 months, the Corporation had not taken any legal action so far (July 2006) in 10 cases in which there was total default of Rs.3.47 crore for a period exceeding 18 months.

Similarly, test check of records in respect of 48 out of 103 transport loan cases financed during 2001-2006 revealed that these cases were in default totaling Rs.75.62 lakh. Seventeen cases were in default for a period exceeding

18 months but the Corporation neither seized/impounded the vehicles to recover the outstanding amount as per terms and conditions of sanction nor took legal action as advised by SIDBI.

The Management stated (March 2006) that impounding of vehicles was a last resort, which was applied with care and caution after exhausting all other channels *viz.* advice to clear the default by writing letters, contact personally and on telephone from time to time. The reply is not acceptable as the Corporation neither pursued recovery nor took action to comply with the directions of SIDBI for taking legal action in such cases.

3.4.20 With a view to examine critically sick and defaulting units including suit filed cases, the Corporation had constituted (June 1979) a Default Review Committee (DRC) consisting of three members i.e. Managing Director of the Corporation, Director of Industries and nominee of IDBI. The Committee was to meet once in a month and its report was to be placed before the Board of Directors of the Corporation. Subsequently (July 2004), the number of members was increased to six when representatives of Punjab National Bank, SIDBI and Himachal Pradesh State Industrial Development Corporation were also included. It was noticed in audit that the Committee never met monthly on regular basis and during the last four years ended 31 March 2006, as against 48 meetings required to be held, the DRC met only 22 times and discussed 193, 84, 175 and 95 cases as against 722, 613, 524 and 455 default cases at the end of each year. The Management stated (August 2006) that the mandate of holding one meeting every month was very old and keeping in view the present volume of work, it was not possible to hold more meetings. The reply is not acceptable in view of the poor recovery in respect of outstanding cases.

Management of Non-Performing Assets

The Corporation failed to bring down the NPAs to the level agreed in the MOU signed with the SIDBI and the State Government.

3.4.21 The position of non-performing assets (NPAs) during the last five years ended 31 March 2006 was as under:

Table: 3.4.4

(Rupees in lakh)

Year	2001-02	2002-03	2003-04	2004-05	2005-06
1.Total assets/ loan outstanding	15,324	14,886	15,092	17,296	18,504
2. Standard assets	4,911	3,651	5,451	8,581	9,567
3. Sub-standard assets	1,806	2,387	1,316	624	1,127
4. Doubtful assets	5,953	5,658	4,929	3,773	3,655
5. Loss assets	2,653	3,190	3,397	4,313	4,155
6. Total NPAs (3 to 5)	10,412	11,235	9,642	8,710	8,937
7. Percentage of NPAs to total assets/ loan outstanding	67.95	75.47	63.88	50.39	48.30

It would be seen from the table that even though there was decrease in percentage of NPAs to total loans during the period, it still remained at a substantially higher level. Incidentally, the Corporation had signed (June 2004) an MOU with SIDBI and the State Government to reduce NPAs to 10 *per cent*.

The Management stated (August 2006) that it was hopeful of bringing NPAs down to 10 *per cent* by 2009. Considering the decrease of only 2 *per cent* in 2005-06 as compared to 2004-05, the target of achieving reduction to 10 *per cent* in NPAs is ambition.

Management of Litigation cases

Decrees obtained more than 10 year ago were pending for execution due to non-availability of promoters and/or their properties.

3.4.22 As on 31 March 2006, 696 cases involving Rs.162.78 crore were under litigation. It was noticed that though these cases were pending for a very long period, the Corporation did not file applications in the Court for early hearing in any case. Out of above, 132 cases were pending for execution of decrees obtained since March 1987 as detailed below:

Table: 3.4.5

Sr.No.	Reason for non-execution	Decree obtained between	No. of cases	Rs.in lakh
1.	Cases where correct address and detail of properties were not available and execution could not be filed	2/1987 and 4/2005	30	162.24
2.	Cases pending in DRT for want of details of properties	3/1997 and 9/2004	46	2,720.05
3.	Cases pending with Presiding Officers of DRT for issuance of Recovery Certificate	4/1989 and 4/2005	28	271.80
4.	Cases pending for attachment of assets in DRT/High Court	5/1991 and 2005	25	546.84
5.	Cases where correct addresses obtained and detail of properties being ascertained	5/1994 and 1/2003	3	5.98
	Total		**132**	**3,706.91**

It would be seen from the table that in 79 cases, decrees could not be executed due to non-availability of promoters and/or detail of their properties. Out of above, decrees in 21 cases for Rs.6.82 crore were obtained up to March 2000. The Corporation failed to obtain any collateral security initially or to keep watch on the whereabouts of the promoters after taking over their assets. There was no vigilance mechanism in the Corporation to keep track of loanees after takeover of their units. As a result, many loanees absconded and disposed off their un-pledged assets to avoid execution of decrees. This was indicative of lack of effective internal control. The Management stated (August 2006) that out of 30 cases mentioned at serial number 1 of the table, it had filed execution in 26 cases. It had also started obtaining collateral security to secure the loan amount. It was trying to locate the properties and latest addresses of the loanees through a detective agency and its branch officials. A Vigilance Cell had also been established in the Corporation as recommended (January 2006) by SIDBI.

Recovery under the H.P. Public Money (Recovery of dues) Act

3.4.23 The Corporation also recovers outstanding dues under the H.P. Public Money (Recovery of dues) Act. As on 31 March 2006, 137 cases involving Rs.17.80 crore were pending for recovery with various District Collectors/Tehsildars (Recovery). Further scrutiny in audit revealed as under:

- In 72 cases involving Rs.9.98 crore, Recovery Certificates (RCs) were filed up to 1996.
- In 41 cases involving Rs.4.38 crore, RCs were filed during 1997-2003.

A test check of 21 cases revealed the following deficiencies:

- In 12 cases, RCs were filed without completing the requisite formalities and hence had to be filed again.
- In six cases, pursuance with recovery officers was not proper, as the information called for was not supplied urgently.
- In three cases, action was not initiated against delinquent officials for delay in taking requisite action.

The Management stated (August 2006) that its experience with regard to recovery under the H.P. Public Money (Recovery of dues) Act had not been good. On the request of the Corporation, the State Government had posted a Debt Recovery Officer (DRO) for recovery of the Corporation's dues and the position was expected to improve.

Management of One Time Settlement Scheme

The Corporation neither followed the guidelines of SIDBI nor its own guidelines for settlement of cases under OTS scheme.

3.4.24 In order to recover the outstanding dues, the Corporation settles cases after considering proposals for one time settlement (OTS). SIDBI issued (July 2003) uniform guidelines for all the State Financial Corporations for operating OTS scheme for recovery of chronic NPAs. As per the guidelines, the minimum amount that should be recovered in respect of NPAs classified as sub-standard, doubtful or loss as on 31 March 2000 should be 100 *per cent* of the outstanding balance in the account as on the date of issue of recall notice or the amount outstanding as on the date on which the account was categorised as doubtful NPA, which ever happened earlier, as the case may be. Instead of following the above guidelines, the Corporation decided (December 2003) to follow its own guidelines framed on the basis of a study carried out on 134 cases and according to which the recovery was expected to be about 80 *per cent* in comparison to recovery of about 20 *per cent* on the basis of guidelines of SIDBI. The Corporation's guidelines provided as under:

- All the concessions to be allowed would be subject to the maximum limit of 25 *per cent* of the present outstanding term loan.
- OTS cases beyond the above would be considered by the Board of Directors on case to case basis.
- The amount recoverable as per SIDBI's guidelines would also be kept in view while considering OTS cases.

The position of recovery effected and amount waived off under the scheme against the total outstanding amount during the last five years ended 31 March 2006 was as under:

Table: 3.4.6

Description	2001-02	2002-03	2003-04	2004-05	2005-06	Total
Number of cases approved and settled up to 31.3.2006	49	61	18	62	72	262
Outstanding at the time of settlement (Rupees in lakh)	638.57	896.23	846.73	1,453.99	4,922.64	8,758.16
Amount realised (Rupees in lakh)	239.94	224.75	156.95	658.69	867.88	2,148.21
Amount waived off (Rupees in lakh	398.63	671.48	689.78	795.30	4,054.76	6,609.95
Principal amount waived off	126.17	148.38	84.74	345.17	552.00	1,256.46
Percentage of waiver to total outstanding	62.43	74.92	81.46	54.70	82.37	75.47

It would be seen from the above table that during the above period, the Corporation waived off 75.47 *per cent* of the total recoverable amount.

Further test check of records relating to implementation of OTS scheme revealed the following deficiencies:

- Ninety eight cases were settled for Rs.2.45 crore against the outstanding of Rs.17.29 crore, which included principal of Rs.3.78 crore. Thus, OTS was agreed to for an amount less than the outstanding principal amount.
- During 2004-05 and 2005-06, the Corporation waived off more than 75 *per cent* of the outstanding amount in 81 out of total 134 cases settled under OTS scheme.

- Eighteen cases involving Rs.10.12 crore were settled under OTS for Rs.5.79 crore without making assessment of the value of the existing assets of the loanees.
- Four cases involving Rs.5.48 crore were settled under OTS for Rs.2.27 crore although the assessed value of the exiting assets of loanees was Rs.5.26 crore.
- In one case (Renuka Hotel, Nahan), the Corporation accepted Rs.3.45 lakh only against the agreed amount of Rs.5 lakh under OTS because the promoter cited three cases of Paonta area where only Rs.9 lakh were accepted under OTS against the outstanding amount of Rs.42 lakh. This gives a wrong signal to other defaulters.

The Management stated (August 2006) that it did not settle all cases within the OTS guidelines and that cases were also settled on a case to case basis. The recovery would have been 80 *per cent* if all cases were settled within the OTS guidelines. The reply is not acceptable as the Corporation had not followed its own guidelines for settlement of cases under OTS and instead cases were settled on a case to case basis involving *ad hoc* discretion. During discussion in Audit Review Committee, the Management agreed to frame some guidelines to restrict the use of discretion.

Acknowledgement

3.4.25 Audit acknowledges the co-operation and assistance extended by the staff and Management of the Corporation and officers of the State Government at various stages of conducting the performance audit.

Conclusion

The internal control system was deficient. The Corporation did not have comprehensive functional and internal audit manuals. Internal audit was not being used as an effective tool of internal control system because the work of appraisal and monitoring was not allotted to it. An effective Management Information System (MIS) was not in place, as the Corporation did not have the system of periodical reporting on different areas of working to the top management. Projections and other information in the applications for loans were accepted without critical scrutiny. Monitoring was ineffective due to non-conducting of periodical post-disbursement inspections, non-obtaining of audited accounts and non-appointment of nominee directors on the Board of financed units. The recovery against arrears was not satisfactory. The Corporation failed to bring down the level of non-performing assets as committed in the Memorandum of Understanding signed with the Small Industries Development Bank of India and the State Government. There was no vigilance mechanism. Decrees obtained more than 10 years ago could not be executed due to non-availability of addresses/ location of promoters

and/or their properties. The Corporation did not follow any guidelines for settlement of cases under the one time settlement scheme resulting in low recovery in many cases, which gave a wrong signal to other defaulters.

Recommendations

- **The Corporation should prepare comprehensive functional and internal audit manuals. Internal audit needs to be strengthened for exercising effective internal control, and an effective MIS should be in place.**
- **Business Plan and Resources Forecast should be prepared well before the commencement of the financial year on the basis of market study.**
- **Pre and post disbursement appraisal should be done carefully.**
- **Concerted efforts need to be made to recover old outstanding dues and to reduce the level of non-performing assets.**
- **A Vigilance mechanism should be put in place to safeguard the interest of the Corporation.**
- **One Time Settlement Scheme should be implemented judiciously and guidelines should be issued to restrict the use of discretion.**