

## Chapter IV

### 4 Transaction Audit Observations

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

#### Government companies

#### Himachal Pradesh State Civil Supplies Corporation Limited

##### 4.1 Non-compliance with instructions of the Government of India

**Failure to comply with the instructions of the Government of India while fixing sale rates of wheat and rice for distribution to the consumers categorised under above poverty line resulted in a loss of Rs. 1.01 crore.**

The Government of India (GOI) issued (February 1997) instructions to the State Government for fixation of sale rates of wheat and rice to be distributed to above poverty line (APL) and below poverty line (BPL) consumers. As per the instructions (February 1997), the States were allowed to fix the margin for APL population but the margin was to be restricted to actual expenses incurred.

Audit scrutiny of records (February 2006 and March 2008) relating to fixation of sale price of wheat and rice during 2004-07 revealed that the Company did not follow the above instructions.

While fixing sale price of wheat and rice, the Company included different elements<sup>^</sup> of handling of food grains according to clause 1.38 of Accounts Manual of Food, Civil Supplies and Consumer Affairs Department of the State Government prepared in 1975. While the charges included in the sale rates worked out to 4.35 *per cent* of the cost of food grains, the actual expenses incurred by the Company worked out to 4.81 *per cent*. Thus, the percentage of handling charges recovered by the Company was lesser by 0.46 *per cent* of the cost of food grains. The loss due to under recovery of handling charges on the sale of 26.93 lakh quintals of wheat and rice costing Rs. 218.40 crore during 2004-07 worked out to Rs. 1.01 crore. The Company had not devised a mechanism to review the prices from time to time to recover all the expenditure incurred towards supply of wheat and rice to consumers coming under APL.

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<sup>^</sup> *Transportation and storage charges, shortage in transit, interest charges, establishment charges, fumigation charges, sales tax, etc.*

The Government stated (August 2008) that the sale rate was fixed as per clause 1.38 of Accounts Manual of Food, Civil Supplies and Consumer Affairs Department and on an average, 4.35 *per cent* margin was recovered against the actual expenses of 4.81 *per cent*. The reply confirms the Audit observation.

#### **4.2 Avoidable payment of excess service charges**

**Lackadaisical approach of the Company against the increase in service charges by the bank during 2006-07 resulted in an avoidable payment of Rs. 28.31 lakh.**

The collection of sale proceeds of various food grains and other articles were deposited with different nationalised and co-operative banks as per the existing arrangements made with these banks by the Company. The sale proceeds of the Dharamshala Area Office of the Company were collected through the various branches of the Kangra Central Co-operative Bank Limited (bank) located at different places on day to day basis and transferred to the main collection account of the bank at Dharamshala. The bank levied service charges at the rate of 0.15 *per cent* of the collected sale proceeds since April 1987. The bank increased (August 2006) the service charges to 0.30 *per cent* for 2006-07 and debited Rs. 56.62 lakh to the Company on this account on the sale proceeds of Rs. 187.77 crore collected during 2006-07. The increased service charges debited by the bank for 2006-07 amounted to Rs. 28.31 lakh.

Audit observed (March 2007) that the Company did not take up the matter immediately to reduce the service charges to 0.15 *per cent*. The matter was taken up with the bank after a delay of ten months in July 2007. While the other banks charged the service charges at the rates ranging from 0.075 to 0.13 *per cent*, the Company could not obtain reduction in the service charges for 2006-07 as the bank had finalised its accounts for that year. Thus, the lackadaisical approach of the Company in resolving the matter resulted in avoidable payment of service charges of Rs. 28.31 lakh for 2006-07. The bank, however, agreed (March 2008) not to levy the service charges at the enhanced rate from 2007-08 onwards.

The Government admitted (August 2008) that the bank increased the service charges and informed the Company in August 2006.

Had the Company promptly taken up the issue of charging of higher percentage of service charges as early as in August 2006 itself, it could have avoided the payment of excess service charges of Rs. 28.31 lakh.

### 4.3 Avoidable loss

**Failure to follow its own procedure resulted in an avoidable loss of Rs. 18.29 lakh due to non-recovery of freight subsidy and service tax.**

As per the procedure in vogue, the Government of India (GOI) notifies Principal Distribution Centers (PDCs) for making available food grains to the Company by the Food Corporation of India (FCI) under the Targeted Public Distribution System (TPDS). Wherever FCI could not supply the food grains at PDCs, the Company makes arrangements for transport of food grains to these PDCs from the nearest depot of the FCI through the transporters. The Company incurs freight charges which are reimbursed by the FCI as freight subsidy after restricting the claims to the extent of distance involved from its nearest depot. Hence, the Company had to judiciously make arrangements for lifting from its nearest depot. As per the Service Tax Rules, 1994, the service tax on the freight paid to the transporters for transporting food grains to the notional PDCs from the nearest depot of the FCI shall be remitted by the Company at the prescribed rate after making deduction from the payments made to the transporters. This provision came into force with effect from 1 January 2005.

Audit scrutiny (March 2008) of records maintained by the Company relating to recovery of freight subsidy from the FCI during 2005-06 and service tax recovered from the transporters during April 2005 to March 2008 revealed that due to failure to follow the above procedure, the Company suffered avoidable loss of Rs. 18.29 lakh as discussed below:

- During 2005-06, there were three\* notional PDCs under the Area Office, Mandi. The nearest depot of the FCI to these PDCs was at Nerchowk. Thus, the supply of food grains to these PDCs was required to be taken from Nerchowk. The Area Office, Mandi, however, took supply of food grains from the depot of the FCI at Mandi, which was 15 Km away as compared to the FCI depot at Nerchowk. The Company lodged the claims for reimbursement of freight subsidy with the FCI for the period from April 2005 to March 2008 but the FCI did not reimburse Rs. 9.37 lakh due to the reason that these PDCs were nearer to Nerchowk FCI depot and far away from Mandi FCI depot and the food grains should have been lifted from Nerchowk FCI depot.
- While making payment of freight from time to time for transportation of food grains from the nearest depot of the FCI to notional PDCs during April 2005 to March 2008, the Area Offices, Nahan and Mandi did not deduct the service tax of Rs. 8.92 lakh from the transporters and the above amount was deposited from time to time by the Head Office of the Company from its own funds resulting in an avoidable

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\* Sarkaghat, Thunag and Karsog.

payment. The other Area Offices of the Company had, however, deducted the service tax from the transporters.

The Management stated (August 2008) that FCI had not informed the Company regarding non-allowance of transportation charges of food grains between Mandi depot to PDCs and also stated that necessary claim for reimbursement of service tax from FCI had been lodged in July/August 2007. The reply does not explain as to why the Company failed to lift food grains from Nerchowk, nearest FCI depot. As regards the refund of service tax from FCI, there is no commitment from FCI for refund and the financial year had already been over.

The matter was referred to the Government in July 2008; their reply was awaited (September 2008).

### **Pabbar Valley Power Corporation Limited**

#### **4.4 Avoidable excess payment**

**Failure of the Company to restrict the Net Present Value of forest land to the State Government notified rates resulted in excess payment of Rs. 58.53 lakh besides interest loss of Rs. 14.44 lakh.**

Pabbar Valley Power Corporation Limited (a Company promoted by Himachal Pradesh State Electricity Board) was incorporated (October 2004) for development of hydroelectric power. The State Government entrusted (February 2005) the construction of Sawra-Kuddu Hydro Electric Project (110 MW) to the Company. The Government of India, Ministry of Environment and Forests allowed (January 2006) diversion of 53.21 hectare of forest land for the construction of this project. In terms of notification issued (January 2004) by the State Government, the Company was required to pay the Net Present Value (NPV) of the forest land at the rate of Rs. 5.80 lakh per hectare for land having forest cover of less than 10 *per cent*.

The above land had a forest cover of less than 10 *per cent*. This fact was confirmed (January 2006) by the Divisional Forest Officer (DFO), Rohru to the Conservator (Environment) of the Himachal Pradesh State Electricity Board (Board). While raising (February 2006) the bill for the payment of NPV of Rs. 3.67 crore for this land, the DFO, Rohru charged the rate of Rs. 6.90 lakh per hectare instead of Rs. 5.80 lakh per hectare. Neither the Board nor the Company sought clarification from the DFO, Rohru regarding applicability of higher rate. The Company, however, released (March 2006) the payment of Rs. 3.67 crore to the Forest Department.

Thus, the Company made avoidable excess payment of Rs. 58.53 lakh\* on which it had also sustained interest loss of Rs. 14.44 lakh\*. The excess

\* Rs. 367.15 lakh – Rs. 308.62 lakh.

♦ At the rate of 8.75 per cent per annum for the period from March 2006 to June 2007 and 12 per cent per annum for July 2007 to July 2008.

payment due to incorrect application of rates was pointed out in Audit (March 2007).

The Management stated (August 2008) that the DFO, Rohru had agreed (November 2007) to return the excess amount deposited by the Company but the amount had not been remitted till date. The reply confirms the fact that the Company had not checked the correctness of the rates applicable for this land and made excess payment even though the State Government had notified rate in January 2004.

The matter was referred to the Government in March 2008, their reply was awaited (September 2008).

## **Statutory corporations**

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

#### **4.5 Unfruitful expenditure**

#### **Failure of the Board in handing over the requisite sites to the contractor resulted in an unfruitful expenditure of Rs. 3.59 crore.**

The Board awarded (27 July 2001) the work relating to design, supply, fabrication, painting, transportation, erection, testing and commissioning of Gates and Hoists of Larji Hydroelectric Project at Larji to Om Metals & Minerals Ltd. and Subhash Projects and Marketing Ltd. (contractor) at a cost of Rs. 24.93 crore. As per the prescribed time schedule, the work was to be completed by 24 October 2003 *i.e.* within 26 months to be reckoned from the 30<sup>th</sup> day from the date of issue of award letter or the date on which the contract agreement was signed (28 August 2001), whichever was earlier. The sites of various Gates and Hoists were not handed over to the contractor by the Board on due date (December 2002) as per agreement. The delay in handing over ranged from 429 to 1,060 days and was attributed to increase in the quantum of work, time taken to determine the load bearing characteristics of foundation strata in the river bed, laying of soil matrix and flash floods (April 2002) in the river. To expedite completion of work, the Board approved (April 2004) a revised compressed schedule for the remaining 15 months work beyond original schedule to be completed within 7.5 months at an additional cost of Rs. 6.80 crore. As per the revised compressed schedule, the work was to be completed by 30 November 2004 by deploying additional men and machinery. Before approval (April 2004) of the compressed schedule, the Board failed to anticipate the likely delay in handing over of sites and evolve a suitable monitoring mechanism for timely handing over of the sites.

Audit noticed (December 2006) that the contractor again could not complete the work within the revised compressed schedule as the Board failed to hand over the sites to them in time due to delay in completion of civil works. The

Tail Race Tunnel (TRT) site and Penstock site were handed over to the contractor after a delay of six and nine months respectively. Owing to delay in handing over the TRT and Penstock sites to the contractor, the work was actually completed in May 2006, *i.e.* after a delay of 18 months. The Board, however, had to pay to the contractor additional cost of Rs. 3.59 crore for the works completed up to July 2004 even though the reasons and circumstances which would result in delay were already known to it. The payments for the balance work up to May 2006 were paid at the originally agreed rates.

The Government confirmed (July 2008) that the sites for TRT and Penstock were not handed over to the contractor in time and payments for these erection works were made according to normal agreement terms and no payment was released as per the compressed schedule. The reply confirms the Audit contention that the contractor could not adhere to the revised compressed schedule due to failure of the Board to hand over the sites in time. The Board, however, paid an extra amount of Rs. 3.59 crore for certain items completed within the schedule even though the entire work was not completed. This was due to the fact that while the Board fixed a revised schedule of completion for the contractor at an additional cost of Rs. 6.80 crore, it failed to revamp simultaneously its own monitoring mechanism to ensure timely handing over of the sites. Thus, the delay on the part of the Board not only defeated the very purpose of laying down a compressed schedule but also resulted in incurring of an additional unfruitful expenditure of Rs. 3.59 crore.

#### **4.6 Avoidable overpayment**

**Failure of the Board to fix rates for supply of conductors as per the tendered rates resulted in an avoidable extra expenditure of Rs. 2.38 crore.**

As per the terms and conditions contained in the tender document for purchase of inventory, if the rates of any manufacturing unit located in the State of Himachal Pradesh (HP) fall within 17.5 *per cent* over the overall FOR comparable rates of the outside lowest eligible tenderer, the unit shall be eligible for issue of purchase order at the comparable lowest ex-works rate of L-1 firm. Payment, however, on account of duties and taxes applicable in HP are to be paid on actual basis on production of documentary evidence of payment of the duties and taxes or the total FOR rates of L-1 firms whichever is on the lower side.

The Board floated (January 2005) tender enquiries (No. 11/2005 and 16/2005) for procurement of different type of 13,554 Km ACSR/AAA\* conductors. After opening (March 2005) of the bids received thereagainst, the following

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\* ACSR-Aluminium Conductor Steel Reinforced, AAA- All Aluminium Alloy.

firms emerged as L-1 for various types of conductors:

Sl. No.	Name of the firm	Type of the conductor	L-1 ex-works rate (Rs. per Km)	L-1 FOR rates (Rs. per Km)
1	Hindustan Vidyut Products Ltd; New Delhi	ACSR Rabit	18,850	23,174.77
2	Sterlite Industries (India) Ltd; Pune	AAA Rabit	17,850	21,363.12
3	Sterlite Industries (India) Ltd; Pune	AAA Raccon	26,200	31,225.84
4	Sterlite Industries (India) Ltd; Pune	AAA Dog	32,650	39,128.48

Audit noticed (April 2007) that both the L-1 firms were from outside the State. Therefore, the Board placed (September 2005 and February 2006) supply orders on L-1 firms and also on two H.P. based firms (Durable Conductors, Baddi, and NU-Line Pvt. Ltd., Parwanoo) who participated in the tender. But while fixing the rates for H.P. based firms, the Chief Engineer (Material Management) considered L-1 FOR rates which were higher when compared to the L-1 ex-works rates with applicable duties and taxes. This was in violation of the condition of the tender document for fixation of rates, which resulted in avoidable overpayment of Rs. 2.38 crore to these firms. The matter was brought to the notice of the Board in June 2007 but it did not take corrective action and the rates of local firms were continued to be fixed on the same pattern. There were no reasons on record for not fixing the rates as per the conditions of the tender document.

The matter was referred to the Government/Board in May 2008; their reply was awaited (September 2008).

#### 4.7 *Undue favour to a consumer*

**Sanctioning of higher load to a consumer with retrospective effect to regularise his peak hour load violations resulted in an undue favour of Rs. 19.30 lakh.**

As per the terms and conditions laid down in the Schedules of Tariff and General and Service Charges issued by the Himachal Pradesh Electricity Regulatory Commission (HPERC), power supply to the large industrial power consumers shall not be available during peak load hours of the day. The Board shall also notify the duration of peak load hours for summer (April to October) and for winter (November to March). In case, a consumer wants to avail exemption during peak load hours for any special reason, a separate sanction of the Board is necessary. If any consumer who does not have the exemption, is found drawing electricity during peak hours, he shall have to pay the Peak Load Violation Charges (PLVC) and higher energy charges at the prescribed rates.

The Board sanctioned (November 1998) 429 KW of power in favour of Pashupati Spinning and Weaving Mills (P) Ltd., Kala Amb (consumer) for running the industry during evening peak load hours, in addition to 283 KW light load. The consumer was allowed (May 2003) to draw additional 1,128.98 KW of power during evening peak load hours. Thus, the consumer was allowed to draw a total load of 1,840.98 KW during evening peak load hours from May to September every year with a condition that the previous peak load hours sanction for 429 KW power plus 283 KW light load would continue to be for the whole year. The load for evening peak load hours was further revised (April 2005) to 1,128.98 KW (1,254 KVA) from April to October 2005 and for the month of October 2005, it was again increased (September 2005) to 1,840.50 KW (2,045 KVA) including load already sanctioned in November 1998.

Audit observed (August 2005) that instead of restricting the load to sanctioned limit of 1,254 KVA during peak load hours from April to September 2005, the consumer drew load between 1,614 and 1,729 KVA. Hence, the consumer was liable to pay PLVC at the rate of Rs. 300 per KVA per month on the power drawn in excess of the sanctioned load besides payment of higher energy charge as per the schedule of rates approved by the HPERC, which worked out to Rs. 19.30 lakh. After Audit pointed out in December 2005, the Chief Engineer (Commercial), instead of recovering the above amount, cancelled (January 2007) its earlier sanction for drawing load of 1,254 KVA during evening peak load hours from April to September 2005 and sanctioned load of 2,045 KVA<sup>♦</sup> for that period to avoid recovery of peak load violation charges of Rs. 19.30 lakh. This resulted in extending an undue favour to the consumer to that extent.

The Chief Engineer (Operation), South stated (June 2007) that in view of permission granted (April 2005 and January 2007) to the consumer by the Board, the amount was not recoverable. However, there was no provision for regularisation of peak load hours violations with retrospective effect. The action of Chief Engineer (Commercial) was against the provisions of the tariff orders approved by the HPERC, for recovery of such violation charges.

The matter was referred to the Government/Board in April 2008; their reply was awaited (September 2008).

#### **4.8 Undue favour to the contractor**

**The Board extended an undue favour of Rs. 14.26 lakh by releasing the payment for the work which was to be executed by the contractor at his own cost.**

The Board entered into an agreement (28 August 2001) with Om Metals & Minerals Ltd. and Subhash Projects and Marketing Ltd. (contractor) for executing the work relating to design, supply, fabrication, painting,

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<sup>♦</sup>  $1,128.980 \text{ KW} + 429 \text{ KW} + 283 \text{ KW} = 1,840.98 \div 0.90 = 2,045 \text{ KVA}$ .



transportation, erection, testing and commissioning of Gates and Hoists of Larji Hydroelectric Project to at a cost of Rs. 24.93 crore. As per clause 3.1 of additional condition of the agreement, in case the contractor considered that approach roads, access roads in addition to those already existing on the sites were required, the contractor would at his own cost and with the approval of the Engineer-in-charge, construct and maintain such additional approach roads, access roads on the sites. In this project the approach roads to the sites of the works were available.

Audit noticed (January 2005) that the contractor considered (March 2003) providing temporary access roads through the downstream stilling basin right up to the crest/glacis in all the bays necessary for the erection work of the anchorages. He contended (March 2003) that this work was not in the scope of his contract. The Deputy Chief Engineer of the Board agreed (March 2003) to consider the providing of temporary access road as an extra item and forwarded (June 2003) the case to the Chief Engineer for approval. The contractor constructed (June 2003) the approach road by filling of earth on the downstream stilling basin measuring 7,761.432 cubic meter (cum). On the direction of the Deputy Chief Engineer, 70 *per cent* payment (Rs. 11.52 lakh) of the recommended rate of Rs. 212 per cum was released (June 2003) to the contractor pending approval of the competent authority. The amount was, however, recovered (December 2003) from the contractor after the Chief Engineer observed (June 2003) that the subject was covered under clause 3.1 *ibid*. The said item of work was again included as an extra item with the approval (April 2004) of the Chief Engineer and the amount of Rs. 14.26 lakh was paid to the contractor by reducing the rate from Rs. 212 per cum to Rs. 147 per cum. Acceptance of this work as an extra item and consequent payment of Rs. 14.26 lakh was in contravention to clause 3.1 *ibid* of the contract agreement and thus, tantamount to extending an undue favour to the contractor to that extent.

The Government stated (July 2008) that for the erection of pier anchorages one additional mobile crane under compressed schedule had been deployed. This crane could work only on the smooth surface and for the running of the said crane the already concerted stilling basin had to be protected by filing of soil. The reply does not explain the point that the approach roads were already available and work area were covered under clause 3.1 *ibid* and as such no extra payment was required to be made to the contractor for the construction of additional road.

#### 4.9 Avoidable extra expenditure

**Failure of the Board to procure steel poles and trivector electronic meters at lower rates resulted in an avoidable extra expenditure of Rs. 12 lakh.**

As per the provisions contained in various purchase orders (POs) placed by the Board on suppliers from time to time, the Board had a right to place repeat order for an additional quantity up to 25 *per cent* of the total quantity ordered

at the same terms and conditions within six months from the date of issue of POs. To avail the same price within the stipulated period, the Board had put in place a system of reviewing the requirements of materials and expediting issue of orders as per the requirements without any delay.

Audit noticed (June 2005/February 2006) that the Board had not exercised this option fully in respect of two major orders placed for procurement of steel tubular poles (poles) and trivector electronic meters (TEMs) though there was demand for these items. Against the entitled quantity of 15,156 poles and 723 TEMs, it procured only 9,010 poles of various sizes by placing repeat orders and failed to procure balance 6,146 poles and the whole entitled quantity of 723 TEMs, though the Board was aware of its requirements. These items were subsequently purchased at a higher cost due to which, the Board lost the opportunity to save an extra cost as detailed below:

Sl. No.	T.E. No.	Description of Material	Quantity less procured (Nos)	Difference in rate (Rs.)	Extra expenditure (Rs.)
1	2/2004	8 meter long poles	1,965	74.98	1,47,336
		9 meters long poles	2,394	80.31	1,92,262
		10 meters long poles	881	206.29	1,81,741
		11 meters long poles	415	308.61	1,28,073
		8 meters RJS poles	491	372.05	1,82,677
2	8/2004	Trivector electronic meters	723	508.63	3,67,739
	<b>Total</b>				<b>11,99,828</b>

The Government stated (September 2008) that as per the provision contained in the purchase orders placed in June 2004, 9,010 steel poles were purchased as additional quantity on the same rates. Further, the tenders for remaining quantity were opened during February 2005, and it was not possible to pre-assess the future trend of prices in advance. The reply is contradictory to the fact that while submitting memorandum (December 2004) to Whole Time Members (WTMs) it was mentioned that the tentative requirement for 2005-06 was of 34,950 steel poles and the funds for 15,251 poles for APDRP schemes had been provided in advance by the Government of India.

In respect of TEMs, the Government stated (September 2008) that the normal duration for opening technical and price bids was five to seven months. As rigorous exercise of testing and discussion with the manufacturers was involved, it was difficult to reduce the time to five months to complete the process. The reply itself indicates lacunae in the system of tendering process which resulted in delay of five months from the date of opening the technical bids to open the financial bids. Had the Board processed the bids before the expiry of six months validity period (August 2005) keeping in view the admissible benefit of quantity variation clause, the Board could have availed the benefit of repeat option clause after knowing that the rates available under fresh bids were higher.

Thus, by not procuring the entitled additional quantity against the existing orders at lower rates, the Board lost the opportunity to save Rs. 12 lakh on the purchase of above material at higher rates.

#### 4.10 Avoidable payment of compensation

**Failure to ensure that driver had a valid driving licence resulted in avoidable payment of compensation of Rs. 11.97 lakh to the family of the Beldar.**

To operate all vehicles (Heavy and Light), the Board had evolved a procedure for recruitment of regular drivers from time to time. The system/ procedure *inter alia* included production of driving licence (Heavy and Light) by the applicants which would be duly checked before appointment. Subsequent to appointment, the Board had not evolved a system of verification of renewal of driving licences held by the drivers after the expiry of the validity period. A Beldar of Chopal Division of the Board, was provided (March 2000) a truck to carry his family and household articles on his transfer from Chopal to Kupvi. The vehicle met with an accident (21 March 2000) at Ronhat and all the occupants including its driver died on the spot. The dependents of the deceased Beldar filed (August 2000) a claim before the Motor Accident Claims Tribunal-II (MACT), Nahan against the Board and the United India Insurance Company Limited (Insurance Company) as the Board's vehicle was insured with the Insurance Company. The MACT directed (March 2002) the Insurance Company to pay them Rs. 8.66 lakh as compensation along with interest at the rate of 9 per cent per annum.

The Insurance Company filed (July 2002) an appeal against the *ibid* decision in the High Court of Himachal Pradesh on the plea that the Board had neither produced any driving licence of the concerned driver nor any details thereof and as such, the Company should not have been made liable for payment of compensation. The Board failed to produce any evidence to show that the driving licence of the deceased driver was checked before he was employed. Hence, the High Court passed a judgment (December 2005) that the Insurance Company could recover the amount paid by it along with interest from the Board.

While exploring the possibilities for filing an appeal before the Supreme Court of India, the Standing Counsel-cum-Legal Advisor (SC-cum-LA) of the Board opined (August 2006) that in the absence of positive evidence of holding a valid licence of the expired driver, the Board had no option but to implement the decision of the High Court. Accordingly, a sum of Rs. 11.97 lakh was deposited (October 2006) by the Board with the High Court.

Thus, failure of the Board to prescribe a procedure for making entry in the service book of the driver with regard to his holding a valid driving licence on the date of appointment in service and subsequent renewals of the licence from time to time resulted in a loss of Rs. 11.97 lakh to the Board.

The Government stated (July 2008) that it had located (April 2007) document to prove that the driving licence was renewed up to 3 July 1998 and a review petition had been filed (August 2007) in the High Court and was pending. The reply is not convincing as the Board had no evidence to prove that the driver had a valid driving licence on the date of accident (21 March 2000) and it failed to evolve any system of verification of subsequent renewal of licence by the drivers who were on roll. Moreover, in the service book of the driver there was no entry in respect of his holding a valid driving licence on the date of his joining service. The Board had neither fixed responsibility for this lapse nor issued instructions to check the availability/validity of driving licences of its drivers from time to time.

#### **4.11 Loss due to under charging of service rentals**

<b>Failure of the Board to charge the monthly service rentals from a consumer as per the provisions of the Sales Manual resulted in a loss of Rs. 11.90 lakh.</b>
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As per condition 12 (ii) of the 'Abridged Conditions of Supply' of the Sales Manual Part-I of the Board, the service line is to be laid by the Board from any of its distribution supply lines. Any consumer who applies for service connection shall pay on demand either the cost of the service line and service equipment other than the meter or the monthly rentals at two per cent of the capital cost as laid down in the Schedule of General and Service Charges.

The power to the Indus Medical Foundation, Shimla (IMF) was supplied through a newly constructed sub-station at Shimla. The Chief Engineer (P&M) of the Board fixed (September 1988) the monthly service rentals of Rs. 4,667, being two *per cent* of the estimated capital cost of Rs. 2.33 lakh. The construction work of the sub-station consisting of two transformers of 630 KVA each was completed during 1995-96 at a cost of Rs. 12.71 lakh. As the supply of power to the IMF was through one of the two transformers only, the Board should have revised the monthly service rentals to Rs. 12,705 from Rs. 4,667 after taking into account the proportionate capital cost (Rs. 6.35 lakh) of supply. The Electrical Sub-division, Sanjauli, however, continued to charge the service rentals at the old rate. Audit brought the matter to the notice of the Board in December 2005 and pointed out under charging of service rentals. The Board, however, did not take necessary action and continued to under charge monthly service rentals which accumulated to Rs. 11.90 lakh up to July 2008.

The Government stated (September 2008) that the sub-station was installed in the IMF because space was available there and it was also feeding power to nearby localities. It was further stated that the connection to the IMF was released on the basis of decision taken by the Board as conveyed in July 1986 on monthly rental basis and in accordance with Instruction of the Sales Manual. The reply is not in consonance with the rules/ instructions of the Sales Manual and the monthly service rentals were fixed on the basis of estimated capital cost whereas after completion of work of the sub-station, the

actual capital cost was higher. Hence the rates had to be revised accordingly. Besides, there is only one transformer which feed supply to IMF. Thus, failure to revise the monthly service rentals after completion of construction work resulted in a loss of Rs. 11.90 lakh due to under charging of monthly service rentals for the period from April 1996 to July 2008.

#### **4.12 Avoidable liability due to violation of statutory provision**

**The Board's failure to deduct service tax in conformity with provision of Service Tax Rules may result in an avoidable liability of Rs. 15.89 crore.**

As per the provisions of Section 69 of the Service Tax Act and Rule 4 of the Service Tax Rules, 1994, the State Government Bodies/Undertakings rendering any taxable service are required to get themselves registered with the concerned Service Tax Excise Commissioner and to start paying the service tax at the rate of 10.2 *per cent*. In addition, Section 67 of the said Act requires that service tax is to be levied on the aggregate amount charged by the service provider on the receiver.

In the tariff order issued in November 2001, the Himachal Pradesh Electricity Regulatory Commission (HPERC) introduced a consumer service charge for all categories of consumers except the domestic consumers. Subsequently, the HPERC included (July 2004) the domestic consumers also for levy of service charge. Accordingly, the Board had to levy service charges on the consumers.

Audit scrutiny of records revealed that the Board neither levied service tax of Rs. 15.89 crore on the consumers on the service charges of Rs. 155.80 crore during November 2001 to March 2008 nor deposited the service tax with the concerned authorities from its own funds later.

The Board stated (September 2008) that the point was being referred to the HPERC for clarification. The fact remains that the recovery of service tax is a statutory requirement. Therefore, it should have been recovered and deposited.

Thus, the failure to recover service tax may result in tax liability of Rs. 15.89 crore which will have to be borne by the Board.

The matter was referred to the Government in July 2008; their reply was awaited (September 2008).

#### **Himachal Road Transport Corporation**

#### **4.13 Avoidable loss due to plying of two Volvo buses on a non-viable route**

**Failure to conduct traffic survey before plying two Volvo buses on a non-viable route resulted in an avoidable loss of Rs. 17.05 lakh.**

The Corporation, before introducing a service in a particular road shall have to conduct traffic survey and cost benefit analysis. This procedure should be followed for any type of service i.e. ordinary, express or Volvo service. As

per the existing instructions in the Corporation, the Divisional/Regional Managers shall have to analyse operation cost of a service and submit periodical critical review reports to Head Office for further action.

The Corporation introduced Baijnath-Delhi Volvo bus service with effect from 26 August 2006. Accordingly, the Corporation started plying two Volvo buses on Baijnath-Delhi and Delhi-Baijnath routes. The buses for this route were made available by withdrawing two buses from Manali-Delhi and Chandigarh-Delhi route, which were acquired (May 2006) at a cost of Rs. 63.45 lakh each.

The operation of two buses on the above route resulted in loss of Rs. 4.48 lakh during 36 days from 26 August to 30 September 2006. The Management, however, continued to operate the route up to 20 March 2007 and incurred further loss of Rs. 12.57 lakh during 1 October 2006 to 20 March 2007. Thus, the Corporation incurred an avoidable loss of Rs. 17.05 lakh due to plying of two Volvo buses on a non-viable route. The route was discontinued with effect from 21 March 2007.

Audit noticed the following deficiencies:

- The Corporation had neither conducted traffic survey nor any cost benefit analysis before introducing Volvo buses on this route.
- The Regional/Divisional Manager concerned informed about the uneconomic operation of this service during 26 August to 30 September 2006. The Corporation had, however, not taken action to withdraw the service.
- Even the operation of ordinary services on this route prior to introduction of this service was uneconomical.

Thus, the Corporation suffered a loss of Rs. 17.05 lakh which could have been avoided.

The Management stated (June 2008) that the Volvo bus service on Baijnath-Delhi route was introduced keeping in view the inflow and outflow of Tibetans pilgrims who visit their temples at Baijnath and Dharamshala frequently. It was further stated that sufficient time was required to make the route successful. The income of the route was monitored continuously and as it was not meeting the variable cost, the route was discontinued. The reply is not in conformity with the fact that the introduction of Volvo bus service was made without conducting any traffic survey. Besides, there was also no communication from the Department of Tourism for introduction of Volvo bus service to cater to the demand of pilgrims.

The matter was referred to the Government in April 2008; their reply was awaited (September 2008).

<b>General</b>
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**4.14 Follow-up action on Audit Reports****Explanatory Notes outstanding**

**4.14.1** The Comptroller and Auditor General of India's Audit Reports represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various Public Sector Undertakings. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Himachal Pradesh issued (February 1994) instructions to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 2003-04, 2004-05, 2005-06 and 2006-07 were presented to the State Legislature in April 2005, 2006, 2007 and 2008, seven departments did not submit explanatory notes on 36 out of 68 paragraphs/reviews, as on September 2008, as indicated below:

<b>Year of Audit Report (Commercial)/ Commercial Chapter</b>	<b>Total paragraphs/reviews in Audit Report/Commercial Chapter</b>	<b>Number of paragraphs/reviews for which explanatory notes were not received</b>
2003-04	15	3
2004-05	13	4
2005-06	19	12
2006-07	21	17
<b>Total</b>	<b>68</b>	<b>36</b>

Department wise analysis is given below:

<b>Name of department</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
Power department	-	-	9	9
Horticulture department	-	-	-	1
Forest department	-	-	-	2
Tourism department	-	-	-	1
Food and Supplies department	-	-	-	1
Transport department	-	-	-	1
Finance department	3	4	3	2
<b>Total</b>	<b>3</b>	<b>4</b>	<b>12</b>	<b>17</b>

The departments largely responsible for non-submission of explanatory notes were the Power department, Forest department and Finance department. They did not submit explanatory notes to 32 out of 36 paragraphs/reviews. They did not respond to even reviews highlighting important issues like system failures, cost overrun, unfruitful expenditure, non-availing of grant, non-acceptance of manpower, norms of committee, payment of idle wages, deploying un-skilled person on duties specified for skilled person, loss due to failure to file tariff petitions in time, non-restructuring of high cost debts, potential loss of revenue, loss of interest, undue favour, etc.

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

**4.14.2** The Action Taken Notes on the recommendations of COPU are required to be furnished within six months from the presentation of the Reports. Replies to 31 paragraphs pertaining to 10 Reports of the COPU, presented to the State Legislature between August 2006 and January 2008, had not been received as of September 2008, as indicated below:

<b>Year of the COPU Report</b>	<b>Total number of Reports involved</b>	<b>No. of paragraphs where replies not received</b>
2006-07	6	25
2007-08	4	6
<b>Total</b>	<b>10</b>	<b>31</b>

***Response to inspection reports, draft paras and reviews***

**4.14.3** Audit observations noticed during audit and not settled on the spot are communicated to the heads of the Public Sector Undertakings (PSUs) and departments of the State Government concerned through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2008 pertaining to 20 PSUs disclosed that 3,969 paragraphs relating to 973 inspection reports remained outstanding at the end of September 2008. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2008 is given in **Annexure 29**.

Similarly, reviews and draft paragraphs on the working of Public Sector Undertakings are forwarded to the Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that seven draft paragraphs and two reviews forwarded to the four departments between March and October 2008 as detailed in **Annexure 30** had not been replied to so far (October 2008).



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

The matter was reported to the Government (October 2008); their reply was awaited (October 2008).

**Shimla  
The**

**(SUMAN SAXENA)  
Principal Accountant General (Audit)  
Himachal Pradesh**

**Countersigned**

**New Delhi  
The**

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