

CHAPTER III

3 TRANSACTION AUDIT OBSERVATIONS

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

GOVERNMENT COMPANIES

Himachal Pradesh State Forest Corporation Limited

3.1 Avoidable loss due to long transit period

Conversion of 'B' class timber in 'C' class due to long transit period resulted in loss of Rs. 18.08 crore.

Instructions for timber extraction works envisages that any piece of timber in which rot is more than 60 *per cent* should be classified as 'C' class. No payment is to be made to Labour Supply Mates (LSMs) for extraction of 'C' class timber.

Audit observed (February 2002) that there has been no system in Forest Working Divisions (FWDs) to indicate class of timber on Rawana Challans while sending timber to Himkash Sale Depots (HSDs). The Company has also not fixed any time limit for transportation of timber from FWDs to HSDs. There has been a long time gap (three months to two years) between the extraction of timber and its transportation to HSDs and during this period 'B' class timber gets converted into 'C' class timber. During 2001-2003, Mantaruwala, Nurpur and Baddi HSDs sold 38, 769.321 cubic metre 'C' class timber resulting in a loss of Rs. 18.08 crore.

The Company stated (May 2004) that instructions were issued from time to time for expeditious transportation of timber.

The matter was referred to the Government in February 2004; no reply had been received (September 2004).

3.2 Avoidable loss

Delay of three years in working out a forest lot resulted in loss of Rs. 22.20 lakh on account of payment of royalty and sales tax in addition to loss of expected timber with the passage of time.

The Company took over (October 1996) a lot No.3/96-97 (Karsog) having 651 trees of standing volume of 816.549 cubic metre. All the trees were fit for extraction of timber at the time of taking over of the lot. Hence, royalty and sales tax of Rs. 23.42 lakh was paid to the State Forest Department. The Company was not able to find out any labour supply mate between October 1996 and December 1998 due to abnormally high rates. During inspection (September 1999), the Divisional Manager found only 34 trees having a standing volume of 54.404 cubic metre fit for working. Sixty seven trees having a standing volume of 124.762 cubic metre were stated to have been burnt in fire. The remaining 550 trees having a standing volume of 637.383 cubic metre had rotten due to delay in working and no timber could be extracted out of these trees. These trees were worked departmentally between November 1999 and March 2000.

Thus, delay in working of the lot resulted in an avoidable loss of Rs.22.20 lakh on account of payment of royalty and sales tax in addition to loss of expected timber of 467.449 cubic metre in respect of 617 trees not worked out by the Company in time.

The Government stated (July 2004) that the lot was not worked departmentally due to difficult terrain and non-availability of local labour. It also stated that instructions had been issued to field staff to be involved during working of lots to avoid unnecessary payment of royalty and sales tax. Divisional Managers were also directed to inspect the forest timely to avoid loss to the Company.

The reply is not tenable because working conditions were known to the company and it has unnecessarily delayed the departmental working of the lot by three years.

STATUTORY CORPORATIONS

Himachal Pradesh State Electricity Board

3.3 Deficiencies in Internal control/Internal audit system

Internal control

Introduction

3.3.1 Internal control is an integral part of all pervasive 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.

The supreme decision making body in the Board consists of six Whole time members including the Chairman and one ex-officio Member. Each Whole time member is over all in-charge of the specific area of activity under him. The main activities of the Board are (i) investigation and planning, (ii) design and construction, (iii) generation and (iv) transmission and distribution. In connection with above activities, the Board has to make arrangement of funds, purchases (material management), collection of revenue and maintenance of accounts.

In order to exercise internal control upon its multiple activities and ensure effective management information system, the Board has different manuals and prescribed various returns for each functional area to ensure compliance of instructions, rules and procedures. The reports of Internal and CAG Audit also serve as a tool of management information system and expeditious action on these reports helps in improving the working of the Board. With a view to checking the extent of internal control, Audit test checked records relating to purchases, finance and accounts wings. The deficiencies noticed during test check are discussed in the succeeding paragraphs.

Material management (Purchases)

3.3.2 The Board did not assess the requirement of material to be consumed within three to six month of purchase as required vide instructions issued in January 1994. Audit observed (April/May 2004) that surplus material valuing Rs. 7.92 crore was lying in various divisions of the Board as on 31 March 2004. Out of above, material valuing Rs. 6.43 crore was lying unused for the last three to five years. The Board has not taken any action for fixing responsibility for purchase of excess material and also for utilisation/disposal of the same despite being pointed out by Internal Audit.

3.3.3 The Board imposed (December 2000) ban on the purchase of certain items by the field units. In contravention of above, purchase of banned items valued at Rs. 2.25 crore by 15 units was pointed out by Audit during the last three years ended 31 March 2004. No action has been taken by the management against the defaulting officers so far (September 2004). The Board has not prescribed any return to watch purchase of such items.

3.3.4 As per the Reserve Stock limit fixed (September 2002) by the Board, the stocks were required to be kept at the barest minimum and the violation of above instructions was to be the responsibility of the concerned officers. Audit observed (May 2004) that against the Reserve Stock limit of Rs. 6 crore, there was stock of Rs. 8.57 crore with the Chief Engineer (Transmission) as on 31 March 2004. The Board did not take any action against the concerned Chief Engineer for exceeding Reserve Stock limit.

3.3.5 With a view to reduce inventory, the Store Purchase Committee and the Whole Time Members of the Board directed (July 2002) the field officers to immediately submit age-wise analyses of stock balances and linkage of budget availability with the purchases made by them. Neither such feed back was received from the field units nor did the Board take action to call for the same again. Thus, the actual position could not be known.

Finance and Accounts

3.3.6 According to Instruction No. 17 of the Manual of Instructions of the Board, prior sanction of competent authority was required for incurring expenditure on works. The Finance and Accounts wing is responsible for watching the expenditure vis-à-vis allotment of budget. During 2002-03, the Internal Auditors pointed out incurring of unsanctioned expenditure of Rs. 35.41 crore by 52 units. They also pointed out excess expenditure of Rs. 50.20 crore over the sanctioned amount during the same year by 62 units which was still (September 2004) awaiting regularisation. Despite being pointed out by the Internal Auditors repeatedly, the Board has not taken steps to check violation of its own instructions. Further, there is no system in place by which Finance and Accounts wing could keep a watch on such excess expenditure.

3.3.7 The Board delegated (1997) financial powers to its executing officers specifying monetary limits for according administrative/technical sanctions in respect of civil works. Splitting-up of estimates to keep the estimates within the monetary limit of subordinate sanctioning authority was strictly prohibited. The Audit pointed out splitting-up of works/purchase orders amounting to Rs. 4.54 crore in 10 units during March 2000 to March 2003. The Board has not taken action against the erring officers so far (September 2004).

3.3.8 The Board has fixed initial drawing limit for payments of staff, petrol, diesel, etc. and other contingent items. As per instructions, drawing limit in no case should be diverted for making other payments. The Board has not

devised any methodology to find out the cases of violation of fixed drawing limits. During 2002-03, Internal Auditors pointed out three cases (in respect of three units) of Rs. 14.30 lakh involving violation of fixed drawing limits. The Board has not taken action against the defaulting officers so far (September 2004).

3.3.9 According to Instruction No.5 of Manual of Instructions of the Board, unlinked debits/credits are to be settled within a maximum period of three weeks. Delay in settlement of debits/credits is to be dealt with seriously. Audit observed that during the last four years ended 31 March 2003, unsettled debits/credits ranged between Rs. 31.57 crore and Rs. 72.68 crore. Absence of effective steps to enforce the above instructions was indicative of weak internal control.

Internal audit

Introduction

3.3.10 Internal audit is an integral part of internal control system of an organisation. It is an important tool in the hands of the management, which helps in promoting accuracy and reliability in an organisation's accounting data. Apart from being used by the management as a medium for monitoring compliance with policies, rules and procedure of an organisation, it adds to the scope and substance of the annual certification audit conducted by the CAG. As per Instruction No. 301 of Sales Manual Part-II, the Board is maintaining an Internal Audit wing.

Organisation set-up

3.3.11 As per the guidelines laid down in the Internal Audit Manual of the Board, Internal Audit wing is directed, guided and controlled by the Chief Accounts Officer through the Deputy Chief Auditor. The Deputy Chief Auditor discharges the functions in respect of Headquarter and through the Senior Accounts Officer (s) in respect of field units. The Internal Audit Reports are brought to the notice of the Board by the Chief Accounts Officer through Quarterly Review Notes.

Manpower

3.3.12 Internal Audit wing has no separate cadre. It forms part of accounting and general cadre of the Board.

The Internal Audit wing comprises two groups viz., Works Audit group and Commercial Audit group. Works Audit group is responsible for conducting a test audit of transactions affecting all accounts except consumers' accounts. The Commercial Audit group is responsible for conducting complete and perpetual audit of transactions affecting all consumers' accounts.

Audit Report (Commercial) for the year ended 31 March 2004

Works Audit group has only two audit parties. Due to deployment of lesser number of audit parties, all the units are not being audited annually as discussed in para 3.3.14 *infra*. Commercial Audit group has 32 parties for quarterly audit of 228 units.

Before posting in internal audit, the Board does not impart training to the staff for conducting audit. Though the Internal Audit wing is under the overall control of the Chief Accounts Officer, he has no say in the posting and transfer of staff in the wing. The staff of internal audit is transferred frequently. These factors might have affected the working and independence of internal audit due to loss of benefit of experience gained through working in the Internal Audit wing.

Planning

3.3.13 The Deputy Chief Auditor is responsible for drawing audit plan/programme of Internal Audit parties. The plan/programme of Works Audit group is to be drawn up on selected basis to cover all important and large divisions/offices at least once in a year. The audit plan/programme of Commercial Audit group is to be framed in such a manner that each Sub-Divisional Office is audited in rotation i.e. a sub division is audited 3-4 times in a year. Some times on receipt of complaints, the Board also assigns special audit of concerned units to Internal Auditors.

Audit observed that the both the Works Audit group and Commercial Audit group were not able to achieve the targets for internal audit fixed for them as discussed below:

Works Audit Group

3.3.14 As the number of audit parties were only two, all units were not being audited annually. The table below indicates the target of units fixed for audit, number of units actually audited and the shortfall in audit during the last five years ended 31 March 2004.

Year	Number of parties sanctioned	Parties deployed	Total No. of units	Target of units for audit	Number of units audited	Shortfall in audit
1999-2000	2	2	146	95	77	18
2000-01	2	2	146	95	73	22
2001-02	2	2	146	90	76	14
2002-03	2	2	146	91	74	17
2003-04	2	2	146	92	81	11

It would be observed from the table that against 146 works audit units, the Board selected between 90 and 95 units each year for audit during the last five years ended 31 March 2004. As against this target, the Board audited every year 73 to 81 units during the period. Thus, even the targets for the audit of

units fixed in the audit plan during the last five years ended 31 March 2004 were not achieved. The works audit units were selected on the basis of their importance/expected expenditure to be incurred during a year. No risk based approach was adopted in the selection of units and 45 to 50 *per cent* of the units remained unaudited during the last five years ended 31 March 2004.

Commercial Audit Group

3.3.15 The main purpose of perpetual audit by Commercial Audit group is to examine the accounts of a month during the following month with a view to immediately rectifying the mistakes/irregularities, if any. The Board has, however, decided to audit consumers' accounts units quarterly. The table below indicates the target of units fixed for audit, number of units actually audited and the shortfall in audit during the last five years ended 31 March 2004.

Year	Number of parties sanctioned	Parties deployed	Total No. of units (228x4)	Target of units for audit	Number of units audited	Shortfall in audit
1999-2000	32	32	912	360-400	404	-
2000-01	32	32	912	360-400	340	20
2001-02	32	32	912	360-400	317	43
2002-03	32	32	912	320-400	277	43
2003-04	32	32	912	320-400	229	91

It would be seen from the above that the targets for number of units to be audited were on lower side and even the target for the audit of units fixed in the audit plan during the last four years ended 31 March 2004 were also not achieved. The commercial audit units were selected on the basis of density and nature of the consumers in the units. Audit, however, observed that the internal audit of 38 sub-divisions, having many industries and generating revenue ranging from Rs. 1.11 crore to Rs. 102.62 crore, was in arrear ranging from 10 to 22 months as on 31 March 2004; whereas 24 sub-divisions, mostly having domestic consumers and generating much lower revenue, were audited even twice a year. This indicated that the selection of units for internal audit was not done based on risk analysis of the units, which led to increase in unaudited accounts months of units from 1,227 in March 1998 to 2,698 in March 2004.

Thus, internal audit was not commensurate with the nature and size of business activities.

Reporting

3.3.16 The Internal Audit Reports of both the groups viz. Works Audit and Commercial Audit are presented to the Chief Accounts Officer by the Deputy Chief Auditor. The Chief Accounts Officer submits the position to the Board through Quarterly Review Notes. The Audit Reports/Notes, on which the Finance and Accounts Wing (F & A Wing) needed compliance, are retained in the Sub-Division concerned. These are presented with relevant documents to the Internal Auditor for verification during his next audit visit. In order to watch the compliance of instructions of F & A Wing, a note on verification and the extent of compliance carried out by the Sub-Division is recorded by the Internal Auditors on the Audit Report/Note concerned.

Outstanding Audit Notes/Audit Reports

3.3.17 Age-wise break-up of outstanding Audit Reports/Audit Notes/paragraphs is not available at the Corporate level. Thus, the top level management did not have adequate information to direct expeditious action for settlement of outstanding reports/paragraphs. Test check of Quarterly Review Notes revealed that in respect of Commercial Audit group, 2,273 Audit Notes containing procedural lapses and 3,678 Audit Reports containing observations having financial implications relating to April 1981 to March 2004 were awaiting compliance at the end of March 2004 for want of necessary action by the units. Similarly, 536 Works Audit Reports containing 2,966 paragraphs pertaining to 1 April 1989 to 31 March 2004 were outstanding for want of necessary action. Test check revealed that out of above, 96 paragraphs pertained to eight units for 1992-97, audit of which has been dispensed with by the Board since April 1997 due to shortage of Works Audit parties.

Delay in settlement of special Audit Reports

3.3.18 The Internal Auditors conducted special audit of 10 units between June 1999 and March 2004. The special Audit Reports were sent to the Secretary of the Board immediately after completion of audit. The said special Audit Reports were still (September 2004) outstanding because required action has not been taken. Delay in action may defeat the very purpose of special audit.

Inaction by the Corporate Office on interpretation of rules/provisions

3.3.19 Internal audit parties point out various cases of short revenue receipts against which the concerned units mostly accept a part of the amount for recovery. The balance amount remains unaccepted/un-recovered by the units for many years because of divergent interpretation of rules and provisions. Year-wise position of short revenue receipts assessed/pointed out by the Internal Auditors, amounts accepted by the units and the amounts

not accepted/not recovered during the last five years ended 31 March 2004 is tabulated below:

(Rupees in lakh)

Year	Amount of short assessed revenue	Amount accepted by the units	Amount not accepted by the units
1999-2000	571.86	541.43	30.43
2000-01	903.01	841.43	61.58
2001-02	733.66	680.31	53.35
2002-03	1,861.51	1,492.27	369.24
2003-04	1,827.16	1,726.39	100.77
Total	5,897.20	5,281.83	615.37

Inadequate coverage by Internal Auditors

3.3.20 In 132 units, Audit pointed out short recoveries of revenue of Rs. 5.49 crore during 2002-04 on account of wrong billing/wrong application to tariff, non-receipt of advance consumption deposits, non-charging of cost of line/rentals, peak load violation charges, interest loss, non-receipt of augmentation cost, etc. These short recoveries were in addition to the recoveries of revenue pointed out by the Internal Auditors and stated in para 3.3.19 *supra*. Out of above, the Board has recovered Rs. 4.31 crore up to 31 March 2004. Non-detection of above short recoveries was indicative of inadequate coverage by Internal Auditors.

The matter was referred to the Government/Board in June 2004; no reply had been received (September 2004).

3.4 Non-collection of advance consumption deposit

Failure to collect additional advance consumption deposits in accordance with the 'Abridged Conditions of Supply of power' deprived the Board of additional funds of Rs. 2.55 crore.

Condition 22 (a) of the 'Abridged Conditions of Supply' which forms an integral part of the agreements for supply of power to consumers, *inter-alia* states that the Board is at liberty at any time to demand additional advance consumption deposit (ACD) from the consumers where the energy bills are generally of the order not safeguarded by the amount of ACD. The Chief Engineer (Commercial) of the Board also categorically directed (September 2001) the field units to identify such consumers and recover the amount of additional ACD.

Audit observed (September 2003) that in respect of 38 consumers, the average amount of monthly energy bills during September 2002 to July 2003 was Rs. 6.72 crore against which the Board had ACD of Rs. 4.17 crore only. The Board did not raise the demand for additional ACD. Failure of the Board to recover additional ACD in pursuance of above mentioned condition deprived the Board of additional funds of Rs. 2.55 crore and also saving in payment of interest of Rs. 36 lakh *per annum* (at the rate of 14 *per cent per annum*) on borrowed funds.

The Government stated (May 2004) that notices had been issued to consumers and position of recovery would be intimated on receipt of the amount. No recovery had been made so far (September 2004).

3.5 Violation of procedure by Dispute Settlement Committee

Failure to collect the amount of disputed bills before entertaining cases by the Dispute Settlement Committees deprived the Board of a revenue of Rs. 72.30 lakh.

In exercise of powers conferred under sub-section (j) of Section 79 of the Electricity (Supply) Act, 1948 and other enabling provisions in this behalf, the Board reconstituted (January 2001) Dispute Settlement Committees (DSCs) for considering disputes arising out of consumers' complaints regarding wrong billing. It was decided that the consumers willing to approach such committees for relief would deposit the billed amount before submitting their cases to the committees. In April 2002, the Board reduced the amount to be deposited by the consumers to 50 *per cent* of the billed amount.

Audit observed (September 2003) that there was no system to ensure that the consumer had deposited 100 *per cent*/50 *per cent* of the disputed amount before approaching the Dispute Settlement Committee. In 28 cases pertaining to the period up to March 2002 and in four cases pertaining to the subsequent period, Audit observed that DSCs had accepted their cases even without receipt of required deposit as stated above. The cases were still pending with the DSCs (September 2004). Thus, the Board was deprived of a revenue of Rs. 72.30 lakh besides saving of interest of Rs. 18.80 lakh up to September 2004 on the borrowed funds.

The Government stated (May 2004) that 15 days notices had been issued to the consumers mentioned in the paragraph for depositing 50 *per cent* of the disputed amount. The reply is not tenable as the Board issued notices to deposit 50 *per cent* amount even in those cases (28 cases involving Rs. 69.07 lakh) where 100 *per cent* bill amount was required to be deposited. The recovery was still (September 2004) awaited.

3.6 Non-recovery of charges for over drawal of power

Failure of the Board to apply provision of schedule of tariff resulted in non-recovery of Rs. 43.36 lakh from two consumers for over drawal of power.

As per new tariff applicable from 1 November 2001 to large industrial power consumers, in cases where consumers exceed the contract demand, penalty of Rs. 300 per KVA per month is leviable. The penalty is in addition to the peak load violation charges and is to be levied on the part of demand in excess of the contracted demand.

Audit observed that the Board failed to recover penalty of Rs. 43.36 lakh from the two consumers* for over drawal of power in excess of the contracted demand as prescribed under new tariff.

The Government while accepting the contents of the paragraph stated (May 2004) that the amount had been debited to the account of the consumers in March and April 2004. The recovery was still awaited (September 2004).

3.7 Short-collection of validation charges

Short-collection of validation charges of Rs. 25.16 lakh on power availability certificate resulted in undue favour to an industrial consumer.

The Board issues Power Availability Certificate (PAC) to prospective power consumers. If the PAC is unconditional, it is valid for a specified period. In case of conditional PAC, it is valid up to six months after the fulfilment of condition contained in the PAC. If consumer is not prepared to draw full/partial load within the validity period of PAC, the Board can extend validity on payment of validation charges by the consumer at the rates notified by the Board.

The Board issued (January 1993) a conditional PAC for 7,225 KW load in favour of Birla Textile Mills which was valid for one year from the date of issue. The release of load was linked with commissioning of a sub-station and sharing of cost by the prospective buyers. Out of above load, the consumer applied for release of 2,000 KW load in November 1999, additional 2,300 KW load in February 2001 and balance 2,925 KW load in August 2002. As the condition attached to the PAC was fulfilled on 18 March 1996 therefore, PAC issued in January 1993 was valid up to 17 September 1996 i.e. up to six months after fulfilment of condition. Thus, the Board was required to grant

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(i) Shri Ram Steels Private Limited, Baddi: February 2002 to October 2003

(ii) Emmtex Synthetics Limited, Nalagarh: November 2001 & January to April 2002

extension for 7,255 KW load from 18 September 1996 to November 1999, 5,225 KW load up to February 2001 and 2,925 KW load up to August 2002 after recovering validation charges of Rs. 82.56 lakh. The Board granted extensions of validity of PAC after recovering validation charges of Rs. 57.40 lakh only restricting the validation charges from 18 September 1996 to 31 December 1999 only. The reason for this was stated (May 2004) to be non-availability of power in December 1999.

The contention of the Government is not correct because the power was available with the Board as per the maximum demand recorded at the feeding sub-station. Therefore, validation charges of Rs. 82.56 lakh should have been charged up to the date on which the consumer demanded extension of load. This resulted in undue favour of Rs. 25.16 lakh to the consumer.

3.8 Non-recovery of share of augmentation cost

Failure to pursue the matter for recovery of augmentation cost from the consumers resulted in a loss of Rs. 23.50 lakh to the Board.

Condition No. 10 of load sanction letters issued by the Board *inter alia* provides for recovery of the entire amount spent by the Board in making the arrangement for supply of power to the concerned prospective consumers in cases where the consumers either withdraw or revise their applications reducing the connected load.

The Board decided (August 2001) to charge share of augmentation cost @ Rs. 4.70 lakh per 500 KW load slab or part thereof from industrial consumers seeking power in Parwanoo area to meet cost of Rs. 1.86 crore on augmentation of Parwanoo sub-station and 66 KV Single Circuit line from Parwanoo to Barotiwala. While conveying (August 2001) this decision to field offices, the Board directed them to recover the cost share from those consumers also to whom Power Availability Certificate (PAC) had already been issued/loads sanctioned with the condition that they would share the cost of augmentation.

Audit observed (January 2003) that the Board did not recover the augmentation cost of Rs. 23.50 lakh from three consumers* to whom load was sanctioned in September 2000 and June 2001.

The Government stated (May 2004) that in case of Purolator India Limited, the balance amount of Rs. 1.88 lakh out of Rs. 4.70 lakh recoverable would be debited to the consumer in the bill for the month (May 2004). In case of Microtek Infosoft Limited and Eicher Demn, the amount of Rs. 18.80 lakh was not recoverable because both the consumers had not availed/applied for

* (i) Purolator India Limited, (ii) Eicher Demn & (iii) Microtek Infosoft Limited

additional load. The reply is not tenable in view of condition No.10 *ibid*. Thus, the amount was recoverable from the consumers.

3.9 Undue favour

Short collection of Rs. 23.02 lakh in violation of instructions of Sales Manual resulted in undue favour to a consumer.

According to Instruction No. 115 of the Sales Manual Part I of the Board, a dead stop meter should be immediately replaced on receipt of a report to the effect. The consumer should be charged for the period during which the meter remained inoperative on the average consumption of the last three to six months or the average of the same months of the preceding year, which ever seems to be reasonable.

Audit observed (September 2003) that the current transformer/potential transformer unit installed at 11 KV metering equipment on the premises of Himachal Fibres Limited, Barotiwala got damaged on two occasions in November 1999 and August 2000. These units were replaced by the Board in the same month and the bills were raised without relating the consumption of these months to the consumption of previous/subsequent months. The average consumption of power of three previous months on these two occasions was 8,19,081 units and 9,70,228 units respectively against which the consumer was charged only for 3,14,670 units and 5,91,348 units respectively. This resulted in undue favour to the consumer and loss of revenue of Rs. 23.02 lakh to the Board. The power supply to this firm was disconnected permanently in February 2003.

The Government while accepting the facts stated (May 2004) that the amount was being debited to the account of the firm and the Board was also taking action to file a suit against the firm for recovery of amount. The Board has neither recovered the amount nor filed a suit for recovery of the amount so far (September 2004). The chances of recovery of this amount are remote, as the power connection of the consumer had been disconnected permanently.

3.10 Short-billing

Failure of the Board to re-rate the installation of three units after their merger and charge the entire consumption of power at the higher applicable rate resulted in short recovery of Rs. 12.60 lakh.

As per condition No. 21 of Abridged Conditions of Supply, when any person occupies any premises previously occupied by a consumer and desires to be supplied with energy, his installation shall be re-rated. Re-rating of installation may entitle the Board to charge the supply at different rate.

Shivathene Linopack Limited, Parwanoo and Hindon Polymers Limited, Parwanoo, having a connected load of 391.500 KW and 486.480 KW respectively (being charged under medium supply category), were merged with Shivalik Agro Poly Product (SAPP) with effect from 21 February 1995 and 17 January 1997 respectively. SAPP had a connected load of 1241.300 KW and was being charged under large supply category. After merger, the entire installation was required to be clubbed as per condition *ibid* and charged under large supply category till April 2000*.

Audit observed (September 2003) that the Board did not take action to re-rate the installation retrospectively and to charge the entire consumption of power till April 2000 under large supply category even after coming to know of their merger. This resulted in short recovery of revenue of Rs. 12.60 lakh.

The Government while accepting the facts stated (May 2004) that the amount would be debited to the firm in May 2004 and recovered accordingly. The recovery was still awaited (September 2004).

HIMACHAL ROAD TRANSPORT CORPORATION

3.11 PURCHASE AND PERFORMANCE OF TYRES AND RETREADING MATERIAL INCLUDING TYRE RETREADING PLANTS

3.11.1 The Corporation operated an average daily fleet of 1,724 buses through 23 depots and four divisions during 2003-04. Tyres, tubes and flaps including retreading material constitute one of the major constituents of stores and accessories (51.04 *per cent* in 2003-04) in the Corporation. As on 31 March 2004, the Corporation had four workshops and three tyre retreading plants in three divisions at Parwanoo, Mandi and Jassore.

Deficiencies noticed in the purchase and performance of tyres and retreading material including the performance of tyre retreading plants are discussed in the succeeding paragraphs.

Purchase of tyre and retreading material

3.11.2 With a view to have competitive rates, the Store Purchase Committee has adopted a procedure of inviting offers by floating limited tenders as well as tenders through press from the tyre manufacturing companies. There is no tender rating system in case of tyres to assess the performance of various suppliers on the basis of timely deliveries, quality of supplies and performance of tyres against earlier supplies.

* *From April 2000, all units having connected load of 100 KW or more were treated under large supply category instead of 500 KW or more earlier.*

Purchase of tyre sets at higher rates

3.11.3 The Corporation invited (September 2002) sealed tenders for supply of tyres, tubes and flaps in sets. The offers were received from three* firms. The rates offered by Betul Tyres and Tubes Industries Limited were the lowest. The Store Purchase Committee (SPC), however, rejected (October 2002) the offer on the ground that the products of the firm were neither used in the past nor received with new chassis and the same were also not known in the market. This was despite the fact that the lowest firm had forwarded photocopies of orders of 36,156 tyres and tubes placed by various State Transport Undertakings (e.g. Kerala State Road Transport Corporation, Gujarat State Road Transport Corporation and Maharashtra State Road Transport Corporation).

After negotiations (23 October and 8 November 2002) with the representatives of the firms, the Corporation purchased (November 2002 to March 2003) 3,600 tyre sets from Ceat India Limited and 900 tyre sets from J.K. Industries Limited at a total cost of Rs. 2.64 crore. It was, however, also decided to purchase 10 tyre sets from Betul Tyres and Tubes Industries Limited on trial basis in order to review the performance.

The Corporation again invited (March 2003) offers through press tenders for purchase of tyre sets of various sizes. The rate of Betul Tyres and Tubes Industries Limited was again found to be the lowest.

The SPC did not consider the offer of Betul Tyres and Tubes Industries Limited and again rejected (April 2003) this offer on the grounds that the company was still not recognised as a standard tyre company in Government and private sector; trial of 10 tyres was very small sample to adjudicate the quality of product; no feed back of performance from State Transport Undertakings was enclosed by the firm with its offer; and failure of the product of the firm would lead to huge loss. The Corporation placed orders on Birla Tyres (6,480 tyre sets) and J.K. Industries Limited (1,620 tyre sets) at a cost of Rs. 4.42 crore.

The Corporation incurred extra expenditure of Rs. 22.30 lakh on purchase of tyre sets by rejecting the lowest offer.

The decision of the Corporation not to place any order on Betul Tyres and Tubes Industries Limited, even after remaining lowest in both the tenders, was not justified since they had produced supporting documents for supply of tyres and tubes (as stated earlier) to various State Transport Undertakings and had also enclosed a copy of the Research Officer, Gujrat State Road Transport Corporation showing that the life obtained from the tyre of Betul Tyres and Tubes Industries Limited was better than most of the other tyre companies. These facts have further been corroborated by the visit (July 2003) to the premises of the firm by the Committee deputed by the Corporation, approval of sample by the Central Institute of Road Transport, Pune in January 2004

* *Ceat India Limited, J.K. Industries Limited and Betul Tyres and Tubes Industries Limited*

and subsequent placement (March 2004) of order of Betul Tyres and Tubes Industries Limited for 75 *per cent* requirement.

By not considering the offers of Betul Tyres and Tubes Industries Limited, the Corporation, thus, incurred extra expenditure of Rs. 22.30 lakh.

Injudicious purchase of tread rubber

Purchase of heavier tread rubber belts resulted in avoidable expenditure of Rs. 16 lakh.

3.11.4 As per terms and conditions of purchase orders, the payments of tread belts were being made on the basis of weight. Review of purchase order files and performance returns of retreaded tyres for 1999-2004 revealed that average per belt weight of Elgi Treads was 9.514 Kg whereas the average weight of each tread belts purchased from other firms ranged from 9.515 Kg to 10.473 Kg. Audit observed that the performance of belts supplied by Elgi Treads was also comparatively better than that of supplied by other parties, thereby making the belts of Elgi Treads economical. Since the payment for tread belts was being made on weight basis and higher weight did not indicate higher efficiency, the Corporation should have tried to restrict the maximum weight per belt. Had the Corporation prescribed the maximum weight of each belt even at 9.514 Kg, it could have saved Rs. 16 lakh, being the payment made for excess weight of belts (20,070 Kg).

The Corporation stated (July 2004) that it was using two types of belts and the average weight of all belts was about 9.5 Kg. The reply is not tenable as the Corporation placed purchase orders for specified quantity (in Kg) of tread rubber and number of belts was not mentioned therein.

Use of sub-standard material due to abnormal delay in obtaining sample test reports

3.11.5 The Corporation does not have its own testing laboratory. Samples of tyres, tubes, flaps and tyre retreading material are sent to the Central Institute of Road Transport, Pune.

Delay in obtaining test reports of material resulted in consumption of sub-standard material valuing Rs. 32.46 lakh.

Audit observed that the Central Institute of Road Transport (CIRT), Pune did not pass (from April 1999 to December 2003) 16 samples of tubes, flaps and tread rubber. It took 104 to 442 days to get the results from Pune. The Corporation did not make any effort to avoid inordinate delay. In the meantime, the Corporation consumed the material valuing Rs. 32.46 lakh before test results were made available. The consumption of sub-standard material would also have led to lesser efficiency in operation not measured by the Corporation.

The Corporation while accepting audit observation stated (July 2004) that CIRT, Pune was an all India based organisation and did not respond to the correspondence made for early testing and reports thereof. Before receipt of results, the material was consumed as the same was procured for one month requirement. Thus, delay in receipt of reports had defeated the purpose of sending the samples for testing.

Performance of tyres

Abnormal decrease in coverage/performance by tyres before being scrapped

3.11.6 The Corporation has not fixed norms for coverage by tyres before being scrapped. Audit observed that the average performance of tyres before being scrapped came down substantially in Taradevi depot during the years 1999-2004 as compared to the performance during 1998-99. In 1998-99, the depot scrapped 302 tyres and the average performance of tyre worked out to 92,030* kilometre. In comparison to above, the depot scrapped 1,908 tyres from April 1999 to March 2004 after covering a distance between 61,826 and 72,021 kilometre. This resulted in extra expenditure of Rs. 11.80 lakh on account of issue of new tyres to cover the distance less covered by these tyres.

The Corporation stated (July 2004) that after 1998-99, it added new technology vehicles having more speed, efficient breaks, power steering and powerful engines due to which there was reduction in coverage of tyres. The reply is not tenable because new technology vehicles were added in other regions also where such abnormal decrease in coverage was not noticed.

Tyres retreading plants

Performance of tyre retreading plants

3.11.7 All the three tyre retreading plants (TRPs) at Mandi, Jassore and Parwanoo are of equal capacity. On an average, there were 14, 15 and 16 employees on roll on these plants respectively during the last five years. Audit observed that though the overall capacity utilisation of the tyre retreading plants was above 83 per cent, the capacity utilisation was 67.50 per cent at Mandi. The performance of Parwanoo plant was much better than other two plants. The Corporation did not review the performance of tyre retreading plants for taking remedial action.

Audit further observed that on an average, TRP Parwanoo took 2.31 hours for retreading a tyre whereas Mandi and Jassore plants took 2.96 hours and 2.65 hours respectively. Thus, Mandi and Jassore plants took 0.65 hour and 0.34 hour in excess to retread a tyre. During the last five years, the Corporation never compared the time being taken by TRPs to retread tyres with a view to control the labour charges and failed to fix time limit for retreading of each lot of tyres. This resulted in incurring of excess labour charges of Rs. 17.29 lakh at Mandi and Jassore TRPs.

The Corporation stated (July 2004) that curing time varied according to the temperature available in the plants. The temperature in electric chamber also

* It is the total coverage of tyre. It includes coverage after retreading also

varied from place to place according to the voltage available. The reply is not tenable because in Jassore plant, there was no problem of voltage. As regards Mandi, supply of electricity was at 440 volt but there were frequent breakdowns of electricity. The Corporation neither took up this problem with the Board nor made any other alternative arrangements in this regard.

Non-fixation of norms for process loss

3.11.8 The Corporation has not fixed norms for admissible process loss. During review of records maintained by the tyre retreading plants at Mandi and Jassore, Audit noticed that out of 54,996 tyres processed for retreading in tyre retreading plant Mandi from April 1999 to March 2004 and 41,597 at Jassore from April 2001 to March 2004 (prior to April 2001, record was not available), 4,247 tyres (2,543 at Mandi and 1,704 at Jassore) failed due to uneven curing causing swelling of tyres. These tyres were reprocessed by incurring an extra expenditure of Rs. 10.87 lakh (Mandi:Rs.7.18 lakh and Jassore: Rs. 3.69 lakh) on labour, electricity, bonding gum and black vulcanised cement. The Corporation has not analysed the reasons for uneven curing.

The Corporation stated (July 2004) that the matter would be examined and norms fixed accordingly.

Under utilisation of manpower

3.11.9 Review of records relating to tyre retreading plants revealed that from April 1999 to March 2004, on an average 15 persons were deployed from regular strength in each plant for retreading of tyres received from 23 depots. An amount of Rs. 1.94 crore was paid for their salaries and allowances during the period. The production registers maintained by these plants revealed that during the above period, the plants remained under utilised/closed for 350 days due to power failure (176 days), defect in machinery (86 days), non-availability of retreading material (63 days) and non-receipt of tyres from the depots (25 days). Consequently, the plants paid idle wages of Rs. 12.37 lakh.

General

3.12 Voluntary Retirement Scheme in Public Sector Undertakings

The Government of Himachal Pradesh adopted (January 1993) the Voluntary Retirement Scheme (VRS) as formulated by Government of India in October 1988 for its Public Sector Undertakings. The VRS *inter-alia* provided that an employee who had completed 10 years of service or 40 years of age could

seek retirement. He would be entitled to *ex-gratia* equivalent to one and a half months' emoluments (pay plus dearness allowance) for each completed year of service or the monthly emoluments at the time of retirement multiplied by the balance months of service left before normal date of retirement, whichever is less. Where there was surplus manpower, the vacancy caused by VRS would not be filled up.

Nine companies/corporations implemented VRS and retired 517 employees between September 1993 and April 2004. They were paid retirement benefits of Rs. 13.58 crore. Out of this payment, Rs. 12.98 crore was met from Government financial support.

The cases of VRS in three companies (Himachal Pradesh Agro Industries Corporation Limited, Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited and Himachal Pradesh State Small Industries and Export Corporation Limited) were examined earlier and commented upon in the Reports of the Comptroller and Auditor General of India (Commercial) for the years ended March 1995, March 1996 and March 1998 respectively. The cases of VRS in all other six companies/corporations were examined in April and May 2004 and the following irregularities involving Rs. 1.69 crore noticed:

- During May to July 2002, the Himachal Road Transport Corporation (Corporation) received options for retirement from 378 employees but they were not retired till December 2002 due to non-availability of funds. The Corporation received (January 2003) financial support of Rs. 13.30 crore from the State Government for payment of *ex-gratia* and notice pay. Audit observed that though the Corporation had a period of six months between receipt of voluntary retirement options and receipt of funds from the Government, no planning was made to retire all the employees in one go.

The Corporation accepted option of 185 employees and retired them on 31 January 2003. The option of 61 employees was accepted (March 2003) later. The Corporation retired them in March and April 2003. Delay of two months in accepting the option of 61 employees resulted in avoidable payment of salary of Rs. 14.54 lakh. Thirty six employees either withdrew their applications or were not allowed to retire.

The Corporation decided (February 2003) to retire the remaining 96 employees (drivers and conductors) in phased manner after reducing fleet strength on loss incurring routes in four-five months. The Corporation has, however, neither reduced fleet strength on loss incurring routes nor retired the remaining employees.

- The Corporation retired the above 246 employees after expiry of three months' notice. Thus, only *ex-gratia* of Rs. 8.21 crore was paid to them. The Corporation refunded (April 2003) Rs. 89.88 lakh to the State Government in respect of employees who had withdrawn their applications. Instead of

keeping the balance grant of Rs. 4.19 crore in a separate account, the Corporation transferred the same to its cash credit account. Thus, misutilisation of Government funds deprived off the benefit of earning interest on unspent grant. The loss of interest at the rate of 10.5 *per cent per annum* (being the rate of interest on cash credit limit) worked out to Rs. 65.99 lakh up to July 2004.

Audit observed that in the utilisation certificate submitted to the Government in July 2003, the Corporation showed utilisation of Rs. 75.81 lakh on account of pay for notice period not actually paid to the retirees. It amounted to misrepresentation of facts.

- After closure of Television Factory at Solan, the Himachal Pradesh State Electronics Development Corporation Limited (Company) declared (October 1997) its 42 regular employees as surplus. Instead of introducing VRS at the time of closure of factory, the Company explored the possibility of their adjustment in different Government departments/companies/corporations. Out of 42 surplus employees, 35 were got adjusted up to September 2000. The Company introduced VRS to the staff in May 1999 and June 2000. Out of remaining seven surplus employees, four were retired (September 2000) under VRS, one died while in service and two are still in the Company. Due to non-introduction of VRS immediately after closure of Television Factory, the Company incurred avoidable expenditure of Rs. 9.56 lakh on account of payment of salary of above four employees without taking any work from them from October 1997 to the date of their retirement. Besides, the Company delayed acceptance of options of five employees (including two employees of Corporate Office) for two to 13 months resulting in avoidable expenditure of Rs. 3.45 lakh on account of payment of salary.

The matter was referred to the Government in June 2004; no reply had been received (September 2004).

3.13 Follow-up action on Audit Reports

Outstanding Action Taken Notes

The Comptroller and Auditor General of India's Audit Reports represent 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).

Transaction audit observations

The Audit Reports for the years 2000-01, 2001-02 and 2002-03 were presented to the State Legislature in February 2002, July 2003 and February 2004 respectively. Four out of six departments which were commented upon, did not, however, submit explanatory notes on 20 out of 28 paragraphs/reviews as on September 2004 as indicated below:

Year of Audit Report (Commercial)	Total paragraphs/reviews in Audit Report	No. of paragraphs/reviews for which explanatory notes were not received
2001-02	16	11
2002-03	12	9
Total	28	20

Department-wise analysis is given in **Annexure-9**. Departments largely responsible for non-submission of explanatory notes were Industries, Power and Public Distribution. The Government did not respond to even reviews highlighting important issues like system failures, delay in procurement of material, loss of interest, excess inventory holding, short recovery, under billing, mis-management, etc.

Outstanding compliance to Reports of Committee on Public Undertakings (COPU)

The replies to paragraphs were required to be furnished within six months from the presentation of the Reports.

Replies to 23 paragraphs pertaining to 10 Reports of the COPU, presented to the State Legislature between August 1999 to June 2004, had not been received as on September 2004 as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where replies not received
1992-93	1	1
1994-95	1	1
1996-97	2	11
1997-98	4	7
2000-01	2	3
Total	10	23

Action taken on persistent irregularities in Audit Reports

With a view to assist and facilitate discussion of the paras of persistent nature by the State COPU, an exercise has been carried out to verify the extent of corrective action taken by the concerned auditee organisation and results thereof are indicated in **Annexure-10**.

Statutory corporations

The irregularities relating to excess inventory holding, non-recovery of advance consumption deposits, loss due to wrong application of tariff, short recovery of peak load exemption charges, etc. pertaining to Himachal Pradesh State Electricity Board having financial implication ranging between Rs. 17.51 crore and Rs. 24.56 crore were included in the Reports of the Comptroller and Auditor General of India for the years 1994-95, 1995-96, 1997-98, 1998-99, 2000-01 and 2001-02 (Commercial)-Government of Himachal Pradesh. Scrutiny in Audit revealed that the irregularities were persisting and the Government/Board had not taken corrective action as detailed in **Annexure-10**.

The matter was referred to the Government in May 2004; no reply had been received (September 2004).

3.14 Response to Inspection Reports, draft paras and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the head of PSUs and concerned departments of State Government 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 2004 pertaining to 20 PSUs disclosed that 2,611 paragraphs relating to 873 inspection reports remained outstanding at the end of September 2004. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2004 is given in **Annexure-11**.

Similarly, draft paragraphs and reviews 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 six draft paragraphs forwarded to the various departments during February to August 2004 as detailed in **Annexure-12** had not been replied to so far (September 2004).

Transaction audit observations

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

The matter was referred to the Government in August 2004; no reply had been received (September 2004).

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