

CHAPTER-III

3. Transaction Audit Observations

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

Government Companies

Uttar Pradesh State Industrial Development Corporation Limited

3.1 Short levy of restoration fee and effect charges

The Company incurred loss of ` 4.37 crore due to short levy of restoration fee and effect charges at old rates instead of charging at prevailing rates from an allottee.

The Company develops and allots plots on lease to applicants on premium fixed by it, and has the right to cancel allotment of plot on the grounds of default in payment, non-utilisation of plot within specified period or violation of terms and conditions of allotment letter. As per the Company's order of June 2001, a restoration fee based on the current premium prevailing on the date of restoration is levied on allottee on restoration of cancelled plot. In case allottee has made change in use of land from industrial to commercial, commercial fee shall be also levied. This commercial levy was replaced by effect charge with effect from January 2008.

The Company approved (July 2000) transfer of a plot¹ to Global Enterprises (GE) for industrial use. The Company cancelled (March 2002) allotment of the plot on finding that the industrial plot was being used as farmhouse (commercial use). Against the cancellation order, GE moved (March 2002) the Court where the matter remained pending. On the request (September 2002) of GE, the Company approved (October 2002) restoration of the plot for construction of hotel (commercial use) at restoration fee of ` 5.95 lakh and commercial levy of ` 30 lakh. GE, however, did not accept the offer. On further request (August 2008) of GE, the Company approved (October 2008) restoration of the plot at fee prevailing in October 2002 along with interest thereon assuming restoration in October 2002 and demanded ` 68.65 lakh². On the request of GE, the amount was reduced (January 2009) to ` 53.54 lakh due to reduction in rate of interest which was paid by GE during November 2008 to December 2009. GE, on the request of the Company, decided to withdraw the court case.

We noticed (June 2009) that the Company was required to levy ` 4.90 crore towards restoration fee (` 2.16 crore) on the basis of current premium (` 6,000 per sq. mtr.) prevailing on the date of restoration (October 2008) and effect charge (` 2.74 crore) for change of use of the plot from industrial to commercial (as hotel). Thus, the Company incurred loss of ` 4.37 crore³ due to short levy of restoration fee and effect charges from the allottee.

¹ B-32, Industrial Area, Buland Shahar Road, Site I, Ghaziabad.

² Restoration fee: ` 5.95 lakh, commercial levy: ` 30 lakh, interest (at the rate of 15 per cent per annum on restoration fee and commercial levy): ` 32.59 lakh and lease rent: ` 0.11 lakh.

³ ` 4.90 crore minus ` 0.53 crore.

The Management replied (May 2010) that the matter was decided by the Board as special case to settle the dispute and was not decided as per general rule. The financial interest of the Company was not overlooked. Reply is not convincing as the case was not special in nature and the Management should have adhered to its approved policies regarding imposition of various charges and fees in the best interest of the Company.

We recommend that the Management should abide by its own approved policies in allotment of plots. The Board of Directors of the Company should act in the interest of the Company.

The matter was reported to the Government in March 2010; the reply was awaited (November 2010).

3.2 Avoidable payment of interest

The Company had to pay avoidable interest of ` 30.50 lakh due to delay in deposit of the amount of decree in respect of compensation of the acquired land

The Company acquires land for development under Land Acquisition Act, 1894 (Act). State Government Authorities, on receipt of proposal of land acquisition and the Company depositing 10 *per cent* of estimated compensation towards cost of acquisition and 10 *per cent* as advance compensation, issue a notice under Sections 4/17 of the Act. After due process of objections from land owners, a notification under Section 6/17 of the Act is published in the official gazette and after notification, award is given by the Special Land Acquisition Officer (SLAO). As per Section 34 of the Act, if the compensation is not paid to land owners, interest is levied at the rate of 9 *per cent* per annum on the balance unpaid amount of award for the first year from the date of possession of land and at the rate of 15 *per cent* per annum for remaining period up to the date of payment.

The Company, for developing an industrial area, acquired 245.91 acre land in Dehradun during 1986 on payment of compensation at the rate of ` 96,000 per acre as awarded by the SLAO. The owners of land being unsatisfied with the compensation of land, moved (1988-95) the District Court, Dehradun for enhancement of compensation. The Court in its order (13 May 1997) enhanced the rate of compensation to ` 1,50,000 per acre. The Company paid (November 1998 to April 2001) only part of the amount of additional compensation and filed (2001) appeals in the Honourable High Court of Uttaranchal at Nainital. The High Court in its order (September 2004) dismissed the appeal of the Company and upheld the decision of the District Court.

We noticed (December 2008) that the Company did not challenge the decision (of September 2004) of the High Court nor did it pay the balance of additional compensation and interest to the landowners till March 2009. In March 2009, the Company paid ` 2.21 crore on account of balance of additional compensation and interest at the rate of 9 and 15 *per cent* for the period March 1986 (the month of the possession of land) to March 2009 despite several notices issued by the Court from time to time. Thus, due to inaction on the part of Management from October 2004 to March 2009, the Company had to pay avoidable interest of ` 30.50 lakh for that period.

The Management replied (August 2010) that due to the creation of new State (Uttaranchal) by carving out from Uttar Pradesh, the process of transfer of assets and liabilities pertaining to land was underway from the period October

2004 to March 2009. It further stated that despite various requests of the Company, the revenue authorities of Uttaranchal could not reach any conclusion regarding challenging the decision of the High Court. The final payment of the enhanced compensation was made due to the rising pressure of the executing court to avoid unpleasant situation of contempt of High Court. The justification put forth by the Management for taking such abnormal time in making payment of enhanced compensation as per the decision of the High Court is not acceptable as the matter did not require any involvement of revenue authorities of Uttaranchal.

We recommend that the Management should ensure prompt deposit of undisputed compensation to land owners so as to avoid payment of penal interest and loss to the Company.

The matter was reported to the Government in March 2010; the reply was awaited (November 2010).

Uttar Pradesh Projects Corporation Limited

3.3 Avoidable payment of corporate tax

The Company denied credit of interest earned on unutilised/ idle funds received from the Government to works/Government and paid avoidable corporate tax of ` 8.01 crore due to treating such interest as its own income.

The Company is engaged in construction works of various Government Departments on deposit work basis where funds are provided in advance. Government order (December 1993) states that withdrawals from the Personal Ledger Account (PLA) should be need based and funds drawn from PLA should not be placed in interest bearing bank deposits. If the funds are placed in interest bearing bank deposits, the interest earned on the deposit would be the income of the Government and it shall be credited to the specific work/Government.

We noticed (December 2009) that the Company invested unutilised/idle funds received as deposits for works in banks and earned interest of ` 23.68⁴ crore during 2005-06 to 2007-08. It did not give credit of the interest income to the works/ Government as required in the Government order of December 1993. Instead, it treated the interest income as its own income and accounted for in Profit and Loss account. Consequently, the incidence of corporate tax on the Company increased by ` 8.01⁵ crore during that period.

Thus, the Company not only violated the Government order and denied credit of interest earned on unutilised/idle funds to the Government but also attracted extra burden of Corporate tax of ` 8.01 crore.

The Management replied (September 2010) that the paid-up capital and free reserves of the Company at the end of 31 March 2008 were ` 6.40 crore and ` 18.41 crore respectively and income from it was bound to be earned. It further stated that funds were withdrawn from PLA in accordance with the requirement of works and not with the objective to earn interest. We, however, noticed that its net own funds⁶ were negative⁷ for the period 2004-05 to 2007-08 and surplus was worked out after taking credit for interest on deposit made

⁴ 2005-06: ` 2.52 crore, 2006-07: ` 8.03 crore and 2007-08: ` 13.13 crore.

⁵ 2005-06: ` 0.85 crore, 2006-07: ` 2.70 crore and 2007-08: ` 4.46 crore.

⁶ Paid up capital plus free reserves and surplus less liability of the Company towards interest earned on Government funds for deposit works.

⁷ 2004-05: ` (-) 16.46 crore; 2005-06: ` (-) 11.27 crore; 2006-07: ` (-) 5.33 crore, 2007-08: ` (-) 2.63 crore.

in violation of Government's directive in its Profit and Loss account. Therefore, interest earned during these years should have been credited to the Government/specific works in terms of Government's order of December 1993.

We recommend that the Company should adhere to the Government order and credit the interest earned on Government funds provided for deposit works to the concerned works/ Government.

The matter was reported to the Government in April 2010; the reply was awaited (November 2010).

Uttar Pradesh State Textile Corporation Limited

3.4 Inadequate arrangements for safeguarding movable and immovable assets

The Company suffered loss of assets due to inadequate arrangements for safeguarding movable and immovable assets.

Uttar Pradesh State Textile Corporation Limited (Company) was incorporated on 2 December 1969 with the main objectives of carrying on the business of textile mills, establishing cotton mills, manufacturing and dealing in all kinds of yarn and other incidental activities. The Company had five units at Jhansi, Meerut, Sandila, Kashipur and Jaspur. Kashipur and Jaspur units were transferred to Uttaranchal Government in August 2004. The remaining three units at Jhansi, Meerut and Sandila had become non-functional since November 1997, October 1998 and November 1998 respectively due to reasons like continuous losses, shortage of funds, low capacity utilisation, lower productivity, strike, higher power cost and higher interest burden. These units were officially closed on 14 March 2001.

The Company filed (December 1994) a reference to Board of Industrial and Financial Restructuring (BIFR) which declared (February 1995) the Company as sick. BIFR ordered (July 2005) winding up of the Company. There was a stay in force against the order of BIFR (as of October 2010).

All the employees of the Company were retired under Voluntary Retirement Scheme (VRS) during October 2000 to October 2001. The Secretary, Industrial Development Department directed (September 2000) the District Magistrates (DMs) of Jhansi, Meerut and Hardoi (for Sandila unit) to ensure safety and security of the assets of the units located at those places. As on 31 March 2001, the Company had gross book value of assets of ` 63.71 crore (Immovable assets: ` 16.50 crore and movable assets: ` 47.21 crore) which remained same as per the latest certified accounts for the year ended 31 March 2009.

We noticed (December 2009) discrepancies in maintenance of proper records and also casual approach in taking adequate measures in safeguarding the movable and immovable assets of the Company as summarised below:

Inadequate maintenance of asset records

The Company did not maintain adequate and up-to-date records depicting important information in respect of assets held by it as the asset records maintained by the Company were not updated after 1997-98.

The Management replied (June 2010) that there was no employee on the roll of the company since 2000 and all the operations were being carried out by

Uttar Pradesh State Spinning Company Limited (UPSSC). The fact, however, remains that the records in respect of assets were to be updated by the UPSSC.

Physical Verification of Assets

The Company carried out physical verification of the assets of the three units in March 1999 when a number of items were found non-functional or obsolete. Physical verification was again carried out by the Company during January to February 2005 when shortages were noticed in all the three units. No action could be taken by the Management as all the three units were placed under the supervision of DMs.

As the physical verification of the assets of the three units was not conducted by the Company after 2004-05, the latest position of damage/ theft/ encroachment in assets, if any, could not be known.

The Management replied (June 2010) that the security of the mill was assigned to the respective DMs vide Chief Secretary's order (July 2000). Subsequently, the Government appointed (July 2005) the respective DMs as Joint Managing Directors. The physical verification should have been conducted at regular intervals by the DMs (ex-officio Joint Managing Directors of the Company) with the help of employees of UPSSC to protect its assets.

Damage/ theft/ encroachments due to inadequate security arrangements

As the three units of the Company were placed (September 2000) under supervision of the DMs, management of the UPSSC requested them to make necessary arrangement for safety and security of the assets of the units of the Company. From the records/ correspondence of the Company, we noticed that:

- no adequate arrangements for security of the movable and immovable assets of the three units were made;
- the assets of these units were lying abandoned;
- boundary walls of Meerut and Sandila units were found broken; and
- there were thefts in all the three units of the Company, 70 per cent of the main parts of the machineries and 80 per cent of the furniture were either stolen or missing from the Sandila Unit. The loss due to theft of assets occurred during 1999-2005 in Jhansi unit was assessed at ` 50 lakh and in Meerut unit at ` two crore.

Thus, inadequate security arrangements of the three units resulted in damage/ theft/ shortages in assets of the Company.

Disuse of Assets

The attempt to sell the Company's six storey building 'Vastra Bhavan' constructed (1993) at Kanpur at the cost of ` 8.66 crore, to Income Tax Department in 2002 failed. Since then except for the first floor occupied by UPSSC, the building was lying vacant (September 2010).

The Management replied (June 2010) that due to instability of the existence of organisation arisen after issue of notices by BIFR from time to time for winding up of the Company, the Management could not take decision for letting out the Building.

Insurance Cover

Insurance cover for the assets of the Jhansi unit was taken upto December 1998 and for Sandila and Meerut units insurance covers were taken upto June 1999. Thereafter, no insurance cover was provided to the assets of the three units, reportedly due to financial constraints. Because of not getting insurance cover for the assets of the three units, the Company could not mitigate loss

occurred due to damage, shortages, theft etc. of the assets as brought out in preceding paragraphs.

Summing up:

The Company failed to ensure adequate arrangement for safeguard of their assets. The Company is also exposed to risk of encroachments of its land/building and further theft/damage of assets in the absence of adequate watch and ward. There is also risk of assets becoming obsolete due to disuse/lack of maintenance. In view of this, we recommended that the Company may take appropriate action for the sale/disposal of the assets as soon as possible. Until the assets are sold/disposed off the Company should:

- maintain complete and up-to-date records giving complete information of all movable and immovable assets;
- arrange for physical verification of assets at regular intervals;
- arrange for adequate security arrangements for immovable properties so as to prevent encroachments;
- arrange for upkeep/ maintenance of assets and periodically review the condition for their future utility;
- consider taking adequate insurance cover for all the assets after evaluating cost and benefits of insurance cover; and
- utilise the vacant floors of the Vastra Bhawan by letting it out to others.

The matter was reported to the Government in April 2010; the reply was awaited (November 2010).

Uttar Pradesh Rajkiya Nirman Nigam Limited

3.5 Extra expenditure on architects' fee

The Company incurred extra expenditure of ₹ 19.78 lakh due to payment of architects' fee beyond the limit of 1.5 per cent of the approved cost of project.

The Company executes works of State Government on deposit basis i.e. actual cost *plus* centage at prescribed rate thereon. The orders of the State Government issued in February 1997 prescribed the rate of centage at 12.5 *per cent* which includes 1.5 *per cent* towards architect's fee. The Company, at times, appointed external architects for preparation of drawing/design and estimates in respect of some of works being executed by it due to special nature of works or as per demand of clients.

The Company appointed Sikha Associates (agreement of March 1995 as amended in November 2004) as architects for the work of Indira Gandhi Pratisthan, Lucknow and Civil Consultants (February 2006) as architects for the work of Dr. Ram Manohar Lohia National Law Institute, Lucknow.

We noticed (February 2009) that as per the Government order of February 1997, the admissible portion of architect's fee in centage (12.5 *per cent*) was only 1.5 *per cent* of the cost of project. But the Company agreed for payment of service tax in addition to the architect fee at the rate of 1.5 *per cent*. The Company paid ₹ 1.95 crore (₹ 175.66 lakh as architect fee plus ₹ 19.78 lakh as service tax) to the architects up to March 2009, which was more than the limit of 1.5 *per cent* as approved by the Government. As the element of service tax was not included and sanctioned in the estimates, the Company could not get its reimbursement from the clients. As a result, the Company incurred avoidable expenditure of ₹ 19.78 lakh on architects' fee.

The Management replied (September 2010) that excess fees on account of service tax paid earlier to the consultants was adjusted and payment restricted to 1.5 per cent. The Management's action of adjusting service tax paid earlier to the consultants, from their subsequent bills is, however, unilateral. The legally binding contract the Company had entered into with the consultants provided for making payment of service tax on architects' fee.

We recommend that the Company should either amend the provision of the agreement with architects restricting expenditure on architects' fee including service tax up to 1.5 per cent of the cost of project or obtain sanction of revised estimates of the project including element of service tax from the Government.

The matter was reported to the Government in March 2010; the reply was awaited (November 2010).

3.6 Construction work of 'Revitalisation and Renovation of Dr. Bhim Rao Ambedkar Samajik Parivartan Sthal' and 'Manyawar Kanshi Ram Smarak Sthal'

The Government of Uttar Pradesh (Government) approved construction works for the existing Dr. Bhim Rao Ambedkar Samajik Parivartan Sthal (DASPS), Lucknow to provide it longevity and grandeur and develop Dr. Bhim Rao Ambedkar Maidan, Lucknow as Manyavar Kanshi Ram Smarak Sthal (MKRSS) in May and August 2007 respectively. The Government nominated (June 2007/ October 2007) Uttar Pradesh Rajkiya Nirman Nigam Limited (Company) as executing agency for executing the projects as deposit work.

The initial outlay for the two works was ` 881.22 crore (DASPS: ` 366.82 crore and MKRSS: ` 514.40 crore). Due to frequent changes in drawings/ estimates from time to time and addition of new works, total sanctioned cost of the projects as revised up to 31 December 2009 stood at ` 2451.93 crore (DASPS: ` 1411.58 crore and MKRSS: ` 1040.35 crore) against which funds of ` 2261.19 crore (DASPS: ` 1230.79 crore and MKRSS: ` 1030.40 crore) were released between November 2007 and December 2009 by the Government. The works were suspended from September 2009 due to stay order of the Hon'ble Supreme Court of India. The progressive expenditure against the two works amounted to ` 1776.57 crore ((DASPS: ` 939.42 crore, MKRSS: ` 837.15 crore) up to December 2009

The projects included installation of idols and other artistic works at the estimated cost of ` 287.56 crore. Against this, the Company incurred expenditure of ` 217.35 crore up to December 2009. Since there were no standard rates available for comparison, the reasonableness of the rates at which the works were awarded for installation of idols and other artistic works, could not be vouchsafed in audit.

Our audit of the two works conducted during December 2009 to February 2010 revealed instances of financial irregularities as discussed in succeeding paragraphs. These resulted in extra expenditure of ` 66.48 crore on the works besides locking of funds on premature procurement of material, ultimately increasing cost of the works.

Failure to explore cost effective alternative

3.6.1 The two works involved construction of boundary wall and flooring of Mirzapur/Chunar sand stone. For this purpose, sand stones/blocks were transported from quarries at Mirzapur/Chunar to Bayana, Rajasthan (670

kilometers) for sawing and carving and finished stone were transported from Bayana, Rajasthan to Lucknow (450 kilometers) for use in the work. Accordingly, rate analysis of the work of construction of boundary wall/flooring were done taking into account the cost of transportation of sand stone/finished stone, as aforesaid. Orders for the said works were awarded to private parties on the analysed rates. We are of the view that if sawing and carving of sand stone were done at Mirzapur/Chunar itself by engaging cutters there and transporting finished sand stone from Mirzapur/Chunar to Lucknow (315 kilometers), expenditure on transportation of sand stone could have been reduced to the extent of ` 15.60 crore⁸ due to reduction in distance of transportation (from 1120 kilometers to 315 kilometers). Such possibility for reduction in cost of the work was not explored by the Management.

The Management replied (December 2010) that the quarries of stone were situated in naxalite prone areas in the outskirts of Mirzapur due to which stone processing could not get developed and carting material to Bayana, Rajasthan being the nearest place for sawing and carving was the only possible way to conduct the work. Justification put forth by the Management is not convincing as at later stage local vendors established machineries and infrastructure at Mirzapur indicating lack of efforts to explore vendors before start of the work.

Execution of works at higher rates

3.6.2 The Company follows the provisions of UP PWD, Schedule of Rates (SOR) or Delhi Schedule of Rates (DSR) in respect of various items of work. Paras 98 and 101 of the Working Manual of the Company stipulate that the rates of material/work will be decided on the basis of detailed comparative statement prepared by the Purchase Committee. For preparation of detailed comparative statement, the members of Purchase Committee shall visit the market, shops, and quarries etc. so that proper rates of materials may be obtained.

3.6.3 Joint Purchase Committee (JPC) of the Company finalised (November 2007) labour rates of Mirzapur/ Chunar sand stone works for DASPS and MKRSS as below:

- ` 1890 per cft for making boundary wall with Mirzapur/ Chunar stone which included freight for transportation of stone from Mizrapur to Bayana (Rajasthan), sawing charges, carving charges, transportation of finished stone from Bayana to Lucknow and its installation,
- ` 1750 per cft for installation of Mirzapur/ Chunar sand blocks for kerb stone including freight for transportation of stone from Mirzapur to Bayana (Rajasthan), sawing charges, carving charges, transportation of finished stone from Bayana to Lucknow, and
- ` 2400 per sq. mtr. for fixing Mirzapur/ Chunar sand stone blocks flooring 50 mm thick including freight from Mirzapur to Bayana (Rajasthan), sawing charges, transportation from Bayana to Lucknow and its installation.

The Company placed work orders on various contractors at the finalised rates. In December 2008, the J.P.C. reduced the rates of aforesaid works from ` 1890 per cft to ` 1300 per cft, from ` 1750 per cft to ` 1250 per cft and from ` 2400 per sq. mtr. to ` 1750 per sq. mtr. respectively on its own. Thereafter, work orders were placed by the Company at the revised rates.

⁸ Amount calculated on the basis of rate applied by the Management for transportation of finished sand stone from Bayana (Rajasthan) to Lucknow.

We observed that reduction in rates in spite of inflationary tendency in the economy during the intervening period was indicative of the fact that the Management failed to obtain competitive rates earlier and incurred avoidable expenditure of ` 22.16 crore on the quantity executed up to the date of revision of rates in December 2008.

The Management replied (December 2010) that due to establishment of machineries and infrastructure by local vendors at Mirzapur at later stage and increase in competition due to establishment of more vendors at Rajasthan, there was reduction in rates. We view that benefit of competition could have been obtained from the beginning by adequate publicity of the work.

3.6.4 Our analysis further reveals that there was scope of reduction in the rates finalised by the JPC in November 2007 by ` 170 per cft, ` 150 per cft and ` 400 per sq. mtr. and that revised in December 2008 by ` 140 per cft, ` 240 per cft and ` 350 per sqm respectively for the above three works due to errors in analysis of rates as described below:

- ` 20 per cft included on account of cost of establishment at Mirzapur for sorting of material from quarry and making of blocks as per required size was not to be included as this was in the scope of work of stone suppliers who were required to load the truck with required size of stone.

The Management replied (September 2010) that to ensure the quality of stone and reduce the time and cost, services of Geologist/Marker Specialists were taken as per normal practice and ` 20 per cft was included in analysis as establishment cost for sorting of material. The fact, however, was that the suppliers were responsible to supply stone as per required sizes mentioned in supply order. Further, Mine Officer, Mirzapur on behalf of Directorate of Geology and Mining, Government of Uttar Pradesh was responsible to ensure the quality of material and a joint team consisting of Geologist of Director General, Mines Uttar Pradesh and officers of the Company were also responsible for ensuring quality control and classification of stone.

- The weight of stone was taken 0.12 MT per cft for the calculation of freight charges from Mirzapur to Bayana (Rajasthan) whereas it should be 0.10 MT per cft as taken for Bayana to Lucknow.

The Management replied (September 2010) that the weight of stone was taken 0.12 MT per cft because the extracted stone was received in very irregular shape. We do not agree with the reply as the weight of sand stone per cft of irregular shape will be lesser than the weight of sand stone of regular shape; hence, rate of transportation per cft of sand stone of irregular shape should not be more than that of sand stone of regular shape.

- For the purpose of analysis of rates in respect of the three items of the work, wastage of stone was taken as 50 *per cent*. The Management took wastage of 28.57 *per cent* in the rate analysis of other work of Mirzapur/Chunar sand stone. Against this, actual wastage of 33.99 *per cent* in stone work was noticed. Therefore, in the rate analysis, provision for wastage of 50 *per cent* was on higher side. The Company should have taken maximum allowance of wastage up to 40 *per cent* only.

The Management replied (September 2010) that the actual wastage in different type of stones would be different. So, the wastage was taken on the basis of average wastage of all kinds of stone. Management's reply is not based on facts as actual average wastage noticed in respect of Mirzapur/Chunar sand

stone was only 33.99 *per cent*. Further, the wastage at the rate of 40 *per cent* was allowed in the work of Sharda Canal under the same project.

- In the rate analysis, ₹ 25 per cft was added on account of cost of thermocol which was not required/ used.

The Management replied (September 2010) that the cost of thermocol at the rate of ₹ 25 per cft was taken to avoid any breakage of edges of carved stone. The reply is not based on facts as the Management could not show records in support of use of thermocol by the contractors and later on use of thermocol was deleted and not included in the revised rate analysis.

- Local cartage, charges for loading and unloading to carving/ key making⁹ workshop at Bayana (Rajasthan) were included in the rate analysis for work of fixing Mirzapur/Chunar sand stone blocks flooring 50 mm thick whereas carving and key making were not in scope of the work. The estimate should not have factored in such expenses in working out rate.

The Management replied (September 2010) that carving and key making were included in the scope of work. The reply is not based on facts as carving and key making were not included in the rate analysis of the said work, hence, local cartage, loading and unloading was not required to be included in the analysis.

Thus, because of finalisation of rates on higher side as described above, the Company incurred extra expenditure of ₹ 8.58 crore (**Annexure-29**) on the quantity executed till the date of revision of rates in December 2008 and ₹ 84.77 lakh (**Annexure-30**) on the quantity executed from the date of revision of the rates to September 2009.

3.6.5 The Company paid ₹ 57.68 crore for procurement of 1,85,354.56 cum ready mix concrete (RMC) of various grades for work of DASPS. An analysis of rate of RMC by us on the basis of the quantities of the components recommended by IIT, Kanpur and labour rates given in DSR 2007 revealed that rates varying between ₹ 2,715.82 per cum and ₹ 3,308.06 per cum (excluding cost of cement which was to be supplied by the Company) allowed by the JPC were on higher side as against the rate of ₹ 2,500 per cum analysed by us in audit. This resulted in extra expenditure of ₹ 11.34 crore¹⁰ on procurement of RMC.

The Management replied (September 2010) that M-35 grade design mix was carried out by IIT, Kanpur, the design mix might vary from place to place because of its constituents as coarse sand, aggregate available in that area and the rate of material and other constituents of DSR were cheaper than Lucknow. The reply is not based on facts as the quantities of coarse sand and grit taken in the rate analysis by the Management were higher than that recommended by IIT, Kanpur after preparation of trial mixes which were prepared by it using constituent materials supplied by the Company and we took the same rate of material as applied for by the Management in their rate analysis.

Extra payment to suppliers

3.6.6 Cases of extra payment to suppliers of earthwork and fine sand were noticed as discussed below:

⁹ Key making: Locking/ interlocking of adjacent stones.

¹⁰ ₹ 57.68 crore paid for RMC minus ₹ 46.34 crore (1,85,354.56 cum RMC procured x ₹ 2,500.00 per cum) = ₹ 11.34 crore.

3.6.7 As per clause 4 of Chapter-I of UP PWD, SOR, bulkage at the rate of 12 *per cent* is required to be deducted for earth work done manually/ not compacted. The Company purchased 61,772.28 cum earth for Sharda Canal work of MKRSS at the rates ranging from ` 155 to ` 350 per cum during the period from December 2008 to June 2009. The measurements were recorded for uncompacted earth and without making deductions of 12 *per cent* bulkage of 7,412.67 cum earth valued at ` 14.11 lakh¹¹ resulting in extra expenditure on the work to that extent.

The Management replied (September 2010) that the payment was made for compacted earth, therefore, no deduction for bulkage was made. The reply is not based on facts as the measurements were made for loose earth and measurement books did not indicate deduction of bulkage at 12 *per cent*.

3.6.8 As per clause 3 of Chapter-I of UP PWD, SOR, bulkage in case of supply of fine sand is required to be deducted at the rate of 20 *per cent* or actual, whichever is more. The Company purchased 1,23,078.72 cum fine sand for the work of MKRSS during the period from October 2007 to November 2009 against various supply orders and made deductions of bulkage at the rate of 12.5 *per cent* only instead of 20 *per cent*. Thus, due to short deduction of bulkage, the Company paid ` 46.15 lakh¹² extra to the suppliers/contractors.

The Management replied (September 2010) that the JPC of all the units decided to deduct bulkage at the rate of 12.50 *per cent* in case of fine sand/ coarse sand and for the future JPC decided to deduct bulkage in fine sand at the rate of 20 *per cent*. The reply of the Management is indicative of the fact that deduction on account of bulkage was initially not done at appropriate rate.

Irregular payment of service tax

3.6.9 Commercial or industrial construction services were covered under service tax with effect from September 2004. Service tax was applicable on the construction of building/civil structure used or to be used for commercial activities. Services on construction of building/civil structure for educational, religious, charitable, health, sanitation or philanthropic purposes were, however, not taxable. Thus, the construction activities not intended for commerce or industry would not attract service tax.

We have observed that the works of DASPS and MKRSS were monuments in nature and not intended for commerce or industry. Hence, such construction did not attract service tax. The analysed rates for item of works such as flooring, wall cladding, elephant features, steps and kerbs involving use of Bansi Paharpur sand stone, Ivory fantasy granite stone, multi red granite stone and Makrana etc. in the two works, included the element of service tax. The Company made payments to contractors for the said item of works at the rates so analysed for the quantities executed during November 2007 to December 2009. Thus, the Company made irregular payment of service tax of ` 4.51 crore to the contractors on execution of works of DASPS and MKRSS.

The Management replied (December 2010) that it had not paid service tax on the labour rate items where it was payable separately. We have, however, made observation on payment of service tax only on such labour rate items as were inclusive of service tax.

¹¹ 6,032.79 cum at the rate of ` 155 per cum and 1,379.88 cum at the rate of ` 345 per cum.

¹² (quantity 1,23,078.72 cum x ` 500) x (20.00-12.50)/100.

Premature procurement of luminary fittings

3.6.10 The Company did not assess correctly the requirement of luminary fittings required for the work of DASPS and failed to link procurement programme with civil construction activities in the said work. It procured (February 2008 to April 2009) the luminary fittings when only 62 per cent of the civil work was completed. As a result, luminary fittings valued at ` 21 crore remained unutilised up to February 2010. Subsequently, all the luminary fittings except the fittings valued at ` 62.17 lakh were adjusted at other places in same project or transferred to other projects of similar nature on the advice of the architects.

Extra expenditure on dismantling of existing structures

3.6.11 The rates for dismantling of RCC wall/ beam were ` 435 per cum as per UP PWD, SOR and ` 537.55 per cum as per Delhi Schedule of Rates 2007. As against this, the Company, for clearing site for execution of the work of DASPS and MKRSS, finalised (November 2007) rates for dismantling of RCC on floor slab and for wall/ beam of various structures including stacking of material at the rates ranging from ` 1500 to ` 5000 per cum. Thus, due to finalisation of higher rates, the Company incurred extra expenditure of ` 2.84 crore on dismantling compared with the rates prescribed in DSR-2007.

The Management replied (September 2010) that as the dismantling was done by engaging hydraulic equipment, it depended on grade of concrete being dismantled and its age and the rates were decided by JPC on the basis of observation of expenditure involved therein. In SOR, there was only one rate for dismantling of RCC and rate was for normal type of work of dismantling. It further stated that target date for completion of the project was very short, dismantled material was to be removed from site immediately and the rate of dismantling sanctioned by the Government in preliminary estimate was ` 3000 per cum. The fact remains that the rate of dismantling analysed by the Company was much higher (6.82 to 11.50 times) than the rate given in UPPWD-SOR and DSR.

The above matters were reported to the Government in August 2010; the reply was awaited (November 2010).

We recommend that the Company should:

- **take utmost care in analysing rates of items of work where works are awarded on analysed rates;**
- **endeavour to explore cost effective alternative of execution of work;**
- **finalise rates of different items of works and follow provisions of standard deductions as given in the SOR of UP PWD and DSR; and**
- **procure material keeping in view the time of its requirement.**

Power Distribution Companies

Dakshinanchal Vidyut Vitran Nigam Limited

3.7 Inadmissible voltage rebate allowed to consumer

The Company suffered loss of ` 31.62 lakh by allowing voltage rebate to a consumer after withdrawal of the scheme.

As per Rate Schedule effective from 1 December 2004 as notified by the Uttar Pradesh Power Corporation Limited (UPPCL) on 25 November 2004, a consumer of LMV-1 category was eligible for voltage rebate of 5 per cent of

rate of charge if supply voltage was at 11 KV and of 7.5 per cent of rate of charge if the supply voltage was above 11 KV. The said provision of voltage rebate was withdrawn from 13 August 2007 as per Rate Schedule notified by UPPCL on 11 August 2007.

The Garrison Engineer, MES, Fatehgarh (GE), having contracted load of 1800 KW, was getting supply of electricity through 33 KV independent feeder and being billed under LMV-1 category. We noticed (September 2009) that Electricity Distribution Division, Farrukhabad continued to allow voltage rebate of 7.5 per cent on supply of electricity through 33 KV independent feeder to G.E. till December 2009. As a result, G.E. was short billed for ` 31.62 lakh for the period 13 August 2007 to December 2009. Thus, the Company suffered loss of ` 31.62 lakh due to allowing inadmissible rebate.

On this being pointed out by us, the Management and the Government replied (June/ September 2010) that a supplementary bill for ` 31.60 lakh for the period August 2007 to December 2009 was issued (January 2010) to the consumer. The amount has, however, not been received by the Company so far (November 2010).

We recommend that the Company should introduce a system of independent checking of initial bills of energy charges prepared after revision of Rate Schedule so as to avoid incorrect application of tariff.

Kanpur Electricity Supply Company Limited

3.8 Unfruitful expenditure on GIS mapping and software

The expenditure of ` 1.05 crore incurred by the Company on GIS survey, mapping and GIS software remained unfruitful due to errors in individual consumer indexing by a supplier company.

The Company entered into (August 2005) an agreement with Infinite India Computer Solutions Private Limited, New Delhi (IICSPL) for a pilot project of computerisation under Accelerated Power Development Reform and Programme (APDRP) with supply and commissioning of related materials at a cost of ` 5.14 crore. The scope of work *inter alia* included development of Geographical Information System (GIS) survey, mapping, indexing of consumers common for GIS, billing, audit and accounts of the Company and GIS software at a cost of ` 1.03 crore and ` 44.08 lakh respectively. The terms and conditions of the agreement stipulated that no payment would be made against any supply and work till successful completion of the work.

We noticed (July 2009) that IICSPL completed (June 2006) the work of GIS survey, mapping, GIS software and its installation at the premises of the Company's Headquarters at Kanpur, but there were errors in indexing of individual consumers. As a result, GIS mapping and software could not be utilised for metering, billing of the consumers and identification of unregistered consumers. Despite the failure of IICSPL to successfully complete the work, the Company released (September 2006) payment of ` 1.05 crore (being 80 per cent payment) to it. Thus, the expenditure of ` 1.05 crore on GIS survey, mapping and software remained unfruitful.

The Management and the Government replied (May/September 2010) that the survey data was integrated with billing data but the consumer indexing was not fully matching with the consumer, the online billing agency (IICSPL) had

sorted out the mismatch and GIS mapping would be utilised in a phased manner. It further stated that balance 20 *per cent* payment of the work was detained and the firm has been asked to extend 10 *per cent* performance guarantee of ` 51.40 lakh up to 31 January 2011. The reply is self explanatory that the work of GIS mapping were not completed successfully by IICSPL as yet and release of payment was in contravention to the terms and conditions of the agreement.

The Company should adhere to the terms and conditions of payments to secure its interest and avoid payments till successful completion of work or obtain bank guarantee to cover the whole amount of payment.

UPPCL and Electricity Distribution Companies

3.9 Short realisation of electric connection charges

The distribution companies suffered loss of ` 8.07 crore due to application of rate of charge of electric connection fixed by the Government instead of applying the rate of charge approved by the UPERC.

Section 46 of the Electricity Act, 2003 provides that State Commission may by regulations, authorise a distribution licensee to charge from a person requiring supply of electricity, any expenses reasonably incurred in providing any electric line. Accordingly, the Uttar Pradesh Electricity Regulatory Commission (UPERC) has issued a cost data book which *inter alia* provides for fixed total charge¹³ of ` 2,750 (excluding security deposit) for domestic and non domestic connection in villages for load upto 1 KW. Since the UPERC is the competent authority to approve the rate of charge for electric connection, the cost data book approved by it is binding upon all concerned.

The Government of Uttar Pradesh issued (June 2008) order for electrification of 56,516 primary/higher primary schools with 1 KW load at the rate of ` 2,200 per connection including ` 1,600 refundable security payable to distribution companies¹⁴ and provided funds to Uttar Pradesh Power Corporation Limited. Of those, 18,770 schools were to be electrified by providing transformers and poles and remaining schools were to be electrified through cable connection.

We noticed that 37,534 schools were electrified through cable connection up to 31 March 2010 for which distribution companies adjusted at the rate of ` 600 (excluding security deposit of ` 1600 per connection) per connection against the funds provided by the Government instead of ` 2750 per connection as per the cost data approved by the UPERC. Thus, the distribution companies adjusted only ` 2.25 crore against the due amount of ` 10.32 crore as per the cost data for the said work. As such, the distribution companies suffered loss of ` 8.07 crore due to not enforcing approved rate of charge for providing electric connection.

The Management and the Government replied (September 2010) that the amount of refundable security of ` 1600 was for 2 KW load and on an average 16 meters cable per school had been used instead of 50 meter provided in the cost data book. Thus, considering refundable amount of security to be ` 800

¹³ This includes fixed line charge of ` 2550 (including cable charges of ` 2000), system loading charges of ` 150 and processing fee of ` 50.

¹⁴ Purvanchal Vidyut Vitran Nigam Limited, Paschimanchal Vidyut Vitran Nigam Limited, Dakshinchal Vidyut Vitran Nigam Limited and Madhyanchal Vidyut Vitran Nigam Limited.

and savings from the cost of cable, there had been no short-charging of cost of providing electric connections to the schools.

The Management's contention does not hold good as the amount of ₹ 1600 per connection was given to the Company as security deposit which can not be treated as reimbursement of cost of connection and the cost data book approved by UPERC provides for recovery of cost of connection at fixed rate and not as per the actual cost incurred by the Company.

We recommend that the distribution companies should adhere to and recover the rate of charge approved by the Commission for providing electric connection as it is a competent authority for that purpose under the Electricity Act, 2003.

Purvanchal Vidyut Vitran Nigam Limited

3.10 Material Management in Purvanchal Vidyut Vitran Nigam Limited

3.10.1 Purvanchal Vidyut Vitran Nigam Limited (Company) was incorporated in May 2003 with the objective of distribution of electricity in 21 districts¹⁵ of Uttar Pradesh.

The Company divides its requirement into centralised¹⁶ and decentralised materials. Procurement of centralised material is looked after by the Chief Engineer, Material Management (MM). The Electricity Store Circles (ESC) and Electricity Works Circle assess requirements for execution of works. After administrative approval of the Board of Directors (prior to January 2008 by Managing Director) tenders for the purchase of required material are invited by Superintending Engineer (MM). According to the value of purchases, approval of the shortlisted tenders is accorded either by Corporate Stores Purchase Committee (CSPC) of UPPCL or CSPC of the Company or the Managing Director Purchase Committee (MDPC) of the Company or the Director (T) of the Committee on the recommendation of CE (MM). Despatch instructions in respect of centralised items are issued after the inspection of material by the nominated officers of the Company. Four Electricity Stores Divisions (ESDs) of the Company receive material, ensure quality and are also responsible for its storage and handling.

Our audit findings as a result of examination of records for the period 2006-07 to 2009-10 relating to material management of centralised items are given in the succeeding paragraphs.

System Issues

Lack of control mechanism in inventory holdings

3.10.2 The Company had not fixed any minimum, maximum and ordering/reordering levels even for major items such as transformers, conductors and cables to ensure uniform flow of material of required quantity at appropriate time with minimum storage cost. ABC analysis of materials into fast moving, slow moving and non moving was also not done. As a result, the value of inventory increased from ₹ 49.35 crore in March 2006 to ₹ 61.37 crore at the end of March 2009. The inventory holdings in the Company in terms of monthly requirement ranged between 13 and 21 months during the same period against the laid down norms of three months. Further, Uttar

¹⁵ Varanasi, Chandauli, Ghazipur, Jaunpur, Bhadohi, Mirzapur, Sonbhadra, Azamgarh, Mau, Ballia, Gorakhpur, Maharajganj, Deoria, Kushinagar, Basti, Sant Kabir Nagar, Siddharthnagar, Kaushambi, Fatehpur, Allahabad and Pratapgarh.

¹⁶ Excluding material procured by field units based on urgent requirement.

Pradesh Electricity Regulatory Commission (UPERC) allows interest of only one month inventory holding for the purpose of determination of tariff rates. Therefore, interest on inventory holding beyond one month is not recovered through tariff and is absorbed by the Company itself.

The Management and the Government replied (August/September 2010) that inventory was well within three months of requirement. The reply is not based on the facts as the inventory holding was much more than three months' requirement.

Assessment of requirement

3.10.3 The Company has not prepared any manual for material management and not prescribed any procedure to assess reasonable requirement of material to be procured. SE, ESC assesses the requirement tentatively on the basis of targets of works and past consumption.

We noticed that assessment of requirement of material was not done keeping in view available stock and magnitude of utilisation, assessments were done in piece meal causing frequent tendering and there were delays in assessment of components and their procurement. This resulted in extra expenditure¹⁷ of ` 91.35 lakh on procurement of material besides blocking of funds¹⁸ of ` 2.29 crore in respect of purchases as detailed in **Annexure-31**.

Absence of system of comparing rates of material

3.10.4 With a view to ensure reasonableness of prices quoted by bidders, comparison of rates should be done with rates of similar items finalised by CSPC in respect of other Discoms as well as its own executed orders. For this, a databank of finalised rates in respect of each item should be maintained for reference at the time of finalisation of tender.

The Company did not evolve a system of obtaining rates finalised for procurement of material in other DISCOMs and considering purchase price of its own past successfully executed orders and preparing databank. The absence of such systems resulted in finalisation of rates of material on higher side.

The terms and conditions of the contract for procurement provided for variation in quantity by ± 50 per cent of the offered quantity. The Company could not gainfully utilise this provision as it failed to restrict despatch instructions against previous purchase order after finalising subsequent purchase order at lower rate because of absence of co-ordination within the Companies.

The absence of system of building databank of rates of material and non-availing the option of variation in ordered quantity resulted in extra expenditure of ` 56.90 lakh¹⁹.

Short recovery of liquidated damages

3.10.5 In test check of records, we noticed that in 177 cases of delayed supplies, ESDs²⁰ deducted liquidated damages only on ex-works price instead of the same on contract value as provided in general conditions of the Contract (clause 27 of Form-B). This resulted in under recovery of liquidated damages amounting to ` 12.55 lakh in respect of the four ESDs.

The reply of the Management and the Government (August/September 2010) that penalty was to be deducted on the ex-works price is not based on facts as

¹⁷ Poles: ` 86.19 lakh, Stay sets: ` 5.16 lakh.

¹⁸ Panther conductor: ` 1.36 crore, Capacitor banks: ` 93.49 lakh.

¹⁹ 10 MVA transformers: ` 12.52 lakh, 25 KVA transformers: ` 8.46 lakh, Stay sets: ` 27.52 lakh, AAAC: ` 8.40 lakh.

²⁰ Allahabad, Azamgarh, Gorakhpur and Varanasi.

according to general condition of the contract, liquidated damages were to be deducted on the contract value and not on ex-works price.

Frequent transfers of material

3.10.6 Large quantities of material were frequently transferred from one store centre to another and also from one store division to another. Transfer of material in such large quantities indicated that either the despatch instructions were not being issued as per actual requirement or requirements were incorrectly assessed by the store centres. As a result, materials received in one store centre had to be re-transported to another to meet the requirement of that store centre. This resulted in avoidable expenditure of ` 61.15 lakh on re-transportation.

The Management and the Government replied (August/September 2010) that re-transportation of material was done due to urgencies. The reply is general in nature and does not justify the issue of incorrect despatch instructions not based on actual requirement of the stores centres.

Unplanned procurement

3.10.7 The Company should plan and ensure utilisation of material in a reasonable period and ensure its quality before procurement in bulk so that blockade of Company's fund is avoided. Failure of the Company in planning for procurement and ensuring utilisation as well as quality of material resulted in non-utilisation of material valuing ` 44.71 crore as discussed in succeeding paragraphs:

- With a view to minimise theft of electricity and control the loss of energy in 11 districts, the Company procured 2,052 km of different sizes of aerial bunched cable (ABC) during August 2008 to March 2009 against loan of ` 112.16 crore from Rural Electrification Corporation (REC). Out of procured cable, only 650 km of ABC could be issued to the executing divisions up to February 2010 and 1,402 km of ABCs valued at ` 29.60 crore were still lying in four ESDs. Thus, procurement was made out of borrowed funds without ensuring utilisation of material. As a result, the Company had to pay interest of ` 2.42 crore to REC up to December 2009 on the loan without obtaining the benefit of control in loss of energy besides, blocking of funds to the extent of ` 29.60 crore.

The Management and the Government replied (August/September 2010) that the work of laying ABC was difficult one, mainly done in narrow lanes and theft prone areas where public resistance made it difficult to execute. The reply is not convincing as these facts were well known to the Company at the time of planning and procurement of ABC.

- The Company procured 2,500 km AAAC Racocon and 3,650 km AAAC Dog conductors during November 2008 to March 2009 assigning reasons that use of AAAC conductor in place of ACSR conductor would reduce theft of the conductor. User divisions of the Company observed that AAAC conductor were failing frequently as these were melting at a specific heating point. Therefore, the Company again started purchase of ACSR conductor. Consequently, 37.77 and 49.44 *per cent* of the conductor could only be issued to user divisions (actual utilisation is not known) and 1,555.85 km AAAC Racocon valuing ` 6.08 crore and 1,845.35 km AAAC dog conductor valued at ` 9.03 core was lying in three ESDs at the end of February 2010. This indicates that quality of the

AAAC conductor was not test checked before purchasing it in bulk. As a result, material valued at ` 15.11 crore remained unutilised.

The Management and the Government replied (August/September 2010) that as breaking strength of ACSR conductor was better than AAAC conductor the Company subsequently procured/utilised ACSR conductor and, consequently, AAAC conductors remained in balance. The reply is self explanatory of the fact pointed out by us that quality of the conductor was not established before the purchase.

Issue of material without estimates

3.10.8 We noticed that material valued at ` 69.42 lakh and ` 79.72 lakh respectively were issued (68 issues) by ESDs at Allahabad and Gorakhpur during September 2005 to December 2009 without any estimates. The material was neither returned nor the sanctioned estimates were submitted till March 2010. We could not ascertain the actual utilisation of material valued at ` 1.49 crore on sanctioned schemes/packages.

The Management and the Government replied (August/September 2010) that due to natural disasters, theft of conductors and damage of transformers/ other equipments material were issued on emergent basis and efforts would be made to regularise the issues as early as possible. The fact remains that issues could not be regularised even after lapse of considerable time.

Improper maintenance of stock records

3.10.9 As per existing accounting procedure in respect of receipts and issues of material, stock records in form 3-S is required to be maintained by Sub-Divisional Officer and Section holders and are closed half yearly *i.e.* in March and September every year. Similarly, Division is required to maintain stock record in Form 4-S which is closed annually after comparison of physical balances with book balances.

We noticed that stock records in 3-S and 4-S were not closed and reconciled at ESDs. The figures shown in stock records for different months did not tally with the figures of stock shown in MIS indicating that there was no system of checking of figures shown in stock records and MIS.

The Management and the Government replied (August/September 2010) that due to acute shortage of staff, the stock records were incomplete and efforts were being made to update the stock records.

Recommendations

We recommend that the Company:

- **should fix minimum, maximum and re-order level and determine economic order quantity for procurement of material;**
- **needs to evolve a proper system for assessment of requirement;**
- **should evolve system of comparison of rates with other DISCOMs as well as its own executed orders for economic purchases; and**
- **should strengthen its MIS with regard to inventory.**

Madhyanchal Vidyut Vitran Nigam Limited

3.11 Fund Management in Madhyanchal Vidyut Vitran Nigam Limited

3.11.1 Madhyanchal Vidyut Vitran Nigam Limited (Company), a subsidiary of Uttar Pradesh Power Corporation Limited (UPPCL), was incorporated in

May 2003 under the Companies Act, 1956. The Company has four zones²¹ covering 18²² districts of the State. A total of 109 Divisions (four Store Divisions, five Construction Divisions and 100 Distribution Divisions & others) in the four zones carry out work of distribution of energy, construction, operation & maintenance of distribution network, billing and collection of energy charges.

The fund management encompasses management of fund inflows and fund outflows. Main source of fund inflow of the company is revenue from sale of power, service connection charges, subsidy, grants, share capital and borrowings. Fund outflow comprises expenditure incurred on capital works, establishment expenditure, operation and maintenance, purchase of power, stores and stock, repayment of loan and interest. Borrowed funds and revenue income of the Company are kept by UPPCL for control purposes. Revenue income collected by the Divisions is sent directly to UPPCL. During the period 2005-10, the Company received ` 4078.40 crore from UPPCL and remitted ` 9295 crore to UPPCL (including revenue income of ` 6884.62 crore remitted directly to UPPCL).

During the period 2005-10, the Company raised/earned a total fund of ` 3774.56²³ crore (` 2777.57 crore as share capital including application money, ` 673.26 crore as borrowings and ` 323.73 crore as reserve & surplus) from different long term sources. Against this, the Company utilised ` 1153.40 crore towards creation of fixed assets and ` 4168.80 crore towards financing revenue deficits. The Company met day to day need of cash out of funds raised through equity and loan as the total revenue generated was less than the energy purchase bills. The Company has been incurring losses continuously and the accumulated losses have reached ` 4603.15 crore against the paid up capital of ` 3242.14 crore as on 31 March 2010 and the net worth of the Company has, thus, become negative.

Audit of fund management of the company for the period 2005-10 was conducted at nine units²⁴ apart from the Headquarters of the Company and the findings have been discussed in the succeeding paragraphs:

Banking issues relating to fund management

3.11.2 The Management did not prepare fund inflow/outflow budget. Due to this, control over fund management was weak. Funds of the Company were blocked at various levels and at the same time Company borrowed funds and paid interest on the same.

Few cases showing weak fund management are discussed below:

Delay in remittances of fund by banks

3.11.3 In two Divisions²⁵, the banks did not remit the amount in revenue account to UPPCL on daily basis as per the instructions to bank and retained amount up to ` 2.25 crore and ` 1.36 crore respectively during January to

²¹ LESA, Lucknow, Faizabad and Bareilly.

²² **LESA Zone-** 1. Lucknow city.

Lucknow Zone- 1. Unnao 2. Raibareilly 3. Hardoi 4. Sitapur 5. Lakhimpur khiri,

Faizabad Zone- 1. Faizabad 2. Bahraich 3. Gonda 4. Shrawasti 5. Ambedkar Nagar 6. Balrampur 7. Sultanpur 8. Barabanki,

Bareilly Zone- 1. Bareilly 2. Pilibhit 3. Badaun 4. Shahjahanpur.

²³ Based on certified accounts up to 2006-07 and provisional accounts for the years 2007-08, 2008-09 and 2009-10.

²⁴ ESD, Lucknow, ESWD, Bareilly, EDD-I, Bareilly, EDD-I, Barabanki, EUDD, Rajajipuram,, EDD-II, Unnao, CESS-II, Lucknow, EDD-II, Bareilly and EDD-I, Unnao.

²⁵ EDD-I Barabanki and EDD-II, Bareilly.

March 2010. The magnitude of retained amount would be much more in the Company as a whole.

3.11.4 E-suvidha, a revenue collecting agency, engaged by the Company was required to deposit revenue collected by them in revenue bank account on next working day as per agreement. In EUDD Rajajipuram and EUDD Aishbagh, it deposited in the account with delay up to 10 days during 2008-2010 which deprived the Company an opportunity to reduce liability of interest by ` 2.90 lakh and ` 2.39 lakh respectively.

Delay in remittance of funds by bank and e-Suvidha resulted in blockade of funds at banks and consequential loss of interest.

Keeping funds in current accounts

3.11.5 System loading charges, service connection charges, security etc. remitted by Divisions to Headquarters of the Company was kept in a current bank account on which interest is not given by bank. The Company did not avail the facility of flexi account available with current account. This resulted in loss of interest of ` 3.41 crore²⁶ during 2005-10.

Funds transferred from the Company's headquarters to three Electricity Store Divisions (ESD)²⁷ for purchase of stores and three Electricity Distribution Divisions (EDD)²⁸ for repair and maintenance works also remained in current accounts during 2005-10. The minimum balances in the current accounts ranged up to ` 75.79 crore, ` 1.19 crore and ` 0.51 crore respectively at the three ESDs and ` 51.60 lakh, ` 63.37 lakh and ` 62.96 lakh respectively at the three EDDs. The Company could have earned interest of ` 1.58 crore by opening current accounts with flexi account facility.

The Management and the Government replied (August/September 2010) that they would have suffered loss of interest had the total amount including FDRs been kept in flexi account. It further stated that current accounts had been converted (21 July 2010) into flexi fix. The Management's reply regarding loss of interest is not based on the facts as we have worked out the loss of interest on balances in the current accounts only.

Non-remittance of funds to Headquarters of the Company

3.11.6 Five Divisions²⁹ did not transfer entire funds collected on account of system loading charges,³⁰ service connection charges, security etc. to the Headquarters on due dates of 5th and 20th of each month and kept it in current account. Interest payment of ` 86.57 lakh on loans from Rural Electrification Corporation (REC) could have been avoided by timely transfer of funds from the Divisions to the Headquarters of the Company.

Operational issues relating to fund inflow

3.11.7 Management of fund inflow was deficient as bills for energy charges were either not raised or raised incorrectly and without meter readings, monitoring of outstanding dues was weak, appropriate action was not taken timely for recovering outstanding dues, recovery through issuance of recovery certificates was not effective. These adversely affected fund inflow of the Company to the extent of ` 129.41 crore.

The specific cases are discussed in the succeeding paragraphs:

Failure to recover various charges as per tariff/cost data book

²⁶ Calculated at the interest rate of 2.75 per cent per annum leaving ` 2 lakh in current account.

²⁷ Lucknow, Faizabad and Bareilly.

²⁸ EDD-II Bareilly, CESS-II, and EDD-I Unnao.

²⁹ EDD-I Bareilly, EDD-II Unnao, EDD-II Bareilly, CESS-II and EDD-I Unnao.

³⁰ A charge levied on consumer on initial connection or increase of load for improvement in distribution system of electricity.

3.11.8 The bills generated manually were not verified with reference to reports of meter reading instrument (MRI) in two Divisions³¹. Due to this, demand charges were short assessed to the extent of ` 20.91 lakh. The MRI reports were not made available to us in other five Distribution Divisions.

3.11.9 System of timely updating of master data of computerised billing by revised tariff rates was not in place in any Division. As a result, energy bills were generated at old rates leading to short billing by ` 23.72 lakh in respect of LMV-3 consumers in EDD-I, Barabanki.

3.11.10 The Company did not have effective control mechanism to ensure prompt application of revised tariff approved by UPERC and realisation of revenue accordingly. Consequently, the Company incurred loss/short realised revenue as illustrated below:

- Four Distribution Divisions³² did not apply the enhanced rate of demand and energy charges effective from 27 April 2008 in respect of HV-2/HV-1 categories of consumers and capacitor surcharge effective from 13 August 2007 in respect of LMV-3, 5 and LMV-8 consumers. This resulted in short realisation of ` 3.20 crore³³.
- Voltage rebate was withdrawn from August 2007 but EDD-II Bareilly continued allowing voltage rebate at the rate of 7.5 per cent to Garrison Engineer, Bareilly during the period from September 2007 to November 2008. This resulted in loss of ` 17.34 lakh to the Company.
- EDD-I Barabanki did not apply the revised formula effective from 18 July 2008 for determining energy charges in case of direct theft of energy in respect of 117 consumers during 2009-10 resulting in short assessment of ` 24.78 lakh.

3.11.11 Three Divisions³⁴ did not recover balance of service connection charges from the consumers after adjusting Government subsidy of ` 68,000 and incurred excess expenditure of ` 42.13 lakh, ` 227.44 lakh and ` 119.70 lakh respectively on providing electricity connection to private tube well consumers.

The Management and the Government while accepting the audit observations stated (August/September 2010) that they have issued (July 2010) guidelines to the concerned officers in this regard.

Short/ non-levy of Electricity Duty

3.11.12 The Company did not levy or short levied Electricity Duty amounting to ` 57.51 crore on State tube well consumers during the period 2005-10.

The Management and the Government while accepting the audit observation, stated (August/September 2010) that they have issued (July 2010) instructions to the concerned officers to raise bills for Electricity Duty.

Short recovery of amount of Security Deposit

3.11.13 As per the Uttar Pradesh Electricity Supply Code, 2005, the Company is required to realise security deposit from the consumers equivalent to two months' estimated power consumption bill. We noticed that the Company did not recover the amount that fell short of the required security and amount already deposited by the consumers³⁵. The Company could have raised additional funds ranging from ` 97.61 crore to ` 125.82 crore during the

³¹ EDD-I Bareilly: ` 14.34 lakh and EDD-II Bareilly: ` 6.57 lakh.

³² EDD-I & II, Unnao, EDD-II, Bareilly and CESS-II, Lucknow.

³³ ` 0.75 crore and ` 2.45 crore for HV-2/HV-1 and LMV-3, 5 & 8 consumers respectively.

³⁴ EDD-I Barabanki, EDD-I and EDD-II, Unnao.

³⁵ Metered Consumers: 1019142 and un-metered consumers:1672426 as on 31 March 2010.

last five years up to 2009-10 and avoided interest burden of ` 38.03 crore by timely repayment of loans had the security deposits been recovered as per the Code.

The Management and the Government replied (August 2010) that instructions had been issued to the concerned officers to recover and deposit security amount as per the rules.

Poor monitoring of outstanding dues

3.11.14 Arrears of recovery of monthly energy charges against issuance of bills during 2005-10 were equivalent to average revenue billing of 3.57 to 14.89 months (` 744.24 crore to ` 3449 crore³⁶) indicating poor monitoring, pursuance and recovery of arrears in respect of non- government consumers.

The Management and the Government replied (August/September 2010) that action for one time settlement and restoration of electricity supply after disconnection, were being taken to recover the outstanding amount.

Inaction in respect of consumers defaulting in payment

3.11.15 As per the Uttar Pradesh Electricity Supply Code 2005, a consumer may make payment of energy bills by cash (up to ` 20000), cheque or demand draft. In case of two instances of dishonour of cheques, consumer shall be required to make all payments in cash. Besides, the Company may also disconnect supply of electricity in case of defaults in payments.

EDD-I Bareilly continued supply of electricity to two commercial undertakings³⁷ despite repeated dishonour of cheques and defaults in cash payments. Supply of electricity to Uttar Pradesh Sahkari Katai Mill was initially disconnected but restored violating the order of CMD, UPPCL to restore supply only on payment of specified amount. This resulted in accumulation of outstanding dues up to ` 5.53 crore and ` 2.31 crore respectively as on March 2010.

Delay /Non-execution of Recovery Certificates

3.11.16 In Five³⁸ Divisions, 2,857 Recovery Certificates (RCs) of ` 7.67 crore were pending with the district authorities for recovery as on 31 March 2010. Further, 1,000 RCs of ` 10.39 crore issued during 2009-10 were returned by the district authorities recording reasons such as, non-availability of consumers on given address, death, not traceable, etc. Despite the weak financial position, the Company did not have any effective mechanism to ensure prompt recovery and tracing of the present address of the defaulting consumers.

Non-billing/billing without meter reading

3.11.17 In seven Divisions³⁹ 3.81 to 23.22 *per cent* consumers were not billed. 11.58 to 58.79 *per cent* consumers were billed on NA/NR, IDF or ADF⁴⁰ basis indicating that defective meters were not replaced promptly. This adversely affected cash realisation from consumers and fund inflow of the Company.

The Management and the Government accepted these audit observations and the Management had issued (July 2010) guidelines to the concerned officer in this regard.

Absence of pre-payment clause in loan agreement

³⁶ The arrears was enhanced by ` 2991.10 crore due to correction in accounts during the year 2009-10.

³⁷ Uttar Pradesh Sahkari Katai Mills Limited, Baheri and Synthetics & Chemicals Limited, Bareilly.

³⁸ EDD-I & II Bareilly, EDD-I, Barabanki and EDD-I & II, Unnao .

³⁹ EDD-I & II, Bareilly, EDD-I, Barabanki, EUDD-I, Rajajipuram, EDD-I & II, Unnao and CESS-II, Lucknow.

⁴⁰ NA= No access, NR= No reading, IDF= Informed defective, ADF= Appears defective.

3.11.18 The Company raised nine Short Term Loans (STL) from REC totaling ₹ 720 crore during January 2009 to December 2009 at the interest rates varying from 15.25 per cent to 8.75 per cent repayable in three years. The Management did not take the logical step as per provision of REC loan policy 2007 for prepayment of the loan carrying higher interest rate or converting it to a fresh loan at lower interest rate to reduce interest burden.

The Management and the Government replied (August/September 2010) that prepayment of loan was not an open option available to borrower and no financial institution would sanction fresh loan for prepayment of earlier loans and promised that efforts would be made to include prepayment clause in future.

Other issues relating to fund management

Non-recovery/adjustment of advances from employees

3.11.19 Miscellaneous advances of ₹ 1.29 crore⁴¹ in six Divisions⁴² were outstanding up to March 2010 for two to 34 years indicating that the Divisions did not take effective steps for recovery/adjustment of these advances. This further weakened the fund position of the Company.

Lack of control through accounting

3.11.20 Up date accounting provides an opportunity to management to accurately plan for funds for future. The Company did not finalise annual accounts from 2007-08 and preparation and submission of monthly accounts showing utilisation of materials, were delayed by four to 12 months in seven⁴³ EDDs.

Non-reconciliation of Bank Accounts

3.11.21 Bank balance should be reconciled with cash book at the close of each month for finding out reasons for differences, if any, in two sets of accounts and for control purposes but it remained un-reconciled up to 55 months in three Divisions⁴⁴. In two Divisions⁴⁵ bank accounts were not reconciled since inception to date.

We further noticed that:

- in EDD-II, Unnao, there was a difference of ₹ 1.16 crore in Capital receipts bank account and ₹ 1.50 crore in Revenue receipts bank account with balances as per cash books which remained unreconciled as per the last reconciliation done in July 2009. The Division deposited cheques of ₹ 6.88 lakh received from consumers but the bank did not give credit in the accounts. The amount could not be realised from the consumers for want of their details (May 2010), and
- in EDD-I, Barabanki, difference of ₹ 20.49 lakh pertaining to the period up to May 2001 between the balances as per bank statement and cash book of the Company was still un-reconciled.

Recommendations

We recommend that the Company should:

- **ensure remittances of funds to Headquarters without delays;**
- **strengthen system of raising bills;**
- **strengthen the system to ensure correct application of tariff;**

⁴¹ ₹ 8.19 lakh against 16 retired/deceased/terminated employees and ₹ 120.85 lakh against 42 working employees.

⁴² ESD Lucknow, EDD-I Barabanki, ESD Bareilly, EDD-I Unnao, EDD-II, Bareilly and CESS-II, Lucknow.

⁴³ 12 months in EDD-I Barabanki, EDD-I and EDD-II, Unnao, 10 months in EDD-I Bareilly, seven months in CESS-II, Lucknow, six months in EDD-II, Bareilly and four months in EUDD Rajajipuram.

⁴⁴ Expenditure account in EDD-II Unnao- 8 months and Receipt account in EDD-I Barabanki and EDD-I Unnao: 42 months and 55 months respectively.

⁴⁵ Receipt account in EDD-I, Barabanki since October 2006 and Capital Receipt and RCDC Account in EDD-I, Unnao since May 1996.

- strengthen the mechanism of recovery of dues from defaulting consumers;
- prepare cash budget to assess the actual cash requirement; and
- strengthen accounting system and control.

Statutory Corporation

Uttar Pradesh Jal Nigam

3.12 Irregular investment in Kisan Vikas Patra

Investment in Kisan Vikas Patra without ensuring the eligibility to invest resulted in non-receipt of interest of ` 62.55 lakh on their maturity and further loss of interest of ` 22.09 lakh due to delay in encashment.

The directives for small saving schemes issued by National Small Savings Directorate, Ministry of Finance provided that investment in Kisan Vikas Patra (KVP) could be made by (i) an individual in his own name or on behalf of a minor (ii) a trust or (iii) two adults jointly. The Government of India issued (8 March 1995) notification vide which sale of KVP to institution was stopped. As such, any corporate body was not eligible to invest in KVP.

We noticed (December 2009) that Uttar Pradesh Jal Nigam (Nigam) invested ` 71.70 lakh out of General Provident Funds of employees of the Nigam in KVP in its name during the period from November 1999 to October 2000. The demand for payment of interest in respect of these KVP on maturity (November 2005 to April 2007) was denied by the Post Office. On request of the Nigam, the matter was referred to Department of Post (FS Division), Ministry of Communication and I.T, Government of India, which clarified (May 2007) that payment of interest on these KVP would not be admissible.

Thus, failure of the Management in ensuring eligibility criteria before investment of funds in KVP resulted in loss of interest of ` 62.55 lakh upto the maturity dates, worked out at the prevailing rate⁴⁶ of fixed deposits in banks at the time of investment. Even though Department of Post had clarified in May 2007 that interest was not admissible on the investment, the Nigam got the KVP encashed only in January/April 2010 i.e. after nearly three years, leading to further loss of interest of ` 22.09 lakh for the period after clarification of May 2007. The Management has not fixed any responsibility for the lapses causing loss to the Nigam.

We recommend that the Management should take necessary precaution before investing in a particular instrument. Further, the Management should fix the responsibility for the lapses.

The matter was reported to the Management and the Government in March 2010; their replies were awaited (November 2010).

Uttar Pradesh Jal Nigam

Uttar Pradesh State Bridge Corporation Limited

Uttar Pradesh Police Avas Nigam Limited

3.13 Imprudent management of funds for deposit works

The Companies/ Nigam withdrew funds from PLA in excess of immediate requirement for works and kept such unutilised funds in current/ saving bank accounts instead of availing facility of auto sweep causing loss of interest amounting to ` 5.11 crore.

⁴⁶ 9.5 per cent or 10 per cent, as the case may be.

Uttar Pradesh State Bridge Corporation Limited (UPSBC), Uttar Pradesh Police Avas Nigam Limited (UPPAN) and Uttar Pradesh Jal Nigam (UPJN) undertake construction works entrusted by the Government Departments on deposit work basis where funds are provided in advance. Government order (December 1993) for release of funds provides for withdrawal of funds from Personal Ledger Account (PLA) only on requirement of expenditure. The Government order further stipulates that interest earned on funds withdrawn from PLA shall be credited to the works/Government. Thus, the Managements of the Companies/Nigams are required to ensure that funds are not withdrawn in excess of requirement and surplus funds, if any, are invested in a way to yield maximum return.

A flexi bank account or auto sweep facility, in which amounts in excess of predetermined amount is automatically transferred from current/saving bank account to fixed deposit, provides an opportunity to maximise interest yield because of higher rate of interest on fixed deposits as well as liquidity of funds.

We noticed that in UPSBC, UPPAN and UPJN, assessment of requirement of funds for immediate use in deposit works and withdrawal of funds from PLA were not accurate and, therefore, the system was weak in these Companies/Nigam. The Companies/ Nigam consequently withdrew funds from PLA in excess of immediate requirement for works and kept surplus/ idle funds in current/ saving bank accounts without availing themselves of the facility of auto sweep. This caused loss of ₹ 5.11 crore to the Government as per details indicated in the following table:

Name of the Company/ Nigam	No. of current/ saving accounts	Nature of account	Period	Range of minimum balance after deduction of ₹ 50,000 per account (₹ in crore)	Rate/ differential rate of interest (in per cent per annum)	Loss of interest (₹ in crore)
UPSBC	8	Current	December 2005 to November 2008	5.10 to 44.33	3	1.96
UPPAN	12	Current	April 2005 to January 2010	1.47 to 13.54	3	0.89
UPJN (Hqrs.)	17	Saving	April 2008 to March 2010	64.43 to 201.30	1	2.23
UPJN, C&DS, Moradabad	7	Saving	May 2008 to March 2009	1.11 to 4.76	1	0.03
Total						5.11

In reply, the Management of UPSBC stated (July 2010) that funds were withdrawn from PLA according to requirement and kept in current account for smooth flow of funds. Management of UPPAN replied (June 2010) that if sufficient funds would not be available with units, targets of turnover would not be achieved and some times it took 2-3 months in withdrawing funds from PLA. The Government in respect of UPPAN further supplemented (September 2010) that the funds were drawn from PLA by the Headquarters of the Company on the basis of demands of its construction units for three months after their scrutiny by Technical Cell and Finance Wing and approval by the Chairman and Managing Director. The Management of UPJN stated (November 2009) that the suggestion of the Audit would be complied with in future.

We, however, made comparison of funds withdrawn from bank accounts maintained by units of auditee and average funds available in those accounts which revealed holding of funds generally exceeding two or more months' requirement of funds against directive of drawal of funds for immediate requirement. We further observed that Management did not keep/invest surplus funds in such a way as to yield maximum return with required

liquidity as the facility of autosweep is available in savings as well as current account.

We recommend that the Managements of the UPSBC, UPPAN and UPJN should ensure that funds are drawn from PLA to meet immediate requirement of expenditure on deposit works and avail facility of flexi bank accounts/ auto sweep in their current/ saving bank accounts so as to minimise loss to the Government.

The matter was reported to the Government in May 2010; their replies in respect of UPSBC and UPJN had not been received (November 2010).

General

3.14 Follow up action on Audit Reports

3.14.1 Audit Reports of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive.

Audit Reports for the years 2004-05 to 2008-09 were placed in the State Legislature in March 2006, May 2007, February 2008, February 2009 and February 2010 respectively. 168 paras/reviews involving PSUs under 27 Departments featured in the Audit Reports (Commercial) for the years from 2004-05 to 2008-09. No replies in respect of 101 paras/reviews have been received from the Government by 30 September 2010 as indicated below:

Year of Audit Report	Total Paragraphs/reviews in Audit Report	No. of departments involved	No. of paragraphs/reviews for which replies were not received
2004-05	31	11	9
2005-06	40	17	28
2006-07	37	13	26
2007-08	33	9	16
2008-09	27	22	22
Total	168		101

Department wise analysis is given in **Annexure-32**. The Power Department was largely responsible for non-submission of replies.

Compliance with the Reports of Committee on Public Undertakings (COPU)

3.14.2 In the Audit Reports (Commercial) for the years 1999-2000 to 2008-09, 319 paragraphs and 43 reviews were included; out of these, 115 paragraphs and 20 reviews had been discussed by COPU up to 30 September 2010. COPU had made recommendations in respect of 95 paragraphs and 20 reviews in the Audit Reports for the years 1978-79 to 2005-06.

As per the working rules of the COPU, the concerned departments are required to submit Action Taken Notes (ATNs) to COPU on their recommendations within three months. The ATNs are, however, furnished by the departments to us, only at the time of discussion of ATNs by COPU.

Action taken on the cases of persistent irregularities featured in the Audit Reports

3.14.3 With a view to assist and facilitate discussions of the irregularities of persistent nature by the COPU, an exercise has been carried out to verify the extent of corrective action taken by the concerned auditee organisation. The results thereof in respect of Government Companies are given in **Annexure-33** and in respect of statutory corporations the same are given in **Annexure-34**.

Response to inspection reports, draft paragraphs and reviews

3.14.4 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned administrative departments of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through the respective heads of departments within a period of six weeks. Inspection reports issued up to March 2010 pertaining to 53 PSUs disclosed that 10302 paragraphs relating to 2601 inspection reports remained outstanding at the end of September 2010. Department-wise break-up of inspection reports and audit observations outstanding at the end of 30 September 2010 are given in **Annexure-35**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary, Finance and the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Out of 13 draft paragraphs and three draft reviews forwarded to the various departments between March and October 2010, the Government had not replied to eight draft paragraphs and two draft reviews so far (November 2010), as detailed in **Annexure-36**.

We recommend that the Government should ensure that (a) procedure exists for action against the officials who failed to send replies to inspection reports/draft paragraphs/reviews and Action Taken Notes on recommendation of COPU as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment in a time bound schedule, and (c) the system of responding to audit observations is revamped.



Lucknow
The

(SMITA S. CHAUDHRI)
Accountant General (Commercial and Receipt Audit),
Uttar Pradesh

Countersigned



New Delhi

(VINOD RAI)

The Comptroller and Auditor General of India