

CHAPTER-IV

4. 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

The Pradeshiya Industrial & Investment Corporation of U. P. Limited

4.1 Loss due to non-recovery of collection charges

The Company suffered loss of ₹ 1.27 crore due to making payment of collection charges to the District Collector before recovering it from the borrowers.

As per Section 32G of the State Financial Corporation Act, 1951, where any amount is due to the Financial Corporation in respect of any industrial concern, the Financial Corporation may make an application to the State Government for the recovery of the amount due. The State Government may issue a certificate for that amount to the Collector who shall proceed to recover that amount in the same manner as an arrear of land revenue.

The Government order (21 June 2004) provides for levy of collection charges of ten *per cent* on the amount recovered by the District Collector (DC) against Recovery Certificate (RC) issued in respect of loans provided by financial institutions and interest thereon or on amount recovered in One Time Settlement Scheme (OTS) finalised after issuance of RCs. Thus, the collection charges were payable to the DC on actual realisation of amount of loan or OTS.

The Company sanctioned OTS to eight borrowers during September 2003 to March 2007 for ₹ 13.28 crore in respect of whom RCs had been issued. The sanction letters of OTS, *inter alia*, provided that the borrowers would be required to pay collection charges of ten *per cent* of OTS amount directly to DC against their demand.

We noticed (June 2010) that:

- in respect of three¹ out of the eight borrowers, the Company paid (March 2010) ₹ 64.58 lakh as collection charges to DC before recovering the same from the borrowers in terms of the Government order of June 2004 and issued “No Dues Certificate” to the borrowers.
- in respect of two borrowers², the Company paid (March 2010) ₹ 19.70 lakh as collection charges to the DC although the OTS in respect of these two borrowers had already been cancelled in May 2009 and December 2009 respectively. In these two cases, the Company had shown the collection charges as recoverable, from the borrowers in the books of

¹ Sakambri Paper Mills (₹ 0.53 lakh), Orphic Resorts Limited (₹ 56.55 lakh) and Technology Parks Limited (₹ 7.50 lakh)

² Twin Pack Limited (₹ 9.80 lakh) and Himgiri Cement Co. (P) Ltd (₹ 9.90 lakh).

accounts; even though, no RC had been issued again so far (September 2011) for recovery of the dues.

- in respect of remaining three borrowers³, to whom “No Dues Certificate” had not been issued, the Company paid (March 2010) collection charges of ₹ 42.82 lakh but had not taken action to recover these from the borrowers.

Thus, the Company suffered loss of ₹ 1.27 crore by payment of collection charges to the DC before recovering it from the borrowers.

The Management stated (April 2011) that efforts were being made to recover the entire amount of collection charges from the borrowers.

We are of the view that recovery of collection charges from the borrowers, after issuance of No Dues Certificate, would not be possible. Further, no recovery could be affected till date from the borrowers to whom “No Dues Certificate” had not been issued. Thus, the fact remains that payment of collection charges without recovering the same from borrowers was not justified.

The matter was reported to the Government in March 2011; their reply has not been received (December 2011).

Uttar Pradesh Projects Corporation Limited

4.2 Avoidable payment of interest on delayed payment of Service Tax

The Company failed to recover Service Tax in time from the service recipients and paid it from its own resources along with interest of ₹ 41.90 lakh due to delayed payment of the Service Tax.

The Company is engaged in erection, commissioning or installation of tube wells. Service Tax is applicable on erection, commissioning or installation services from 1 July 2003 vide Government notification dated 20 June 2003. Service provider (the Company) has been entrusted with the responsibility to collect Service Tax from the service recipients (Departments of the State Government) and deposit with the Central Government.

We noticed (January 2011) that:

- the Company belatedly issued (August 2007) instructions to its field offices to initiate action for registration (for Service Tax purpose), filing tax Returns, recovering applicable tax from service recipients and depositing it in time with the Central Government; and
- even after issue of instructions in August 2007, the field units of the Company did not collect Service Tax from the service recipients in respect of services of erection and commissioning of tube wells during 2007-08 (from August 2007) and 2008-09.

The Company, thus, failed to recover Service Tax of ₹ 1.16 crore from service recipients on erection and commissioning of tube wells between 2003-04 and 2008-09. The Company deposited the Service Tax of ₹ 1.16 crore with the Central Government from its own resources in 2008-09 along with interest of ₹ 41.90 lakh for delayed payment. The Company could have avoided payment

³ Kanan Steels Limited (₹ 19.58 lakh), Kings Coatings Limited (₹ 14.19 lakh) and Sidh Industries Limited (₹ 9.05 lakh).

of interest in case the Service Tax had been paid in time. No responsibility for the lapses has been fixed.

The Management stated (August 2011) that provision for Service Tax in the estimates did not exist as these were old, an amount of ₹ 91.92 lakh had been adjusted from the deposits of the concerned departments and letters had been issued to the concerned departments for payment of remaining amount of ₹ 66.61 lakh. It further stated that, in the case of non-receipt of the remaining payment, it would be adjusted from the amount of interest earned on funds provided by these Departments for works in terms of the Government order of 31 July 2002.

The fact remains that the payment of interest of ₹ 41.90 lakh could have been avoided by timely payment of the Service Tax. Further, the Company failed to comply with the statutory provisions.

We recommend that the Company should comply with statutory provisions.

The matter was reported to the Government in June 2011; their reply has not been received (December 2011).

4.3 Extra expenditure on Architect's fee

The Company paid architects fee at higher rates for the repetitive work of drawings and designs of Community Health Centres/Primary Health Centres, resulting in extra expenditure of ₹ 60.15 lakh.

The Company has adopted its system of working for civil construction works as per the Manual of Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN). The Managing Director of the Company, accordingly, directed (January 2008) to fix fee of architects according to the procedure adopted by UPRNN. UPRNN engaged architects at the fee of 1.5 *per cent* of the cost of work for architectural work (detailed architectural drawings, detailed structural drawings, detailed sanitary/electrical drawings and detailed estimates) and 0.25 *per cent* for its repetitive use.

The Company was awarded (November 2007) the work of construction of Community Health Centres (CHCs) and Primary Health Centres (PHCs) at different locations by the Health and Family Welfare Department, Government of Uttar Pradesh and most of the works were executed up to June 2011. For these works, the Company engaged outside architects⁴, on the basis of market survey conducted by its units, at the fee of 1.5 *per cent* of the cost of work. The architects prepared uniform drawings and designs for the CHCs/PHCs. Since the architectural work of the CHCs/PHCs were uniform or repetitive, the architects were required to be paid fee at the rate of 1.5 *per cent* inclusive of service tax for first CHC/PHC and at the rate of 0.25 *per cent* for repetitive drawings and designs. The Managing Director of the Company had also emphasised (July 2007) to use same drawings and designs for repetitive work.

We noticed (August 2009) from the payment details of the period July 2008 to March 2009 that architects were irregularly paid fee at the rates higher than 0.25 *per cent* of the cost of work even for the repetitive drawings and designs

⁴ Rajeev Kumar and associates for Siddhartha Nagar, Sitapur and Behraich unit & Design Center for Hardoi unit.

which resulted in extra expenditure of ₹ 60.15 lakh⁷. It was also observed that different units were following different methods of payment of fee to the architects. This indicates lack of co-ordination and control in the Company.

The Management stated (June 2011) that drawings and designs of all CHCs/PHCs were not similar as variations existed in nature of soil and its load bearing capacity on different sites. The Management further stated that revised cost of most of the CHCs/PHCs were sanctioned. If payment of Architects' fee is calculated on revised costs, there would be no loss to the Company.

The reply of the Management is not acceptable as the drawings and designs of all CHC/PHC were similar and also the costing⁸ of each unit was the same. Further, in case of any slight change in load bearing due to soil test results, the foundation design could be done departmentally by the Company. Moreover, in case of sanction of revised cost, the Company was liable to pay architects' fee at the revised cost under the provisions of the agreement/MOU signed with Architects which would further enhance the losses.

The matter was reported to the Government in April 2011; their reply has not been received (December 2011).

Uttar Pradesh State Industrial Development Corporation Limited

4.4 Non-recovery of enhanced premium from Private Entrepreneur

The Company suffered loss of ₹ 2.73 crore due to allowing lower rate of premium despite issue of the notification for enhanced premium well before accepting the delayed payment of additional premium.

The Company transferred (December 2002) an industrial plot (Loni Road, Ghaziabad) admeasuring 16063.50 sqm to Meenal Steels (P) Limited (MSL) on payment of transfer levy of ₹ 36.33 lakh for establishment of a manufacturing unit of Mild Steel Ingots. MSL requested (July 2006) for change in project for setting up a multiplex and hotel project on the plot. The Company conveyed (26 March 2007) approval for the change in use of the plot with the condition of payment of additional premium of ₹ 4.50 crore (at the premium rate of ₹ 2800 per sqm) within 30 days from the date of issue of the approval letter.

MSL neither deposited the additional premium within 30 days nor made any request for extension of time for deposit of the premium. On 12 June 2007, i.e. after a delay of 47 days, they deposited 25 per cent of the premium and requested the Company to allow them to pay the balance 75 per cent in installments. The Headquarters of the Company conveyed (28 June 2007) approval for acceptance of premium together with interest for delay at the rate of 15 per cent per annum. MSL had not deposited the balance of ₹ 2.12 crore (Principal: ₹ 1.95 crore and Interest: ₹ 0.17 crore) so far (June 2011).

We noticed (May 2010) that:

- MSL deposited 25 per cent of the additional premium on 12 June 2007 which was the date on which decision to form a Committee for

⁷ Siddhartha Nagar and Hardoi units of the Company paid architects' fee amounting to ₹ 42.39 lakh at the rate of 1.5 per cent of the cost of work as well as Service Tax for repetitive drawings and designs in respect of 44 CHCs/PHCs. Similarly, Behraich and Sitapur units paid architects' fee amounting to ₹ 17.76 lakh at the rate of 0.375 per cent of the cost of work as well as Service Tax to the Architects for repetitive drawings and designs unit in respect of 45 CHCs/PHCs.

⁸ ₹ 3.03 crore for each CHC and ₹ 77.18 lakh for each PHC.

revision in prices of plots in industrial areas was taken by the Management.

- the rate of premium in respect of plot was increased from ₹ 2800 per sqm to ₹ 4500 per sqm from 20 June 2007. The Company, however, accepted the delayed deposit of only 25 per cent of additional premium at the rate of ₹ 2800 per sqm, whereas the entire additional premium of ₹ 4.50 crore was to be deposited within 30 days.
- the acceptance of delayed deposit by the Management indicates a favour to the MSL as the approval for change of project was automatically liable for cancellation for breach of condition for payment of additional premium.
- the Company also issued an order (22 March 2010) to include a clause for application of new rates in case of non-deposit of demanded premium within allotted time in the demand/approval letter. This indicates that non-inclusion of specific condition for cancellation of approval in the approval letter was the mistake of the Management.

Thus, it is evident from the above facts that the Management failed to exercise financial prudence in the case and accepted the part payment in contravention to the conditions in the approval letter. Non-recovery of enhanced premium, as such, led to loss of ₹ 2.73 crore⁹ to the Company for which no responsibility has been fixed.

The Management stated (September 2011) that there were two options available with the Management: (i) disallow the deposit and withdraw the offer for change of project but the payment was not at all connected with the basic cost, hence, question of cancellation of allotment had not arisen at that time (ii) accept delayed payment and allow installment which was as per rule and generally allowed in all such cases. Second option was chosen by the Management to allow quicker utilisation of the plot and to obtain the payment including interest for the period.

The reply of the Management is not convincing as:

- when the payment was not made within 30 days by MSL and no request for time extension was received, the approval of change of project was automatically liable for cancellation due to breach of condition, which was not done.
- the allotment rules were silent in this regard and the Management should have taken the decision in the best financial interest of the Company.
- the fact, that MSL deposited the 25 per cent additional premium on the day the Committee decided to revise the rates upwards was constituted, shows that MSL was trying to take advantage of the lower rates.

We recommend that Management should act as per the provisions of allotment rules and protect interest of the Company.

The matter was reported to the Government in June 2011; their reply has not been received (December 2011).

⁹ 16063.50 sqm. X ₹ 1700 (₹ 4500 - ₹ 2800).

4.5 Wasteful expenditure on unauthorised construction

The Company incurred wasteful expenditure of ₹ 2.15 crore on execution of civil works of road for which no permission was granted by the Irrigation Department.

The Company sought (November 2005) permission from Irrigation Department to construct bitumen road on Alipur Bundh from Tronica city to Panchaira village along with construction of side drains and parapet etc. The Irrigation Department permitted (November 2005) for construction of only 5 meter wide road in the existing Bund.

The Company awarded construction work of road and civil works like RCR masonry, protection wall, KC drain, Chute to S. K. Builders for ₹ 4.17 crore in November 2005 and Electrical illumination work to Kanti Prasad Mittal for ₹ 32.80 lakh in April 2006. The commencement and completion dates for road and civil works were 23 November 2005 and 22 May 2006 respectively and; for illumination work, were 16 April 2006 and 15 October 2006 respectively.

We noticed (April 2010) that permission was given by the Irrigation Department for construction of only 5 meter wide road on the existing Bund but the Company unauthorisedly executed the RCR masonry, protection wall, KC drain, Chute and Electrical illumination work. The Company continued the construction of road and civil works up to June 2007 and Electrical illumination work up to September 2006. The road and civil works were left incomplete by incurring expenditure of ₹ 3.24 crore and Electrical illumination work was completed at the cost of ₹ 32.91 lakh. Later, Electrical illumination work was dismantled due to widening of Bundh and electrical items valued at ₹ 22.29 lakh were received back by the Company.

It had also been noticed that the payments were made for earth work without obtaining and cancelling the original copy of the Form MM-10 (permission of the District Magistrate for earth excavation) which left room to the contractor for use of photocopies of the same MM-10 Form for the earth supplies to many sites.

Thus, the unauthorised construction of civil works and avoidable expenditure on electrical illumination work resulted in loss of ₹ 2.15¹⁰ crore to the Company for which no responsibility has been fixed so far.

The matter was reported to the Government and Management in November 2011; their replies have not been received (December 2011).

Madhyanchal Vidyut Vitran Nigam Limited

4.6 Loss due to allowing higher rates for HV/LV leg coils

The Company incurred excess expenditure of ₹ 36.93 crore on repair of transformers as it did not prepare any cost analysis for HV/LV leg coils and finalised the rates without referring prevalent market rates.

As per instructions issued (March 2002) by the Uttar Pradesh Power Corporation Limited (UPPCL) for repairing of aluminium and copper wound

¹⁰ Expenditure on civil works: ₹ 2.04 crore plus expenditure on electrical illumination work ₹ 10.62 lakh: (₹ 32.91 lakh minus receipt back of electrical works: ₹ 22.29 lakh)= ₹ 2.15 crore.

damaged transformers by private repairers, only core assembly and tank of damaged transformers were to be given to private repairers after dismantling. All components recovered after dismantling of damaged transformers like Oil, High Voltage/Low Voltage (HV/LV) leg coils etc. were to be accounted for by the concerned officer properly. Private repairers were required to fill fresh transformer oil as per capacity and new HV/LV coils of the same weight and turns as retrieved from dismantled damaged transformers.

The Corporate Store Purchase Committee (CSPC) of UPPCL finalised (December 2005) package rates, applicable to all DISCOMs, for repairing of aluminium and copper wound transformers of different capacity and stated that rates of transformer oil and HV/LV leg coils in package rates were variable taking base rate of November 2003. The above rates were applicable up to two years which was further increased up to maximum limit of one year. We examined the records relating to repair of transformers by Madhyanchal Vidyut Vitran Nigam Limited and found that the Company had not finalised any rates for repairing of transformers after expiry of above package rates. Hence, such rates were applicable in the Company up to 2010-11 with price variation with the same repairing agencies.

The Company got repaired 69,759 damaged transformers¹¹ of 25 kVA to 1,000 kVA from private repairers during last five years up to 2010-11. We noticed that the Company had not prepared any cost analysis for HV/LV leg coils and finalised the rates without referring prevalent market rates of HV/LV leg coils. The Company awarded rates¹² of ₹ 216.10 per kg and ₹ 290.97 per kg for HV/LV leg coils in respect of aluminium and copper wound damaged transformers respectively as compared to market rate of ₹ 111.20 per kg¹³ and ₹ 154.69 per kg¹⁴ for HV/LV leg coils in respect of aluminium and copper wound transformers respectively.

Thus, the Company allowed excess rates for HV/LV leg coils by ₹ 104.90 per kg and ₹ 136.28 per kg for aluminium and copper wound transformers respectively, resulting in excess expenditure of ₹ 36.93 crore¹⁵ and consequential loss to the Company.

The Management stated (July 2011) that suggestions of Audit will be put up to higher authorities for making change in the procedure of deciding rates of repairs of transformers.

We recommend that the UPPCL/DISCOMs should take care of the canons of financial propriety and conduct periodical review of the system of deciding the rates for repairing of transformers.

¹¹ Electricity Store Division, Lucknow: 27612 transformers, Electricity Store Division, Faizabad: 24309 transformers and Electricity Store Division, Bareilly: 17838 transformers.

¹² It has been worked out dividing package rate of HV/LV leg coils by average weight of HV/LV leg coils actually used in the repairing of transformers of 25 kVA (₹ 5355/24.78 kg) and 400 kVA (₹ 71017/244.07 kg) being lowest.

¹³ Market rate of Aluminium HV/LV leg coil has been worked out by adding quoted costs of Aluminium rods (₹ 92.50 per kg.) by other supplier/repairer as on November 2003, processing cost of ₹ 8.70 per kg and ₹ 10 per kg for transportation expenses. The amount of excise duty and sales tax has not been taken to arrive at such market rate as the company finalised the package rates excluding above taxes.

¹⁴ Market rate of Copper HV/LV leg coil has been worked out by adding quoted costs of Copper rods (₹ 118.50 per kg.) as on November 2003, processing cost of ₹ 26.19 per kg and ₹ 10 per kg for transportation expenses. The amount of excise duty and sales tax has not been taken to arrive at such market rate as the company finalised the package rates excluding above taxes.

¹⁵ Total weight of aluminium coils of repaired transformer: 2460565 kg X ₹ 104.90/kg= ₹ 25.81 crore plus total weight of copper coils of repaired transformer: 815873 kg X ₹ 136.28/kg= ₹ 11.12 crore.

The matter was reported to the Government in May 2011; their reply has not been received (December 2011).

4.7 Unfruitful expenditure on engagement of RITES

The Company incurred unfruitful expenditure of ₹ 99.33 lakh on checking of distribution transformers.

UPPCL issued (February 2002) directives for regular maintenance and upkeep of distribution transformers (DTs), as under, to avoid excessive damages.

- To restrain leakage of oil by proper maintenance.
- Fixing fuse of proper ratings on LT side.
- Regular checking of load on phases, neutral earthing and radiator coil to avoid fire and tank blast due to electric fault.
- To ensure availability of oil for safety of transformers.

The Company executed (July 2008) an agreement with RITES Limited for checking of 2,500 DTs of capacity from 250 kVA to 1,000 kVA installed in the jurisdiction of Lucknow Electricity Supply Administration (LESA) at the rate of ₹ 4,000 per transformer actually inspected plus Service Taxes as applicable. The RITES checked 2,265 DTs and reported (October 2008 to February 2009) the following discrepancies:

- Load on phases unbalanced, balancing required,
- Transformer oil short, topping up required,
- Body and neutral not properly earthed, proper earthing required,
- Improper position of fuses, suggested fuses of appropriate ratings,
- Cables connected without lugs, lugs to be provided.

We noticed the following:

- The Managing Director, UPPCL decided (7 June 2008) to engage RITES on single offer basis for detailed examination of installed transformers. Subsequently, LESA invited offer (10 June 2008) from RITES for the job and RITES submitted their offer on 17 June 2008. On 18 June 2008, the proposal for engaging RITES was approved by the Board of Directors of the Company. This shows that RITES was engaged for the job in unusual hasty manner and without following the defined tender procedure for the selection of Consultants/Agencies.
- Findings and recommendations of RITES were same which were already part of the directives issued by the UPPCL in February 2002 and RITES did not add anything qualitative to its Report.

As the Management was already aware of the reasons for excessive damages of DTs and also had issued guidelines to avoid excessive damages, the engagement of RITES lacked justification and amounted to extending benefit to the firm. Thus, payment of ₹ 99.33 lakh to RITES proved unfruitful.

The Management stated (July 2011) that the recommendations of RITES were different from the directives issued in February 2002 by the UPPCL and the field units have been issued directives to implement the recommendations of RITES.

The reply of the Management is not acceptable as the recommendations given by the RITES were already covered in the directives issued (February 2002)

by the UPPCL. Further, the damage rate of transformers in LESA increased from 12.57 per cent in 2008-09 to 15.15 per cent in 2010-11.

We recommend that the Company should strictly follow the directives of UPPCL which well addresses the reasons for excessive damages of transformers.

The matter was reported to the Government in May 2011; their reply has not been received (December 2011).

4.8 Construction activities of electricity lines and sub-stations carried out by Lucknow Electricity Supply Administration

4.8.1 Lucknow Electricity Supply Administration (LESA), one of the four distribution Zones of the Company, is engaged in distribution of electricity to the consumers of the District of Lucknow.

The construction works being carried out by Divisions are Deposit Works which are funded by consumer/client/Government and System Improvement Works (SI) which are funded through the internal resources of the Company.

We conducted audit of construction activities of electricity lines and sub-stations during November 2010 to April 2011 in five Divisions¹⁶ of three circles out of 20 divisions of five circles in LESA excluding procurement of centralised material. During 2006-10, the five Divisions incurred expenditure of ₹ 112.20 crore on capital works against the total expenditure of ₹ 393.07 crore in the LESA as a whole.

Our audit scrutiny revealed deficiencies in tendering process, award of works, execution and accounting of expenditure relating to construction of electricity lines and sub-stations during 2006-11.

Tendering process and award of work

4.8.2 Open tenders for various composite works (supply and erection) and supply of materials are invited by Circles and finalised by Committees formed for this purpose according to delegation of powers.

We noticed instances of non-fixation of bench marks for ascertaining reasonableness of rates of labour and materials, award of work at higher rates, large variations in rates of same items in different accepted tenders, cartel of bidders, irregularities in tender process etc. as discussed in succeeding paragraphs.

Absence of bench marks leading to award of works at higher rates

4.8.3 Para 523 of Financial Hand Book, Volume-VI (FHB-VI)¹⁷ provides that to facilitate the preparation of estimates and to serve as a guide in setting rates in connection with Contract agreements, Schedule of Rates (SOR) for each kind of work commonly executed should be maintained in the Divisions and kept up-to-date. UPPCL also issued (August 2001) instructions that Superintending Engineer (SE) in each Circle would issue SOR for labour items and decentralised material.

¹⁶ Electricity Urban Construction Division-II (EUCD-II), Electricity Urban Construction Division-III (EUCD-III), Electricity Urban Distribution Division-Aishbagh (EUDD-Aishbagh), Electricity Urban Distribution Division-Kanpur Road (EUDD-Kanpur Road) and Electricity Distribution Division-Rahimnagar (EUDD-Rahimnagar).

¹⁷ References have been taken from Accounting Rules and Procedure in State Sector Electricity Undertakings of Uttar Pradesh and Uttarakhand.

We noticed that SOR was not prepared by any Circle and labour component in Cost analysis were prepared in terms of *per cent* instead of mandays during 2006-10. Thus, no benchmark was available with the Divisions to ensure reasonableness of tendered and awarded rates for works due to absence of SOR and analysis of mandays.

The Management stated (September 2011) that there was no practice in Power Sector across the State due to reason that the Estimates of work were being prepared on the basis of Stock Issue Rates (centralised items) being provided by the Department and on the prevailing rate for decentralised items by adding 12 *per cent* for cartage and labour charges as per practice in UPPCL. Reply is not acceptable as cost component of material and labour could have been analysed and SOR could have been framed.

Further, the lacunae in the system *viz.* non-preparation of SOR/rate analysis led to award of works at largely varied and higher rates as discussed below:

- During 2007-11, Circle-IV invited and finalised 37 tenders at the cost of ₹ 3.40 crore for replacement of existing conductor by Aerial Bunch Conductor (ABC).

We noticed that there were large variations in rates of individual items ranging from 110 *per cent* to 295 *per cent* when compared to minimum awarded rates among these tenders. In absence of SOR for comparison and defining base price, the works were awarded at varied rates for same items without ensuring the reasonableness of the rates.

The Management stated (September 2011) that quoting the rates of various items of tender was concern of bidder and Circle awarded the overall lowest in each tender. Reply is not acceptable as the abnormal variation of the rates could have been avoided by comparing the offered rates with the SOR.

- In the absence of SOR/rate analysis, we worked out the rates on the basis of drawings and applicable SOR of Public Works Department (PWD) 2007 in respect of construction of pacca trench under two tenders¹⁸ and; analysed the rates based on available technical specification of Bill of Quantity (BOQ) and cost analysis of LESA in respect of double circuit cable laying¹⁹. By comparing the awarded rates with rates analysed by us, we found that rates were higher by 29.65 to 107.83 *per cent* and, thus, extra expenditure of ₹ 54.90 lakh had been incurred in these works as detailed in the table given below:

Name of the Circle/ Division	Name of work	Details of cable laying/ trench	Quantity executed (Metre)	Tentative rate analysed by circle	Rate awarded	Amount (₹ in lakh)	Rate analysed by us (₹) ²⁰	Difference (in ₹) and percentage	Amount (₹ in lakh)
1	2	3	4	5	6	7	8	9=6-8	10
Circle-V	Construction of pacca trench under two works ²¹	60x60 cm	980	4312	2575	25.23	1239	1336 (107.83)	13.09
		60x100 cm	920	4505	4020	36.98	2093	1927 (92.07)	17.73
Circle-III	Laying of 33 kV cable and construction of 33/0.4 kV sub-station	Kachha Road	2200	NA	3520	77.44	2696	824 (30.56)	18.13
		Pacca Road	500	NA	3530	17.65	2696	834 (30.93)	4.17
		Hume pipe	200	NA	3900	7.80	3008	892 (29.65)	1.78
Total									54.90

¹⁸ Tender number 04/EUCC-V/07-08 and 16/EUCC-V/07-08.

¹⁹ In respect of tender number 22/2007-08.

²⁰ Rates were analysed by us using analysis of Division, issue rates of Company, PWD SOR for civil material and quantities as per drawing as enclosed in tender document.

²¹ Replacement of old/damaged electrical system by laying of underground cable at (1) Lareto X-ing-Anexee to DSO X-ing and (2) Hazratganj X-ing to Halwasia X-ing.

The Management, in case of construction of pucca trench stated (September 2011) that due to restriction of working hours i.e. work could be done only in nights by PWD, the cost of labour was higher and justified and; in case of cable laying and sub-station work, the rates were decided by the MD's Works Committee after negotiation and counter offer. Reply is not acceptable as, while analysing and awarding the rate, working condition of labourers in night was not considered and proper rate analysis should have been prepared to ascertain genuineness of the rates during negotiation by the works committee.

Procedural irregularities

4.8.4 Other irregularities which were noticed in tendering process were as follows:

- Price bids in respect of three finally accepted tenders of value ₹ 1.96 crore were opened before due date of opening.

The Management stated (September 2011) that there was no financial loss in opening price bid a day before. Reply is not acceptable as opening of tender before a day was irregular.

- Letters of intent to start the work of value ₹ 13.09 lakh were issued in respect of six tenders before opening of tenders.

The Management stated (September 2011) that concerned employee on contract was displaced and new employee on contract was engaged. Reply is not acceptable as giving such important works to a contract employee lacked justification.

- Tender forms were sold after due date in case of all nine successful tenders of total value of ₹ 15.18 lakh and Date of opening of seven tenders of total value of ₹ 12.40 lakh was extended without publishing notices in the news papers.

The Management did not offer any comment on the audit observation.

Execution of work

4.8.5 After tendering and award of contracts by the Circle, work was executed by distribution/construction Divisions. Centralised materials were made available by the Store Division to the executing Division on the basis of sanctioned package. Junior Engineer/ Assistant Engineer supervise execution of works.

Irregularities noticed in execution of works and Management's reply thereon are indicated in details in **Annexure-31** and summarised in succeeding paragraphs:

Undue advantage to contractors

- In respect of work (awarded in May 2008) of cable laying, the executing unit issued 1,900 metre cable of value of ₹ 18.85 lakh to the work though it was required to be supplied by the Contractor as per the Agreement, thus giving undue benefit to the contractor.

(Annexure-31 Sl. No. 1a)

- In respect of the work of laying of underground cable from TRT sub-station to Rani Laxmi Bai Hospital, Rajajipuram executed during May to October 2008, cable laying was measured 2,734 metre (excluding

156 metre loop for 26 Straight Through (ST) and 40 metre for 8 hoisting) against the total cable route of 2,326 metre, resulting in excess measurement of cable laying by 408 metre valued at ₹ 14.37 lakh and resultant extra payment to the contractor to that extent.

(Annexure-31 Sl. No. 1b)

- In the work of cable laying at 49 sites during 2007-11, measurement of cable laying was recorded in excess of cable issued/ carried to work sites, resulting in excess payment of ₹ 21.40 lakh to the contractors.

(Annexure-31 Sl. No. 1c)

- During 2006-11, EUDD-Kanpur Road and EDD-Rahimnagar did not deduct works tax of ₹ 11.72 lakh from the bills of contractors, rendering itself liable for penalty of ₹ 23.44 lakh.

(Annexure-31 Sl. No. 1d)

Excess issue/short receipt of materials

- Materials shown issued against 17 works during 2007-11 were in excess of the consumption recorded in measurement books by 2353 metre of 11 kV cable and 1206 metre of 33 kV cable valued at ₹ 45.72 lakh.

(Annexure-31 Sl. No. 2a)

- There were short receipts of 59111 kg old conductor valued at ₹ 29.56 lakh in replacement of 178.829 km line out of total 202.458 km line replaced during 2007-11.

(Annexure-31 Sl. No. 2b)

Short/ non recovery of cost of lines etc.

- EUDD Aishbagh sanctioned (January 2008) and recovered ₹ 2.28 crore for providing connection to Rani Laxmi Bai Hospital against the recoverable amount of ₹ 2.59 crore as per the Cost Data book, resulting in short realisation of ₹ 0.31 crore from the consumer. Similarly, Circle-III sanctioned (December 2008) a load of 170 kW to Irrigation Department and recovered ₹ 1.25 crore against the recoverable amount of ₹ 1.77 crore as per the Cost Data Book, resulting in short realisation of ₹ 0.52 crore.

(Annexure-31 Sl. No. 3a)

- During 2008-09 to 2010-11, EUDD Kanpur Road constructed temporary line and substation for Lucknow Mahotsava but did not recover the estimated cost of ₹ 31.23 lakh for line and sub-station from the consumer. Similarly, the Division did not recover cost of ₹ 20.12 lakh on account of temporary construction of line and sub-stations along with five numbers of 400 kVA sub-station to provide supply at Manyavar Kanshi Ram Sanskritik Sthal for a rally during 12-15 March 2010, resulting in short realisation of ₹ 51.35 lakh from the consumer.

(Annexure-31 Sl. No. 3b)

- The Company, without receipt of funds from the Government, started (May 2008) the work of Manyavar Kanshi Ram Ji Sahari Samgra

Vikas Yojna launched by the Government of Uttar Pradesh in October 2007. As a result, the Company's own fund of ₹ 3.45 crore incurred on the work was blocked.

(Annexure-31 Sl. No. 3c)

Extra/ wasteful expenditure

- Instead of using sand in bedding and bricks as cover (as specified in IS Code 1255) the Company used bricks and stone pad respectively for laying 77628 metre cable during 2007-11. This unnecessary increase in specifications caused an extra expenditure of ₹ one crore.

(Annexure-31 Sl. No. 4a)

- The Company executed (September-December 2007) unplanned work of replacement of HT/LT lines by underground cable for beautification of the Hazratganj, Lucknow at own cost of ₹ 0.91 crore although it was not covered under the System Improvement Work. Subsequently, entire work was discarded by the Government when the work of beautification of Hazratganj was taken up rendering the entire expenditure as wasteful.

(Annexure-31 Sl. No. 4b)

- The work of replacement of overhead lines by underground cable around Secretariat, Babu Bhawan and Yojana Bhawan, Lucknow was stopped in May 2008 after incurring an expenditure of ₹ 0.87 crore as the Company did not deposit road cutting charges with the PWD. Thus, the objective of the work was not fulfilled.

(Annexure-31 Sl. No. 4c)

Accounting of expenditure on works in the books of account

4.8.6 The FHB-VI (Paras 399, 511 and 512) provides for preparation of completion report, executed estimates on completion of works and accounting of expenditure in Works Register which should be closed when work is completed.

We noticed that expenditure against various works was not recorded in the Works Register. Completion reports/executed estimates along with executed single line diagram were not prepared during 2006-11.

Management stated (September 2011) that Works register and executed estimates were now being prepared.

Recommendations:

We recommend that the Company should:

- **maintain Schedule of Rates (SOR) for each kind of work and analyse rates accordingly;**
- **execute works according to sound designs and relevant IS Code;**
- **keep watch over issue and consumption of materials in works and to ensure correct measurement of work; and**
- **ensure recovery of total cost of regular and temporary connections as per Cost Data Book.**

The matter was reported to the Government in August 2011; their reply has not been received (December 2011).

Statutory corporations

Uttar Pradesh Financial Corporation

4.9 Loss in One Time Settlement with loanees

The Corporation suffered loss of ₹ 10.44 crore due to change in OTS guidelines delinking valuation of mortgaged security in certain class of non-performing loans.

In order to liquidate Non Performing Assets (NPAs)²², the Uttar Pradesh Financial Corporation (Corporation) evolved a policy of one time settlement (OTS) with borrowers and issued comprehensive Guidelines in March 1999 and modified it from time to time. As per the Guidelines of OTS effective up to November 2009, amount of OTS was to be arrived at on the basis of matrix²³ or realistic realisable value of mortgaged security *plus* net worth of the Promoters/Guarantors, whichever was higher. The Corporation modified its OTS guidelines in November 2009 in which it deviated from the principle of linking amount of OTS with the value of mortgaged security *plus* net worth of Promoters/Guarantors in dealing such loan assisted units.

As a result of not linking the OTS amount with the available security of the Promoters/Guarantors, the Corporation settled OTS amount lesser than available security value. The Corporation, thus, suffered loss of ₹ 10.44 crore as detailed in the table below:

(₹ in lakh)

Sl No.	Name of the borrower	Outstanding amount	Valuation of security (without net worth)	Amount of OTS ²⁴	Difference	
					6 (3-5)*	7 (4-5)▼
1	2	3	4	5	6 (3-5)*	7 (4-5)▼
1.	Panchsheel Beeds Industries	348.95	684.63	275.40	73.55	0
2.	M.B. Oil Mills, Noida	179.48	192.64	19.88	159.60	0
3.	Capital Ice Factory (P) Ltd., Noida	203.30	171.00	21.46	0	149.54
4.	Krishna Crafts (India), Noida	359.36	262.96	106.76	0	156.20
5.	Electrica Electrical (India), Noida	276.36	291.00	71.16	205.20	0
6.	Soti Engineering Industries, Noida	107.51	48.60	22.25	0	26.35
7.	Decent Polymers Enterprises Pvt. Ltd., Noida	312.10	392.58	38.67	273.43	0
	Total				711.78	332.09

²² Non Performing assets (NPA) are loans and advances in respect of which interest and /or installment of principal amount is overdue for a period of 90 days.

²³ Outstanding amount of principal on the date of account becoming NPA + Interest (Simple Interest (SI) + Cumulative Interest (CI) + Default Interest (DI))

²⁴ Amount of OTS arrived at the total of Outstanding Principal + Expenses + Outstanding Simple Interest.

* Cases in which total outstanding amount could be recovered, as the value of security was more than the outstanding amount of dues.

▼ Cases in which the outstanding amount could be recovered to the extent of the value of security.

We further noticed that the Corporation revised its OTS guidelines again in March 2010 in which amount of OTS was linked to score obtained on the parameters of status of unit, prime/ collateral security, net worth of guarantors and amount paid by borrower. It appears from the above that the Corporation had revised its OTS guidelines in November 2009 by delinking valuation of mortgaged security to provide undue benefit to few firms.

The Management stated (August 2011) that OTS was done as per prevailing guidelines of OTS approved by the Board of Directors. We feel that the change in existing OTS guidelines was detrimental to the interest of the Corporation as the value of security was totally ignored in the categories of cases mentioned above.

We recommend that OTS should be done with linking valuation of mortgaged security and net worth of the Promoters/Guarantors.

The matter was reported to the Government in May 2011; their reply has not been received (December 2011).

Uttar Pradesh State Road Transport Corporation

4.10 Non recovery of compensation in accident cases

The Corporation incurred an avoidable expenditure of ₹ 97.70 lakh due to non recovery of compensation in accident cases from the private bus owners

The Uttar Pradesh State Road Transport Corporation (Corporation) operates own buses as well as hired buses. Agreements entered into with owners of hired buses, generally for the period of five years, stipulate that:

- possession and control of the vehicle shall be with the Corporation. The bus owner shall take insurance coverage and registration of the bus and shall appoint driver for smooth operation of bus;
- the bus owner/Insurance Company shall be liable for payment of any amount arising due to carelessness, accidents etc. by the driver. If the Corporation makes payment of any amount in compliance of the orders of the Hon'ble Court, the same will be adjusted from the dues of the bus owner along with interest;
- the bus owner shall produce a certificate to the effect that the Insurance Company has no objection in hiring out the buses to the Corporation and in case of accident by the hired buses during the period of contract; liability to pay the compensation shall be of the owner/Insurance Company.

The Corporation paid ₹ 1.02 crore during the period from April 2006 to December 2010 as compensation as decided by the Motor Accidental Claims Tribunal (MACT) in 78 cases of accidents of hired buses being operated in 11 Regions out of 20 regions of the Corporation.

We noticed (July 2010) that the Corporation neither obtained “No Objection Certificate” (NOC) issued by the insurance company from the bus owners nor recovered the compensation amount from their bills in terms of the agreement.

On being pointed out in audit, the Corporation recovered ₹ 3.81 lakh from the bus operators only in four cases, in which compensation was paid. In remaining 74 cases, no recovery was made by the Corporation.

Thus, the Corporation suffered loss of ₹ 97.70 lakh by not enforcing the provisions of the agreements for hired buses.

The Management stated (August 2011) that presently they were obtaining NOC of Insurance Companies in respect of hired buses. Further, on the basis of judgment of the Hon'ble Supreme Court, the Corporation started adjustments of compensation paid by it from the dues of the bus owners and in those cases where compensation was paid by the Corporation but no bus was in existence with the Corporation; Recovery Certificate has been issued for recovery of compensation paid by the Corporation.

While the Corporation has taken some corrective action, the fact remains that failure of Management to adhere to the provisions of the agreement led to the Corporation making non-recovery of ₹ 97.70 lakh. The Corporation also has not fixed responsibility for the managerial failures.

The matter was reported to the Government in July 2011; their reply has not been received (December 2011).

4.11 Information Technology Support System of Electronic Ticket Issuing Machines in Uttar Pradesh State Road Transport Corporation, Lucknow

4.11.1 The Uttar Pradesh State Road Transport Corporation (Corporation) incorporated in June 1972 provides service for passenger road transport in the state of Uttar Pradesh and adjoining areas. It operates through 20 regions having 106 depots. As of 31 March 2011, it had a fleet strength of 8719 buses carrying average 13 lakh passengers per day.

The Corporation implemented electronic ticketing system at depot level on the software platform of SQL server 2000 as back end and Visual Basic as front end by entering into a tripartite agreement, effective from 24 October 2008, with Indian Telephone Industries Limited (ITI) and Micro Fx, Bangalore, (a consortium partner of ITI). Accordingly, it purchased 8800 Electronic Ticket Issuing Machines (ETIMs) to ensure cent *per cent* electronic ticketing in 7231 operating buses. The cost of Information Technology (IT) assets of the Corporation was ₹ 7.29²⁵ crore at the end of March 2011.

Information Technology Support System of the Corporation consists electronic ticketing through ETIMs and Management Information System (MIS) which runs on dbase IV. IT wing of the Corporation was headed by a General Manager (MIS) at the Headquarters, who was assisted by one Assistant Manager (EDP) and supporting staff.

We conducted IT audit of six²⁶ depots of Lucknow Region for the period from November 2009²⁷ to March 2011 to ensure as to whether:

- IT strategy and IT policy existed in the Corporation;
- System Requirement Specification (SRS) was documented;
- ETIMs were functioning and its control system delivered desired results;
- data bank generated through ETIMs was reliable; and
- centralised ETIMs data was being evaluated at headquarters for effective use of MIS.

²⁵ ETIMs: ₹ 5.27 crore and computer systems: ₹ 2.02 crore.

²⁶ Alambagh, Awadh, Barabanki, Charbagh, Kaisarbaghand Raebareli.

²⁷ The Government revised the basic fare structure from 24 November 2009.

The findings, as a result of examination of IT Support System of ETIMs, are discussed in succeeding paragraphs.

Absence of documented IT strategy and policy

4.11.2 A formulated and documented IT policy is essential to assess the time frame, key parameter indicators and cost benefit analysis for developing and integrating various functions.

We noticed that the Corporation did not formulate policies for implementation of IT system, computer security policy, change management control²⁸, storage of back-up data, disaster recovery and business continuity plan.

The Management stated (November 2011) that, in the absence of central server, ticket data was stored at depot level. Efforts were being made to install a server at Headquarters of the Corporation and effective control system was being developed to ensure completeness of field data. The reply is not convincing as the Management had not, *ab-initio*, defined parameters for data integration and interlinking of all depots and its monitoring at Headquarters level.

Absence of System Requirement Specification (SRS)

4.11.3 Introduction of IT system requires that SRS is well defined. The SRS guides the system design work so that only requisite hardware and software are purchased to avoid unnecessary expenditure.

The ITI suggested (2007-08) specific requirement of software designed on the platform of SQL server 2000, supported with Windows XP as back-end and Visual basic as front-end. The Corporation procured five computers with Windows XP operating system and 400 computer with Windows Vista pre loaded operating system. As other than Windows XP based systems were not fully compatible with SQL Server 2000, the Corporation formatted all Vista preloaded systems and re-installed unlicensed version of Windows XP operating system in all the 400 computers. Thus, the cost of Window Vista included in the cost of the systems became infructuous and the Corporation had to run its systems on unlicensed version of Windows XP which might attract penalty under the Indian Copyright Act, 1957.

The Management stated (November 2011) that Windows XP was lower version than the Windows Vista; therefore, the manufacturer had no objection to use Windows XP. It was further stated that after centralisation of software data, Windows Vista would be used. The fact, however, remains that the Corporation was using unlicensed version of Windows XP.

Implementation of IT system

4.11.4 The Board of Directors (BOD) had approved (September 2007) the tender documents containing condition that minimum average turnover during 2005-06 to 2007-08 of the partner firm of bidder should not be less than ₹ five crore. The Tender Committee, however, did not include this condition in the tender documents issued to bidders. As a result, the partner firm i.e. Micro Fx, Bangalore of ITI (the lowest bidder) having average turnover of only ₹ 2.55 crore got place for implementation of IT system in the Corporation who proved financially as well as technically weak.

²⁸ Change Management Control is to ensure that changes to a product or system are introduced in a controlled and coordinated manner.

The Management stated (November 2011) that the BOD had authorised the Tender Committee to review the terms and conditions of the tender. Therefore, it had revised the terms and conditions to get benefit of lowest rate through optimum competition. The reply is not convincing as deletion of the condition of turnover by the Tender Committee led to induction of financially and technically weak firm which could not deliver desired results of ETIM. The failures of partner vendor and inaction of the Corporation are discussed below:

- The vendor though did not supply 8,800 DC chargers valued at ₹ 13.20 lakh, the Corporation, however, had not recovered its cost from the vendor.
- The vendor had not maintained reserve of 10 *per cent* ETIMs at the centers and did not post two IT skilled persons in the Corporation for three years to handle all IT related problems as per terms of the Agreement. Thus, the vendor kept aside themselves from investing ₹ 52.52²⁹ lakh by not keeping reserve of 10 *per cent* ETIMs; saved expenses of two IT personnel and posed problems in maintenance.

As a result, 150 ETIMs remained out of order during June 2008 to March 2011, for repairing of these ETIMs; the vendor took more than 48 hours to 164 days against 48 hours as provided in the agreement. The Corporation, however, did not impose penalties of ₹ 14.26 lakh.

The Management in its reply (November 2011) did not render plausible explanation for ensuring availability of extra 10 *per cent* of ETIMs at service centers. In respect of not providing two IT skilled persons at Headquarters level and not imposing penalties, it was stated that recovery shall be made from the bills of vendor. The reply of the management is not convincing as the vendor failed to carry out the maintenance work by keeping 10 *per cent* reserve ETIMs and also did not deploy IT skilled persons which substantiates the fact that the vendor was financially and technically weak.

No specific reply had been submitted by the Management.

Input control and Validation checks

4.11.5 The system design and its operation should be adequate to capture the data from the inputs. In case of deficiencies in the input control and validation checks, there are possibilities of generation of incorrect tickets and the related data bank.

We checked the databank of 1,56,83,225 tickets and noticed that:

- Date of issue of tickets were not available in 88,635 tickets; date field indicated incorrect date format in 73,720 tickets. Date-field indicated that the tickets were generated between 1 January 01 and 1 January 51 in 3,964 tickets, which were not realistic. In numerous tickets, time field (HH:MM:SS) were indicated incorrect. Thus, the date, time and issue of tickets could not be identified from the database.
- Route numbers were not indicated in the field of route number in 6,179 tickets. In the absence of route numbers, routes on which buses plied cannot be known from the databank.
- Name of conductor and their ID numbers were missing in 255 and 15,79,550 cases respectively. The name of conductor who issued the tickets could not be identified from the data bank.

²⁹

880 ETIMs at the rate of ₹ 5,968.18 per ETIM.

- Against issue of 11,09,686 regular tickets, a total fare of ₹ 6,11,33,801 were charged; while in passengers field (adults and child), number of passengers was shown as zero. The exact number of passengers travelled could not be extracted from the data bank.

Thus, the data bank was not reliable and the Management could not get the correct information relating to movement of buses between the stages on routes; actual time being taken by the bus between origin and destination points; and exact numbers of tickets issued between a particular period and revenues collected from the passengers cannot be ascertained.

The Management stated (November 2011) that incorrect recording of date and time values were due to non-working of Real Time Clock Battery of the machines and non-storage of data in the specific data filed due to memory problem. Efforts were being made for early correction of such defects. The fact remains that the Management had not devised system of validation of data at the time of capturing ticketing data from ETIMs.

Application control

4.11.6 To ensure correctness, completeness and reliability of the database, it is necessary to ensure application of appropriate controls during the data entry. Such controls ensure that the data received for processing is genuine, complete, valid, accurate and properly authorised and the data transfer is done accurately without duplication of fields and all the fields are duly filled in before the data is committed in the system.

In accordance with the Government order (23 November 2009) for revision of basic fare, the Corporation revised (24 November 2009) its fare structure along with surcharges³⁰.

We noticed that:

- out of 90,38,801 tickets issued to adult passenger in ordinary services, basic fare were charged short by ₹ 3,91,818 in 52,663 tickets and excess by ₹ 1,39,79,396 in 2,06,778 tickets,
- fare amounting to ₹ 1,32,72,674 from 4,29,705 passengers in ordinary and Janta services was charged extra, and ₹ 11,99,301 from 4,63,471 passengers in Express and Janta services was charged less.

The Management accepted (November 2011) the facts and stated that excess/short charging of fare by ETIM was due to error of machine. The short fare charged was less than excess fare charged, so there was no financial loss. The reply of the Management is not acceptable as the Management has not indicated to make any efforts for rectification in software so as to calculate correct fare because motive of the Corporation is to charge accurate fare from the passengers.

- The Corporation decided to levy uniform toll tax of ₹ 1 per passenger from 24 November 2009 except passengers of Janta/sub-urban Bus Services. We noticed that, toll tax at the rate of ₹ 1 per ticket was not charged from 8,70,146 passengers out of 1,04,91,880 passengers

³⁰ Other than basic fare, Corporation levies surcharge for passenger accident funds, amenities, toll taxes. The surcharge was charged per passenger at the rate of ₹ 3 (up to 85 kilometers), ₹ 4 (86 to 100 kilometers), ₹ 6 (101 to 200 kilometers) and ₹ 8 (above 200 kilometers) up to 4 November 2009. The surcharge was increased by ₹ 1 due to induction of IT surcharge with effect from 5 November 2010 excluding distance covered up to 40 kilometers.

during the period from November 2009 to March 2011. This resulted in loss of ₹ 8,70,146 as the Corporation paid the toll tax.

The Management stated (November 2011) that necessary rectification in the software has been made by ITI. The reply of the Management is not acceptable as the Management did not notice the deficiencies in the software and get it rectified which led to loss to the Corporation for which no responsibility has been fixed.

- Amount involving fraction of 50 *paise* and above is rounded off to next higher rupee and fraction of less than 50 *paise* is ignored. We noticed in scrutiny of data bank for the period June 2008 to March 2011 that the software wrongly calculated fare at lower integer in 27,226 cases (tickets) when fare was in fraction of 50 *paise*. It calculated correctly in higher integer in 44,528 cases when fare was in fraction of 50 *paise* or more.

The Management accepted (November 2011) the facts and stated that suitable directions have been issued to concerned depots.

The Corporation plied different types of buses on various routes. Each route contains various stages (stoppage) between the origin station and end station. We noticed in scrutiny of master route files that, 69 stages which were common in two or more routes but showed different distances in different routes. The discrepancy in distances of common stages was seen not only in routes of different depots but also in routes of the same depot. Due to existence of different distances for common stages in master route file, the Corporation issued tickets of value less by ₹ 84,630 for 27,837³¹ passenger kilometers.

The Management assured that rectification of distances of stages/ routes shall be done by the concerned Regional Managers.

Internal Control System

4.11.7 Audit trails ensure storage of sufficient operations logs to enable reconstruction, review and examination of the time sequences of the operations and other activities surrounding or supporting operations in the IT based applications before adopting any IT related function.

We noticed that the Corporation did not ensure adequate internal control and monitoring mechanism as discussed in the preceding paragraphs. Central server was not installed at headquarter level for centralisation of ticket data of all depots and storage of entire data in a systematic manner. In the absence of centralisation of data, the Corporation was unable to use the data for planning, coordination and control purposes. Internal Audit Wing of the Corporation is not professionally skilled in respect of IT.

The Management stated (November 2011) that employees of Internal Audit Wing are being got acquainted with the working of computerized system to make internal control system more effective.

Recommendations

We recommend that the Management should:

- **formulate and document an IT Policy, IT security policy and business continuity plan to prevent changes/modifications in database without authorisation and recovery/immediate operation of data processing on occurrence of a disaster;**

³¹ Data shows that Corporation buses covered 11,71,719 passenger kilometers instead of 11,99,556 passenger kilometers during November 2009 to March 2011.

- strengthen input control and validation checks;
- use only licensed version of software;
- ensure compliance of fare structure issued by the Government/Corporation and its application in the software and survey of routes to ensure correct distance between two stations; and
- ensure compliance of terms and conditions of the agreement.

The matter was reported to the Government in August 2011; the reply has not been received (December 2011).

Uttar Pradesh Forest Corporation

4.12 Loss due to non recovery of tree roots

The Corporation suffered loss of ₹ 70.02 lakh due to its failure to ensure return of root of trees felled for widening of national highways.

The Uttar Pradesh Forest Corporation (Corporation) was directed (January 2007) by the Government of Uttar Pradesh to supervise the work of cutting of trees causing obstruction in the work of widening of National Highways and transportation of produced timber, firewood and roots to the nearest depots of the Corporation. For this purpose, Forest Department allotted (2004-05 to 2009-10) 786 lots comprising 1,07,376 trees to the Corporation. National Highways Authority of India (NHAI) submitted (March 2007) to the Corporation the list of stretches of National Highways where the tree-cutting was to be done by them. The Corporation allotted felling of 52,664 trees to NHAI and remaining 54,712 trees were to be felled by the Corporation itself.

We noticed the following points:

- NHAI felled 52,664 trees³² up to March 2010 for widening the National Highways under the jurisdiction of nine units of the Corporation and returned only 460 roots to the Corporation which were sold for ₹ 24,100. Remaining 52,204 roots were not returned by NHAI for which no action was taken by the Corporation.
- The Corporation felled 54,712 trees³³ up to March 2010 but no roots were received back to its depots. Only in one case of Lucknow logging Unit, where instruction for uprooting the root of 10 trees was given in the allotment letters of Forest Department, recovery had been made from Divisional Logging Manager due to non-collection of above roots.
- In case of felling of 8,346 trees in Gonda District, Divisional Forest Officer, Faizabad (Forest Department) uprooted and collected the roots and accounted for in its own stock. The above roots were to be uprooted by the Corporation and it should have taken as its own stock. No action had, however, been taken to recover its sale value from Forest Department by the Corporation.

³² Lucknow- 1936, Gonda- 1804, Allahabad- 1029, Jhansi- 12673, Gorakhpur- 27317, Padrauna- 7445, Meerut- 460: Total- 52664 trees

³³ Lucknow-11814, Gonda-6542, Jhansi-804, Gorakhpur-9512, Padrauna-7845, Hardoi-1010, Kanpur-9264, Meerut-7921: Total- 54712 trees

As a result of above, the Corporation suffered loss of ₹ 70.02 lakh³⁴ due to non recovery of 1,06,906³⁵ roots.

The Management stated (April 2011) that roots were uprooted only where the Forest Department had specifically mentioned to do so. Where specific mention for uprooting the roots was not made, Corporation had not uprooted the roots and, therefore, it did not suffer any financial loss. The reply of the Management is not acceptable as, in the Government order, it was clearly stated that roots were to be uprooted and transported to the nearest depots of the Corporation. Further, in the absence of any specific mention about uprooting the roots in sale letter of Forest Department, the specific permission for uprooting the roots should have been taken by the Corporation from the Forest Department so as to make the terms and conditions clear to avoid financial losses.

The matter was reported to the Government in April 2011; their reply has not been received (December 2011).

Uttar Pradesh Avas Evam Vikas Parishad and Uttar Pradesh State Industrial Development Corporation

4.13 Non recovery of Trade Tax/VAT

UPAVP and UPSIDC became liable to pay Trade Tax/VAT of ₹ 32.87 lakh along with interest and penalty of ₹ 32.24 lakh from own sources due to not recovering and depositing Trade Tax/VAT on sale of tender, application forms and brochures for allotment of land/ houses.

As per the Government of Uttar Pradesh letter dated 12 February 1997 and the decision (22 August 2006) of Hon'ble Trade Tax Tribunal, Noida, sale of application forms/brochures for allotment of land/house and tender forms was taxable under U.P. Trade Tax Act, 1948 (UPTT Act). After enactment of Uttar Pradesh Value Added Tax, 2008 (UPVAT Act), the Trade Tax Commissioner, Government of Uttar Pradesh vide circular dated 26 March 2008, further clarified that printed material and tender forms were taxable³⁶. Section 8 of the UPTT Act 1948 and Section 33 of UPVAT Act, 2008 provides that simple interest at the rate of 24 per cent per annum (14 per cent per annum from 12 August 2004) and 15 per cent per annum respectively shall become due and be payable on the unpaid amount of Tax. In addition to above, penalty at the rate of 50 per cent and 20 per cent of the Tax payable under UPTT Act and UPVAT Act respectively shall be charged by the competent authority for non deposit of Tax due for any period within the prescribed time.

We noticed (March 2011) that Uttar Pradesh Avas Evam Vikas Parishad³⁷ (UPAVP) and Uttar Pradesh State Industrial Development Corporation Limited³⁸ (UPSIDC) sold tender, application forms and brochures for allotment of land/ houses to individuals/ entrepreneurs but did not recover Trade Tax/ VAT applicable on sale of those printed materials. As a result,

³⁴ calculated at the rate of ₹ 65.50 per root (After excluding expenditure of cutting, transportation, storage etc.) as worked out by the Sitapur Forest Division

³⁵ 107376 tress minus 470 trees.

³⁶ Sale of tender/application forms/brochures attracts Trade Tax @ 10 per cent up to December 2007 under U.P. Trade Tax Act 1948 and @ 4 per cent up to May 2009, 4.5 per cent (including 0.5 per cent Additional Tax) up to 18 February 2010 and thereafter 5 per cent (including 1 per cent Additional Tax) under VAT Act, 2008.

³⁷ Through its 36 divisions, 19 Estate Management Offices and Headquarters office.

³⁸ Through its Regional Offices (Agra, Tronica City, Lucknow, Ghaziabad, EPIP, Aligarh, Bareilly, Gorakhpur, Allahabad, Moradabad, Jhansi, Varanasi and Meerut) and Headquarters office.

UPAVP and UPSIDC became liable to pay the Tax from own sources besides interest and penalty on unpaid amount of Tax as detailed below in the table:

(Amount in ₹)

Name of Company	Period	Amount recovered from sale of tender/application forms/ brochures	Recoverable amount of Trade Tax/VAT on sale	Amount of Trade Tax/VAT recovered	Unpaid amount of Tax	Amount of additional liability of interest	Amount of penalty leviable	Total (6+7+8)
1	2	3	4	5	6	7	8	9
UPAVP	2005-06 to 2009-10	26486169	1823081	356161	1466920	745157	641482	2853559
UPSIDC	2003-04 to 2010-11	21925815	1820578	Nil	1820578	1013791	823548	3657917
Total		48411984	3643659	356161	3287498	1758948	1465030	6511476

Since there is no possibility of recovering the Tax from the purchasers of these forms, the UPAVP and UPSIDC are liable for payment of Trade Tax/VAT of ₹ 32.87 lakh along with interest and penalty of ₹ 32.24 lakh.

The Management of UPAVP did not furnish reply to our observation. The Management of UPSIDC stated (March 2011) that as per Commercial Tax Department letter (4 January 1981), Trade Tax was not applicable on tender forms and tender and application forms both were of similar type of printed material, hence, Tax was not recovered on sale of application forms. It further stated that Tax was recovered on sale of printed material after implementation of UPVAT Act.

The reply of the Management is not acceptable because Tax was applicable on sale of tender, application forms and brochures with effect from September 1985 as clarified in the Government letter of February 1997 read with the decision (22 August 2006) of Hon'ble Trade Tax Tribunal. Further, the UPSIDC had not recovered Tax on sale of printed material up to 2010-11 as shown in the statements provided by the UPSIDC to us.

We recommend that the UPAVP and UPSIDC should adhere to the provisions of the UPVAT Act and recover and deposit Trade Tax/VAT on printed materials and tender forms so as to avoid payment of interest and penalty.

The matter was reported to the Government in July 2011; their reply is awaited.

General

4.14 Follow up action on Audit Reports

4.14.1 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 2005-06 to 2009-10 were placed in the State Legislature in May 2007, February 2008, February 2009, February 2010 and August 2011 respectively. Out of 153 paras/Performance Audit involving PSUs under 27 Departments featured in the Audit Reports (Commercial) for the years from 2005-06 to 2009-10, no replies in respect of 104 paras/Performance Audit have been received from the Government by 30 September 2011 as indicated below:

Year of Audit Report	Total Paragraphs/ Performance Audit in Audit Report	No. of departments involved	No. of paragraphs/ Performance Audit for which replies were not received
2005-06	40	17	28
2006-07	37	13	26
2007-08	33	9	16
2008-09	27	22	22
2009-10	16	7	12
Total	153		104

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)

4.14.2 In the Audit Reports (Commercial) for the years 1999-2000 to 2009-10, 333 paragraphs and 46 Performance Audit were included. Out of these, 122 paragraphs and 21 Performance Audit had been discussed by COPU up to 30 September 2011. COPU had made recommendations in respect of 102 paragraphs and 20 Performance Audit of 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

4.14.3 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 audited entity. The results thereof in respect of Government Companies are given in *Annexure-33* and in respect of Statutory corporations are given in *Annexure-34*.

Response to Inspection Reports, Draft Paragraphs and Performance Audit

4.14.4 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 2011 pertaining to 56 PSUs disclosed that 11306 Paragraphs relating to 2897 Inspection Reports remained outstanding at the end of September 2011. Department-wise break-up of Inspection Reports and audit observations outstanding at the end of 30 September 2011 are given in *Annexure-35*.

Similarly, Draft Paragraphs and Performance Audit 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 two Performance Audit Reports forwarded to the various departments between

March and November 2011, the Government had not replied to any draft paragraphs/performance audit reports so far (December 2011), 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/Performance Audit 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
The**

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