

CHAPTER-II

2. Performance Audit relating to State Public Sector Undertakings

2.1 Performance Audit of Uttar Pradesh Power Transmission Corporation Limited

Executive summary

Introduction

Transmission of electricity and Grid operation in Uttar Pradesh are managed by Uttar Pradesh Power Transmission Corporation Limited (Company) and State Load Dispatch Centre. As on 31 March 2007, the Company had a transmission network of 21,619 Circuit Kilometer (Ckm) and 276 Extra High Tension Sub-stations (SSs) which rose to 25,064.90 Ckm lines and 357 SSs with installed capacity of 53,338 Mega Volt Ampere (MVA), by 31 March 2012. The quantity of energy transmitted increased from 51,472.14 MUs in 2007-08 to 70,029.47 MUs in 2011-12.

Planning and Development

The Company prepared the Annual Plan for capacity addition and augmentation. The capacity addition of SSs and lines did not meet the targets, as only 81 SSs and 3,445.90 Ckm lines were constructed during the period of five years against the planned addition of 222 SSs and laying of 12,877 Ckm of lines. The shortfall was due to delay in completion of the projects.

Project management

The Company could not complete its projects as per schedule due to time overrun ranging between one month and 216 months resulting into cost overrun of ₹105.02 crore during the period 2007-12. The time overruns were attributable to delay in land acquisition, getting approval from railways and in getting forest clearance etc.

The Company failed to assess load requirement and constructed two SSs of under capacity. Subsequently, capacity of SSs, was increased by incurring extra expenditure of ₹13.75 crore.

Procurement

The Company incurred extra expenditure of ₹4.73 crore due to failure to enforce vital clause of contract in two cases. Further, due to wrong calculation of equated price for counter offer the

Company incurred extra expenditure of ₹17.12 crore.

Implementation of projects

Construction of SSs as well as lines was generally awarded on turnkey basis through open tenders. The Company incurred extra expenditure of ₹158.78 crore due to inclusion of supply of transformer in turnkey contract in contravention of Best Practices in Transmission System as notified by Ministry of Power, Government of India, award of contracts at higher rates, splitting of tender in two packages and non-standardisation of tower design.

The Company did not recover supervision charges of ₹63.66 crore in two cases.

Performance of the transmission system

The overall transmission capacity of the Company (excluding 30 per cent towards redundancy) was in excess of the requirement for every year except 2007-08. The Company failed to ensure maximum and minimum voltages as per norms. Out of 255 feeders in four Zones, 68 feeders were loaded above 366 ampere. Out of 67 SSs of 220KV (49 single bus bar SSs and 18 double bus bar SSs), Bus Bar Protection Panel was provided at 18 SSs out of which only three were in working condition.

Adequacy of Sub-stations

The Company exceeded the permissible maximum capacity of transformers in five numbers of 220 KV and one numbers of 132 KV SSs. The Company was having four numbers 220 KV SSs and 48 numbers 132 KV SSs with single transformer against the norms of at least two transformers.

Grid Management

Out of 357 SSs and nine generators, only 93 SSs (26.05 per cent) and nine generators were provided Remote Terminal Units. Further, the Company received 122 (A type), 107 (B type) and 21 (C type) messages from Northern Regional load Dispatch Centre for violation of Grid norm

during August 2010 to March 2012. Violations of the Grid discipline led to levy of penalty of ₹9.10 crore by CERC.

Financial Management

The Company incurred losses in all the five years and accumulated losses increased from ₹ 991.08 crore to ₹ 1,183.82 crore during the period of Performance Audit. Further, the debt equity ratio increased from 1.11:1 to 1.23:1.

Tariff Fixation

The Annual Revenue Requirement (ARRs) were filed by the Company with delay ranging between 117 and 482 days during the period of Performance Audit except 2008-09.

Material Management

Despite decision of the Board of Directors, the Company did not dispose off 51 damaged and uneconomical transformers lying since 2001. The closing stock of the Company increased from ₹290.17 crore in 2007-08 to ₹606.51 crore in 2011-12. The closing stock was equal to 13 months to 21 months of the consumption.

Conclusion and Recommendations

The Company failed to achieve its planned capacity addition registering huge shortfall, completed the projects with time and cost overruns, failed to synchronise construction of evacuation system with

generation plan and managed evacuation of power through exiting transmission system, constructed SSs and lines without proper load requirement resulting in underutilisation, constructed SSs with single transformers which was contrary to the provisions of Manual of Transmission Planning Criteria. The voltage management system did not correspond to the norms prescribed in Grid Code and Grid Discipline was not followed and the Company did not have adequate safety measures and the infrastructure for disaster management.

We made six recommendations to ensure implementation of annual plan for capacity addition and timely completion of projects as planned, plan for evacuation system to synchronise with that of the generation system, ensure adherence to the standards/norms fixed in MTPC/Best Practices in Transmission Systems for effective functioning and maintenance of transmission network, ensure adequate disaster management and install recommended system to protect the lines and SSs, and maintain SLDC as per Grid Code and ensure that all generators and SSs are connected to SLDC through RTUs on real time basis for safety and security of the Grid. The frequency levels should be adhered to avoid Grid indiscipline.

Introduction

2.1.1 With a view to supply reliable and quality power to all by 2012, the Government of India (GoI) prepared the National Electricity Policy (NEP) in February 2005 which stated that the Transmission System required adequate and timely investment besides efficient and coordinated action to develop a robust and integrated power system for the country. It also, *inter-alia*, recognized the need for development of National and State Grid with the coordination of Central/State Transmission Utilities. Transmission of electricity and Grid operations in Uttar Pradesh are managed and controlled by Uttar Pradesh Power Transmission Corporation Limited (Company) which is mandated to provide an efficient, adequate and properly coordinated Grid management and transmission of energy. The Company was incorporated on 31 May 2004 under the Companies Act, 1956 as Uttar Pradesh Vidyut Vyapar Nigam Limited which was rechristened on 13 July 2006 as Uttar Pradesh Power Transmission Corporation Limited. It reports to the Energy Department of Government of Uttar Pradesh.

2.1.2 The Management of the Company is vested with a Board of Directors comprising five members appointed by the State Government. The day-to-day operations are carried out by the Managing Director who is the Chief Executive of the Company with the assistance of Director (Operation), Director (Works and Projects), Director (Commercial), Director (Finance), Director (Administration & Human Resources) and Company Secretary. During 2007-08, 51,472.14 MUs of energy was transmitted by the Company

which increased to 70,029.47 MUs in 2011-12, i.e. an increase of 36 per cent during 2007-12. As on 31 March 2012, the Company had transmission network of 25,064.90 Circuit Kilometers (Ckm) and 357 sub-stations (SSs) with installed capacity of 53,338 MVA, capable of transmitting 1,55,266* MUs annually at 220 KV. The turnover of the Company was ₹ 1,028.55 crore in 2011-12, which was equal to 0.15 per cent of the State Gross Domestic Product (₹ 6,87,836.28 crore). It employed 5,852 employees (51 per cent against the sanctioned strength of 11,393) as on 31 March 2012.

A Performance Audit on Extra High Tension Lines (EHT) and connected Sub-stations in Uttar Pradesh Power Corporation Limited^N was included in the Report of the Comptroller and Auditor General of India (Commercial), Government of Uttar Pradesh for the year ended 31 March 2005. The Report was discussed by Committee on Public Undertakings (COPU) in April and July 2010. The recommendations of the COPU are yet to be received (February 2013).

Scope and methodology of audit

2.1.3 The present Performance Audit conducted during February 2012 to August 2012 covers performance of the Company during 2007-08 to 2011-12. Audit examination involved scrutiny of records of different wings at the Headquarters of the Company, State Load Despatch Centre (SLDC), all the four Zones^{sr}, each headed by Chief Engineer and 36 out of 137 Accounting Units each headed by Superintending/Executive Engineers.

The Company constructed 81 Sub-stations (SSs) (capacity: 6,020 MVA) and 147 lines (length: 3,445.90 Ckm) as well as augmented existing transformation capacity by 11,063 MVA during the period of Performance Audit. Out of these, records of 39 SSs (capacity: 4,820 MVA) and 41 lines (length: 591.33 Ckm) were examined.

Selection of the Accounting Units was done on random number basis by using Random Number Table of National Sample Survey Organisation and 36 Accounting Units out of 137 Accounting Units (26 per cent approx.) were selected for test check apart from the records of the Headquarters of the Company.

The methodology adopted for attaining audit objectives with reference to audit criteria consisted of explaining audit objectives to top Management, scrutiny of records at Head Office and selected Units, inter-action with the personnel of audited Units, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft Performance Audit report to the Management/Government for comments.

Audit objectives

2.1.4 The objectives of the Performance Audit were to assess whether:

- Perspective Plan was prepared in accordance with the guidelines of the National Electricity Policy/ Plan and Uttar Pradesh Electricity Regulatory Commission (UPERC) and assessment of impact of failure to plan, if any;

* 19,640 MVAx0.9x24x366/1000

^N Activities of transmission remained with Uttar Pradesh Power Corporation Limited till 31 March 2007 after unbundling of erstwhile Uttar Pradesh State Electricity Board.

^{sr} Transmission East Zone, Allahabad, Transmission Central Zone, Lucknow, Transmission South Zone, Agra and Transmission West Zone, Meerut.

- the transmission system was developed and commissioned in an economical, efficient and effective manner;
- operation and maintenance of transmission system was carried out in an economical, efficient and effective manner;
- Disaster Management System was set up to safeguard its operations against unforeseen disruptions;
- effective failure analysis system was set up;
- there existed effective and efficient Financial Management system with emphasis on timely raising and collection of bills and filing of Annual Revenue Requirement (ARR) for tariff revision in time;
- efficient and effective system of procurement of material and inventory control mechanism was in place;
- efficient and effective energy conservation measures were undertaken in line with the National Electricity Plan (NEP) and establishment of Energy Audit System; and
- there was a monitoring system in place to review existing/ ongoing projects and to take corrective measures to overcome deficiencies.

Audit criteria

2.1.5 The audit criteria adopted for assessing the achievement of the audit objectives were:

- Provisions of National Electricity Policy/Plan and National Tariff Policy;
- Standards set in Perspective Plan and Project Reports of the Company;
- Standard procedures prescribed for award of contracts with reference to principles of economy, efficiency, effectiveness and ethics;
- Time schedule prescribed for filing of Annual Revenue Requirement (ARR) with UPERC for tariff fixation, instructions/ provisions of Circulars, Manuals and reporting in MIS;
- Manual of Transmission Planning Criteria (MTPC);
- Codal provisions of Technical Interface (CTI)/ Grid Code consisting of planning, operation, connection codes;
- Directives of State Government / Ministry of Power (MoP);
- Norms/Guidelines issued by UPERC/Central Electricity Authority (CEA);
- Report of the Task force constituted by the Ministry of Power to analyse critical elements in transmission project implementation;
- Recommendations of the Committee constituted by the Ministry of Power recommending “Best Practices in Transmission”; and
- Reports of Regional Load Dispatch Centre (RLDC).

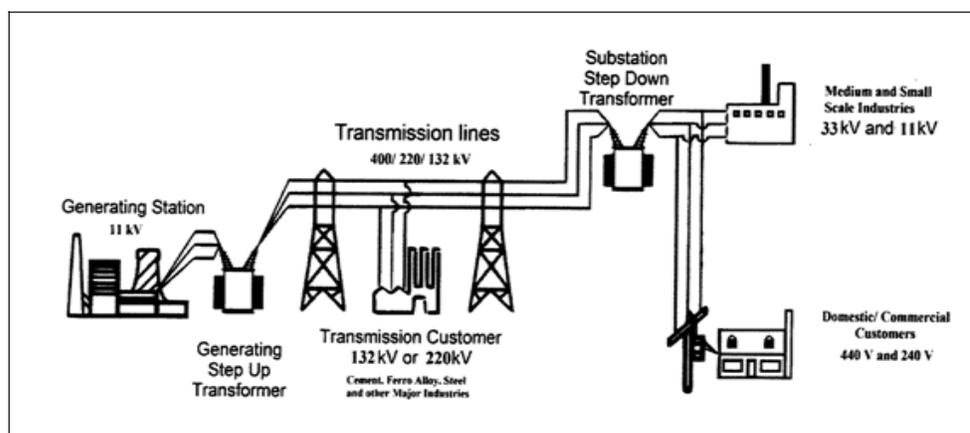
Brief description of transmission process

2.1.6 Transmission of electricity is defined as bulk transfer of power over long distances at high voltages, generally at 132 KV and above. Electric power generated at relatively low voltages in Power Plants is stepped up to high voltage power before it is transmitted to reduce the loss in transmission and to increase efficiency in the Grid. The sub-stations (SSs) are facilities within the high voltage electric system used for stepping-up/ stepping down

voltages from one level to another, connecting electric systems and switching equipment in and out of the system. The step up transmission SSs at the generating stations use transformers to increase the voltages for transmission over long distances.

Transmission lines carry high voltage electric power. The step down transmission SSs, thereafter, decreases voltages to sub transmission voltage levels for distribution to consumers. The distribution system includes lines, poles, transformers and other equipment needed to deliver electricity at specific voltages.

Electrical energy cannot be stored; hence generation must be matched to need. Therefore, every transmission system requires a sophisticated system of control called Grid management to ensure balancing of power generation closely with the demand. A pictorial representation of the transmission process is given below:



Audit findings

2.1.7 We explained the audit objectives to the Company during an ‘Entry Conference’ held on 27 March 2012. Subsequently, audit findings were reported to the Company and the State Government in August 2012 and discussed in an ‘Exit Conference’ held on 03 January 2013. The Exit Conference was attended by Special Secretary, Energy Department of Government of Uttar Pradesh, Director (Finance), Director (Operation) and Director (Works and Projects) of the Company. While the replies of the Government were awaited, the replies from the Company were received. The views expressed by them have been considered while finalising this Performance Audit Report. The audit findings are discussed in subsequent paragraphs.

Planning and development

National Electricity Policy/Plan

2.1.8 The Central Transmission Utility (CTU) and State Transmission Utilities (STUs) have the key responsibility of network planning and development based on the National Electricity Plan in coordination with all the concerned agencies. At the end of Tenth Plan (March 2007), the transmission system in the country at 765/HVDC/400/230/220/KV stood at 1.98 lakh circuit kilometers (Ckm) of transmission lines which was planned to increase to 2.93 lakh Ckm by the end of Eleventh Plan i.e. March 2012. The National Electricity Plan assessed the total inter-regional transmission capacity

at the end of 2006-07 as 14,100 MW and further planned to add 23,600 MW in Eleventh plan bringing the total inter-regional capacity to 37,700 MW.

Similarly, the Company's transmission network at the beginning of 2007-08 consisted of 276 Extra High Tension (EHT) SSs with a transmission capacity of 36,255 MVA and 21,619 Ckm of EHT transmission lines. The transmission network as on 31 March 2012 consisted of 357 EHT SSs with a transformation capacity of 53,338 MVA and 25,064.90 Ckm of EHT transmission lines.

The Company is responsible for planning and development of the intra-state transmission system. Assessment of demand is an important pre-requisite for planning capacity addition. The Company prepared annual State Electricity Plan (SEP) for transmission and submitted to the State Government who in turn incorporated it in the State Annual Plan.

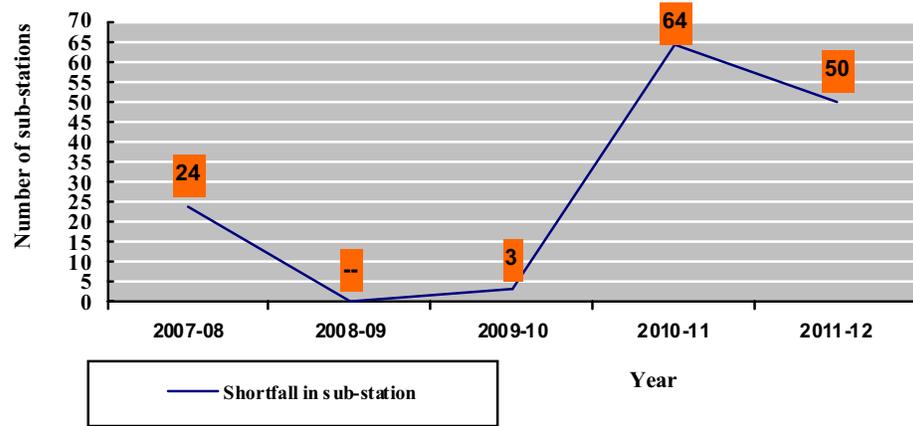
Transmission network and its growth

2.1.9 The transmission capacity of the Company at EHT level during 2007-08 to 2011-12 is given in the following table:

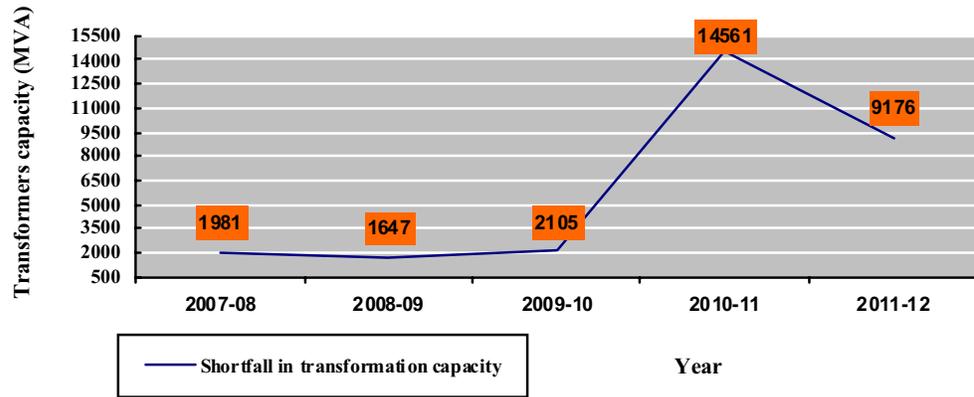
Sl. No	Description	2007-08	2008-09	2009-10	2010-11	2011-12	Total
A. Number of Sub-stations (Numbers)							
1	At the beginning of the year	276	285	310	331	346	-
2	Additions planned for the year	33	25	24	79	61	222
3	Added during the year	09	25	21	15	11	81
4	Total sub stations at the end of the year (1+3)	285	310	331	346	357	
5	Shortfall in additions (2-3) (percentage)	24 (73)	NIL (NIL)	03 (13)	64 (81)	50 (82)	141 (64)
B. Transformers capacity (MVA)							
1	Capacity at the beginning of the year	36255	38254	41717	44895	48984	
2	Additions/ augmentation planned for the year	3980	5110	5283	18650	13530	46553
3	Capacity added during the year	1999	3463	3178	4089	4354	17083
4	Capacity at the end of the year (1+3)	38254	41717	44895	48984	53338	
5	Shortfall in additions/ augmentation (per centage)	1981 (50)	1647 (32)	2105 (40)	14561 (78)	9176 (68)	29470 (63)
C Transmission lines (Ckm)							
1	At the beginning of the year	21619	22339	22956	23637	24474	
2	Additions planned for the year	1400	1596	1585	4090	4206	12877
3	Added during the year	720	617	681	837	590.90	3445.90
4	Total lines at the end of the year (1+3)	22339	22956	23637	24474	25064.90	
5	Shortfall in additions (2-3) (per centage)	680 (49)	979 (61)	904 (57)	3253 (80)	3615.10 (86)	9431.10 (73)

The particulars of voltage-wise capacity additions planned, actual additions, shortfall in capacity etc., during the period of Performance Audit are given in **Annexure-7**.

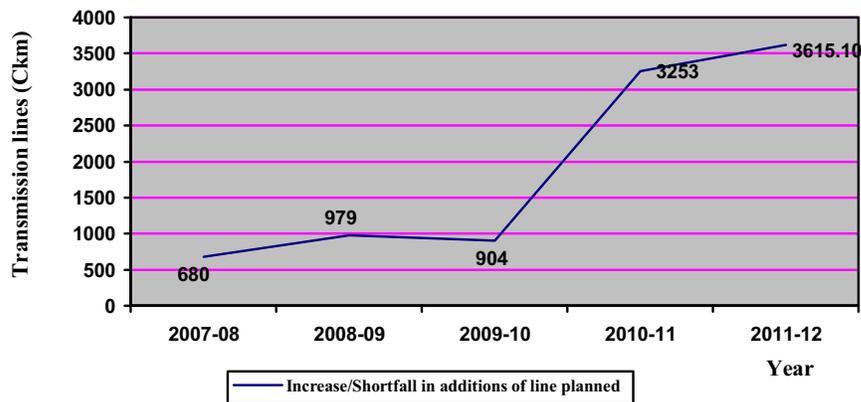
Line Graph: Trend of shortfall in addition of Sub-stations in numbers



Line Graph: Trend of shortfall in accretion to transformation capacity



Line Graph: Increasing trend in shortfall in addition of lines in Circuit Kilometers.



We noticed that the Annual Plans were made in isolation and not correlated with the projected annual growth of power demand and supply (including both generated capacity and power purchased). The Company, however, planned the capacity addition during the year in terms of SSs and associated lines in the respective years without considering the number of SSs and lines actually under construction.

We, further, noticed that against the targeted construction of 222 EHT SSs and laying of 12,877 Ckm of EHT lines, the Company constructed 81 EHT SSs

and 3,445.90 Ckm EHT lines during the five year period with an achievement of 36 *per cent* and 27 *per cent* respectively. The transmission capacity of 17,083 MVA was added against 46,553 MVA planned for addition for the five year period ending 2011-12.

There was shortfall of 13 to 82 *per cent*, in construction of SS and 49 to 86 *per cent* in construction of lines.

There were short falls in achievement of addition of SS ranging between 13 and 82 *per cent* (except 2008-09), shortfall in transformation capacity ranging between 32 and 78 *per cent* and in addition of lines ranging between 49 and 86 *per cent* during the period of five years.

From the above, it is clear that planning of capacity addition for the year did not have any correlation with the actual capacity addition.

The Management stated (December 2012) that the plan for expansion was prepared on the basis of load growth in different areas and the Transmission Wing regularly interacts with Distribution Wing. It was further stated that while preparing the Plan Document, the number of new work was taken on the basis of past trend and future requirement but exact plan was not provided in the Plan Document. The reply is not acceptable as the Plan Document should be prepared in totality by linking with generation plan including power purchase to distribution requirement and power available for transmission.

Project management of transmission system

2.1.10 A transmission project involves various activities from concept to commissioning. Major activities in a transmission project are (i) Project formulation, appraisal and approval phase; and (ii) Project Execution Phase including Contract Management. For reduction in project implementation period, the Ministry of Power, Government of India constituted a Task Force on transmission projects (February 2005) with a view to:

- analyse the critical elements in transmission project implementation,
- implementation from the best practices of CTU and STUs, and
- suggest a model transmission project schedule for 24 months' duration.

The Task Force suggested and recommended (July 2005) the following remedial actions to accelerate the completion of Transmission systems.

- Undertake various preparatory activities such as surveys, design and testing, processing for forest and other statutory clearances, tendering activities etc. in advance/parallel to project appraisal and approval phase and go ahead with construction activities once Transmission Line Project sanction/approval is received;
- Break the transmission projects into clearly defined packages such that the packages can be procured and implemented requiring least coordination & interfacing and at same time it attracts competition facilitating cost effective procurement; and
- Standardise designs of tower fabrication so that time of 6 to 12 months can be saved in project execution.

The shortcomings in execution of projects with regard to recommendations of the Task Force, as noticed, are discussed in succeeding paragraphs:

Time and cost overrun

2.1.11 We noticed that in variance with the guidelines issued by the Task Force, the transmission projects were broken into packages and the Company allotted the packages to different contractors but did not undertake various preparatory activities such as surveys, design and testing, processing for forest

and other statutory clearances, tendering activities etc. in advance/parallel to project appraisal and approval phase which culminated in abnormal delays in execution of the projects. It was further noticed that the Company failed to execute several SSs and Lines during 2007-12 as per the details given in the table below:

Capacity in KV	Total Number Constructed		Number test checked by Audit		Delay in construction (Numbers)		Time overrun* (range in months)		Cost overrun (₹ in crore)	
	SSs	No. of Lines (Ckm)	SSs	No. of Lines (Ckm)	SSs	Lines	SSs	Lines	SSs	Lines
765	1	1 (1.9)	1	1 (1.9)	1	NIL	10	NIL	NIL	NIL
400	NIL	NIL (NIL)	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
220	19	25 (976)	10	9 (133.45)	9	9	3-78	9-78	22.11	20.89
132	61	121 (2468)	28	31 (455.98)	27	28	1-216	4-216	19.72	42.30
Total	81	147 (3445.9)	39	41 (591.33)	37	37			41.83	63.19

(Source: Annual Plan of the Company and Status Report of the Project completed)

As could be seen from the above:

Delay of one to 216 months in construction of 37 SSs and 41 lines resulted in cost overrun of ₹ 105.02 crore.

- out of 39 SSs test checked in audit, 37 SSs (95 per cent) were completed with time overrun ranging between one month and 216 months which led to cost overrun of ₹ 41.83 crore.
- out of 41 lines test checked in audit 37 lines (90 per cent) were completed with time overrun between four months and 216 months which led to cost overrun of ₹ 63.19 crore.

Main reasons of time and cost overrun, as analysed by us, were delay in acquisition of land, slow progress of allotment of material, lack of coordination between civil and transmission wings, handing over of site, Right of Way (ROW) problems, delay in obtaining clearances from Ministry of Environment and Forest and delays by the Contractors in executing the works as detailed in **Annexure-8** and **9**.

The Management stated (December 2012) that the construction projects were generally undertaken on the basis of the design/drawing already available with the Company. The development of new design was required only in certain circumstances where the existing design/ drawing did not fulfill the requirement of the project. The tender process was initiated immediately after the approval of project accorded by Transmission Works Committee (TWC). In case of transmission lines, the processing of forest, road, railway and river crossing cases etc. could be taken up only after finalisation of economic route, detailed survey and profiling of line. The problem of ROW was more aggravated when survey of the line was carried out well in advance of actual construction work. Therefore, taking the date of approval of TWC as date of start of work was not correct. We do not agree as the proposal for TWC was prepared after survey of line and TWC itself mentioned the date of completion of the work in its reports. Thus, the necessary clearances could have been processed before start of work to reduce project implementation period as suggested by the MOP, Government of India.

Few interesting cases came to notice are discussed below:

Construction of under capacity sub-stations

2.1.12 We noticed that the Company failed to assess load requirement and constructed under capacity SSs due to deficient planning. Resultantly, it had to increase capacity of SSs subsequently, resulting in avoidable expenditure of ₹ 13.75 crore as detailed in the table below:

* Test checked in audit.

(Cost: ₹ in crore)

Name of SSs	Capacity required	Particulars of initially planned and constructed SSs				Particulars of Increasing Capacity				Avoidable Expenditure
		Capacity	DOS [±]	DOC [∞]	Cost	Capacity	DOS	DOC	Cost	
132/33KV SS, Hapur Road, Meerut	65MVA	2x20 MVA	September 2006	January 2009	8.19	2x40 MVA	August 2009	January 2011	5.62	0.63 [∞]
220/132KV SS Loni Ghaziabad	325MVA	2x100 MVA	July 2007	September 2008	22.60	2x160 MVA	August 2009	February 2011	17.22	13.12 [∞]

The Management stated (December 2012) that:

- the construction of 132/33 KV SS, Hapur (2x20 MVA) was completed in January 2009 but due to development done by Meerut Development Authority, increasing capacity of SS was planned in 2008-09. The reply is not acceptable as the planning for creation of SS should have been done to cater the load growth at least for next five year as envisaged in the Detailed Project Report.
- the construction of 220/132 KV SS, Loni was approved by TWC with standard transformation capacity of 220 KV SS i.e. 2x100 MVA to meet existing load of 132/33 KV SS, Loni and load growth of next five year. During the period 2005-10, demand of electricity rose exceptionally due to high industrial growth, therefore, increasing capacity was approved.

We are not convinced as high industrial growth of the area was started in 2005 and project was started in July 2007, the future load demand of the area should have been assessed with reference to upcoming development in the area rather to use standard transformation capacity.

Construction of 220/132KV SS at NOIDA

2.1.13 Transmission Works Committee (TWC) approved (August 2007) construction of 220KV SS at Sector-129, NOIDA with 2x160MVA (220/132KV) plus 2x40MVA (132/33KV) transformers at a cost of ₹ 59.87 crore under deposit work of NOIDA* along with 220 KV DC line (25Kms) from Greater NOIDA to Sector-129, NOIDA at a cost of ₹ 12.33 crore line with scheduled completion by December 2008. Construction of SS and line was completed in June 2011 with a delay of 30 months at a cost of ₹ 38.25 crore and ₹ 10.84 crore respectively. We noticed that, during the construction of line, forest clearance was required and a demand of ₹ 20.84 crore was raised by the Forest Department against which ETD-I, NOIDA paid ₹ 5.73 crore. While providing the estimate to NOIDA, ETD-I, NOIDA not only failed to include the estimated cost of forest clearance but also to mention that any amount spent on this account would be charged as per actual. As there was no mention of this cost in the estimate, NOIDA did not acknowledge any claim on this account. As a result, the Company had already suffered loss of ₹ 5.73 crore due to preparation of wrong estimate of work and has a further liability of ₹ 15.11 crore.

The Company suffered loss of ₹ 5.73 crore and further liability of ₹ 15.11 crore due to non-inclusion of forest clearance costs in the Deposit Work estimates.

[±] Date of start

[∞] Date of completion

[∞] Cost of increasing capacity of ₹ 5.62 crore minus ₹ 4.99 crore {differential cost of 2 x 40 MVA S/S (₹ 14.61 crore) and 2 x 20MVA S/S (₹ 9.62 crore)}

[∞] Cost of increasing capacity of ₹ 17.72 crore - ₹ 4.60 crore (Cost of 2 x 160MVA S/S ₹ 36.70 crore minus cost of 2 x 100 MVA S/S ₹ 32.10 crore = ₹ 4.60 crore)

* NOIDA : New Okhla Industrial Development Authority

The Management stated (December 2012) that the demand for executed expenditure was under process with NOIDA. The reply, however, did not address the issue of non-inclusion of the forest clearance cost in the estimates.

Construction of 220KV SS, Jhansi

2.1.14 According to Circular No 3 of 1990 of Directorate of Air Route and Aerodromes (DARA) (Ops), High Tension/Low Tension lines could not be erected within 3 km from approach/take off, climb areas of the inner edge of the area of Airfield.

The Company, out of four available sites, selected (May 2005) the site at Simaradha, Jhansi for construction of 220KV SS located within the radius of 1.25 km from the Airfield of 664 Army Aviation Squadron.

The Company, without obtaining NOC, started construction of SS and incurred wasteful expenditure of ₹ 5.89 crore.

TWC, without obtaining No Objection Certificate, approved (July 2006) construction of 220/132KV SS[‡] along with associated lines at an estimated cost of ₹ 41.07 crore. The Company started (August 2007) construction of SS and lines which was protested (December 2007) by the Army Aviation Squadron.

We noticed that even after the protest of Army Aviation Squadron in December 2007, the Company continued the work and incurred expenditure of ₹ 9.15 crore on SS for one year. The Company decided after one year i.e. December 2008 to shift the site. Due to shifting of SS from Simaradha to Dunara site, the expenditure of ₹ 5.89 crore[^] incurred on construction of SS at Simaradha proved wasteful.

The Management stated (December 2012) that the construction of SS with overhead lines was not permitted by Airport Authority and SS with underground cable was not financially viable, therefore, decision of shifting of SS was taken by the Company. The fact, however, remain that prior permission of Airport Authority should have been obtained before start of work and work should have been stopped immediately after the protest by Army Aviation Squadron.

Construction of SSs without assessing load requirements

2.1.15 For construction of SS, the load growth and anticipated increase of demand in future along with permissible limits of voltage regulations are required to be considered mandatory, prior to taking up of the project, so that unnecessary expenditure can be avoided. The load forecasts for the proposed new schemes should also consider the anticipated physical and financial benefit to be derived.

The Company constructed the following SSs without assessing load requirements properly as detailed in the table below:

(Amount: ₹ in crore)

Sl No	Name of SS and lines	Capacity (MVA)	Date of sanction	Sanctioned Amount	DOC	Amount of expenditure	Actual drawl of load	
							Peak Load in MVA	Period (in months)
1	220/33KV SS, Gomtinagar, Lucknow	3x60	September 2006	40.08	December 2008	31.48	0.02 – 31.07	41 (January 2009 to May 2012)
2	220/132KV SS, Sohawal, Faizabad	2x100	December 2001	24.25	December 2009	16.92	24 - 47	29 (January 2010 to May 2012)
3	220/132 KV SS Bithoor, Kanpur	2x160	July 2008	51.13	July 2011	51.75	8 – 21	13 (July 2011 to July 2012)

[‡] 2x100MVA plus 2x40MVA 132/33 KV

[^] Irretrievable expenditure ₹ 4.15 crore and ₹ 1.29 crore on sub-station and line respectively plus expenditure of ₹ 0.45 crore on dismantling, transportation etc.

Above SSs remained under utilised which indicated that load on SSs was not assessed as discussed below:

- In compliance to direction of the State Government, Lucknow Development Authority (LDA) requested (June 2005) the Company to shift 132/33 KV SS located at Lohia Park, Gomtinagar to some other location. The Company constructed another SS of 220/33KV (3x60 MVA) on the land provided by LDA without shifting 132/33KV SS. The cost of SS (₹ 31.48 crore) and line (₹ 4.32 crore) was borne by the Company as nothing was decided by the Government in this regard. Thus, due to non-shifting of feeders of 132/33 KV SS, the SS remained under utilised as, during January 2009 to May 2012, peak load ranged between 0.02 MVA to 31.07 MVA against the installed capacity of 180 MVA because load of 132/33 KV SS was not shifted.

The Management stated (December 2012) that due to delay in construction of residences in Gomtinagar Extension by LDA, connected distribution SSs were underloaded; as a result, aforesaid SS remained underloaded. The reply itself indicates that the plan for construction of SS was made without proper assessment of the load requirement.

- Construction of 220/132 KV SS Sohawal, Faizabad was started in December 2006 after lapse of five years and completed in December 2009 at a cost of ₹ 16.92 crore with total delay of 78 months. The SS remained under utilised as, during the period January 2010 to May 2012, the peak load of the SS ranged between 24 MVA to 47 MVA against installed capacity of 200 MVA. The main reason for under utilisation was non-synchronisation of two outgoing lines[⊗] as these lines were incomplete even four years after incurring expenditure of ₹ 13.37 crore.

The Management accepted (December 2012) that due to delayed completion, three outgoing lines i.e. 132 KV SC Sohawal-Milkipur, Sohawal-RS Ghat and Sohawal-Darshannagar, the SS could not be taken on full load.

- Construction of 220/132 KV SS Bithoor, Kanpur with 2x160 MVA transformers and 2x40 MVA 132/33 KV transformers was completed in July 2011 at a cost of ₹ 51.75 crore. The SS remained under utilised as peak load ranged between 8 MVA to 21 MVA during July 2011 and July 2012 against installed capacity of 320 MVA (2.5 per cent and 6.5 per cent).

The Management did not offer any specific comment on the issue raised in audit.

Procurement and implementation of projects

2.1.16 The Company framed packages for implementation of transmission projects and allotted the packages to different contractors for execution of works as well as procured the material for new projects, augmentation of SSs and Operation and Maintenance (O&M) works. The procurement of material and execution of work was made through open tenders and tenders of above ₹ 10 crore (₹ one crore up to 25 November 2009) was evaluated and awarded by Corporate Store Purchase Committee (CSPC) of the Company. During 2007-08 to 2011-12, the Company executed contracts of ₹ 4,940.48 crore out of which high value contracts of ₹ 3,264.06 crore (66 per cent) were test

[⊗] Sohawal- Milkipur line and Sohawal – darshannagar line.

checked by us. We noticed cases of non-observing the clauses of contracts for increase/decrease of ordered quantity, cases of wrong calculation of equated price for counter offer and award of work at higher rates etc. which are discussed in the succeeding paragraphs:

Procurement

2.1.17 The Company neither had any laid down procurement policy nor prepared any periodic procurement plan. The Company procured material in ad-hoc manner against requirement of material received from the field units for O&M works and new works. The procurement of material was made through open tender. Due to large quantity of purchases, the Company generally distributed tendered quantity among the qualified bidders by making counter offer to them at the awarded lowest rate.

Failure to enforce vital clause of contract

2.1.18 As per clause of the “Instruction to the tenderers” the quantity mentioned in the specification is subject to increase or decrease as per actual requirement of the purchaser at the unit prices mentioned in price schedule. This increase or decrease shall not be more than 50 per cent. Cases related to non-observance of the clause are given below:

Non-enforcing of the clause of increase/decrease of quantity up to 50 per cent resulted in extra expenditure of ₹ 4.73 crore.

- Price part of tender (TD-341/10) for procurement of 3,845 km ACSR Panther Conductor was opened (25 October 2010) wherein Anamika Conductors Limited was found lowest (L₁) with the Free-On-Rail destination (FOR) rate of ₹ 97,067.57 per km. During currency of above tender, price part of another tender (TD-355/11) for procurement of 9,000 km ACSR Panther conductor was opened (5 December 2011) and Venketshwara Wires Limited was found L₁ with FOR rate of ₹ 1,20,854.71 per km. Therefore, the ordered quantity of previous tender should have been increased by 1,922.50 km*. The Company did not apply the above provision of the contract and incurred avoidable expenditure of ₹ 4.57 crore[⊕].

The Management stated (December 2012) that the provision of (+) / (-) 50 per cent clause was applicable only at the tendering stage i.e. before the contract was entered into. We do not agree with the reply as the validity of previous tender (No. 341/10) still existed and allotment of 1,536.55 km Panther conductor for supply was made in December 2011 and January 2012 i.e. after opening of price part of the new tender (No. 355/11) in December 2011.

- LOIs against tender TD-302/07 for supply of 360 MT and 240 MT respectively SC/DC 220 KV tower parts with nuts and bolts had been placed (August 2007) on Sangam Structural, Allahabad (L₁) and N.L. Engineers, Mohali at the L₁ FOR rate of ₹ 57,147. On non-acceptance of LOI by N.L. Engineers, the balance quantity of 240 MT was also allotted (26 May 2008) to Sangam Structural Limited. The price part of another tender TD-316/07 for procurement of 15,000 MT SC/DC tower parts with nuts and bolts was opened on 26 March 2008, wherein Unitech Power Trans. Limited was found L₁ with the FOR rate of ₹ 53,328 per MT. As the rate of new tender was lower by ₹ 3,819 per MT and the same was in notice of the Company on the date of opening of price part of the new tender, 50 per cent of allotted quantity i.e. 180 MT to Sangam Structural should have been decreased and balance quantity of 240 MT also should

* Being 50 per cent of the first order.

⊕ (₹ 1,20,854.71 - ₹ 97,067.57 x 1,922.50 km).

have been allotted to the L₁ of the new tender TD-316/07. Non-observance of above vital clause of the contract resulted in loss of ₹ 16.04 lakh (₹ 3,819 x 420 MT).

The Management stated (December 2012) that designs of towers of both tender specifications were different, hence, the rates were not comparable. We do not agree with the reply as the inputs of tower parts were same in both the designs.

Extra expenditure due to wrong calculation of equated price

2.1.19 As per the adopted practice, the Company, while inviting tender, asks bidders to quote their price in detail *viz.* ex-works price, Excise Duty (ED), packing and forwarding charges, transportation and insurance charges and Value Added Tax/Central Sales Tax (VAT/CST) and capitalised value of energy losses (no load loss, load loss and auxiliary loss) for procurement of transformers and other materials *viz.* conductor, circuit breakers, insulator etc. The Company works out lowest evaluated price after clubbing up all above the price components and distributes the quantities of materials of a tender among the various bidders of that tender by making counter offers at L₁ evaluated price. For counter offer, the Company works out equated price for respective bidders by calculating back the lowest equated price after de-loading the respective values of each price component including taxes as quoted by the particular bidder.

We observed that the above procedure adopted by the Company was incorrect as for calculating back the equated price for a particular bidder, tax components as included in the lowest evaluated price and other price component as quoted by the particular bidder should have been de-loaded from the lowest evaluated price.

Incorrect procedure adopted by the Company for calculating equated price for counter offer resulted in extra expenditure of ₹ 17.12 crore.

These errors in working out the equated price for counter offers to the bidders on procurement of material led to extra expenditure of ₹ 17.12 crore which are discussed in the succeeding paragraphs:

- Price part of tender (ESD/285) for procurement of 67 transformers of 40 MVA was opened (13 July 2010) wherein the evaluated rate of ₹ 3.29 crore as quoted by Accurate Transformers Limited was found lowest (L₁) with the liability of VAT (13.5 *per cent*). In addition to the L₁ firm, the Company issued (July 2010) LOIs to eight other firms having the liability of CST (two *per cent*). While working out the equated price for counter offer to above eight firms, the Company de-loaded CST (two *per cent*) instead of VAT (13.5 *per cent*) from the lowest evaluated price. As a result, extra expenditure of ₹ 8.04 crore was incurred on supply of 47 transformers as the impact of difference between VAT and CST was ignored.

The Management stated (December 2012) that the counter offer had been given on the basis of capitalisation cost of L₁ bidder. If we would have reduced the prices by the difference between ED and CST, the prices of the firms to whom counter offer was given, would have been less than L₁ price and became unworkable.

We do not agree with the reply in view of the fact that while preparing the de-loading statement, CST (as quoted by the concerned bidders to whom counter offer was made) was considered in place of the rate of VAT (as included in price of lowest bidder). As a result, difference of VAT (13.5 *per cent*) and

CST (two *per cent*) was passed on in counter offer. The Ex-works cost of L₁ was lower than the Ex-works cost passed on in counter offer. Hence, the price of counter offer cannot be unworkable.

- Price part of tender (ETD/08-09/10) for procurement of 5,200 kms Bersimis conductor was opened (26 November 2010) wherein Gammon India Limited was found L₁ with evaluated price of ₹ 2.73 lakh per km with liability of ED (10.30 *per cent*) and CST- Nil. LOI was issued (January 2011) to Terracom Limited having liability of ED-Nil and CST (one *per cent*) for supply of 3,200 kms Bersimis conductor at same price ₹ 2.73 lakh per km. Incorrect calculation of equated price for counter offer at the lowest evaluated price of Gammon India, resulted in extra expenditure of ₹ 7.82 crore.
- Price part of tender (ESD-303) for procurement of 21 nos. of 63 MVA transformer was opened (8 November 2011) wherein evaluated rate of ₹ 4.12 crore as quoted by ECE Limited, Haryana was found lowest rate with the liability of ED (10.30 *per cent*) and CST (two *per cent*). The Company issued (December 2011) an LOI to Accurate Transformer Limited, Greater Noida (ATL) works at Uttarakhand having liability of tax viz. ED-Nil and CST (one *per cent*) for supply of two transformers on counter offer at the lowest evaluated rate of ECE Limited. Similarly, another LOI was issued (December 2011) to IMP Power Limited, Mumbai (IMP) having liability of tax viz. ED (10.30 *per cent*) and CST Nil for supply of eight transformers. Incorrect calculation of equated price resulted in extra expenditure of ₹ 70.90 lakh (₹ 42.42 lakh to ATL and ₹ 28.48 lakh to IMP) against supply of 10 transformers.
- Price part of tender (ESD-297) for procurement of 17 transformers of 63 MVA was opened (23 December 2010) wherein the evaluated rate of ₹ 4.15 crore per transformer as quoted by BBL, Thane was found lowest with the liability of ED (10.30 *per cent*) and CST (two *per cent*). LOI was issued (March 2011) to IMP Power Limited, Mumbai having liability of ED (10.30 *per cent*) and CST-Nil for supply of three transformers on counter offer at the lowest evaluated rate of BBL. Incorrect calculation of equated price resulted into avoidable expenditure of ₹ 10.62 lakh against the order placed on IMP Power Limited for supply of three transformers.
- Price part of tender (ESD-241) for procurement of 55 transformers of 40 MVA was opened (4 October 2007) wherein the evaluated rate of ₹ four crore as quoted by Technical Associates Limited (TAL) Lucknow was found lowest with the liability of ED (16.48 *per cent*), trade tax (four *per cent*) and development tax (one *per cent*). LOIs were issued (January 2008) to BBL, Thane having liability of ED (16.48 *per cent*) and CST (three *per cent*) at lowest evaluated price. Incorrect calculation of equated price resulted into extra expenditure of ₹ 30.88 lakh for purchase of eight transformers.
- Price part of tender (TD-359) for procurement of 3,011 kms earthwire was opened (18 November 2011) wherein Manohar Lal-Hira Lal, Ghaziabad was found to be L₁ with the lowest evaluated price of ₹ 39,550 per km including liability of ED (10.30 *per cent*) and VAT (four *per cent*). In addition to LOI to Manohar Lal-Hira Lal, Ghaziabad for supply of 807 kms earthwire, the Company issued LOIs to Nirmal Wire Limited, Kolkata and UIC Udyog Limited, Kolkata for the supply of 1,102 kms earthwire by each on counter offer at the lowest evaluated prices. These firms were

having the liability of ED (10.30 per cent) and CST (two per cent). Incorrect calculation of equated price resulted into avoidable expenditure of ₹ 13.98 lakh on procurement of 2,204 kms of earthwire.

The Management stated (December 2012) that the counter offer was given on the basis computed cost of L₁ bidder. If we would have reduced the prices by the difference of ED and CST, the prices of the firms to whom counter offer was given, would have been lower than L₁ price.

The reply is not acceptable as the amount of ED and CST involved in the computed cost of L₁ should have been passed on in the counter offer only to the extent of the liability of ED and CST of bidder to whom counter offer was made. However, the benefit on account of taxes which the firms were not liable to pay was passed on to these firms leading to avoidable expenditure.

Thus, in above cases, extra expenditure of ₹ 17.12 crore (**Annexure-10**) was incurred.

We recommend that while arriving at the price for counter offer, the benefits of the taxes should not be passed on to the other firms.

Award and execution of work through turnkey contracts

2.1.20 Best Practices in Transmission System (BPITS) in the country as notified (November 2001) by Ministry of Power, Government of India stipulated procurement practices of material and works for sub-station and transmission lines. Para 5 (i) of BPITS stipulated that in case of turnkey contracts, SS may be packaged for turnkey execution except transformer/reactors which may be procured separately and erected by turnkey contractor under the supervision of the manufacturer, with due consideration that design philosophy is maintained.

We noticed that the Company awarded (October 2010 to August 2011), construction work of 31 SSS of 132/33KV on turnkey basis. The Company, however, had finalised the turnkey contracts including the cost of transformers also.

Thus, the Company not only contravened the recommendation of BPITS but also incurred extra expenditure to the extent of ₹ 15.42 crore as the transformers supplied by the turnkey contractors were costlier than the transformers which were purchased by the Company itself of the same capacity during the same period as shown in the table below:

In contravention to the recommendation of BPITS, the Company included supply of transformers in Turnkey contracts which resulted in extra expenditure of ₹ 15.42 crore.

(₹ in crore)						
Capacity of transformers	Numbers	Cost (Range)	Reference tender	Rate of reference tender	Difference of rate (Range)	Amount
20 MVA	41	1.41 to 1.60	ESD-296 ^e	1.26	0.15 to 0.34	9.26
40 MVA	19	2.09 to 2.26	ESD-285	1.80	0.29 to 0.46	6.16
Total						15.42

The Management stated (December 2012) that the turnkey projects are fixed price contract while the prices of tenders for supply of transformers are variable as per IEEMA. Therefore, the cost of transformer of open tender cannot be compared as such with cost of transformer of turnkey project. The reply is not acceptable as the Company invited turnkey tenders item-wise and the reasonability of rates of each items could be assessed. Further, the Company also did not adhere to the provisions of the BPITS for quality control in case of transformers/reactors recommended by the Government of India.

^e Since no purchase of 20 MVA was being done therefore, updated rate of 20 MVA transformer for repair of transformer was used.

Award of work at higher rate

2.1.21 Two tenders ESD- 281 (seven sub-stations) and ESD-298 (four sub-stations) for construction of sub-stations on turnkey basis were invited (January 2010/October 2010). Price Part was opened (August 2010/February 2011) and LOIs were issued (October 2010/March 2011) after approval by CSPC. There were fall in the rate by 13 *per cent* from tender ESD-281 to ESD-298.

The CSPC approved (4 February 2011) the award of construction of SS at 132/33KV, 2x20 MVA Nathnagar at ₹12.57 crore at the rates of ESD-281 without inviting tender. LOI were issued on 7 February 2011. Price part of ESD-298 was opened on 4 February 2011 and the price in ESD-298 were lower by 13 *per cent* as compared to ESD-281, therefore, CSPC cancelled (8 March 2011) LOI for Nathnagar. At the same time, CSPC approved (8 March 2011) the award of construction of Nathnagar SS at the rates of ESD-281 in place of Rudrapur SS (allotted for construction under ESD-281).

We observed that the decision of the CSPC to allot the work of construction of Nathnagar SS at the rates of ESD-281, on the pretext that it would be constructed in place of Rudrapur SS (covered under ESD-281) was not only contradictory but also award of contract at higher rate resulted in extra expenditure of ₹ 1.71 crore.

The Management stated (December 2012) that CSPC decided (4 February 2011) to allot 132 KV, Nathnagar SS (at the rates of ESD-281). The reply is not acceptable as allotment of Nathnagar at the rates of ESD-281 was cancelled (8 March 2011) due to lower rates of ESD-298 and at the same time, allotment of construction of Nathnagar SS at the rates of ESD-281 was imprudent decision.

Award of turnkey contract at higher cost

2.1.22 The Company invited (April 2009) open bids against tender (TD/329) for erection of Transmission lines (220 KV SC/DC and 132 KV SC/DC) with the requirement that the bidders shall quote their rates for various items which were common for line erection work for all type of the lines. The bidders were also to disclose their willingness to erect any particular line.

Thus, in accordance with the conditions of the bid document, the Company was required to evaluate the bids by arriving at the cost of various types of lines taking into account the item rates quoted by the bidders to find out L₁ cost for each type of lines. Then, L₁ rate derived for each type of line should have been counter offered to all the bidders as is in practice of the Company for deciding award of works.

The Company, however, evaluated the bids line wise by considering the rates of concerned bidders interested in a particular line; whereas, as per bid document, evaluation should have been done considering the lowest line wise rates irrespective of choice of bidder in particular line.

The Company finalised (January 2010) the above tender and awarded (February 2010) the erection of all types of lines aggregating 1,790 km[⇒] at the cost of ₹ 388.56 crore to three contractors[∞] on the basis of L₁ rate /counter offer at L₁ rates line wise on turnkey basis.

[⇒] 132KV SC (611kms), 132KV DC (262 kms), 220KV SC (642kms) and 220KV DC (275Kms)

[∞] 1. AIPL (L-1) -262 kms (132 DC line) at ₹ 15.92 lakh per km 2. PNC-275 kms (220 KV DC line) at ₹ 27.52 lakh per km and 611 kms (132 KV SC) line at ₹ 17.86 lakh per km 3. SEW-642 kms (220 KV SC Line) at ₹ 25.24 lakh per km.

The Company did not use the rates quoted by all bidders for all types of line to arrive at the lowest rates for each type of line, which resulted in extra expenditure of ₹ 61.56 crore.

We noticed that incorrect evaluation process adopted by the Company resulted in award of erection of 1,528 km lines at higher cost by ₹ 61.56 crore^Σ.

The Management stated (March 2012) that the rates of AIPL was lowest for 132KV DC and they were awarded full 262 kms of line as APIL bid only for 132KV DC lines. We are not convinced as APIL quoted the rates for all lines and were lowest in all lines. Therefore, rates of APIL for all type of lines should have been used for allotment of award to other participating bidder by making counter offer.

Extra expenditure due to splitting of tender in two packages

2.1.23 Tender (ETD/08-03/09) was invited on 24 February 2009 by 765 and 400 KV Transmission Design Circle (Circle) for construction of 416 km 765 KV Single Circuit (S/C) transmission line from Anpara ‘D’ to Unnao on turnkey basis by bifurcating into two packages. Part II of the tender was opened on 10 November 2009. The CSPC approved (30 January 2010) the rates for award of work and accordingly two LOIs were issued (2 February 2010) to both the lowest (L₁) firms as detailed below:

Bifurcation of one Work in two packages in one tender	Package-I Anapara to Jhusi (182 kms)			Package-II Jhusi to Unnao (234 kms)			Consolidated Quantity and Amount of both the packages		Amount with Minimum Rate of both the packages		Differential Amount (₹ in crore)
	Jyoti Structural Ltd			Gammon India Ltd			Total Amount (₹ in crore)	Total Quantity	Rate (in ₹)	Total Amount (₹ in crore)	
	₹ 201.30 crore			₹ 215.64 crore							
Supply of Material	Quantity (MT)	Rate (in ₹)	₹ in crore	Quantity (MT)	Rate (in ₹)	₹ in crore	8	9	10	11	(8-11)
1	2	3	4	5	6	7					12
HT Steel	7830	63513	49.73	9070	66120	59.97	109.70	16900	63513	107.34	2.36
MS Steel	8990	60075	54.01	9920	57878	57.42	111.43	18910	57878	109.45	1.98
Total Erection Cost	₹ 53.74 crore	26604 per km		₹ 52.23 crore	22320 per km						4.34

The Company awarded two different rates for the same items (HT and MS steel) in the same line and incurred extra expenditure of ₹ 4.34 crore.

The Company, while evaluating the rates of both the packages, did not take cognizance of difference of the rates of HT and MS Steel (major item) in the packages. As a result, two rates in the same line on the same date were awarded. This resulted in extra expenditure of ₹ 4.34 crore.

We, further, noticed that under Package-I and Package -II, supply of 77,500 and 94,500 numbers, 120 KN disk insulators were ordered at FOR rate of ₹ 702 per piece and ₹ 705 per piece respectively, whereas, the same Circle placed (January 2010) an LOI to Aditya Birla Insulators for procurement of 10,000 nos. 120 KN disc insulators at FOR rate of ₹ 467 per piece. We observed that prevalent market rates of insulators were not considered by the CSPC while approving the L₁ rates. Thus, by ignoring the market rate of insulators, the Company suffered loss of ₹ 4.07 crore[∞].

The Management stated (December 2012) that tender was split into two packages due to nature of terrain i.e Anpara-Jhusi and Jhusi-Unnao portion. Therefore, the computation of both the packages was done separately and the lowest bidder in both the packages was awarded the work. We do not agree

^Σ 132KV SC (611kms x ₹ 17.86 - ₹ 14.66 lakh), 220KV SC (642 kms x ₹ 25.24 - ₹ 20.74 lakh) and 220KV DC (275 Kms x ₹ 27.52 - ₹ 22.75 lakh)

[∞] 77500 X ₹ 235 (₹ 702-₹ 467) + 94500X ₹ 238 (₹ 705- ₹ 467)

with the reply as the nature of terrain has no relevance on the rates of supply of tower parts and it can only affect the erection rates, whereas our point is on different rates/ higher rates for supply of same materials.

Extra expenditure due to non-standardisation of design of tower

2.1.24 Para 4.4 of Best Practices of Transmission System stipulated that standardisation may be carried out and followed for future uses so as to:

- eliminate repeated type testing of towers, permit usage of tower of one line for other line and reduces spare requirement.
- make the data readily available for foundation design, and
- reduce engineering time, project gestation period / line construction period considerably.

The Company had constructed (1998) transmission line (409 km) from Anpara to Unnao for evacuation of power at 765 KV by using Moose conductor from Generating Station, Anpara- C (1,320 MW) on its own design. In order to evacuate the power from upcoming Generating Station, Anpara-D (1,000 MW), the Company had to construct another line from Anpara-D to Unnao almost parallel to the old line. We noticed the following:

The Company, instead of using its own design for construction of 765 KV line, purchased another design and incurred extra expenditure of ₹ 68.52 crore on construction of line.

- The Company, instead of using its own design, purchased (July 2009) a new design of tower at a cost of ₹ 3.16 crore from Power Grid Corporation of India Limited (PGCIL) for construction of the new line with Bersimis conductor. The expenditure of ₹ 3.16 crore could have been avoided by using its own design.
- In case of use of own design, moose conductor could have been used with lesser number of total tower to complete the same length of line. In the new design, Bersimis conductor was used which was costlier than the moose conductor. Further, total number of towers of the almost same length of line was more than the old own design. Thus, by not using own design, the Company incurred extra expenditure of ₹ 68.52 crore as worked out below:

Item	Exiting Design				New Design				Difference	
	Type	Qty	Rate (₹ in lakh per KM/MT)	Amount (₹ in crore)	Type	Qty	Rate (₹ in lakh per KM/MT)	Amount (₹ in crore)	Weight	Amount (₹ in crore)
Conductor	Moose	5200 km	2.29465	119.32	Bersimis	5200 km	2.73190	142.06		22.74
Tower	983Nos	27083 MT		159.81	1169 nos.	34944MT		205.59	7861	45.78
Total										68.52

The Management stated (December 2012) stated that it was decided to construct the line on PGCIL’s designs mainly due to the fact that the tower designed by PGCIL require lesser width of corridor than UPPTCL’s designs. We are not convinced as at the time of purchase of drawing and design from PGCIL, the Company was of the view that new drawing and design would reduce the ROW problems due to the reduction of corridor. The reduction of corridor did not have any significance as ROW problems related to number of towers which was increased in new drawing and design.

The Company was deprived of supervision charges of ₹ 63.66 crore due to non preparation of estimate for the Deposit Works.

Non-recovery of supervision charges on deposit works

2.1.25 As per orders (April 2002) of Uttar Pradesh Power Corporation Limited, supervision charges were to be recovered at the rate of 15 per cent on the value of works to be executed under Deposit Works. We noticed (April 2012) that supervision charges amounting to ₹ 63.66 crore were not recovered in two cases as discussed below:

- A consent document was signed (July 2007) by the UPPCL, UPRVUNL, HINDALCO and UPPTCL for the award of work of diversion of the lines^u passing through the project site of Anapara 'D' (2X500 MW) to UPPTCL on deposit basis. The consent document provided for sharing of cost (rough estimation of ₹ 55 crore) to be incurred on diversion of line by UPRVUNL and HINDALCO in the ratio of 60: 40. The Company got the above works executed (August-September 2009) against turnkey tender no. 306/07 and 307/07.

The Company incurred expenditure of ₹ 42.54 crore (without supervision charges of ₹ 6.38 crore) and received ₹ 42.31 crore (₹ 25.04 crore from UPRVUNL and ₹ 17.27 crore from HINDALCO) only. We observed that the Company did not prepare estimate/executed estimate; as a result, it was deprived of supervision charges of ₹ 6.38 crore. Further, it did not claim the short receipt amount of ₹ 23 lakh.

The Management stated (December 2012) that claim of ₹ 6.38 crore had been lodged (18 April 2012) with UPRVUNL. The reply is not acceptable because as per the consent document, UPRVUNL was to bear only 60 *per cent* of supervision charges and 40 *per cent* was to be charged from HINDALCO.

- UPRVUNL requested (August 2007) the Company to construct a new 765 KV SS at Anapara 'D' for evacuation of Power from ongoing 2X500 MW Anapara 'D' Power Project of UPRVUNL as deposit work of UPPTCL. The Company awarded (January 2010) the work to Areva T&D Limited for the contract value of ₹ 396.75 crore (cost of work: ₹ 381.86 crore and cost of O&M: ₹ 14.89 crore).

The Company, however, did not prepare estimate and as a result thereof, supervision charges of ₹ 57.28 crore (15 *per cent* of ₹ 381.86 crore being cost of work) could not be levied.

The Management stated (December 2012) that the Managing Director, UPRVUNL has been requested (1 December 2012) to release the amount of ₹ 57.28 crore. We are not convinced as the Company made a request to deposit the amount of supervision charges after five year only after being pointing it out by Audit. Further, the amount was yet to be received. This also indicated the lack of internal control mechanism in the Company.

Performance of transmission system

2.1.26 The performance of the Company mainly depends on efficient maintenance of its EHT transmission network for supply of quality power with minimum interruptions. In the course of operation of SSs and lines, the supply-demand profile within the constituent sub-systems is identified and system improvement schemes are undertaken to reduce line losses and ensure reliability of power by improving voltage profile. These schemes are for augmentation of existing transformer capacity, installation of additional transformers, laying of additional lines and installation of capacitor banks. The performance of the Company with regard to O&M of the system is discussed in the succeeding paragraphs.

Transmission capacity

2.1.27 The Company, in order to evacuate the power from the Generating Stations and to meet the load growth in different areas of the State, constructs

^u 132 KV Renu Sagar-Renukoot line (ckt 1 & 2), 132 KV Renu Sagar-Renukoot line (ckt-3 & 4), 132 KV Renu Sagar-Renukoot line (ckt- 5 & 6) and 132 KV Renu Sagar-Renukoot multi circuit line (ckt- 7,8,9 and 10).

lines and SSs at different EHT voltages. A Transformer converts AC voltage and current to a different voltage and current at a very high efficiency. The voltage levels can be stepped up or down to obtain an increase or decrease of AC voltage with minimum loss in the process. The evacuation is normally done at 400KV/220 KV SSs. The transmission capacity (220 KV) created *vis-à-vis* the transmitted capacity (peak demand met) at the end of each year by the Company during the five years ending March 2012 were as follows:

Year	Transmission capacity (in MVA)			
	Installed (220KV SSs)	After leaving 30 per cent towards margin	Peak demand including non-coincident demand	Excess(+)/shortage(-)
2007-08	13230	9261	9520	(-) 259
2008-09	14730	10311	9164	1147
2009-10	15850	11095	9500	1595
2010-11	18120	12684	11858	826
2011-12	19640	13748	12990	758

(Source : Information furnished by the Management)

From the above table, it is observed that the overall transmission capacity was in excess of the requirement for every year except 2007-08. The existing transmission capacity excluding 30 per cent towards redundancy worked out to an excess of 758 MVA to the end of March 2012. Existence of extra/idle capacity in the transmission network and prevalence of overloads, high voltages on certain places reflects unscientific planning in creation of transmission network.

The Management stated (December 2012) that capacity of SS at 220 KV level depends upon the capacity of connected 132 KV and 33 KV SSs. Because of uneven load demand, comparison of installed capacity and peak load demand is technically not right as peak demand is reflection of restricted demand and unscheduled rostering on account of grid conditions. We have, however, compared the installed capacity with peak demand after leaving 30 per cent towards margin.

Sub-stations

Adequacy of Sub-stations

2.1.28 Manual on Transmission Planning Criteria (MTPC) of Central Electricity Authority stipulates the permissible maximum capacity for different SSs i.e., 320 MVA for 220 KV and 150 MVA for 132 KV SSs. Scrutiny of the maximum capacity levels of SSs revealed that five numbers of 220 KV and one number of 132 KV SS exceeded the permitted levels. The SS of 132 KV capacity and above should have at least two transformers and the MTPC indicated that the size and number of transformers in the SS shall be planned in such a way that in the event of outage of any single transformer the remaining transformer(s) could still supply 80 per cent of the load. However, it was observed that one number 400KV SSs, four numbers 220 KV SSs and 48 numbers 132 KV SSs had single transformer as on 31 March 2012.

We further noticed that during April 2007 to March 2012 the Company ignoring the MTPC norms, constructed 10 SSs of 132KV with single transformers at a cost of ₹ 48.22 crore.

The Management accepted (December 2012) that due to construction of lower capacity SS primarily, the permissible maximum capacity level of SSs were violated. In case of construction of SSs with single transformer, the Management stated that the SSs were constructed according to the load demand of the area. The SS were connected in grid system and in case of problem in one SS, the load was managed through nearby SSs. The fact,

however, remained that the Company violated the norms of MTPC. It was noticed that the supply of Hardoi was disturbed for five days as there was only one transformer at 220/132 KV SS, Hardoi.

2.1.29 Jaiprakash Associates Limited (JAL) proposed to set up 4x60 MW Captive Power Plant at Churk and requested (June 2010) the Company for permission of Open Access for 160 MW. The same was sanctioned (July 2010) with the condition that the cost of infrastructure required for transmission would be borne by JAL. The Company provided estimate for ₹ 25.45 crore plus supervision charges of ₹ 3.82 crore for construction of 220/132 KV SS with single transformer. The supervision charges were deposited by JAL with the Company and construction of the SS was to be made by JAL.

We observed that the construction of 220/132KV SS with only one 160MVA transformer was in contravention to the provision of MTPC as two 160MVA transformers were to be installed as per norms. Besides, the loading factor of 0.70 of transformation capacity of transformer required for evacuation of power was not adhered to.

The Management stated (December 2012) that 160 MVA transformer was sufficient for evacuation of 160 MW power. The reply is not acceptable in view of the fact that as per the provision of MTPC, two 160MVA transformers were to be installed as per the norms.

Voltage management

2.1.30 The licensees using intra-state transmission system should make all possible efforts to ensure that grid voltage always remain within limits. As per Indian Electricity Grid code STUs should maintain voltages ranges between 380-420 KV, 198-245 KV and 119-145 KV in 400 KV, 220 KV and 132 KV line respectively. Our examination of the 220/132 KV bus voltages in 30 Divisions of the four Zones for the period April 2011 to March 2012 revealed that in 34 SSs of 220 KV, the voltages recorded ranged between 162 KV and 278 KV (with worst position in Transmission West Zone) while in 143 SSs of 132 KV, voltage recorded ranged between 90 KV and 185 KV (with worst position in Transmission East Zone). To provide quality power and reduce the transmission losses the Company should ensure that the maximum and minimum voltages are maintained as per the norms.

Lines

EHT lines

2.1.31 As per MTPC permissible line loading cannot normally be more than the Thermal Loading Limit[⊗] (TLL). The TLL limits the temperature attained by the energized conductors and restricts sag and loss of tensile strength of the lines. The TLL limits the maximum power flow of the lines. As per MTPC the TLL of 132 KV line with ACSR[&] Panther 210 sq. mm. conductor was 366 amps. Scrutiny of the line loadings on the 132 KV feeders revealed that, 68 numbers of feeders out of 255 numbers of feeders (27 per cent) in four Zones were loaded above 366 amps with Transmission West Zone having the maximum (34 per cent) of these overloaded feeders. Loading of the lines beyond capacity resulted in voltage fluctuations, higher transmission losses and frequent interruptions/breakdowns.

[⊗] The maximum temperature limit at which a conductor can operate continuously by maintaining the minimum tensile properties established by the manufacturer.

[&] Aluminium Conductor Steel Reinforced

Bus Bar Protection Panel (BBPP)

2.1.32 Bus bar is used as an application for inter connection of the incoming and outgoing transmission lines and transformers at an electrical SS. BBPP limits the impact of the bus bar faults on the entire power network which prevents unnecessary tripping and selective to trip only those breakers necessary to clear the bus bar fault. As per Grid norms and Best Practices in Transmission System, BBPP is to be kept in service for all 220 KV SSs to maintain system stability during Grid disturbances and to provide faster clearance of faults on 220 KV buses. We observed that out of 67 numbers of 220 KV SSs (49 were single bus bar SSs and 18 were double bus bar SSs) where BBPP was required to be installed, the Company provided the panel at 18 SSs and in the remaining 49 SSs the BBPP was not yet provided. It was observed that out of 18 SSs where BBPP were available; only three were in working condition and 12 out of the remaining 15, had become old and obsolete, not repairable/yet to be repaired. The Transmission East Zone Allahabad and South Zone Agra did not have any working BBPP.

The Management stated (December 2012) that action was being taken for installation/replacement of BBPP.

Maintenance

Working of hot lines Division/Sub-divisions

2.1.33 Regular and periodic maintenance of transmission system is of utmost importance for its un-interrupted operation. Apart from scheduled patrolling of lines following techniques are prescribed in the para 9.1 of the Report of the Committee for updating the Best practices of Transmission in the country for maintenance of lines:

- Hot Line Maintenance
- Hot Line Washing.
- Hot line Puncture Detection of Insulators.
- Preventive Maintenance by using portable earthing hot line tools.
- Vibration Measurement of the line.
- Thermo-scanning.
- Pollution Measurement of the equipment.

The Hot Line Technique (HLT) envisages attending to maintenance works like hot spots, tightening of nut and bolts, damages to the conductor, replacement of insulators etc. of SSs and lines without switching off. This includes thermo scanning of all the lines and SSs towards preventive maintenance. HLT was introduced in India in 1958. As on March 2012, there were no hotline Division and SSs in the Company. We observed that the Company maintained the SSs and lines by using traditional methods of maintenance and did not adopt hot line maintenance technique.

The Management stated (December 2012) that Hot Line Maintenance work would be carried out through outsourcing, whenever required.

Transmission losses

2.1.34 While energy is carried from the generating station to the consumers through the Transmission & Distribution (T&D) network, some energy is lost which is termed as T&D loss. Transmission loss is the difference between energy received from the generating station/Grid and energy sent to DISCOMs. The details of transmission losses from 2007-08 to 2011-12 are given below:

Particulars	Unit	Year				
		2007-08	2008-09	2009-10	2010-11	2011-12
Power received for transmission	MUs	53670.43	54580.10	58656.19	64116.61	72697.45
Net power transmitted	MUs	51472.14	52471.24	56413.62	61831.49	70029.47
Actual Transmission loss	MUs	2198.29	2108.86	2242.57	2285.12	2667.98
	percentage	4.09	3.86	3.82	3.56	3.67
Target Transmission loss as per the CEA norm	percentage	4.00	4.00	4.00	4.00	4.00
Target Transmission loss as per UPERC norms	percentage	5.00	5.00	4.00	Tariff order awaited	Tariff order awaited

(Source : Information furnished by the Management)

The Company, under the commitment with UPERC in 2001-02 to reduce the transmission loss, proposed to reduce transmission losses to four *per cent* in 2009-10 which was approved by the UPERC. *It could be seen from the above that the transmission losses were decreased and were within the CEA norm of four per cent in all the five years except 2007-08 and also the yearly norm fixed by the UPERC up to 2009-10.*

Grid management

Maintenance of Grid and performance of SLDC

2.1.35 Transmission and Grid Management are essential functions for smooth evacuation of power from generating stations to the DISCOMs/consumers. Grid Management ensures moment-to-moment power balance in the inter connected power system to take care of reliability, security, economy and efficiency of the power system. Grid management in India is carried out in accordance with the standards/directions given in the Grid Code issued by CEA. National Grid consists of five regions viz., Northern, Eastern, Western, North Eastern and Southern Grids, each of these having a Regional Load Despatch Centre (RLDC), an apex body to ensure integrated operation of the power system in the concerned region. The Uttar Pradesh State Load Despatch Centre (SLDC), a constituent of Northern Regional Load Despatch Centre (NRLDC), Lucknow ensures integrated operation of power system in the State. The State Government notified (January 2011) that the SLDC shall be operated by the Company. The SLDC is assisted by four Area Load Despatch Centres[⇔] (ALDCs) for data acquisition and transfer to SLDC and supervisory control of 132 KV and 33 KV equipments. The SLDC levies and collect such fees and charges from the generating companies and licensees engaged in intra-state transmission of electricity as specified by the UPERC.

Infrastructure for load monitoring

Out of 357 SSs only 93 SSs (26.05 per cent) were provided with RTUs for recording real time data.

2.1.36 Remote Terminal Units/Sub-station Management Systems (RTUs/SMSs) are essential for monitoring the efficiency of the transmission system and the loads during emergency in Load Dispatch Centres as per the Grid norms for all SSs. We observed that there were 357 numbers of 765KV/400KV/220KV/132KV SSs and nine generators, out of which 93 (26.05 *per cent*) of 765KV/400KV/220KV/132KV SSs and all the nine generators were provided with RTUs for recording real time data for efficient Energy Management System.

The Management stated (December 2012) that process of installation of RTUs at various SSs was in progress.

[⇔] Moradabad Control, Sarnath Control, Panki Control and Modipuram Control.

Grid discipline by frequency management

2.1.37 As per Grid Code, the transmission utilities are required to maintain Grid discipline for efficient functioning of the Grid. All the constituent members of the Grid are expected to maintain a system frequency between 49 and 50.5 Hertz (Hz) (49.2 and 50.3 Hz with effect from 1 April 2009). Due to various reasons such as shortages in generating capacities, high demand, Grid indiscipline in maintaining load generation balance, inadequate load monitoring and management, Grid frequency goes below or above the permitted frequency levels. To enforce the Grid discipline, the SLDC issues three types of violation messages (A, B, C). Message A is issued when the frequency is less than 49.2 Hz and over-drawl is more than 50 MW or 10 *per cent* of schedule whichever is less. Violation B message is issued when frequency is less than 49.2 Hz and over-drawl is between 50 and 200 MWs for more than ten minutes or 200 MW for more than five minutes. Message C (serious nature) is issued 15 minutes after the issue of message B when frequency continues to be less than 49.2 Hz and over drawl is more than 100 MW or 10 *per cent* of the schedule whichever is less. We observed that messages A, B & C type received were 103 (A-42, B-40 and C-21) in 2010-11(August 2010 to March 2011) and had increased to 147 (A-80, B-67 & C-0) during the period from April 2011 to March 2012[®].

Increase in A, B & C messages indicated violation of Grid Discipline which led to penalty.

Thus, increase in the receipt of type A & B type of messages led to levy of penalty by CERC as detailed below:

Grid discipline

2.1.38 For maintenance of Grid discipline, the CERC takes up *suo-motu* petition on over drawl of power from the Grid at a lower frequency thus putting the Grid to the risk. The Company had violated the Grid discipline resulting in payment of penalty of ₹ 9.10 crore as detailed below:

Sl. No.	Month and Year of violation	Number of occasions of violation	Penalty levied (₹ in crore)
1	30 September 2008 to 26 October 2008	Not Furnished to audit	1.75
2	13 April 2009 to 10 May 2009	Not Furnished to audit	2.57
3	11 June 2009 to 19 June 2009	Not Furnished to audit	4.62
4	1 April 2010 to 9 April 2010	Not Furnished to audit	0.16

(Source : Information furnished by the Management)

The Company did not put in place MIS system of apprising the Board of Directors (BOD) regarding yearly performance of the Grid/number of messages received or the fines/penalties levied.

The Management stated (December 2012) that due to large gap in availability and demands of power, messages were received but now it was in decreasing trend. Further, there is already MIS system to apprise Directors on daily basis regarding performance of grid and number of message received but as the fax paper could not be retained for more than two months, hence, details of messages received before August 2009 could not be furnished to audit. We are not convinced as receipt of messages amounted to grid indiscipline and MIS did not report to BOD.

Backing Down Instructions (BDI)

2.1.39 When the frequency exceeds the ideal limits i.e. situation where generation is more and drawl is less (at a frequency above 50 Hz) SLDC takes action by issuing Backing down instructions (BDI) to the Generators to reduce

[®] No records for the period April 2007 to July 2010 was furnished to Audit

the generation for ensuring the integrated Grid operations and for achieving maximum economy and efficiency in the operation of the power system in the State. Failure of the generators to follow the SLDC instructions would constitute violation of the Grid code and would entail penalties. The Company issued BDI for 117.559 MUs on 32 occasions during the Performance Audit period for compliance which was followed by generators.

Disaster Management

2.1.40 Disaster Management (DM) aims at mitigating the impact of a major break down on the system and restoring it in the shortest possible time. As per the Best Practices, DM should be set up by all power utilities for immediate restoration of transmission system in the event of a major failure. It is carried out by deploying Emergency Restoration System, DG sets, vehicles, fire fighting equipments, skilled and specialised manpower.

Disaster Management Centre, National Load Dispatch Centre, New Delhi will act as a Central Control Room in case of disasters. As a part of DM programme mock drill for starting up generating stations during black start* operations was being carried out by the Company as and when required by the Control Room. During the period of Performance Audit, there was no such call. However, mock drills at 400KV sub- station were being carried out on weekly basis.

The Management stated (December 2012) that effective measures were taken for speedy recovery during transmission breakdown. Emergency Restoration System (ERS) for attending failure of towers was under procurement.

Inadequate facilities for Disaster Management

2.1.41 The SLDC identified nine major generating stations in the State out of which black start facilities were available only in one generating station (Anapara Thermal Power Project through Rihand hydro Power Station) indicating the inadequacy in the preparedness for Disaster Management.

Diesel generating (DG) sets and synchrosopes& form part of Disaster Management facilities at EHT SSs connecting major generating stations. The Company identified (March 2012) that in 67 numbers 220 KV SSs only six DG sets were available in working condition while only eleven synchrosopes were available. Further, the Company did not identify vulnerable installations for provision of metal detectors and handing over the security of the sites to the Security Force to meet crisis arising due to terrorist attacks, sabotage and bomb threats. By not providing adequate Disaster Management facilities, the Company has placed its assets at a risk, in case of disaster or threat/attack.

The Management stated (December 2012) that black start facilities were available at Anpara-Obra complex through Rihand Hydro Power station and at Parichha Thermal Power station through Matatila Hydro Station. It was further stated that no synchronisation required at 220 KV SSs and all synchronisation was done at generating stations or higher voltage SSs.

Non-implementation of the recommendation of the CEA

2.1.42 Central Electricity Authority, Ministry of Power, Government of India recommended (January 2002) the proposals of the Committee of Best Practices in Transmission System to be followed by the State/Central power

* The procedure necessary to recover from partial or a total black out.

& In an AC electrical power system it is a device that indicates the degree to which two systems generators or power networks are synchronised with each other.

utilities. As per recommendations of the Committee, fire walls between transformers/reactors were to be constructed, if the free space between them is less than the specified limit, to protect each other from the effect of another in case of fire.

We noticed (April 2012) that an incidence of fire occurred (23 June 2009) in 132/33 KV SS, Chandpur, Bijnore due to damage of 11 KV bushing of 33/11 KV 5 MVA (of distribution wing) transformer. One 20 MVA 132/33 KV surplus transformer kept near the 5 MVA transformer, also caught fire and the 40 MVA 132/33 KV running transformer, also caught fire. As no fire wall was constructed in between the 5 MVA, 20 MVA and 40 MVA transformers, these transformers were completely burnt. Had the Division constructed the fire walls between the transformers as provided in Best Practices in Transmission System, the damage of two transformers of 20 MVA and 40 MVA could have been avoided.

Energy accounting and audit

2.1.43 Energy accounting and audit is necessary to assess and reduce the transmission losses. The transmission losses are calculated from the Meter Reading Instrument (MRI) readings obtained from Generation to Transmission (GT) and Transmission to Distribution (TD) Boundary metering points. As on 31 March 2012 there were 853 interface Boundary metering points between TD (774) and GT (79). All the GT and TD points were provided with 0.2 accuracy class meters. *We found that these were adequate.*

Financial management

2.1.44 One of the major objectives of the National Electricity Policy 2005 was to ensure financial turn-around and commercial viability of Power Sector. The financial position of the Company for the five years ending 2011-12 was as under:

Particulars	(₹ in crore)				
	2007-08	2008-09	2009-10 (Provisional)	2010-11 (Provisional)	2011-12 (Provisional)
A. Liabilities					
Paid up Capital (including share application money)	2213.34	2641.89	3533.45	4033.45	4442.51
Reserves & Surplus(including Capital Grants)	283.30	322.13	380.43	386.77	406.92
Borrowings (Loan Funds)	2466.18	2382.61	2805.08	3448.92	5477.33
Current Liabilities & Provisions	1061.06	1355.58	1814.19	2346.06	3126.27
Total	6023.88	6702.21	8533.15	10215.20	13453.03
B. Assets					
Gross Block	5786.28	6422.93	7131.51	7412.78	7952.30
Less: Depreciation	2192.48	2476.59	2731.05	3020.23	3361.92
Net Assets	3593.80	3946.34	4400.46	4392.55	4590.38
Capital Works-in-Progress (CWIP)	798.36	979.46	1062.60	2167.40	4105.48
Current Assets, Loans and Advances (CA) including preliminary expenses	640.64	775.20	1998.53	2480.00	3573.35
Profit and Loss (Debit Balance)	991.08	1001.21	1071.56	1175.25	1183.82
Total	6023.88	6702.21	8533.15	10215.20	13453.03
Debt equity ratio	1.11:1	0.90:1	0.79:1	0.86:1	1.23:1
Interest (net of IDC capitalised)	161.89	161.40	167.54	209.65	244.30
Profit/Loss before tax	(-) 14.42	(-) 9.81	(-) 70.35	(-) 103.69	(-) 8.56
Total return	(-)829.19	(-)840.05	(-)904.02	(-)965.60	(-) 939.52
Capital Employed	3971.74	4345.42	5647.41	6693.90	9192.94
Return on Capital Employed (percentage)	(-)20.88	(-)19.33	(-)16.01	(-)14.43	(-) 10.22

(Source: Annual Accounts of the Company)

As would be seen, the Company has incurred losses in all the five years from 2007-08 to 2011-12. The accumulated losses increased from ₹ 991.08 crore in 2007-08 to ₹ 1183.82 crore in 2011-12. Further, the debt-equity ratio of the

* Interest during construction period.

Company increased from 1.11:1 to 1.23:1 during the same period. The Company's borrowings stood at ₹ 5,477.33 crore as at 31 March 2012.

We also observed that:

- Sundry Debtors abnormally increased by 800.67 *per cent* from 2007-08 to 2011-12. The main reason of abnormal increase in Sundry Debtors was realisation based on works memo credit (WMCR) i.e. accountal adjustments from Sundry Debtors. Such accountal adjustments were not being done timely.
- Due to poor realisation of Sundry Debtors, the dependence on the borrowed funds increased by 122.10 *per cent* with resultant increase in interest and finance charges by 50.90 *per cent* during 2007-08 to 2011-12.

2.1.45 The details of working results like revenue realisation, net surplus/loss and earnings and cost per unit of transmission for the five years ending 2011-12 are given below:

(₹ in crore)						
Sl.No	Description	2007-08	2008-09	2009-10 (provisional)	2010-11 (provisional)	2011-12 (provisional)
1	Income					
	Revenue	680.22	758.17	744.30	790.39	1028.55
	Other income including interest/subsidy	11.34	22.78	24.54	40.30	31.24
	Total Income	691.56	780.95	768.84	830.69	1059.79
2	Transmission					
(a)	Installed capacity (MVA)	38254	41717	44895	48984	53338
(b)	Power received from generation units (MUs)*	53670.43	54580.10	58656.19	64116.61	72697.45
(c)	Loss in transmission (MUs)	2198.29	2108.86	2242.57	2285.12	2667.98
	Net power transmitted (b)-(c) in MUs	51472.14	52471.24	56413.62	61831.49	70029.47
3	Expenditure					
(a)	Fixed cost					
(i)	Employees cost	193.53	256.10	261.82	266.31	236.63
(ii)	Administrative and General Expenses	9.92	7.03	7.28	3.57	12.24
(iii)	Depreciation	253.79	278.26	285.50	310.93	358.48
(iv)	Interest and Finance charges (net after capitalisation)	161.89	161.40	168.45	209.65	244.30
	Total fixed cost	619.13	702.79	723.05	790.46	851.65
(b)	Variable cost					
(i)	Repairs & Maintenance	66.53	64.12	86.06	101.74	127.92
(ii)	Bad debts and provision	13.79	8.45	31.23	39.92	87.94
	Total variable cost	80.32	72.57	117.29	141.66	215.86
(c)	Total cost 3 (a+b)	699.45	775.36	840.34	932.12	1067.51
4	Realisation (₹ per unit)	0.1322	0.1445	0.1319	0.1278	0.1469
5	Fixed cost (₹ per unit)	0.1203	0.1339	0.1282	0.1278	0.1216
6	Variable cost (₹ per unit)	0.0156	0.0138	0.0208	0.0229	0.0308
7	Total cost (₹ per unit) (5+6)	0.1359	0.1477	0.1490	0.1507	0.1524
8	Contribution (₹ per unit) (4-6)	0.1166	0.1307	0.1111	0.1049	0.1161
9	Profit (+)/Loss(-) (4-7) (₹ per unit)	(-)0.0037	(-)0.0032	(-)0.0171	(-)0.0229	(-)0.0055

(Source: Annual Accounts of the Company)

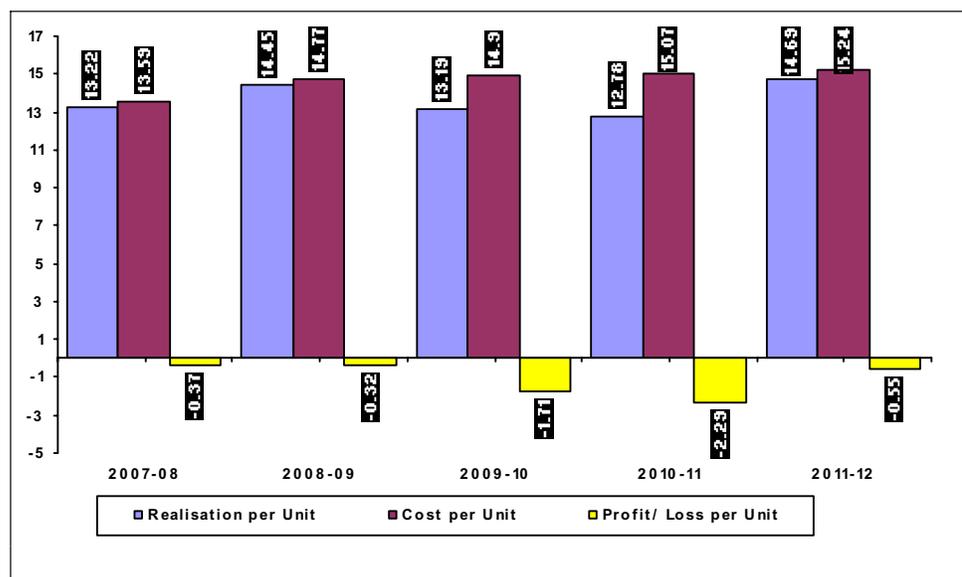
It may be seen from the above that the realisation per unit increased from 13.22 paise to 14.69 paise during 2007-08 to 2011-12 (11.12 *per cent*) and the cost per unit increased from 13.59 paise to 15.24 paise (12.14 *per cent*) during the corresponding period. Further, the contribution per unit had also decreased by 1.28 *per cent* during the period 2007-12.

* Including private generation.

It was also evident from the above table that Employee cost, Depreciation, Interest and finance charges and repair and maintenance charges constituted the major elements of cost in 2011-12 which represented 22.17, 33.58, 22.89 and 11.98 *per cent* of the total cost in that year respectively. On the other hand, revenue from wheeling of power and other income constituted the major elements of revenue in 2011-12 which represented 97.05 and 2.95 *per cent* of the total revenue respectively.

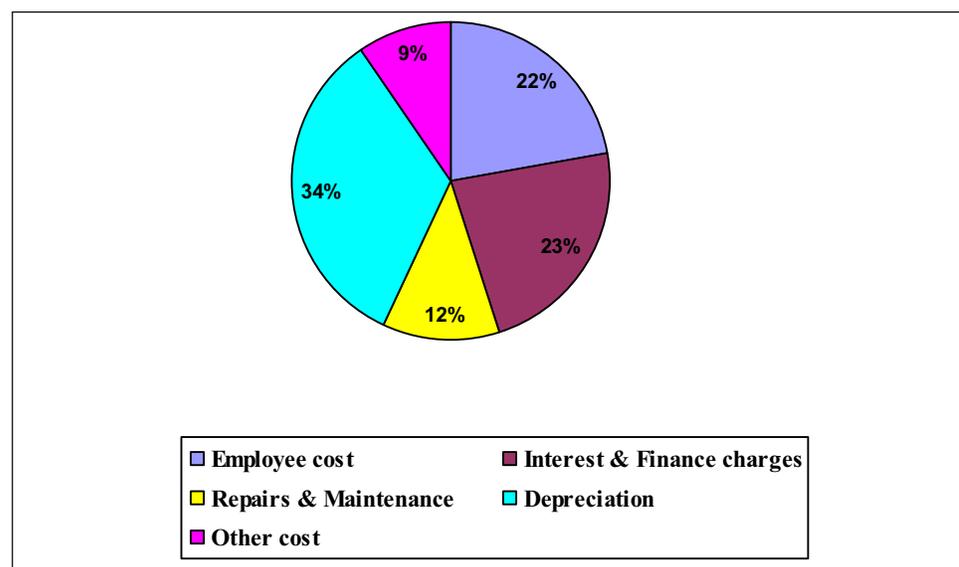
Recovery of cost of operations

2.1.46 During the last five years ending 2011-12, the Company was not able to recover its cost of operation as given in the graph below:



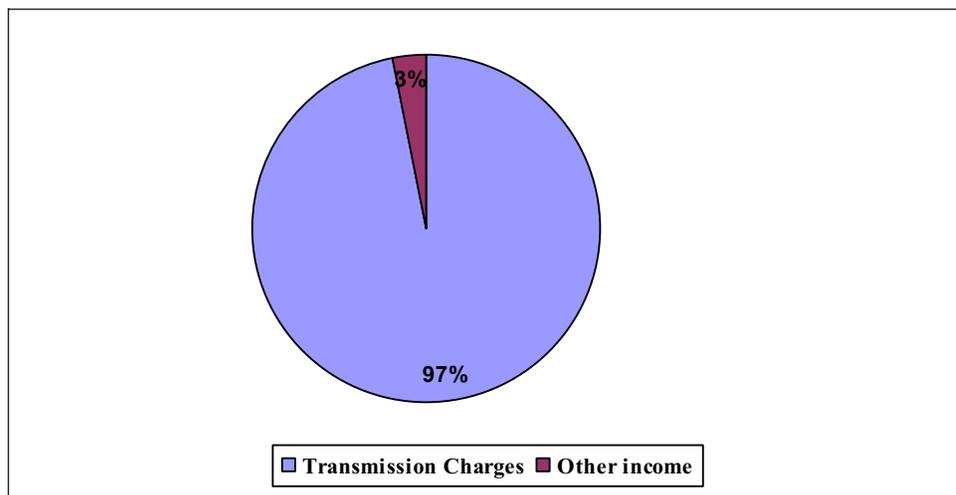
Elements of Cost

2.1.47 The percentage break-up of major elements of costs for 2011-12 is given below:



Elements of revenue

2.1.48 Transmission charges constitute the major element of revenue. The percentage break-up of revenue for 2011-12 is given below in the pie chart.



Tariff Fixation

2.1.49 The financial viability of the Company depends upon generation of surplus (including fair returns) from the operations to finance their operating needs and future capital expansion programme by adopting prudent financial practices. Revenue collection is the main source of generation of funds for the Company.

As per the UPERC (Terms and Condition for Determination of Transmission Tariff) Regulation 2006, the Company files an Annual Revenue Requirement (ARR) with the Uttar Pradesh Electricity Regulatory Commission (UPERC) for the revenue required to meet the cost pertaining to the transmission business for each financial year which would be permitted to be recovered through tariffs and charges by the UPERC. Thus, the main source of revenue of the Company is the transmission and SLDC charges.

The tariff structure of the Company is subject to revision approved by the UPERC after the objections, if any, received against ARR petition filed by them within the stipulated date. The Company was required to file the ARR for each year 120 days before the commencement of the respective year. The UPERC accepts the application filed by the Company with such modifications/conditions as may be deemed just and appropriate and after considering all suggestions and objections from public and other stakeholders. The table below shows the due date of filing ARR, actual date of filing, date of approval of tariff petition and the effective date of the revised tariff:

Year	Due date of filing	Actual date of filing	Delay in days	Date of approval	Effective date
2007-08	30 November 2006	4 October 2007	307	15 April 2008	1 April 2007
2008-09	30 November 2007	4 October 2007	No delay	15 April 2008	1 April 2008
2009-10	30 November 2008	31 July 2009	242	31 March 2010	1 April 2009
2010-11	30 November 2009	28 March 2011	482	To be approved	NA
2011-12	30 November 2010	28 March 2011	117	To be approved	NA

(Source : Information furnished by the Management)

ARR filed with a delay between 117 and 482 days in all five years except 2008-09.

From the above it may be seen that there were delays in filing ARR ranging between 117 and 482 day in all the five years except 2008-09.

The Management stated (December 2012) that since preparation of ARR requires lot of data relating to the Company's assets, liabilities, loans, investment etc, the task of compiling and finalising these data could not be achieved due to the fact the power sector was undergoing a major restructuring. The reply is not acceptable as the work of filing ARR for transmission was being done by UPPCL since inception. All the related data was available with UPPCL and it had no relevance with the restructuring of the power sector.

2.1.50 The ARR proposals made by the Company and approved by the Commission are given below:

Transmission Tariff						
Year	Submitted by UPPTCL			Approved by UPERC		
	Total Energy wheeled (MUs)	Revenue Requirement (₹ in crore)	Tariff, ₹/Kwh	Total Energy wheeled (MUs)	Revenue Requirement (₹ in crore)	Tariff, ₹/Kwh
2007-08	53026	1015.31	0.191	51573	679.44	0.132
2008-09	55064	1272.09	0.231	55411	1195.12	0.216
2009-10	54345	746.47	0.137	54183	680.51	0.126
2010-11	61217	942.37	0.154	Tariff order awaited		
2011-12	69788	1069.77	0.153	Tariff order awaited		

(Source : Tariff Orders)

Further, as per the Regulation, whenever there is a gain or loss (excess/short) in the controllable items (O&M, Return on capital employed, Depreciation and non-tariff income) the Company shall file True –up of the Tariff Order before the Commission. The Commission on the basis of the audited accounts, may increase or decrease in the rates of wheeling charges.

At the instance of Government, the Company did not include return on equity of ₹ 278.24 crore in true up of Tariff Order 2007-08. The claim for the same was not lodged with the Government.

We noticed that the Company filed true up[∇] only up-to 2007-08 which was provisionally approved by UPERC as true-up filed by the Company was on the basis of unaudited Accounts. The Company did not file final true up for 2007-08 even after availability of audited accounts for 2007-08. Further, it was noticed that though UPERC allowed the return on equity (RoE) of ₹ 278.24 crore in Tariff Order for 2007-08, the Company did not include the same in true up for 2007-08 at the instance of Government. The claim for the same was also not lodged with the Government. In 2008-09 and 2009-10, the UPERC disallowed the employee cost, repair and maintenance expenses and interest and finance charges of ₹ 71.39 crore and ₹ 31.34 crore respectively without assigning any reason in the Tariff Order.

The Management stated (December 2012) that Energy task Force (ETF) of the State Government had taken decision in its meeting dated 18 September 2010 that due to charging of RoE in the ARRs, transmission tariff will increase which will ultimately the distribution tariff. Hence, the ETF had decided not to charge RoE in transmission ARRs. We are of the view that as the amount of RoE was excluded at instance of ETF of the State Government, it should have been demanded from the State Government.

Material management

2.1.51 The key functions in material management are laying down inventory control policy, procurement of materials and disposal of obsolete inventory.

[∇] Petition filed by the Company for approval of final tariff.

Best Practices in transmission Systems suggested that on the basis of experience and consumption rate of the spares, the Company should have developed the norms for procurement and storage of spares. The spares should have been procured and stored on the basis of line and SS levels and regional level. The Company had not formulated any procurement policy and inventory control mechanism for economical procurement and efficient control over inventory.

2.1.52 Scrutiny of the records of the Company revealed the following:

The details of Opening stock, purchases, issues and closing stocks for the period from 2007-08 to 2011-12 are detailed below:

(₹ in crore)

Year	Consumption (per annum)	Consumption (per month)	Net Closing stock (as per Balance sheet)	Closing stock in terms of months to consumption
2007-08	237.61	19.80	290.17	15
2008-09	262.10	21.84	348.76	16
2009-10	218.72	18.23	383.03	21
2010-11	331.88	27.66	456.29	16
2011-12	552.91	46.08	606.51	13

(Source : Annual Accounts of the Company)

It may be seen from the table above that:

- the closing stock increased by 109.02 *per cent* from ₹ 290.17 crore (2007-08) to ₹ 606.51 crore (2011-12). The above balances indicated availability of material for consumption ranging from 13 months to 21 months.
- The Company did not dispose off 51 transformers having capacity ranging from 5 MVA to 150 MVA lying damaged and uneconomical since 2001 even after the order (October 2009) of Board of Directors (BOD).
- the Company had not conducted any analysis for fixation of standard for inventory and re-order level of their material requirement before making decision for procurement of material. Thus, the Company blocked its capital in stock by making purchases over and above the requirement of material.

The Management stated (December 2012) that all the procurements were done as per requirement which increased due to increasing the transmission network. The reply is not acceptable as the closing stock ranged between 13 to 21 months' consumption which itself indicated that the procurement was not done in planned manner.

Inventory management

2.1.53 There is no Area Store at Zone level under the control of the Company. The Physical Verification (PV) of the stores of Junior Engineers (JE) at sub-division level was being conducted annually.

The value of non-moving, surplus, obsolete, unserviceable and scrap material as furnished by 28 Divisions in four Zones in the last five years is given below:

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Surplus/obsolete/unserviceable/ scrap	9.59	6.64	7.74	9.56	11.64
Non-moving	2.63	2.33	3.21	4.71	1.69
Total	12.22	8.97	10.95	14.27	13.33

(Source: Information furnished by the Management)

As would be observed from the above, the value of the surplus, obsolete and non-moving stock was on increasing trend during 2007-08 to 2011-12. The Company had not taken action to conduct survey reports and dispose of the scrap/obsolete material, which could have earned revenue and resulted in creation of space for stocking of other materials.

Conclusion

- The Company failed to achieve its planned capacity addition registering huge shortfall ranging between 13 and 82 per cent.
- The capacity addition projects were completed with time and cost overruns which indicated that projects were not executed economically, efficiently and effectively.
- The Company failed to synchronise construction of evacuation system with generation plan, evacuation of power was managed through existing transmission system putting an extra load on the same.
- Sub-stations and lines were constructed without proper load requirement resulting in underutilisation of Sub-stations.
- Despite provision of Manual of Transmission Planning Criteria, the Company constructed Sub-stations with single transformers and Sub-station beyond permissible capacity.
- The voltage management system did not correspond to the norms prescribed in Grid code and Grid discipline was not followed.
- The Company did not have adequate safety measures and infrastructure for disaster management.
- The Company filed Annual Revenue Requirements with delays ranging between 117 and 482 days.

Recommendations

- The Company should ensure implementation of annual plan for capacity addition and timely completion of the planned projects with effective monitoring,
- Efforts should be made to synchronise evacuation system with that of the generation system so as to avoid gap arrangement of evacuating through exiting system,
- The standards/norms fixed in Manual of Transmission Planning Criteria/Best Practices in Transmission Systems should be adhered for effective functioning and maintenance of transmission network,

- **The Company should ensure adequate disaster management system and install recommended systems to protect SSs, lines and transformers,**
- **State Load Despatch Centre (SLDC) should be maintained as per Grid Code and all generators and SSs should be connected to SLDC through Remote Terminal Units on real time basis for safety and security of the Grid. The frequency levels should be adhered to avoid Grid indiscipline, and**
- **The Annual Revenue Requirement should be submitted within prescribed time.**

2.2 Performance Audit on the Working of Uttar Pradesh State Industrial Development Corporation Limited

Executive summary

Introduction

The Uttar Pradesh State Industrial Development Corporation Limited (Company) was incorporated in March 1961 as a wholly owned Government Company under the Companies Act, 1956 for development of industrial infrastructure and to promote industrial development in the State for which it was nodal agency.

Acquisition of land

The target of acquisition of land was not achieved due to delays at the level of District Authorities and Government. The failure of the Company to develop the available land not only led to blockade of fund in subsequent acquisition of land but also resulted in avoidable expenditure in the shape of Sollacium.

Physical possession of 1,200.483 acre land acquired in 1993 and 2,584.292 acre land acquired during April 1999 to April 2005 in Buland Shahar have not been obtained so far resulting in blockade of ₹ 297.29 crore.

The Company acquired 48,551.088 acre land against which the conveyance deed has been executed only for 27,745.588 acre land.

Development of infrastructure on acquired land

The Company executed 248 contracts for development out of which, 201 contracts were executed against short term tender notices without any justification and 33 contracts valuing ₹ 63.37 crore very short term tender notices although there was no provision in the Manual for issue of very short term tender notice.

Scrutiny of 40 contracts revealed that tenders were finalised by lower level staff and CE and MD did not sign the tender documents and comparative statements. The MD accorded approval separately on note sheets. The Company finalised 130 contracts by dividing the work in groups without any justification. The Company awarded 107 contracts to the same contractors against which 48 contracts remained incomplete up to March 2012 which defeated purpose of grouping.

The CE made payment of ₹ 25.51 crore to 19 contractors against 39 contracts although the bills of executed works were not available out of which ₹ 5.64 crore has not been recovered. The inadmissible payment resulted in loss of interest of ₹ 5.40 crore.

The penalty of only ₹ 1.07 lakh was recovered against recoverable penalty of ₹ 2.65 crore in 21 contracts.

Ten contracts remained incomplete despite lapse of four to six years leading to blockade of ₹ 21.17 crore and delaying the infrastructure development.

The payment of ₹ 3.03 crore was made for supply of material in nine contracts by the Company against the direction (June 2007) of MD. The physical verification revealed that the material of ₹ 2.21 crore was short at Chakeri-II and Mandhana sites.

Management of Industrial Area

The utilisation of allotted plots ranged between 48.77 per cent and 54.27 per cent during five years up to 2011-12. The Company suffered loss of additional revenue of ₹ 11.30 crore due to transfer of vacant plots.

In 212 cases, the plots were transferred without executing the lease deed leading to loss of stamp duty of ₹ 5.40 crore and in 303 cases stamp duty of ₹ 18.81 crore could not be recovered due to non-execution of lease deed.

The reserve price of five group housing plots was fixed in contravention of the rules which resulted in loss of ₹ 110.10 crore.

The allotment of eight Group Housing and 34 commercial plots was done against the prescribed system which resulted in loss of additional revenue of ₹ 152.29 crore at market rate which works out to ₹ 24.50 crore at the circle rate.

Internal control system

The monthly/quarterly accounts are not prepared due to which it could not ascertain its income due to which it paid penal interest of ₹ 5.45 crore to Income Tax department. Lack of annual inspection of subordinate offices and non-follow up of Internal Auditors report makes the internal control system weak and resulted in fraudulent payment of ₹ 2.12 crore.

Conclusion and recommendations

The Company failed to achieve the targets of land acquisition and development, made excess payment towards land acquisition charges and compensation, blockade of funds with the District Authorities due to delay in acquisition of land, non-compliance of tendering process. Due to fixation of lower rates of reserve price and non-revision of premium rates led to deprival of earning additional revenue. The internal control system was deficient.

We made six recommendations for achievement of targets for its development, to follow the prescribed tendering process, to follow the rate fixation and revision policy.

Introduction

2.2.1 Uttar Pradesh State Industrial Development Corporation Limited (UPSIDC) was incorporated in March, 1961 as a wholly owned Government Company under the Companies Act, 1956. The administrative control of the Company is with the Department of Industrial Development, Government of Uttar Pradesh (GoUP). The main objects of the Company *inter alia* are to promote industry, companies, projects or enterprises for manufacture and production, acquire tracts of land, develop acquired land to provide basic facilities like aid, assist and finance the industries.

The Company undertakes following stage-wise activities for developing Industrial Areas and implement infrastructure projects sponsored by the Government within the ambit of Central and State industrial policy:

- Acquisition of land;
- Development of infrastructure on the acquired land;
- Allotment of developed land/plots in industrial areas;
- Maintenance of industrial areas.

Organisational set up

2.2.2 The Management of the Company is vested in a Board of Directors comprising 10 Directors including a Managing Director (MD) and a Chairman appointed by the State Government. The MD is the Chief Executive of the Company who looks after day-to-day activities with the assistance of Joint Managing Director (JMD), Finance Controller (FC), General Manager (GM) Administration, Dy. GM (Project), Chief Manager Industrial Area (CMIA), Chief Engineer (CE) and a Senior Land Acquisition Officer (SLAO) and a Company Secretary at the Headquarters.

The land acquisition and construction activities are carried out by 10 Construction Divisions (CD) and two Electrical Divisions (ED) each headed by an Executive Engineer (EE) under overall supervision of CE who is responsible for development of the Industrial Areas (IA). The marketing of developed plots is done by the CMIA through fifteen Regional Offices spread throughout the State. These Regional Offices are headed by the Regional Managers (RM) and are responsible for allotment, transfer, cancellation, and restoration of plots and to ensure utilisation of plots developed in Industrial Areas (IAs). The organisational set up has been indicated in a flow chart (**Annexure-11**).

Scope of audit

2.2.3 The activities of the Company were last reviewed and featured in the Audit Report (Commercial) of the Comptroller and Auditor General of India for the year 1998-99. Subsequently, a review on Development of Industrial Infrastructure by UPSIDC was incorporated in the Audit Report (Commercial) of the Comptroller and Auditor General of India for the year 2004-05. The review incorporated in the Audit Report for the year 1998-99 has been partly discussed and review incorporated in the Audit Report for the year 2004-05 has not been discussed by the Committee on Public Undertakings (COPU) so far (February 2013).

The present Performance Audit was conducted during October 2011 to July 2012 covering the main activities of the Company *viz.* acquisition, development of land and management of Industrial Areas for the period of five years from 2007-08 to 2011-12.

The Company has developed 144 IAs (52 very fast moving, 61 fast moving and 31 slow moving). The IAs located in Ghaziabad, Varanasi, Kanpur, Lucknow, Surajpur and Project Office, Tronica were selected to cover very fast moving, fast moving and slow moving IAs and related Construction and Electrical Divisions so as to include IAs of all geographical locations.

Audit objectives

2.2.4 The objectives of Performance Audit were to assess whether:

- compliance with the provisions of Acts and Government orders was done by the Company in acquisition of land;
- land acquired by the Company was developed promptly;
- payments were made to the District Authorities as required under the provisions;
- allotment process was fair, transparent and in line with the guidelines;
- allotted plots had been utilised by the allottees for setting up industries;
- Internal control mechanism was efficient and effective;

Audit criteria

2.2.5 The audit criteria for aforesaid audit objectives were:

- Provisions of State Industrial Policy 1998, decisions taken in the meetings of Board of Directors;
- Provisions of Land Acquisition Act, 1894, Land Acquisition Manual, Land Acquisition Karar Niyamawali, 1997 and Government orders and orders issued by the Company;
- Physical and financial targets fixed by Company;
- Provisions of Working Manual of Engineering Wing;
- Provisions of Operating Manual of Industrial Area Wing;

Specific provisions have been mentioned in the related paragraphs of Audit findings.

Audit methodology

2.2.6 A mix of the following methodology was adopted to analyse data and records for deriving audit conclusions:

- Study of State Industrial Policy, Agenda Notes and Minutes of meetings of the Board of Directors, Working Manual of Engineering Wing and Operating Manual of Industrial Area Wing, physical and financial progress reports, Project Reports and Delegation of powers.
- Case-wise scrutiny of land acquisition including Survey and Viability Reports and payments made to the District Authorities.
- Scrutiny of Plot-wise register, case-wise study of allotment, restoration, transfer and sub-division of the plots in the industrial areas.
- Study of premium revision policy of the Company and premium revision done during the last five years.
- Scrutiny of estimates, tender documents, contracts, Measurement Books and payments made for execution of development works.
- Obtaining competent, relevant and reasonable evidences in order to support the audit judgment and conclusion.

- Issue of Audit queries and discussions with Management.

Audit findings

2.2.7 We explained the Audit Objectives to the Management in ‘Entry Conference’ held on 16 January 2012. Subsequently, Audit findings were reported to the Management and Government in September 2012 and discussed in an ‘Exit Conference’ held on 11 October 2012. The ‘Exit Conference’ was attended by the Managing Director, Joint Managing Director, Finance Controller, Chief Manager Industrial Area, Chief Engineer, Senior Land Acquisition Officer and other officers of the Company. No representative of the State Government participated in the Exit Conference. While the reply from the State Government was awaited, the views expressed by the Management have been considered while finalising the Performance Audit Report. The audit findings are discussed in the succeeding paragraphs:

Acquisition of land

2.2.8 The Company acquires land from Gram Sabhas and private land owners under the provisions of Land Acquisition Act, 1894 (LAA) as given below:

Sections of LAA	Requirement
	Submissions of land acquisition proposal* with necessary documents and checking thereof by the District Authorities
Section 4	Issue of preliminary notification by the State Government for acquisition of land.
Section 5A	Hearing of objections of the land owners by the Collector.
Section 6	Issue of notification by the State Government for acquisition of land within one year of issue of notification u/s 4.
Section 9	Issue of notice by the State Government for taking possession of the land.
Section 11	Issue of award and declaration of compensation by the State Government.
Section 17	In case of urgency, possession of land can be taken on the expiry of 15 days from the publication of notice under section 9.
Section 2 of Land Acquisition Karar Niyamawali, 1997 (LAKN)	The body acquiring the land can fix the rate of compensation by mutual agreement with land owners and submit the agreement to the Collector for approval.

Targets and achievements

2.2.9 The table below depicts the position of land available for development at the beginning of the year, land acquired and developed during the year and land available for development at the end of the year during five years up to 2011-12:

(Land in acre)						
Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1	Land available for development at the beginning of the year	701*	1208.00	877.51	1584.79	2254.79
2	Target fixed for acquisition of land	1800.00	1500.00	1000.00	600.00	300.00
3	Land acquired	802.00	3.51	1034.48	830.00	38.04
4	Total land available (1+3)	1503.00	1211.51	1911.99	2414.79	2292.83
5	Land developed	295.00	334.00	327.20	160.00	391.00
6	Land available for development at the end of the year (4-5)	1208.00	877.51	1584.79	2254.79	1901.83
7	Percentage of land acquired to target fixed	44.56	0.23	103.45	138.33	12.68
8	Percentage of land developed to total land available for development	19.63	27.57	17.11	6.63	17.05

Source: Progress Report and Action Plan of the Company.

* The proposal for acquisition of land under LAA is sent to Collector and it should contain prescribed Proforma for acquisition of land, Preliminary Investigation Report, Khasara/Khatauni of land under acquisition, Calculation sheet of compensation, Certificate for non-inclusion of Government and ceiling land, Certificate of acceptance of District Land Utilisation Committee for acquisition of agricultural land, Certificate of acceptance of Land Utilization Parishad, Certificate of Collector for acquisition of land under Section 17, Village wise survey report of affected families, Certificate to the effect that provision for expenditure for rehabilitation of affected families has been done, Certificate that no dues are pending on the body acquiring the land, Certificate that no religious building e.g. mosque, temple, graveyard etc. is situated on the land, Certificate and order of Collector for acquisition of land, List of assets on the land, Proforma of notification for acquisition of land, Public Notice/ Munadi, Tamila Report.

* Remaining undeveloped land as per Action Plan for the year 2007-08 against acquisition of land during 2006-07.

We noticed the following:

- The target of acquisition of land was not achieved in 2007-08, 2008-09 and 2011-12 due to delays at the level of District Authorities and Government for which effective pursuance on the part of Company was not done.
- Although entire land was acquired under the urgency clause of section 17 of LAA, percentage of land developed to the total land available for development ranged between 6.63 *per cent* and 27.57 *per cent*. The failure of the Company to develop the available land not only led to blockade of fund in subsequent acquisition of land but also resulted in avoidable expenditure in the shape of Sollacium. Further, this indicated that the assessment of requirement of land was done arbitrarily.

Our examination of land acquisition records revealed cases of wasteful expenditure due to land acquisition under urgency clause, excess payment of compensation, loss due to acquisition of land for private entrepreneurs, blockade of fund and non-execution of conveyance deed which have been discussed in succeeding paragraphs.

Wasteful expenditure on land acquisition under urgency clause

2.2.10 As per section 17(1) of LAA, in case of urgency, whenever the Government directs the Collector, he may take possession of any land needed for public purpose on the expiry of 15 days from the publication of notice u/s 9 of LAA, though no such award has been made.

As per Government order No. 2623/10(LA/93A/04 dated 7 December 2004 (issued by Director, Land Acquisition Directorate, Board of Revenue, Uttar Pradesh), Proformae 5 and 21 have been prescribed for computation of estimated compensation, acquisition charges, Sollacium** and additional compensation. These proformae indicate that 10 *per cent* acquisition charges are payable only on estimated compensation.

The Company submitted following land acquisition proposals u/s 17 of LAA:

Name of villages	Land in acres	Date of proposal, notification, final award and possession				Payment of compensation				Total compensation
		Proposal for acquisition	U/s 4	U/s 6	Final award	Compensation	Sollacium	Additional compensation	Interest	
Aliabad	240.331	October 2005	December 2008	December 2009	--	18.44	5.53	2.21	-	26.18
Pavi Sadikpur	122.516	October 2005	September 2008	August 2009	--	17.24	5.17	2.06	-	24.47
Chandauli	65.90	February 2001	July 2005	August 2006	July 2010	3.18	0.95	1.19	0.68	6.00
Total	428.747					38.86	11.65	5.46	0.68	56.65

The above table indicates inordinate delay in acquisition of land and the Company could not take physical possession of land so far (December 2012) leading to defeat of purpose of land acquisition under urgency clause.

Payment of Sollacium of ₹ 11.65 crore under urgency clause remained wasteful as the land could not be acquired despite lapse of six to 11 years.

Thus, payment of ₹ 11.65 crore as Sollacium for acquiring 428.747 acre land under urgency clause proved wasteful as the land could not be acquired despite lapse of six to 11 years from the date of submission of the proposals.

The Management stated (4 December 2012) that the Sollacium of 30 *per cent* amounting to ₹ 11.65 crore u/s 23(2) was paid due to compulsory acquisition and additional compensation of ₹ 5.46 crore u/s 1 (1-A) had been paid as per rules. The fact remains that the payment of ₹ 11.65 crore was wasteful as the land has not been acquired despite delay of six to 11 years although it was paid due to acquisition of land under the urgency clause of section 17 LAA.

** Sollacium is award of 30 *per cent* on the estimated compensation in every case of compulsory acquisition.

Non-adjustment of acquisition charges

2.2.11 The Company paid (May 2008) ₹ 5.54 crore towards acquisition expenses against estimated compensation of ₹ 55.43 crore to the District Authorities for acquisition of 274.43 acre land of three villages to develop Leather Park in Agra. The estimated compensation was revised to ₹ 49.52 crore on which acquisition expenses of ₹ 4.95 crore was payable. The District Authorities demanded (20 April 2010) ₹ 3.17 crore as payment of ₹ 46.68 crore only was made by the Company against the revised acquisition cost of ₹ 49.85 crore. The Company paid (10 May 2010) full amount of ₹ 3.17 crore without adjusting excess acquisition charges already deposited to the extent of ₹ 59.10 lakh. This resulted in blockade of funds of ₹ 59.10 lakh.

The Management stated (December 2012) that request has been made to the District Authorities for refund. The same has, however, not been received/adjusted so far (December 2012).

Excess payment of compensation

2.2.12 The Company in the meeting held (5 June 2007) with the land owners decided that it will give five *per cent* developed land against 10 *per cent* undeveloped land to the land owners of Pachaira and Lutfullapur village. Accordingly, the Company decided (14 June 2007) that compensation for aforesaid 10 *per cent* undeveloped land shall not be paid to the land owners. The Company took (28 March 2008) possession of 115.539 hectare land of Pachaira village and 32.326 hectare land of Lutfullapur village. We observed that the payment of compensation of ₹ 141.92 crore was made as per demand of the District Authorities for the total land acquired without deducting 10 *per cent* compensation of undeveloped land. The payable compensation after deducting 10 *per cent* undeveloped land worked out to ₹ 117.25 crore. Thus excess payment of ₹ 24.67 crore was made to the District Authorities.

The Company deposited excess compensation of ₹ 24.67 crore.

The Management stated (December 2012) that the excess payment of ₹ 24.67 crore shall be transferred in other schemes of the district. The reply does not explain the reasons for making payment without verifying the accuracy of the demand of the District Authorities and the amount payable as per the decision of the Company.

Loss due to acquisition of land for private entrepreneur

2.2.13 The Company was declared (27 January 2005 and 31 July 2008) nodal agency for acquiring the land for the Entrepreneurs. We noticed that the land was acquired for following entrepreneur without compliance of the provisions of LAA.

The Company acquired land for TATA Motors without executing agreement with them and deposited compensation with District Authorities resulting in loss of interest of ₹ 0.79 crore and blockade of ₹ 1.65 crore.

The Infrastructure and Industrial Development Commissioner (IIDC) in a meeting (July 2006) with the Company and Tata Motors decided to acquire 100 acre land for Tata Motors for their expansion project. Accordingly, the Company submitted (November 2006) a proposal for acquisition of 93.81 acre land in Lucknow without executing any agreement with Tata Motors for payment of acquisition cost which was violation of LAA. The Company paid an amount of ₹ 3.31 crore to the District Authorities during September 2007 to December 2008 and GoUP issued notification (23 June 2009) u/s 4 of LAA for acquisition of land. During the land acquisition process the vendors of Tata Motors encroached the notified land. The Company decided (6 October 2010) to drop land acquisition proposal as per the report of District Magistrate (DM) (16 September 2010) that land was encroached and law and order problem

would arise on handing over the possession of land. The Commissioner on the request of the Company decided (15 December 2010) that deduction of acquisition charges shall not be made. However, a sum of ₹ 1.65 crore was only refunded (31 January 2011) to the Company and amount of ₹ 1.65 crore was retained by District Authorities. Thus, the Company suffered loss of interest of ₹ 0.79* crore on the fund remained blocked with District Authorities besides an amount of ₹ 1.65 crore remained blocked in the absence of any agreement with TATA Motors.

The Management stated (December 2012) that the Tata Motors neither submitted application for acquisition of 93.81 acre land nor gave consent on the conditions. Therefore, the proposal was submitted for acquisition of land in the name of the Company for expansion of Chinhat IA and payments were made as per demand of the District Authorities. The DM intimated law and order problems in handing over the land and therefore, decision was taken to drop the proposal. The efforts were being made for recovery of ₹ 1.65 crore. We do not agree as the reply is contrary to the decision of IIDC wherein it was decided that the acquisition of land shall be done for expansion project of Tata Motors. Therefore, the agreement should have been executed with Tata Motors and acquisition cost recovered from them.

Blockade of funds due to inadequate action under LAKN

The Company could not settle the dispute with land owners by entering into agreements with them. Due to this land could not be acquired resulting in blockade of funds of ₹ 297.29 crore.

2.2.14 A reference is invited to paragraph 2.1.21 regarding acquisition of land for Growth Centre, Khurja featured in Audit Report (Commercial) for the year ended 31 March 2005. We further observed that the Company acquired 1,200.483 acre land in Khurja in 1993 under urgency clause for setting up Growth Centre. The payment of compensation of ₹ 10.29 crore had been made to the land owners up to January 2011. Similarly, acquisition of 2,584.292 acre land of ten villages of Buland Shahar was done during April 1999 to April 2005 under urgency clause. The payment of compensation of ₹ 287 crore has been made up to September 2012. The Company could not obtain physical possession of the land in both cases due to dispute with the land owners on compensation. The Company could not settle the disputes with land owners under LAKN which not only delayed the infrastructure development on 3,784.775 acre land but also led to blockade of ₹ 297.29 crore.

The Management stated (December 2012) that action was being taken to execute agreements with the land owners in case of land acquired in Khurja and in case of Buland Shahar, agreements have been executed at compensation of ₹ 650 per sqm with 1,359 land owners out of 1,855 land owners of six villages. We do not agree with the reply as the Company has delayed the process up to eight to 15 years although land was acquired against urgency clause.

Non-execution of conveyance deed

2.2.15 The Company has acquired 48,551.088 acre land (March 2012) out of which conveyance deeds of only 27,745.588 acre land (57.15 per cent) has been executed (up to March 2009 as per finalised Accounts for the year 2008-09). In one case DM, Chatrapati Sahuji Nagar intimated (July 2011) the Company that 123.15 acre land was allotted to Samrat Bicycles Limited on lease which irregularly executed conveyance deed in their name and the allottee may proceed to sell the land. We are of the opinion that a delay in

* Calculated at the rate of seven per cent being lowest rate on fixed deposit.

execution of conveyance deeds is a risk that could lead to misappropriation of land by the allottees.

The Management stated (December 2012) that action was being taken for execution of conveyance deed of remaining land. The action for cancellation of conveyance deed of land allotted to Samarat Bicycles Limited and execution of conveyance deed of the aforesaid land in the name of the Company was being done by Executive Engineer, Construction Division-VI. We do not agree as the reply is silent about the reasons for the delay in the execution of conveyance deed by the Company.

Development of infrastructure in acquired land

2.2.16 High quality infrastructure developed in industrial area not only plays a pivotal role in industrialisation but also provides competitive edge to industry as it increases productivity of capital employed in the industry and reduces the cost of production. The State Industrial Policy, 1998 and 2004 emphasised the need for creation of high quality infrastructure facilities like sewerage, roads, drains, culverts, common facility centers and provision of water, electricity etc. for attracting entrepreneur to establish industries in the State.

Targets and achievements

2.2.17 The table below indicates the targets fixed for land development and achievements there against during the last five years up to 2011-12:

Year	Development of land (in acres)		Excess (+) Shortfall (-) (in acres)	Allotment of developed land (in acres)	Percentage of allotment to developed land
	Target	Achievement			
2007-08	1300.00	295.00	(-)1005.00	349.00	118.31
2008-09	1082.00	334.00	(-)748.00	362.99	108.68
2009-10	1202.00	327.20	(-)874.80	413.82	126.47
2010-11	200.00	160.00	(-)40.00	442.93	276.83
2011-12	519.00	391.00	(-)128.00	262.11	67.04

Source: Progress Reports for the period 2007-08 to 2011-12.

As evident from the above:

- targets have been fixed without assessment of demand of developed land from the entrepreneurs.
- Company failed to achieve the targets of development of land during the period of five years up to 2011-12.

The percentage of allotment of land against land developed ranged between 67.04 and 276.83 which indicate that there has been huge demand of plots from entrepreneurs.

Execution of contracts for development works

2.2.18 Para 20.7.6 of the Working Manual for Development and Maintenance of Industrial Areas (WMDMIA) prescribes that the Tender notice shall normally be issued at least 21 days in advance of the date of receipt of Tender, so as to provide adequate publicity to it for competitive bidding. The advertisement of Tender should also appear in newspaper at least 15 days in advance of the date of receipt of Tender. However, a Short tender notice of eight days may be issued in case of urgency for which prior approval of CE is required. Where re-tendering for the "Same Work" becomes necessary or when there is "unavoidable" urgency of work, short term tender of eight days may be issued giving complete justification for it.

Para 20.8.1 of the WMDMIA prescribes that for tenders above ₹ 75 lakh and up to ₹ 150 lakh, tender shall be approved by a Committee consisting of CE

(Chairman), DGM (Project), EE nominated by CE and Manager/Dy. Manager (Accounts) nominated by MD as member. The tender above ₹ 150 lakh shall be approved by a Committee comprising of MD (Chairman), CE as member convener, FC as member and officer nominated from PM/Project section.

The Company executed 248 contracts at the Headquarters during five years up to 2011-12 as detailed below:

Sl. No.	Year	Contracts executed (Number)	Value of contracts (₹ in crore)	Payment made (₹ in crore)
1.	2007-08	10	22.10	17.46
2.	2008-09	84	126.94	122.36
3.	2009-10	74	122.86	109.67
4.	2010-11	36	48.75	30.21
5.	2011-12	44	79.74	21.50
	Total	248	400.39	301.20

Out of 248 contracts, four contracts were executed against full term tender notices, 201 contracts were executed against short term tender notices and 33 contracts of the value of ₹ 63.37 crore were executed against very short term tender notices* and the case files of 10 contracts were not available with the Company as these were in custody of Special Investigation Team (SIT). We examined 40 contracts of the value of ₹ 61.67 crore which revealed following:

- Nineteen tenders of the value of each above ₹ 1.50 crore and 21 tenders of the value of each up to ₹ 1.50 crore were required to be approved by the Committee under chairmanship of MD and by the Committee under chairmanship of CE respectively. However all the tenders were opened and scrutinised by either Junior Engineers (JE) or Assistant Engineers (AE).
- The comparative chart and tender documents were not signed by the CE and MD and the approval was accorded by them separately on the note sheet.
- Twenty five contracts were finalised against short term notices and the general approvals for short term tender notices were obtained in five cases only. Further, the reasons for inviting tenders against short term notices were not on records.
- In three contracts of value of ₹ 3.39 crore finalised by the Committee under chairmanship of Chief Engineer, approval of the MD was not obtained.
- We further observed that in contravention to the Para 21.1 of the WMDMIA, payment of ₹ 5.24 crore against four contracts[&] (each valuing more than ₹ one crore) was made without approval of the MD.

The Management stated (December 2012) that the explanation was being called for from the officers responsible for inviting tenders against very short term notices. It further stated (13 February 2013) that all the very short term tenders were invited with the approval of the MD to achieve to annual targets due to Lok Sabha elections. Thus, the Management's replies are contrary to each other.

* There is no rule for issue of very short term tender notice.

& ₹ 1.19 crore against CB No. 57/CE/2008-09 dated 31 March 2009, ₹ 1.16 crore against CB No. 60/CE/ 2008-09 dated 21 March 2009, ₹ 1.45crore against CB No. 61/CE/2008-09 dated 21 March 2009 and ₹ 1.44 crore against CB No. 62/CE/2008-09 dated 21 March 2009.

Grouping of work

2.2.19 Para 20.1 of WMDMIA prescribes that the sanctioned works can be arranged in one or more groups as deemed suitable keeping in view the requirement of site/progress, after approval of Chief Engineer (CE).

We observed that, during the period of Performance Audit, CE executed 130 contracts of ₹ 197.73 crore against 55 sanctioned estimates of ₹ 245.72 crore for development works by dividing the works of these estimates in groups. Justifications for requirement of site/progress for grouping of the works of these 55 estimates were, however, not on records. Out of these, 74 contracts of ₹ 104.60 crore were completed and 56 contracts of ₹ 93.13 crore remained incomplete of which ₹ 47.61 crore have been paid as of 31 March 2012. Further, out of 130 contracts, 107 contracts pertaining to 44 estimates were awarded to same contractors. Against 107 contracts, 48 contracts remained incomplete as of 31 March 2012 which defeated the purpose of grouping of the works.

The Management did not furnish any reply.

Undue favour to contractors

2.2.20 Clause 21.1 of WMDMIA provides that payment against the contracts of more than ₹ one crore shall be made by the CE and final bill shall be paid after approval of the MD.

In this connection following points were noticed:

- The CE made (November 2005 to July 2007) payment of ₹ 25.51 crore to the 19 contractors against 39 contracts against the running bills; although the running bills were not available on record. Thus, the payment was undue favour to the contractors and amounted to financing of the contractors by the Company. The bills against executed works were also not available in CE office as detailed in **Annexure-12**. Thus, the payment of ₹ 25.51 crore to the contractors was irregular.

The Management stated (February 2013) that the payment was made under provisions of para 21.2.3 of WMDMIA which prescribed for payment of advance to contractors in contracts above ₹ 100 lakh by the CE on his own assessment where the work has not been measured. The payment has been made on the recommendation of concerned EE on demand of the contractors and amount paid has been adjusted. We do not agree with the reply, as the recommendations of EE, demand of the contractors and assessment done by the CE were not available on records.

- As against payment of ₹ 25.51 crore, an amount of ₹ 19.87 crore paid to the contractors was adjusted during April 2006 to August 2009 from the subsequent bills and a sum of ₹ 5.64 crore remained unrecovered as on 31 March 2012. The Company charges interest from the allottees at the rate of 14 *per cent* in fast moving and 13 *per cent* in slow moving industrial areas. The Company suffered loss of interest of ₹ 5.40 crore due to irregular and inadmissible payments made to the contractors as detailed in **Annexure-12**.

The Management stated (February 2013) that the payment was made against executed works and loss of interest was not justified. We do not agree as the payment had been made prior to execution of works.

- As per terms of clause 2 and 3 of the general conditions of the contract if contractors fail to complete work within scheduled time, penalty is to be levied at rates ranging from 0.5 *per cent* per week of the value of contract subject to the extent of security deposit available. It was noticed that penalty amounting to ₹ 2.65 crore was leviable in 21 contracts as the time extension was either not applied by the contractors or not approved by the CE against which penalty of ₹ 1.07 lakh only was levied and recovered. Thus, penalty of ₹ 2.64 crore was not levied extending undue favour to the contractors.

The Management stated (December 2012) that the time extension had been allowed on the recommendation of concerned EE. We have, however, excluded the cases where extension has been granted. The penalty of ₹ 2.64 crore has not been levied in the cases where either contractors had not applied for extension of time or applied but not approved by the CE.

- The Company's office order (14 August 2007) provided that each work should be inspected at three stages or on critical stage, if any. The first stage will be in the first quarter of start i.e. at 15 to 20 *per cent*, second stage at 50 to 70 *per cent* and last stage at 80 to 99 *per cent* of the progress of work.

We noticed that out of 39 contracts, prescribed three checking were done in five contracts only; no checking was done in nine contracts, in 20 contracts one checking was done and in five contracts two quality checking were done against prescribed three quality checking.

The Management stated (December 2012) that the quality checking by external agency had been done. We do not agree as no third party checking reports were available.

- The value of work awarded through 39 contracts was ₹ 88.06 crore; out of which the work of ₹ 34.17 crore was awarded against 10 contracts. Despite lapse of more than four to six years, these works were still incomplete against which payment of ₹ 21.17 crore had been made and the works of ₹ 13.00 crore had not been completed so far (March 2012). This not only led to blockade of fund of ₹ 21.17 crore (**Annexure-13**) but also delayed the infrastructure facility for industrial development. No action was initiated against these contractors.

The Management stated (February 2013) that action had been initiated to complete the works. Action shall be taken against the contractors who fail to complete the works.

2.2.21 Besides the above 39 contracts, the Company paid (19 November 2009) a sum of ₹ 1.11 crore to Gupta Associates (contract no. 54/CE/2009-10 of 30 October 2009). We noticed that the bill against executed work was not available with the CE section. The work was lying incomplete as of July 2012. No action has been initiated against the contractor.

The Management stated (February 2013) that the payment had been made in terms of para 21.2.3 of the manual on recommendation of the EE and demand of the contractor. It further stated that the bill had been sent by the concerned EE and efforts were being made to complete the work. We do not agree as the payment was made without assessment of the executed work. The recommendation of the EEs and demand of the contractor were not available on record.

Non-utilisation of material

2.2.22 The Managing Director directed (June 2007) that the payment should be made only on completion of item of work as per bill of quantity. We observed that an estimate for construction of six metre span of 16 meter roadway, RCC culvert on pipeline of Indian Oil Corporation (IOC) in Industrial Area, Chakeri II was sanctioned (16 October 2008) for ₹ 1.95 crore. The Construction Division, Kanpur executed (28 January 2009 and 26 February 2009) three contracts for construction work against short term tender notice. We observed that the contractors supplied material and payment of ₹ 90.58 lakh was made against the material. The contracts were rescinded (3 November 2010) as the IOC did not permit for execution of work. It was decided (3 November 2010) that the material shall be utilised for the development work of Mandhana Industrial Area.

There was no physical existence of the material valuing ₹ 2.21 crore.

Subsequently, the Company executed eight contracts during December 2010 and January 2011 for development work of Mandhana, Industrial Area against short term tender notice. The payment of ₹ 2.83 crore was made (January 2011 to June 2011) to the contractors which included the material cost of ₹ 2.12 crore against six contracts. We noticed that despite decision of the MD, earlier supplied material of ₹ 90.58 lakh was not utilised by the Division in development work of IA Mandhana. The work of IA Mandhana was also stopped (25 July 2011) due to protest of land owners. The physical verification conducted (31 March 2012) by the Divisional Engineer revealed that the material of ₹ 2.21 crore pertaining to Industrial Area Chakeri and Mandhana was not available on the work site. The Division neither lodged FIR with the police for shortage of material nor responsibility for aforesaid lapses was fixed so far (December 2012).

The Management stated (December 2012) that the concerned Executive Engineer, Assistant and Junior Engineer have been suspended.

Management of Industrial Area

Marketing of plots

2.2.23 The Company, in its Order dated 21 November 2005, streamlined the procedure for allotment of plots as below:

- The RM shall submit detailed time bound programme and cost estimate of marketing to Headquarters for approval. The applications shall be invited by making wide publicity through National level newspapers, Internet/web-site, magazines and journal.
- The details of experience, elaborated Project Report and documents in support of financial strength and technical expertise shall also be obtained to examine the interest of allottee in setting up of project.
- The Industrial plots shall be allotted after conducting interview of applicants at Regional Office by a Committee comprising RM, concerned EE, representative of Headquarters and an Expert member.
- Decision for allotment of plots above one acre shall be taken by a Committee of the Headquarters.

Residential/Commercial/Group Housing/Institutional plots

- The residential plots up to 500 sqm were to be allotted by the Region level Committee and above 500 sqm by the Headquarters level Committee.
- Allotment of commercial/group housing/institutional plots shall be made under bid system for which RM shall submit clear proposal to the Headquarters for approval for marketing viz. reserve price, application

money to be demanded, uses to be allowed, date of starting and closing for bids and cost estimate.

The bids shall be invited by the Headquarters for plots (other than residential) above one acre and decision shall be taken by the Headquarters level Committee. The Region level Committee shall finalise the allotment of plots up to one acre with the approval of the Headquarters.

After development of infrastructure in Industrial Area (IA), the plots developed by the Construction Divisions are transferred to RM for allotment. The details of development, allotment and utilisation of plots during the five years up to 2011-12 are depicted in the table below:

Sl no.	Particulars	Plot in number and area in acre	2007-08	2008-09	2009-10	2010-11	2011-12
1	Land (including undeveloped land) available for allotment	Plots	38838	35258	31343	35553	34715
		Area	28090.1	29927.02	31187	33656.18	32717.78
2	Land allotted	Units	27503	24288	21868	24673	24098
		Plot	37100	30845	27998	31574	30663
		Area	25189	27523.05	26196.57	28343.72	27360.16
3	Land not available for allotment due to encroachment/litigation	Plots	1139	1154	1027	1427	808
		Area	766.14	570.44	1028.95	882.37	747.41
4	Balance land as per land utilisation statement	Plots	2610	1881	2194	2480	3282
		Area	3286.48	2867.46	3406.12	3846.94	4129.94
5	Actual Balance (1-(2+3))	Plots	599	3259	2318	2552	3244
		Area	2134.96	1833.53	3961.48	4430.09	4610.21
6	Difference (5-4)	plot	-2011	1378	124	72	-38
		Area	-1151.52	-1033.93	555.36	583.15	480.27
7	Land under production	Units	6375	8412	8157	9095	9841
		Area	12285.4	13679.12	13529.08	14370.7	14847
8	Land with sick/closed units	Units	2169	1912	1752	1945	2421
		Area	2940.79	5312.55	3380.97	3751.45	3951
9	Land under construction by allottee	Units	2557	2489	2583	2807	2722
		Area	3196.41	3766.99	3663.25	4103.49	3177.99
10	Utilised land (7+8+9)	Units	11101	12813	12492	13847	14984
		Area	18422.6	22758.66	20573.3	22225.64	21975.99
11	Unutilised land (2-10)	Units	16402	11475	9376	10826	9114
		Area	6766.4	4764.39	5623.27	6118.08	5384.17
12	Per cent of allotment to developed plots	Area	89.67	91.97	84.00	84.22	83.62
13	Per cent of land under production against allotment	Area	48.77	49.70	51.64	50.70	54.27
14	Per cent of sick/closed units to allotted units	Area	11.67	19.30	12.91	13.24	14.44

Source: Land Utilisation Statement for the period 2007-08 to 2011-12.

It is seen from the above table that:

- The balance land at the end of the year has difference with the balance as worked out in audit ranging between (-) 1151.52 acre and 583.15 acre during the period of five years up to 2011-12 which has not been reconciled by the Management.
- The utilisation of allotted plots by units under production ranged between 48.77 per cent and 54.27 per cent during the period of five years up to 2011-12. This indicated that allottees were not entrepreneurship centric and were, rather, interested in speculative business of the plots as discussed in subsequent paragraph 2.2.24.
- The plots having area of 747.41 acre valued at ₹ 440.10 crore were not available for allotment (at the end of March 2012) due to litigation/encroachment. Plot-wise details showing reasons for litigation/encroachment were not available on records.

The Management stated (December 2012) that the land was not actually in litigation but the tracing of plots have not been made available by Divisions for which action would be taken. We do not agree with the reply as the information made available to Audit indicated that the plots were not available

due to not remitting tracing of plots by the Construction Divisions and also due to construction of temples and graveyards on the developed plots.

Industrial plots

In allotment of industrial plots we noticed various irregularities as discussed in succeeding paragraphs:

2.2.24 The plots are allotted for establishing the industrial units within two years failing which the allotment was to be cancelled. As per policy detailed in Chapter 6 of the Operating Manual, no lessee can transfer the allotted plot without prior approval of the Company. The permission for transfer is accorded after charging transfer levy ranging from five to 15 *per cent* except in case of transfer in case of inheritance, death of allottee. The Board of Directors in its 258 meeting (17 October 2007) prohibited the transfer of vacant plots with effect from 1 April 2008 on the ground that transfer of vacant plots leads to speculative business and affects the industrialisation process. The Board of Directors in its subsequent meeting (February 2010) removed the ban on the transfer of plots on the ground that the Company will receive the transfer levy which would strengthen its financial strength and the Entrepreneurs will get the plots easily which will induce the industrial development of the state.

We observed in audit of one industrial area each of Tronica City, Surajpur and Lucknow regions that 131 vacant plots were transferred as detailed below:

Region	Number of IA	Allotted plots up to 31 March 2012		Plot transferred during 2007-08 to 2011-12	IA checked	Plot in IA	Plots transferred in IA	Loss* Of revenue (₹ in crore)
		No.	Area in acres					
Tronica City	3	2412	455.71	1677	Tronica	2302	25	5.26
Surajpur	9	4466	2683.74	1940	Site- 4	339	31	4.77
Lucknow	22	1880	2970.65	277	Agro Park	294	75	1.27
Total	34	8758	6110.10	2204		2933	131	11.30

Source: Plot-wise Registers and Plot Transfer Registers

- Twenty one plots were transferred irregularly during period from August 2008 to January 2010 when the ban was in force.
- 110 vacant plots were transferred during five years instead of cancelling and making afresh allotments.

Permission of transfer of vacant plots resulted in depriving the additional revenue of ₹ 11.30 crore besides leading the speculative business.

We observed that there was a clear demand for these plots and, as such, the prudent option would have been to cancel them for non-utilisation and allot afresh at prevailing rates instead of allowing the transfer. This would have strengthened the financial position of the Company by way of earning additional revenue of ₹ 11.30 crore. Further, it would have stopped the speculative business and ensured the entrepreneurs get plots easily.

The Management stated (December 2012) that the Company always keeps in view the speculative business of plots, but transfer of plots cannot be banned because transfer of plots is a facility to those allottees who wants easy exit due to their financial problem or due to death etc. By transfer, the Company is managing better utilisation of plots and fast growth of industrialisation. If Company disallows the transfer and cancel the allotted plots, it may lead to litigation and plots shall not be available for re-allotment. The purpose of industrialisation would be forfeited. Therefore, the logic of cancellation without giving opportunity of exit is not correct. We do not agree with the reply as it is contrary to the condition of the allotment letter which states that if

* Premium at prevailing rate – ₹ 29.49 crore *minus* (premium received at the time of allotment – ₹ 14.64 crore *plus* transfer levy received – ₹ 3.55 crore).

the plot is not utilised within two years, allotment shall be cancelled. Further, facility of time extension is available to the allottee for utilisation of plot beyond period of two years. Therefore, in case of non-utilisation, the allotment should have been cancelled to allot the plot to potential entrepreneurs. Further, the transfer of plots by the allottees leads to speculative business of plots which affects the industrialisation of the State.

Non-revision of rates

2.2.25 The Company fixed (14 January 2010) premium of ₹ 6,000 per sqm for allotment of industrial plots in Pocket-I of newly developed Sector A-7 of Tronica City which was valid till 31 March 2010 and it was *inter alia* stated that thereafter, it will to be revised as per established procedure which prescribes that the premium rate in very fast, fast moving and slow moving areas would be revised adding 10 *per cent* and five *per cent* respectively.

The premium rate was not revised after 31 March 2010. The Project office received 423 applications against 166 plots advertised (16 January 2010) for allotment in Sector A-7. Interview of the applicants was conducted during 5 March 2010 to 18 March 2010. The 164 plots were allotted in June 2010 at the rate of ₹ 6,000 per sqm. According to Chapter-III of the Operating Manual of industrial area, rate of premium prevailing on the date of allotment was applicable. We noticed that the premium rate was not revised to ₹ 6,600 per sqm after 31 March 2010 by adding 10 *per cent* on it as per prescribed procedure. Since premium at the old rate of ₹ 6,000 per sqm was recovered from these allottees, it could not earn additional revenue of ₹ 3.29 crore.

The Management stated (December 2012) that the rate of ₹ 6,000 per sqm was fixed on 14 January 2010. The costing section again confirmed (15 September 2010) the premium of ₹ 6,000. Thus, there was no loss. The reply was not in consonance with order of January 2010 which envisaged that the rate shall be revised after 31 March 2010 as per prevailing procedure.

Non-creation of buffer area for schools in Industrial Areas

2.2.26 The State Government directed (August 2004) that the plots may not be allotted for operation of schools in IAs and where permission has already been granted, a buffer area may be demarcated around the schools and permission may be given for establishment of only non-polluting industries to save the children from pollution. The Pollution Control Board (PCB) also directed (31 August 2005) for compliance of directions of the State Government.

We observed that six schools* were running in the Industrial Areas of Ghaziabad Region since long back despite directions of GoUP. The Company has not taken any action for creating buffer area around the schools despite lapse of more than eight years.

The Management stated (December 2012) that the point has been noted for compliance. Strong notices shall be issued to the schools for shifting or to create pollution free environment outside the schools. Request shall be made to PCB to provide new technologies to make pollution free environment around the schools. We do not agree with the reply as the Company was responsible for making buffer area around the schools for which no action had been taken.

* Silver line Public School Ghaziabad, Delhi Public School, Ghaziabad, Abhudaya School, Sahibabad, New Era School, Shankar School, Buland shahar Road- Ghaziabad, Ryan International School, Ghaziabad.

Loss to exchequer due to transfer of plots without executing lease deed

2.2.27 As per provision in allotment letters issued by the Company, the allottees are required to execute lease deed of the plot with the Stamp and Registration Department within 90 days of the allotment.

We observed that the allottees had, however, not executed lease deed within time. The Company has not developed any system to ensure compliance of this condition by the allottees. This led to loss to the exchequer to the extent of ₹ 24.21 crore in 515 cases out of 3490 checked by us:

Permission of transfer of plots without lease deed resulted in loss to the exchequer of ₹ 5.40 crore. Further, non-execution of lease deed led to non-recovery of stamp duty of ₹ 18.81 crore.

- 212 plots (6 per cent) were irregularly transferred by the original allottees who had not executed lease deed. This resulted in loss of ₹ 5.40 crore to the exchequer.
- In 303 cases (who were allotted plots during January 1970 to February 2012), original allottees did not execute lease deeds even after lapse of 90 days from the date of allotment. This led to non-recovery of stamp duty of ₹ 18.81 crore.

The Management stated (December 2012) that the observation has been noted and strict view has been taken for executing lease deed within six months after allotment of plots for new allottees and 90 days after transferring of plot to new transferee.

Housing plots

Allotment of group housing plots

2.2.28 The Uttar Pradesh State Industrial Development Authority (UPSIDA) in its 16th Board meeting, decided (February 2009) that for Tronica City and Ghaziabad region the norms of Ghaziabad Development Authority (GDA), for Surajpur region and other Industrial Areas of National Capital Region the norms of Greater Noida Authority (GNA) and for other areas the norms of concerned Development Authorities shall be applicable.

Para 2.09 (VI) of the Operating Manual of Industrial Area of the Company prescribed that the reserve price of land for commercial uses in residential areas in fast and in very fast moving area shall be fixed by multiplying the plot by 2.50 of residential rate.

The Company allotted (June 2011 to August 2011) three Group Housing plots (HRA 9, 10, 11) in Site-C extension of Surajpur Industrial Area through bidding at the rates of ₹ 7,950 to ₹ 7,965 per sqm against the reserve price of ₹ 7,850 per sqm and two other Group Housing plots (HRA 12, 14) in November 2011 at the rates of ₹ 8,090 and ₹ 8,080 per sqm against the reserve price of ₹ 8,000 per sqm. We observed that the Company followed all other norms of GNA except system of pricing. The GNA determines rate of housing plots by applying the factor of 1.91 to 5.12 of the rate of industrial land[&].

The Company fixes the premium rates of the Group Housing plots taking the factor of 1 of residential plot. The Company fixed reserve price of ₹ 7,850 per sqm against costing of ₹ 7,827 per sqm and ₹ 8,000 per sqm was fixed against ₹ 7,950 per sqm against highest quoted rates of preceding bid.

[&] As discussed in 264th Board meeting of Company held on 12 November 2008.

Fixation of reserve price at lower side for Group Housing plots resulted in deprival of additional revenue of ₹ 110.10 crore.

The Group Housing plots were allotted to the private builders who were in business of construction of flats for sale to public which was a commercial activity. The premium of commercial plot located in residential area should have been fixed by taking cost of residential plots in the area and the factor of 2.50 in very fast/fast moving area as prescribed by the Company. Since the cost of the developed land was ₹ 7,827 per sqm, the reserve price should have been fixed at ₹ 19,567.50 per sqm. Thus, fixation of reserve price at lower side led the bidder to quote lower rate which deprived the Company from additional revenue of ₹ 110.10 crore* in allotment of five Group Housing plots.

The Management stated (December 2012) that the residential rate and Group Housing rate of GNA for all sectors was ₹ 10,500 per sqm and the 2.75 FAR was given against prescribed FAR of 2.50 for parity with GNA as Surajpur housing was in the Greater Noida Area. We do not agree with the reply as the Company did not adopt the system of GNA completely nor fixed the reserve price as per its own working manual. The plots were allotted to the builders for construction of flat and its sale. Since activity of the builder is of commercial nature, reserve price should have been fixed accordingly.

Allotment of commercial and group housing plots in Tronica City

2.2.29 The Board of Directors prescribed (26 June 1992) that the premium rate should be fixed considering the prevailing market rate in the vicinity of the industrial area. Para 2.06 of the Operating Manual also prescribed for sale of plots at prevailing market rate.

The Company allotted (August 2006 and March 2007) 96,600 sqm plots of Group Housing and 76,640 sqm of Commercial plots in Tronica City. The MD pointed out (May 2007) following irregularities in the allotment of land:

- Bids received were examined by a Committee and submitted to CE for approval. The approval from MD and JMD was not obtained as the unlimited powers were delegated to the CE by the then MD vide order of 6 August 2005. The order of delegation of unlimited powers to CE was irregular.
- The Media plan for the advertisement was not got approved from the competent authority.
- The allotment of plots was not widely circulated as advertisements were released only in Financial Express and Dainik Bhaskar which had limited circulation.
- The reserve price fixed at Headquarter was ₹ 3,200 per sqm to ₹ 4,475 per sqm for Group Housing and ₹ 5,500 per sqm to ₹ 11,500 per sqm for commercial against market rate ranging between ₹ 12,000 and ₹ 13,000 per sqm for Group Housing and up to ₹15,000 per sqm for commercial.
- The condition for submission of commercial and technical experience of applicant was not incorporated as a condition in bid document.

In view of the above, MD recommended for investigation by CBI. The State Government initiated (22 June 2007) the inquiry by Special Investigation Team (SIT) of the UP Police in the matter which was still in progress (December 2012). The scrutiny of records made available to Audit revealed that the Headquarters Committee invited bids, selected allottees and sent the

* Plot No. HRA-9: ₹13.83 crore, HRA-10: ₹ 40.80 crore, HRA-11: ₹ 15.91 crore, HRA-12: ₹ 26.26 crore and HRA-14: ₹ 13.30 crore.

selection letters of allottees to the Project Office. Accordingly, the Project Office allotted 8 Group Housing plots and 34 commercial plots during October 2006 to March 2007. During scrutiny of records we observed that:

Due to allotment at lower rates, the Company suffered loss of additional revenue of ₹ 152.29 crore worked out at the market rates. This worked out to ₹ 24.50 crore at the circle rate.

- the original bids submitted by the allottees, records relating to fixation of reserve price and media plan for sale of plots were not made available to Audit.
- the plots were allotted at the rates lower than the then prevailing market rates and circle rates in contravention of Para 2.06 of the Operating Manual and approval (26 June 1992) of the Board of Directors.
- the matter was placed in the meeting (27 May 2009) of the Board of Directors. The Board was apprised that the plots were allotted on the basis of advertisement given in the local news papers which had limited circulation and allotments were done at the lower rates of ₹ 3,200 to ₹ 4,475 per sqm in Group Housing and ₹ 5,500 to ₹ 11,500 per sqm in commercial plots against prevailing market rate of ₹ 12,000 to 13,000 per sqm for Group Housing and ₹ 15,000 per sqm for commercial plots. Due to allotment of plots at lower rates the Company suffered loss of additional revenue of ₹ 152.29 crore at the market rates which at the circle rate works out to ₹ 24.50 crore as shown in **Annexure-14**.
- Para 2.16 of the Working Manual provided that if the area is increased up to *10 per cent*, the matter shall be decided by the RM, otherwise, the case shall be referred to the Headquarters for approval. The allotments were made without finalisation of tracing of plots due to which allotment of 41,134 sqm was done in excess of the area approved by the Headquarters for allotment. In 14 cases, the excess area was more than *10 per cent* which was finalised by the Project Office itself without approval of the Headquarters.
- construction plan and map had been sanctioned only in eight cases and rest of the allottees had not submitted these documents for sanction as of May 2012.
- premium of ₹ 43.30 crore and interest of ₹ 29.31 crore was accumulated against 34 allottees at the end of January 2012 but action had not been taken for cancellation of plots in terms of the allotment letters.

The Management stated (December 2012) that the allotment was made to the highest bidder keeping in view corresponding rate of the Company against reserve price. No basis was available in the files for market price of ₹10,000 per sqm for Group Housing and ₹12,000 per sqm for commercial plots. It is a fact that SIT enquiry in 44 allotments has impeded the development, growth, allotment and habitation of Tronica City and no Group Housing plot could be allotted even after fixing the reserve rate of ₹ 7,000 per sqm since 2007 which puts a big question mark on the assumption of market price wise calculating loss. It was further stated that the works were allocated to Class-I officers vide order of 6 August 2005. On posting of General Manager (D) on deputation, the powers of General Manager were assigned to CE.

We do not agree with the reply as reserve price was fixed at lower side than the market price which was assessed by the Company itself. Further, the order of delegation of powers (6 August 2005) prescribed reporting officer for the each officer allocated with power. The allotments have been done without approval of the JMD/ MD who were the Reporting Officer. The CE was held responsible (6 August 2009) for violating the power, procedural irregularities

and supervision lapse in enquiry conducted by JMD and two increments were withheld permanently and has been censured. The investigation against CE has been reopened (6 January 2012) and the AMD has been appointed enquiry officer against which CE has filed a writ in the High Court Allahabad.

Internal control mechanism and Internal audit

Internal control is a process designed for providing reasonable assurance for efficiency of operation, reliability of financial reporting and compliance with applicable laws and statutes. Audit analysis of internal control procedures/mechanisms revealed the following deficiencies:

Inadequacy of manpower leading to lack of internal control

2.2.30 The Company did not conduct any analysis for requirement of manpower with reference to quantum of work since inception. The State Government, however, sanctioned (11 January 2002)* 801 posts of staff and officers and further sanctioned 514 posts of staff on temporary basis for appointments to clear the backlog of reserve categories. The working strength of the manpower against the sanctioned strength at the end of the year 2011-12 are detailed below:

Class	Posts sanctioned in			Total sanctioned strength	Actual strength	Vacant posts
	2002	2007 and 2008	2011			
A	79	5	-	84	53	31
B	81	2	-	83	50	33
C	444	2	95	541	421	120
D	197	-	410	607	443	164
Total	801	9	505	1315	967	348

We noticed the following:

- As evident from the above table, there was shortage of 348 staff. There was shortage of 31 class ‘A’ and 33 class ‘B’ officers responsible for direction and monitoring of the work which resulted inadequate monitoring. Further, shortage of 284 lower staff affected the performance level and led to delayed execution of work resulting in avoidable expenditures and losses.
- The Company deployed (1 October 2011 to 31 March 2012) 35 staff on fixed pay basis for which approval of the Board of Directors/State Government has not been obtained (February 2013).
- The appointments against the posts sanctioned to clear the backlog were made on the basis of fake documents / certificates. We pointed out eight such cases in Audit Inspection Report for the period from February 2010 to January 2011[&] and recommended to the Management to investigate the process of appointment. The Management, however, did not take action on recommendations of the audit. However, the State Government directed the Company (10 May 2012) to investigate the whole process of appointments and appointed Commissioner, Kanpur to conduct enquiry on the matter. The records relating to appointments made by the Company have been sealed. Further progress in the matter had not been intimated to Audit (November 2012).

Lack of follow up of supervision and monitoring control

2.2.31 As per chapter 16 of Working Manual, CE shall conduct annual inspection of the Construction Divisions (CDs)/Electrical Divisions (EDs). We

* Forty years after incorporation of Company vide letter no.4477(1)/77-4-2001 dated 11 January 2002, 3396/88-2007-312 N/07 dated 14 November 2007, 4408 (i)/86-08 dated 21 February 2008, 3576/86-11-338/2010 dated 1 April 2011.

& Audit Inspection Report issued to Management vide letter no..CAW/DMU/Lekha Paricha Prativedan/14 dated 19 April 2011.

observed that annual inspection of CDs/EDs was not being done by the CE. Similarly, inspection of the subordinate offices by the MD, FC and CMIA was also not done despite order (25 June 2010) of the Managing Director.

The Management Stated (December 2012) that the monitoring is done by the MD and FC every month and the officers visits the field offices regularly but the inspection report have not been issued. We do not agree with the reply as the compliance of the established system of inspection has not been documented and, therefore, it does not provide assurance of compliance of the system.

Deficiencies in financial controls

2.2.32 The following indicates weak internal control in the area of financial reporting:

- The Company had finalised Annual Accounts up to 2008-09 only and the accounts for the years 2009-10 to 2011-12 were in arrears.
- As per Section 207 of the Income Tax Act, 1961 (Act), every assessee is required to pay advance tax on estimated current income for the financial year in accordance with the provisions of Section 208 to 219 of the Act in four advance instalments* at the prescribed rates, in case the amount of Income tax payable is ₹ 10,000 or more. Failure to deposit minimum 90 *per cent* of the tax in advance as well as shortfall in depositing tax as per the prescribed slab attracts interest at the rate of one *per cent* per month separately as prescribed under Section 234B and 234C of the Act. This calls for proper estimation of taxable income to ensure deposit of advance tax as required to avoid the incidence of interest payment.

We noticed that as the Company had not devised system of preparation of monthly/quarterly accounts, they failed to estimate profit for filing Income Tax Return (ITR) in time. The estimated income shown in the ITR during the period 2007-08 to 2010-11 was less than the actual income; therefore, Company paid penal interest of ₹ 5.45* crore under Section 234 (B) and (C) of the Income Tax Act, 1961. The Management failed to take corrective action in subsequent years despite penal interest levied in 2007-08.

Lack of Management Information System

2.2.33 The Company initiated in the year 2000 the development work of software modules packages. Despite an expenditure of ₹ 2.15 crore, it could not implement software operation successfully *viz* online plot allotment, cancellation, transfer, restoration, land accounting, Balance sheet, personnel information system, lottery system for industrial/housing plot allotment, file tracking system, public grievances system, legal information system, Management Information System, land acquisition system, land costing system and net banking, training of users and assessment of requirement of hardware and manpower.

The control records such as Allotment Register, Party Ledger, Lease Deed Register, Plot wise Register, Transfer Register, Legal Notice Register etc. were not completed and updated regularly by the Regional offices. Similarly, the Work Register, Measurement Book Issue and Receipt Register, Advance

* On or before 15 June (not less than 15 *per cent* of such advance tax), 15 September (not less than 45 *per cent* of such advance tax as reduced by the amount paid in earlier instalment), 15 December (not less than 75 *per cent* of such advance tax as reduced by the amount paid in earlier instalments) and 15 March of the financial year (the whole amount of such advance tax as reduced by the amounts paid in the earlier instalments).

* For the year 2007-08: ₹ 10 lakh, 2008-09: ₹ 71.47 lakh, 2009-10: ₹ 3.87 crore and 2010-11: ₹ 76.15 lakh.

Register, etc. in CDs/EDs were not maintained. This made the internal control and management information system weak.

The Management stated (December 2012) that the software modules are utilised partially by the field office and the data was being transferred through CD/e-mails. Due to change in development and marketing policies new software is being developed and the instructions have been issued for maintaining the records. We do not agree with the reply as the unit wise details submitted indicated that non-availability of hard ware and lack of proficiency of knowledge led to non-utilisation of software.

The lack of internal control system led to fraudulent payments in a case as discussed below:

Construction Division-X, Kanpur executed (28 March 2009) two contracts bonds* for widening and Up- gradation of approach road of Industrial Area Chakeri-II against Job No. 309 sanctioned on 12 February 2009. We observed the following irregularities:

- The bids were invited (10 February 2009) against short term tender notice although the estimate was not sanctioned.
- The bids submitted by the contractors were accepted although the bids were not filled up and signed by the contractors.
- Works were awarded and payment of ₹ 1.06 crore against contract Bond no. 81 and ₹ 1.06 crore against Bond no. 82 was made. These payments were made against fake measurement as the aforesaid work had already been executed by the Public Works Department. Thus, a sum of ₹ 2.12 crore was misappropriated.

The Management stated (December 2012) that the Departmental Enquiry has now been conducted and FIR lodged. The reply does not explain the method to recover the fraudulent payment of ₹ 2.12 crore and interest loss of ₹ 45.76 lakh sustained by the Company.

2.2.34 We observed that evidence of quality checking at the level of Executive Engineer in works was not available in any of the contracts. This was the violation of Para 15.1.1 of WMDMIA which prescribed that for works up to ₹ 50 lakh, complete quality checking of the works shall be got carried by concerned EE at his level.

Internal audit

2.2.35 The Company does not have its own internal audit wing. The internal audit is being conducted by the firms of the Chartered Accountants. We reviewed 46 internal Audit Reports containing 713 audit observations. In this connection following audit observations are made:

- The internal audit of the Company was in arrear as it had been conducted only up to 2008-09. The Internal Auditors submit their reports to the FC instead of to the MD who is the Chief Executive of Company.
- There was no follow up and corrective action on the audit observations.
- Company does not have a system of verification of compliance to the audit observations of the Internal Auditors. The control record of audit observations issued, settlement and pending for settlement is not maintained for better monitoring and effective control over deficiencies.

* 81/CE/2008-09 and 82/CE/2008-09 with Kartik Enterprises.

The Management stated (December 2012) that internal audit is done by firms of Chartered Accountants which has been completed up to 2009-10. The instruction has been issued to auditors for submission of report to MD. Action is being taken for verification of compliance and updating the records which was not considered necessary after computerisation. We do not agree with the reply as the verification of compliance should have been done by the auditors.

Conclusion

The Performance Audit of the Company revealed the following:

- **There was shortfall in achievement of the target of acquisition of land due to delay. Further, payment of Sollacium for urgent acquisition of land proved wasteful due to inordinate delays in acquisition of land.**
- **There were cases of excess payments of acquisition charges and compensation and blockade of funds, non-execution of conveyance deeds of acquired land in the name of the Company which may lead to mis-utilisation of land.**
- **Non-compliance of tendering process, inadmissible payments to contractors, delayed execution of work, and undue favour to contractors in awarding the contracts in execution of developmental works.**
- **Transfer of vacant/unutilised plots by the allottees instead of setting up industries adversely affected industrial development in the State.**
- **Fixation of reserve prices at lower side and non-revision of premium rates led to deprival of additional revenue, and**
- **Internal control mechanism was deficient due to lack of supervision and monitoring by higher authorities and statutes and inadequacy of internal audit.**

Recommendations

The Company should:

- **strive for achievement of targets of acquisition of land and it should acquire the land under urgency clause only when it is required, to avoid payment of Sollacium;**
- **accurately assess and pay the acquisition charges and compensation to avoid excess payment on this account and invariably execute agreements with private entrepreneurs. It should expedite execution of lease/conveyance deeds to fetch Government revenue and avoid chances of misuse of land;**
- **formulate a transparent and competitive tendering system to obtain competitive rates;**
- **formulate a sound marketing policy and strengthen its monitoring mechanism so that the developed plots are allotted and utilised within scheduled time frame;**
- **strictly follow the rate fixation and revision policy and Board's decision; and**
- **strengthen the internal control mechanism.**