Chapter-III

Social and Economic Sectors (Public Sector Undertakings)

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Social and Economic Sector (Public Sector Undertakings)

3.1 Functioning of State Public Sector Undertakings

3.1.1 Introduction

The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of the people and occupy an important place in the State economy. As on 31 March 2015, there were 21 PSUs which were working. Of these, no company was listed on the stock exchange. During the year 2014-15, no PSU was incorporated or closed down. The details of the State PSUs in Uttarakhand as on 31 March 2015 are given below.

Table 3.1.1: Total number of PSUs as on 31 March 2015

Type of PSUs	Working PSUs	Non-working PSUs[1]	Total
Government Companies	18	04[2]	22
Statutory Corporations	03[3]	-	03
Total	**21**	**04**	**25**

The working PSUs registered a turnover of ₹ 5,741.42 crore ***(Appendix 3.1.2)*** as per their latest finalised accounts as of September 2015. This turnover was equal to 4.14 *per cent* of Gross State Domestic Product (GSDP) for 2014-15. The working PSUs earned aggregate profit of ₹ 283.09 crore as per their latest finalised accounts as of September 2015. They had employed 19,896 employees ***(Appendix 3.1.2)*** as at the end of March 2015.

As on 31 March 2015, there were four non-working PSUs existing from last 25 to 28 years and having investment of ₹ 0.37 crore.

3.1.2 Accountability framework

The process of Audit of Government Companies is governed by respective provisions of Section 139 and Section 143 of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, Government Company" means any Company in which not less than 51 *per cent* of the paid up share capital is held by Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government Company. Further, as per sub-Section 7 of Section 143 of the Act, the

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1 Non-working PSUs are those which have ceased to carry on their operations.

2 Kumtron Limited, Uttar Pradesh Hill Phones Limited, Uttar Pradesh Hill Quartz Limited and UPAI Limited (under liquidation since 31 March 1991).

3 Uttarakhand Parivahan Nigam, Uttarakhand Forest Development Corporation and Uttarakhand Peyjal Sansadhan Vikas Evam Nirman Nigam.

C&AG may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if considers necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19 A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test Audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

3.1.3 Statutory Audit

The financial statements of the Government companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by Statutory Auditors, who are appointed by CAG as *per* the provisions of Section 139 (5) or (7) of the Act which shall submit a copy of the Audit Report to the C&AG which, among other things, including financial statements of the Company under Section 143(5) of the Act. . These financial statements are subject to supplementary audit to be conducted by CAG within 60 days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act.

Audit of Statutory Corporations is governed by their respective legislations. Out of three statutory corporations, CAG is the sole auditor for Uttarakhand Parivahan Nigam and Uttarakhand Forest Development Corporation. In respect of Uttarakhand Peyjal Sansadhan Vikas Evam Nirman Nigam, the audit was entrusted to the CAG initially from 2003-04 to 2008-09 and then extended upto 2018-19 under Section 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

3.1.4 Role of Government and Legislature

The State Government exercises control over the affairs of the PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government companies and Separate Audit Reports in case of Statutory corporations are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

3.1.5 Stake of Government of Uttarakhand

The State Government has significant financial stake in these PSUs. This stake is of mainly three types:

- **Share Capital and Loans**- In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

3.1.6 Investment in State PSUs

As on 31 March 2015, the investment (capital and long-term loans) in 25 PSUs was ₹ 8,398.51 crore as per details given below.

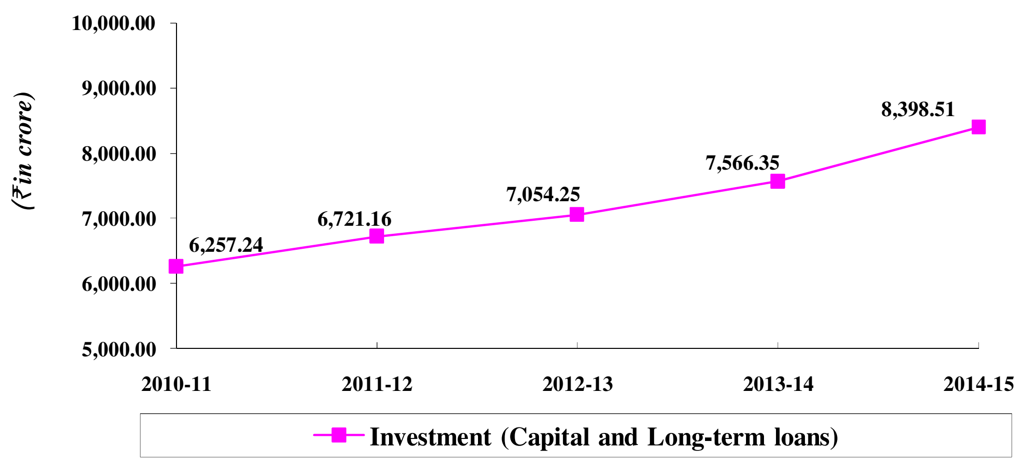
Table 3.1.2: Total investment in PSUs

(*₹in crore*)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	2,675.27	3,008.10	5,683.37	2,477.13	237.63	2,714.76	8,398.13
Non-working PSUs	0.38	-	0.38	-	-	-	0.38
Total	**2,675.65**	**3,008.10**	**5,683.75**	**2,477.13**	**237.63**	**2,714.76**	**8,398.51**

As on 31 March 2015, of the total investment in State PSUs, 99.99 *per cent* was in working PSUs and the remaining 0.01 *per cent* in non-working PSUs. This total investment consisted of 61.35 *per cent* towards capital and 38.65 *per cent* in long-term loans. The investment has grown by 34.22 *per cent* from ₹ 6,257.24 crore in 2010-11 to ₹ 8,398.51 crore in 2014-15 as shown in the graph below.

Chart 3.1.1: Total investment in PSUs



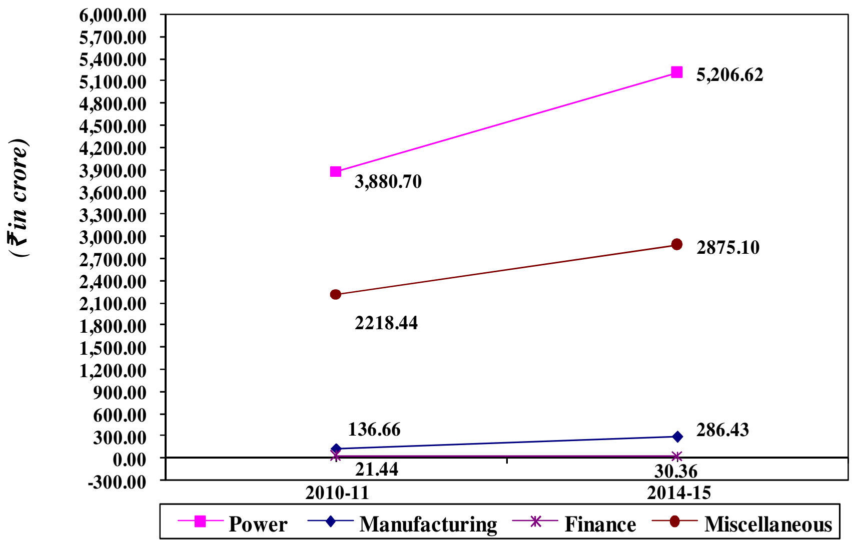
3.1.6.1 The sector wise summary of investments in the State PSUs as on 31 March 2015 is given below:

Table 3.1.3:Sector-wise investment in PSUs

Name of Sector	Government/Other companies		Statutory corporations	Total	Investment (₹in crore)
	Working	Non-Working	Working		
Power	3	-	-	3	5,206.62
Manufacturing	6	3	-	9	286.43
Finance	3	-	-	3	30.36
Miscellaneous	1	-	1	2	1.00
Service	2	-	1	3	353.13
Infrastructure	2	-	1	3	2,511.99
Agriculture & Allied	1	1	-	2	8.98
Total	**18**	**4**	**3**	**25**	**8,398.51**

The investment in four significant sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are given below in the bar chart.

Chart 3.1.2: Sector wise investment in PSUs



During 2014-15, the major percentage of investment continued to be in Power Sector. However, it decreased from 62.02 *per cent* in 2010-11 (₹ 3,880.70 crore) to 61.99 *per cent* in 2014-15 (₹ 5,206.62 crore) of the total investment. The investment in miscellaneous sector also decreased from 35.45 *per cent* to 34.24 *per cent* during 2010-11 to 2014-15. The investment in Manufacturing Sector and Power Sector increased from 2.19 *per cent* to 3.41 *per cent* and from 0.34 *per cent* to 0.36 *per cent* of the total investment during 2010-11 to 2014-15 respectively.

3.1.7 Special support and returns during the year

The State Government provides financial support to PSUs in various forms through the annual budget. The summarized details of budgetary outgo towards equity, loans, grants/

subsidies, loans written off and interest waived in respect of State PSUs are given below for three years ending 2014-15.

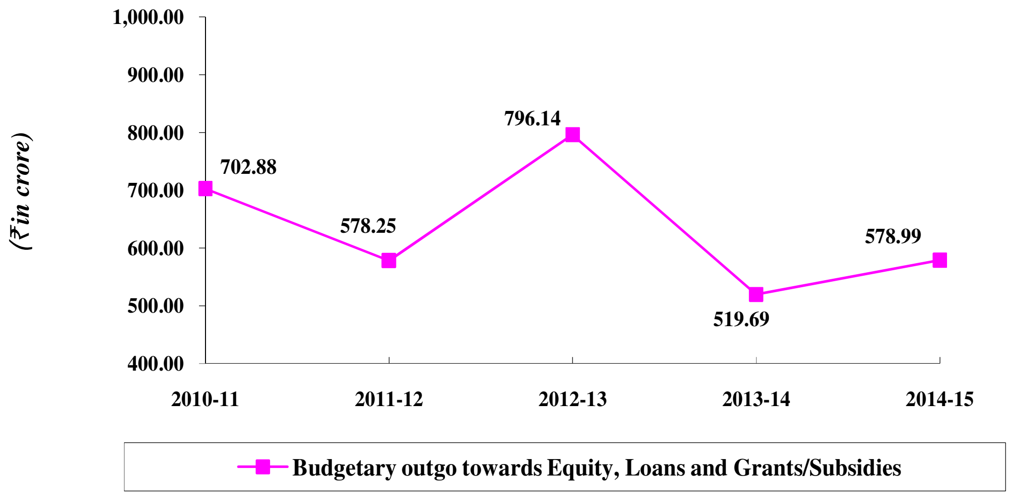
Table 3.1.4: Details regarding budgetary support to PSUs

(*₹in crore*)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	2	460.02	4	259.91	4	171.96
2.	Loans given from budget	3	252.90	6	190.07	5	374.43
3.	Grants/Subsidy from budget	5	83.22	4	69.71	3	32.60
4.	**Total Outgo (1+2+3)**	**7**	**796.14**	**8**	**519.69**	**7**[4]	**578.99**
5.	Waiver of loans and interest						
6.	Guarantees issued	1	1.51	1	1.54	2	57.87
7.	Guarantee Commitment	4	1,062.93	4	906.66	4	1,471.97

The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in the graph below.

Chart 3.1.3: Budgetary outgo towards Equity, Loans and Grants/Subsidies



The budgetary outgo towards State PSUs in the form of equity, loans and grants/subsidies provided by the State Government has shown a fluctuating trend with ₹ 702.88 crore outgo in 2010-11 and a ₹ 578.99 crore outgo in 2014-15.

The amount of Guarantee commitment as on 31 March 2013 was ₹ 1,062.93 crore (four PSUs) which increased to ₹ 1,471.97 crore (four PSUs) as on 31 March 2015 due to the guarantee given by the State Government on the R-APDRP loan to the Uttarakhand Power Corporation Limited. During the current year, two PSUs namely Uttarakhand Power Corporation Limited and Uttarakhand Bahudeshia Vitta Evam Vikas Nigam Limited received guarantee amount of ₹ 57.44 crore and ₹ 0.43 crore respectively.

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4 Represent actual number of company/corporation which received budgetary support in the form of equity/loans/subsidy during the respective year.

In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, State Government gives guarantee, for which guarantee fee is being charged. This fee varies from zero *per cent*[5] to one *per cent* as decided by the State Government depending upon the loanees. The guarantee commitment increased to ₹ 1,471.97 crore during 2014-15 from ₹ 1,062.93 crore in 2012-13. Further, two PSUs[6] paid guarantee fee to the tune of ₹ 10.17 crore during 2014-15.

3.1.8 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2015 is given below.

Table 3.1.5: Equity, loans, guarantees outstanding as per finance accounts *vis-à-vis* records of PSUs

(₹in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	2,188.10	2,729.66	541.56
Loans	194.94	902.53	707.59
Guarantees	1,223.76	1,471.97	248.21

Audit observed that the differences occurred in respect of 12 PSUs and some of the differences were pending reconciliation since 2003. The main differences were observed in respect of guarantees pertaining to two PSUs[7] and in respect of equity in five PSUs[8]. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner. The concerned PSUs and the Finance Department were requested (October 2015) to take necessary action to reconcile the differences.

3.1.9 Arrears in finalisation of accounts

3.1.9.1 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year i.e. by September end in accordance with the provisions of Section 96 (1) the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Companies Act, 2013. Similarly, in case of statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

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5 Guarantee fee for Uttarakhand Bahudeshiya Vitta Evam Vikas Nigam Limited is zero *per cent*.

6 Uttarakhand Jal Vidyut Nigam Limited (₹ 6.19 crore) and Power Transmission Corporation of Uttarakhand Limited (₹ 3.98 crore).

7 Uttarakhand Power Corporation Limited (₹ 415.82 crore) and Power Transmission Corporation of Uttarakhand Limited (₹ 178.53 crore).

8 Uttarakhand Jal Vidyut Nigam Limited (₹ 292.75 crore), Power Transmission Corporation of Uttarakhand Limited (₹ 214.20 crore), Uttar Pradesh Hill Electronics Corporation Limited (₹ 8.61 crore), Kiccha Sugar Company (₹ 17.21 crore) and Uttarakhand Bahudeshiya Vikas Evam Nigam (₹ 16.05 crore).

The table below provides the details of progress made by working PSUs in finalisation of accounts as of 30 September 2015.

Table 3.1.6: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Number of Working PSUs/Other Companies	20	20	20	21	21
2.	Number of accounts finalised during the year	28	15	10	16	16
3.	Number of accounts in arrears	135	140	150	148	153
4.	Number of Working PSUs with arrears in accounts	19	20	20	20	20
5.	Extent of arrears (numbers in years)	1 to 25 years	1 to 26 years	1 to 27 years	1 to 27 years	1 to 28 years

The State PSUs failed to clear accounts each year during the preceding five years from 2010-11 to 2014-15, causing accumulation of arrears ranging between 135 (2010-11) to 153 (2014-15) accounts.

The Administrative Departments have the responsibility to oversee the activities of these entitites and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The concerned Departments were informed regularly about the arrears. In addition, Accountant General took up the matter with the Chief Secretary and Secretary (Finance) Government of Uttarakhand for liquidating the arrears of accounts in April, 2015 and September, 2015 however, no improvement has been noticed.

3.1.9.2 The State Government had invested ₹ 448.29 crore in six PSUs (equity: ₹ 174.55 crore in respect of four PSUs, loans: ₹ 250.67 crore in respect of four PSUs and grants ₹ 23.07 crore in respect of one PSU) during the years for which accounts have not been finalised as detailed in ***Appendix 3.1.1***. In the absence of finalisation of accounts and their subsequent audit, it could not be assured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not, and to this extent Government's investment in such PSUs remained outside the control of State Legislature.

3.1.9.3 In addition to the above, the position of arrears in finalisation of accounts by non-working PSUs is given below:

Table 3.1.7: Position relating to arrears of accounts in respect of non-working PSUs

Name of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
UPAI Limited	Since 1989-90	26
Kumtron limited	Since 1990-91	25
Uttar Pradesh Hill Phones Limited	Since Formation (1987-88)	28
Uttar Pradesh Hill Quartz Limited	Since Formation (1989-90)	26

It can be seen that out of four non-working PSUs, one PSU *i.e*. UPAI Limited was in the process of liquidation since 31 March 1991 and the remaining three non-working PSUs[9] had arrears of accounts ranging from 25 to 28 years.

In respect of statutory corporation, only Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam has finalised its accounts upto 2013-14, the accounts of the remaining two Statutory Corporations namely Uttarakhand Parivahan Nigam and Uttarakhand Forest Development Corporation have been finalised upto 2012-13 and 2010-11 respectively.

3.1.10 Placement of Separate Audit Reports in respect of Statutory Corporations

The position depicted below shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2015) on the accounts of Statutory Corporations in the Legislature.

Table 3.1.8: Status of placement of SARs in Legislature

Sl. No.	Name of statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government/Present Status
1	Uttarakhand Parivahan Nigam	2008-09	2010-11 to 2012-13	not yet placed
2	Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam	2009-10	2010-11 to 2013-14	not yet placed
3	Uttarakhand Forest Development Corporation	2008-09	2009-10 to 2010-11	Issued to Government in May 2015

3.1.11 Impact of non-finalisation of accounts

The delay in finalisation of accounts as seen from the above may result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the above state of arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2014-15 could not be ascertained and their contribution to the State exchequer was also not reported to the State Legislature.

It is therefore, recommended that:

- The Government may set up the target for individual Companies to oversee the clearance of arrears and monitor the progress.
- The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise**.**

3.1.12 Performance of PSUs as per their latest finalized accounts

3.1.12.1 The financial position and working results of working Government companies and Statutory Corporations are given in ***Appendix 3.1.2.*** A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the

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9 Kumtron limited, Uttar Pradesh Hill Phones Limited and Uttar Pradesh Hill Quartz Limited.

details of working PSU turnover and State GDP for a period of five years ending 2014-15.

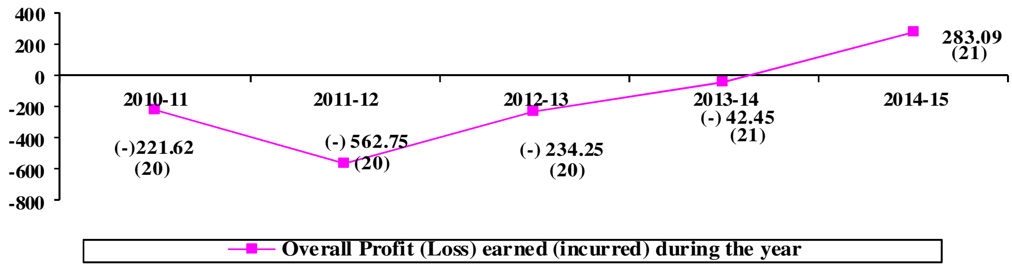
Table 3.1.9: Details of working PSUs turnover vis-à-vis State GDP *(₹in crore)*

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover[10]	2,539.52	3,258.60	4,042.00	5,103.24	5,741.42
State GDP	83,966	97,858	1,08,250	1,22,897	1,38,723
Percentage of Turnover to State GDP	*3.02*	*3.33*	*3.73*	*4.15*	*4.14*

The turnover of working PSUs had an increasing trend. It increased from ₹ 2,539.52 crore in 2010-11 to ₹ 5,741.42 crore in 2014-15. The percentage of turnover to State GDP also increased from 3.02 *per cent* in 2010-11 to 4.14 *per cent* in 2014-15

3.1.12.2 Overall profit (losses) earned (incurred) by State working PSUs during 2010-11 to 2014-15 are shown below in a bar chart.

Chart 3.1.4: Profit/ (-) Loss of working PSUs



(Figures in brackets show the number of working PSUs in respective years)

During 2010-11 the loss of working PSUs was ₹ 221.62 crore which increased to ₹ 562.75 crore in 2011-12. Further, the loss decreased by ₹ 191.80 crore in 2013-14. In 2014-15, the loss making PSUs significantly improved their position and made a profit of ₹ 283.09 crore.

During the year 2014-15, out of 21 working PSUs, 12 PSUs earned profit of ₹ 408 crore and Nine PSUs incurred loss of ₹ 124.91 crore. The major contributors to profit were Uttarakhand Power Corporation Limited (₹ 323.40 crore), State Industrial Development Corporation of Uttarakhand Limited (₹ 30.01 crore) and Uttarakhand Forest Development Corporation (₹ 36.86 crore). Heavy losses were incurred by Doiwala Sugar Company Limited (₹ 38.21 crore), Kichha Sugar Company Limited (₹ 34.95 crore) and Uttarakhand Parivahan Nigam (₹ 25.35 crore).

[10] Turnover as per the latest finalised accounts as of 30 September.

3.1.12.3 Some other key parameters of PSUs are given below.

Table 3.1.10: Key Parameters of State PSUs *(₹ in crore)*

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Return on Capital Employed (*Per cent*)	0.98	(-)3.56	0.59	(-) 6.31	8.74
Debt	2,465.29	2,883.12	2,702.00	2,929.57	3,245.73
Turnover[11]	2,539.52	3,258.60	4,042.00	5,103.24	5,741.42
Debt/ Turnover Ratio	0.97:1	0.88:1	0.67:1	0.57:1	0.57:1
Interest Payments	271.63	288.64	276.93	281.65	358.33
Accumulated Profits/ (losses)	(-)807.79	(-)1,905.97	(-)2,081.42	(-)2,034.59	(-)1,883.90

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

It can be seen from the above that the return on capital employed showed a fluctuating trend. The Debt-Turnover Ratio decreased from 0.97:1 in 2010-11 to 0.57:1 in 2014-15. The Accumulated losses which were ₹ 807.79 crore in 2010-11 increased to ₹ 2,081.42 crore in 2012-13 and then decreased to ₹ 1,883.90 crore in 2014-15.

3.1.12.4 The State Government had not formulated any dividend policy under which PSUs would be required to pay a minimum return on the paid up share capital contributed by the State Government. During the year 2014-15, no dividend was declared by any of the PSUs.

3.1.13 Winding up of non-working PSUs

3.1.13.1 There were four non-working PSUs (all Companies) as on 31 March 2015. Of these, one PSU namely UPAI Limited commenced liquidation process on 31 March 1991. The number of non-working companies at the end of each year during past five years is given below.

Table 3.1.11: Non working PSUs

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
No. of non-working companies	4	4	4	4	4
No. of non-working corporations	-	-	-	-	-
Expenditure incurred	These Companies had not incurred any expenditure during the period from 2010-11 to 2014-15.				
Total	**4**	**4**	**4**	**4**	**4**

Since the non-working PSUs are not contributing to the State economy and meeting the intended objectives, these PSUs may be considered either to be closed down or should be revived.

[11] Turnover of working PSUs as per the latest finalised accounts as of 30 September.

3.1.13.2 The stages of closure in respect of non-working PSUs are given below.

Table 3.1.12: Closure of non working PSUs

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working PSUs	04	-	04
2.	Of (1) above, the No. under	-	-	-
(a)	liquidation by Court (liquidator appointed)	01	-	01
(b)	Voluntary winding up (liquidator appointed)	-	-	-
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	03	-	03

During the year 2014-15, no companies/corporations were finally wound up. The only company *i.e.* UPAI Limited which had taken the route of winding up by Court order is under liquidation for more than 24 years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/ pursued vigorously. The Government may make a decision regarding winding up of the three non-working PSUs.

3.1.14 Accounts Comments

Nine working companies forwarded ten audited accounts to the Accountant General during the year 2014-15. Of these, nine[12] accounts of eight companies were selected for supplementary audit and Non Review Certificate was issued in respect of one company. Though audit reports of the statutory auditors appointed by CAG and supplementary audit by CAG indicate some positive trends (**Table 3.1.13**), the scope to further improve the quality of accounts maintenance remains. The details of aggregate money value of comments of the statutory auditor and the CAG are given below in **Table 3.1.13:**

Table 3.1.13: Impact of audit comments on working Companies

(***₹in crore***)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	4	108.47	5	28.07	5	22.94
2.	Increase in loss	4	86.07	2	16.96	2	0.76
3.	Non-disclosure of material facts	1	28.25	1	180.16	2	72.39
4.	Errors of classification	4	26.80	1	4.37	3	290.27

The major impact of comments of the CAG and statutory auditor was on the accounts of Kiccha Sugar Company Limited (2013-14) by ₹ 110.40 crore, Doiwala Sugar Company Limited (2013-14) by ₹ 149.13 crore and Uttarakhand Jal Vidyut Nigam Limited (2014-15) by ₹ 75.39 crore and had an implication of decrease in profit by ₹ 4.88 crore and ₹ 14.28 crore in respect of Uttarakhand Jal Vidyut Nigam Limited and Uttarakhand Power Corporation Limited.

[12] Two accounts of Uttarakhand Purv Sainik Kalyan Udham Limited (2011-12 and 2012-13) are under finalization.

During the year, the Statutory Auditors had given unqualified certificates and disclaimer for all 10 accounts of nine PSUs. Further, no adverse certificate was issued by the Statutory Auditors for any account. In addition to the above, CAG gave adverse comments on seven accounts. Moreover, no disclaimer comments on these accounts were given during the supplementary audit. The compliance of companies to the accounting standards remained poor as there were 14 instances of non-compliance in seven accounts during the year in this regard.

Similarly, three working Statutory Corporations forwarded their eight accounts[13] to the Accountant General during the year 2014-15. These accounts pertained to sole audit by the CAG which was completed. The details of aggregate money value of comments of the statutory auditors and the CAG are given below.

Table 3.1.14: Impact of audit comments on Statutory Corporations

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount (₹ in crore)	No. of accounts	Amount (₹ in crore)	No. of accounts	Amount (₹ in crore)
1.	Decrease in profit	-	-	-	-	2	49.49
2.	Increase in loss	-	-	1	25.07	6	87.40
3.	Non-disclosure of material facts	-	-	-	-	-	-
4.	Errors of classification	-	-	-	-	2	0.88

The amount of audit comments increased from ₹ 25.07 crore in 2013-14 to ₹ 137.77 crore in 2014-15. The increase in the audit comments clearly indicates that the quality of maintenance of accounts needs to be improved substantially.

3.1.15 Response of the Government to Audit

Paragraphs pertaining to the PSUs

For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2015, six audit paragraphs involving ₹ 89.57 crore were issued to the Additional Chief Secretaries/Principal Secretaries of the respective Departments with a request to furnish replies within six weeks. However, replies in respect of compliance audit paragraphs were still awaited from the State Government (December 2015).

[13] Two accounts of Uttarakhand Pey Jal Nigam, Four Accounts of Uttarakhand Parivahan Nigam and two accounts of Uttarakhand Forest Development Corporation.

3.1.16 Follow up action on Audit Reports

Replies outstanding

The Report of the Comptroller and Auditor General (CAG) of India represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. All Administrative Departments are to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaire from COPU.

Table 3.1.15: Explanatory notes not received (as on 31 December 2015)

Year of the Audit Report (Commercial /PSU)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2010-11	December 2012	1	4	01	04
2011-12	September 2013	1	2	01	02
2012-13	November 2014	1	2	01	02
2013-14	November 2015	0	06	0	06
Total		**3**	**14**	**03**	**14**

From the above, it can be seen that none of the explanatory notes to the above paragraphs/ performance audits in respect of three departments, which were commented upon, were received (December 2015).

3.1.17 Discussion of Audit Reports by COPU

The status as on 30 September 2015 of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) was as under.

Table 3.1.16: Reviews/Paras appeared in Audit Reports vis-à-vis discussed as on 31 December 2015

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2008-09	1	5	-	1
2009-10	1	5	1	2
2010-11	1	4	1	-
2011-12	1	2	1	1
2012-13	1	2	-	
Total	**5**	**18**	**3**	**4**

3.1.18 Compliance to Reports of COPU

Action Taken Notes (ATN) to 15 paragraphs pertaining to six Reports of the COPU presented to the State Legislature between March 2007 and March 2015 had not been received (December 2015). Details are given below.

Table 3.1.17: Compliance to COPU Reports

Year in which the COPU meeting held	No. of meeting held	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2014-15	05[14]	02	07	No recommendation was received where ATNs not received
2015-16	06[15]	02	08	
Total	**11**	**04**	**15**	

The reports of COPU contained recommendations in respect of paragraphs pertaining to Department of Power, which appeared in the Reports of the CAG of India for the years March 2007 to March 2012.

It is recommended that the Government must ensure: (a) sending of replies to inspection reports/ draft paragraphs/ performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) recovery of losses/ outstanding advances/ overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

3.1.19 Response of the Department on Audit Objections

In paragraph 3.5 of earlier Audit Report-2013-14, the audit objected that the UPCL had extended undue benefit of ₹ 2.12 crore to a consumer by way of non-levy of 15 *per cent* additional surcharge for continuous power supply. The Department had now categorized the consumer as beneficiary of continuous power supply and imposed 15 *per cent* additional surcharge from April 2014. Accordingly, the Department collected an amount of ₹ 53.12 lakh from April 2014 to March 2015. However, the Department is still to intimate the recovery of additional surcharge from May 2010 to March 2014 of ₹ 2.12 crore from the consumer.

3.1.20 Coverage of this Chapter

This Chapter contains six paragraphs involving financial effect of ₹ 89.57 crore.

3.1.21 Disinvestment, Restructuring and Privatisation of PSUs and any reforms in power Sector

During the year 2014-15, there was no case of privatization of Government companies and Statutory Corporations. The State Government did not prepare any policy to disinvest the Government equity invested in State PSUs.

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[14] Audit Report for the year ended March 2007, March 2008, March 2010, March 2011 and March 2012.
[15] Audit Report for the year ended March 2007, March 2008, March 2009, March 2010, March 2011 and March 2012.

COMPLIANCE AUDIT

UTTARAKHAND POWER CORPORATION LIMITED

3.2 Avoidable Expenditure

UPCL did not register on power exchanges for power trading resulting in avoidable expenditure of ₹ 4.68 crore as trading margin/ transaction fee chargeable by traders.

Uttarakhand Power Corporation Limited (UPCL) is the sole distribution licensee of the State which is responsible for procurement and distribution of power to meet the power requirement of the State. It procures power from State Generating Company[16], Independent Power Producers, the State quota of Central Pool and from open market/power exchanges through power traders. There are two options available for purchase of power from power exchanges; firstly, to register directly on power exchange and secondly, purchase of power from exchanges through power traders. In the second option, trading margin is charged by the power trader for per unit of power purchased.

Scrutiny (March 2015) of the records showed that UPCL had not registered itself in the power exchanges; instead it entered into agreements with Power Traders[17] for purchase of short term power from power exchange and paid an amount of ₹ 4.68 crore to power traders as trading margin and service tax thereon for the period 2011-12 to 2014-15 as detailed below in **Table 3.2.1**:

Table 3.2.1

Year	Name of Power trader	Quantum of power purchase from exchange (in MUs)	Trading Margin (₹ per unit/KWH)	Total Trading Margin paid to trader (₹ in lakh)	Service Tax (@ 12.36 *per cent*) (₹ in lakh)	Total Payment paid to trader (₹ in lakh)
2011-12	Global Energy Private Limited	1.64	0.020	0.33	0.03[18]	0.36
2012-13	Global Energy Private Limited	203.74	0.020	40.75	5.04	45.79
2013-14	Global Energy Private Limited	919.90	0.020	183.99	22.74	206.73
2014-15	Global Energy Private Limited / M/s Shree Cement Limited	1,276.46	0.015	191.47	23.67	215.14
Total		**2,401.74**	**--**	**416.54**	**51.48**	**468.02**

16 Uttarakhand Jal Vidyut Nigam Limited.
17 M/s. Global Energy Pvt. Limited and M/s. Shree Cement Limited.
18 Effective rate of service tax was 10.30 *per cent* for the year 2011-12.

It is also to be noted that UPCL itself had analysed the fact of saving in short term power purchase through power exchanges and its Board of Directors have approved (November 2013) a proposal for obtaining direct membership of power exchanges on the same basis. However, UPCL did not go ahead for such registration and continue to pay trading margin/ transaction fee chargeable to traders.

The Management stated (August 2015) that BoD approved registration in Power Exchange of India Limited (PXIL) which has a market share of two *per cent* only and it was not capable to meet UPCL requirement. It further stated that trader provides post payment credit facility of 11 days for payment of power purchase bills. In addition, separate office is required to be set up, if UPCL takes direct membership of power exchange.

The reply of the Management is not acceptable as the UPCL is regularly purchasing power through power traders. It is to be noted that UPCL procured short term power ranging between 1.64 MUs to 1276.46 MUs during 2011-12 to 2014-15, the average trading volume in PXIL is 8 MUs per day and in India Energy Exchange (IEX) is 81 MU per day. The available units in PXIL in a year is 2,920 MUs (8 MUs x 365) and this quantum is sufficient to meet the annual demand of UPCL. Besides, the option for registration in IEX is always open to UPCL for registration as the quantum of power purchase from power exchanges by UPCL is increasing year after year. Further, the reply of UPCL that 'trader provides post payment credit facility of 11 days for payment of power purchase bills' was not correct as there is no such provision of payment credit facility in the agreement as well as in the bills of traders. However, as per the agreement, UPCL is liable to pay a surcharge of 18 *per cent* per annum for a delay after two days of trading date. In addition, a separate wing for power purchase has also been working in UPCL. Thus, due to non-registration at power exchange UPCL paid ₹ 4.68 crore as trading margin/transaction fee chargeable to traders up to 2014-15 while it could have saved this expenditure through registration in any of the power exchanges by paying one time admission and security fee of ₹ 39.10 lakh in PXIL or ₹ 70.06 lakh in IEX .

Thus, inaction on the part of UPCL to register itself on the power exchange resulted in an avoidable expenditure of ₹ 4.68 crore.

The matter was referred to the Government (July 2015); reply was awaited (December 2015).

3.3 Implementation of Re-structured Accelerated Power Development and Reform Programme (R-APDRP).

3.3.1 Introduction

Uttarakhand Power Corporation Limited (UPCL) is the implementing agency of R-APDRP. The programme is operational in 31 towns[19] of the State. The focus of the programme is actual, demonstrable performance in terms of sustained loss reduction, establishment of reliable and automated systems for sustained collection of accurate base line data and the adoption of Information Technology (IT) in the areas of energy accounting. The implementation of the programme is in two parts namely Part A and Part B.

- **Part A**: includes preparation of Base-line data for the project area covering Consumer Indexing, Geographic Information System (GIS) Mapping, metering of Distribution Transformers & Feeders, Automatic Data Logging for all Distribution Transformers & Feeders, and Supervisory Control and Data Acquisition (SCADA) System. It also includes adoption of IT applications for meter reading, billing & collection; energy accounting and auditing.

- **Part B**: includes Renovation, modernization and strengthening of 11 kv level substations, Transformers/Transformer Centers, Re-conductoring of lines at 11kv level and below, Load Bifurcation, Feeder Separation, Load Balancing, HVDS (11kv), Aerial Bunched Conductoring in dense areas, replacement of electromagnetic energy meters with tamper proof electronic meters, installation of capacitor banks and mobile service centers *etc.* Where the sub-transmission system is weak, strengthening at 33 kv or 66 kv levels is also envisaged. As per Power Finance Corporation (PFC), GoI guidelines, if the work of Part-B is not completed within the scheduled time[20], the PFC loan will not be converted into grant.

To assess whether the desired results of R-APDRP were being achieved during the period 2012-13 to 2014-15, audit was conducted during March 2015 to September 2015 by test-check of records of the Head Office of the UPCL and 25 out of 31 towns.

19 In the State of Uttarakhand, there are total of 31 towns having population of more than 10,000 as per the Census 2011.

20 October 2016.

Audit Findings

3.3.2 Part-A of the Programme

3.3.2.1 Financial Management

As per the Programme, initially 100 *per cent* funds were to be provided by the GoI for the approved projects in the form of a loan on such terms as may be decided by the Ministry of Finance through the Nodal Agency. Further, up to 30 *per cent* of the approved project cost was to be released as GoI loan up front on approval of the project, 60 *per cent* on certified claims against utilization certificate, and rest 10 *per cent* after full utilization of the loan disbursed.

Scrutiny of records of the UPCL showed that against the approved project cost of ₹ 163.42 crore, the GoI released ₹ 75.49 crore against which UPCL incurred an expenditure of ₹ 75.76 crore (March 2015). It was found that the UPCL had submitted (August 2015) Utilization Certificates for an amount of ₹ 82 crore incurred as expenditure by August 2015 to the Power Finance Corporation (PFC), GoI. The expenditure in excess of the released amount has not yet been received by the UPCL till date from GoI.

3.3.2.2 Implementation of the Part-A works

All consumers falling in 31 town areas, selected in the project were to be mapped in the Global Information System (GIS) Mapping; meters and modems were to be installed in the Distribution Transformers; IT applications adopted for meter reading, billing & collection; taking up energy accounting and auditing; and providing primary internet connectivity @2MBPS and secondary connectivity @ 128 kbps in the sub-divisional offices of the UPCL as per the system requirement specifications. During scrutiny of records of 25 towns, following shortfalls were observed:

i. Mapping of consumers

Audit showed that in 16[21] out of 25 towns, 37,895 consumers were yet to be GIS mapped as on September 2015. Non GIS mapping of new consumers resulted in non-tracking of consumers in terms of physical location as well as consumption pattern.

ii. Automatic Meter Reading of commercial consumers

Audit showed that in ten towns[22], as per consumer meter reading status ledger, out of total 1,196 Key Commercial consumers above 25 KW, the meter reading of

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[21] Kashipur (2,772), Rudrapur (5,644), Dehradun (8,847), Tehri (1,769). Haridwar (1,198), Bazpur (450), Sitarganj (1,306), Khatima (3,468), Ramnagar (1,322), Uttarkashi (144), Nainital (284), Pithoragarh (557), Manglore (1,693), Landora (657), Kotdwar (5,956), Haldwani (1,869).

[22] Bazpur (64/168), Dehradun (127/294), Sitarganj and Katima (62/122), Ramnagar (06/14), Uttarkashi (17/27), Nainital (27/84), Ranikhet (11/37), Haridwar (175/361) and Rishikesh (62/129).

551 consumers were being done manually instead of by Automatic Meter Reading indicating inadequate implementation of IT applications for meter reading.

iii. Internet connectivity

Primary internet connectivity @ 2 MBPS and secondary connectivity @ 128 kbps were required to be provided as per system requirement specifications in the sub-divisional offices of the UPCL for uninterrupted network connectivity. It was seen that only primary internet connectivity was provided at 29 out of 48 centers. Further, one such center was provided with less than @ 2 MBPS connectivity. Secondary internet connectivity was not provided at any centre. Thus, UPCL failed to provide uninterrupted connectivity by not providing secondary connectivity to these centers.

iv. Metering of DTRs

Audit showed that in seven towns[23], out of total 2,026 meters, 435 meters on Distribution Transformers (DTR) were found defective or damaged/bypassed as on August 2015, thus affecting accuracy of accurate measurements of AT&C losses.

v. Inadequate safety of metering equipments

Instances of theft of equipment of DTR metering were noticed in Roorkee and Haldwani towns. The UPCL did not have any documented plan of action for follow-up for ensuring the safety of equipment installed under R-APDRP scheme from any theft or damage.

The Management, while accepting the facts, stated that it was now exploring options of connecting offices through National Optical Fibre Network and had also intimated the Test Divisions about their responsibility for replacing the damaged/bypassed meters on DTRs.

3.3.3 Part-B of the Programme

3.3.3.1 Financial Management

As per the Programme, under Part –B, 30 *per cent* of the project cost was to be released as GoI loan up front on approval of Project, 10 *per cent* of the project cost as loan from Financial Institutions/own resources, 50 *per cent* of the project cost was to be disbursed as GoI loan progressively against certified claims from the utility based on progress/Utilization against achievement of identified milestones, and balance 10 *per cent* of the project cost was to be disbursed as GoI loan only against full utilization of GoI and Financial Institutions loans disbursed through earlier tranches.

Records of the UPCL showed that against the approved project cost of ₹ 584.10 crore, the GoI released ₹176.74 crore against which UPCL was able to incur an expenditure of only ₹ 97.87 crore showing poor utilisation of the fund. Audit further noticed that the

[23] Dehradun (59/952), Roorkee(73/217), Manglore and Landhora (45/65), Kotdwar (15/52), Rudrapur (91/406) and Haldwani (152/334).

UPCL opened (March 2009) a single account for receiving funds for R-APDRP Part B instead of opening 31 separate project wise accounts. These separate accounts were also opened only in August 2014 whereas these accounts were to be opened project wise in March 2009 itself. Further, instead of crediting the actual assistance received project wise, the UPCL transferred money, in violation of the conditions of the Quadripartite Agreement[24] and MoP order, on need basis to these 31 accounts from the main account.

3.3.3.2 Additional burden on UPCL

DPRs of the project were validated and appraised techno-commercially by the PFC and then submitted to APDRP Steering Committee for approval. Further, PFC limits its contribution to costs approved by it.

i) Audit noticed that UPCL submitted DPRs[25] without including works totaling ₹ 17.28 crore[26] in Central & South Divisions of Dehradun, and in Tehri. These works pertained to construction, renovation, modernization and strengthening of 33 kv and 11 kv sub-stations and lines and were thus essential to Part B projects. This showed that the DPRs were not prepared by UPCL on realistic basis, which resulted in additional burden on the UPCL. Had these works been included in the DPRs, the UPCL could have avoided an additional burden of ₹ 17.28 crore as it could have received grant from the PFC for these works. The Management replied that for meeting the increase in demand and to provide quality power, above work were being done through internal resources. Reply is not convincing as all these works should have been included in DPRs under Part B of R-APDRP.

ii) Audit also noticed that the UPCL entered into agreements for 10 towns[27] at rates higher than that of the DPRs approved (October 2011) by the Steering Committee of the PFC, GoI. As a result, UPCL is now liable to bear the additional burden of ₹ 58.22 crore as PFC allowed only the DPRs costs. Reply of the Management is still awaited.

Thus, the UPCL had to bear an additional burden of ₹ 75.50 crore on account of faulty and incomplete DPRs submitted by it; and by entering into agreements at rates higher than those approved by the PFC.

3.3.3.3 Short deduction of liquidated damages

Uttarakhand Procurement Rules, 2008 and the agreements entered into by the UPCL provide that the penalty for delays in completion of projects shall be deducted at the rate

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24 As per the conditions of the Quadripartite agreement, the utility receiving R-APDRP assistance had to open project wise separate account/sub account head immediately for separate accounting classification both on the receipt and expenditure side.

25 February 2011 for Dehradun and July 2011 for Tehri.

26 ₹ 6.92 crore + ₹ 10.34 crore + ₹ 0.02 crore respectively.

27 Nainital: ₹ 1.01 crore, Uttarkashi: ₹ 1.07 crore, Tehri : ₹ 0.75 crore, Vikasnagar: ₹ 1.05 crore, Pauri : ₹ 0.80 crore, Kotdwar: ₹ 1.63 crore, Almora: ₹ 1.08 crore, Gopeshwar: ₹ 0.79 crore, Joshimath: ₹ 0.60 crore and Dehradun: ₹ 49.44 crore.

of 0.1 *per cent* per day subject to the condition that maximum penalty of all works shall not exceed more than 10 *per cent* of the total contract value (supply + erection).

Audit noticed in four towns[28] that in case of delay of more than 100 days beyond scheduled completion dates, UPCL started deducting penalty at the rate of 10 *per cent* of invoice/bills of contractors instead of deducting penalty at the rate of 10 *per cent* of contract value, which resulted in short deduction of penalty by ₹ 1.96 crore.

3.3.3.4 Implementation of Part-B works

Slow progress of Part-B works

Renovation, modernization and strengthening of substations, Transformers/ Transformer Centers, Re-conductoring of lines, Load Bifurcation, Feeder Separation, Load Balancing and replacement of electromagnetic energy meters with tamper proof electronic meters, etc. were the main works to be carried out under the programme. Further, as per PFC, GoI guidelines, if the work of Part-B was not completed within the schedule time (October 2016), the PFC loan will not be converted into grant. Scrutiny of records showed following shortfalls:

- Against a total 15,930 defective three phase meters, only 624 (3.92 *per cent*) were replaced.
- Against the total of 17,605 three phase meters to be shifted outside the premises of the consumers, only one meter was shifted.
- Against the target of creation of 473.80 km of new 11 kv lines, only 72.95 km. lines (15.40 *per cent)* were completed.
- Against the target of conversion of 325.945 km LT Line into HT Line HVDS, only 12.80 km. (3.93 *per cent*) of line was converted.
- Audit showed in 16 towns[29], contracts were awarded (February 2013) to M/s Genus Infrastructure Private Limited with the scheduled period of completion being 18 months *i.e*. August 2014. The progress of Part-B works of these towns as on April 2015 was in the range of 5.32 to 29.35 *per cent*; however, the scheduled completion date (August 2014) as already elapsed.

In the selected towns, it was further noticed that:

i. Delay in submission/preparation of DPRs and award of works

- Audit showed in 31 cases, there were delays ranging from 258 to 313 days in submission/preparation of DPRs of Part-B after considering six months from the date

[28] Kotdwar, Pauri, Ranikhet and Almora.

[29] Kashipur, Jaspur, Rudrapur, Gadarpur, Laksar, Haridwar, Bazpur, Landora, Manglore, Roorkee, Ramnagar, Haldwani, Nainital, Sitarganj, Khatima and Kichha.

of approval of Part-A DPRs of all 31 towns and from 309 to 576 days in calling of tenders and from 491 to 870 days in awards of works after the approval of DPRs for Part-B resulting in delay in completion and cost overrun of the project.

- Audit noticed that the DPR for the Dehradun town including Part B work of RAPDRP and SCADA work was initially submitted to PFC in February 2011 and revised DPR of same was again submitted in December 2012 which was approved by the Steering Committee in February 2013. The agreement was awarded in February 2014 after a delay of one year. However, even after passage of more than one year (since February 2014), only 16 *per cent* financial progress of the work was achieved. The work related to SCADA had also not been initiated (June 2015).

ii. Non-energisation of installed DTRs

- Against the norms of three *per cent* damage rate in case of transformers, it was found that the damage rate ranged from 7.24 to 24 *per cent* in Rudrapur Town. Further, 25 new transformers of various capacities were installed involving an amount of ₹ 58.45 lakh[30] under the Scheme at different locations[31]. However, even after passage of more than three months since their installation, these new transformers were not energized or put to use till June 2015. If they had been put into use, the damage rate of existing transformers could have been minimized.
- In Ramnagar town, 157 DTs were to be installed, it was noticed that only 66 DTs had been installed till September 2015. Out of 66 DTs' only 10 DTs were energized and remaining 56 DTs were lying idle (till September 2015).

iii. Execution of R-APDRP works through internal resources

- Audit showed that two Power Transformers (PTs) of 33/11 kv Sub-station, Ramnagar were to be enhanced from Five MVA to Eight MVA and from Eight MVA to 10 MVA respectively by the contractor under the scheme. Out of two, one PT of Five MVA was replaced by a 10 MVA PT from the internal resources of the UPCL resulting in financial burden of ₹ 56.92 lakh on the UPCL, which could have been avoided if this PT was replaced/installed under R-APDRP.

iv. Non-providing basic infrastructure to contractor

- Audit noticed in Roorkee town that an agreement was entered into with M/s Genus Power Infrastructure Limited on 12.02.2013. One 33/11 kv substation was proposed to be constructed at Roorkee town under Part-B of R-APDRP scheme. However, even after the passage of more than two years, even the land for the aforesaid

[30] 20 DTRs of 100 KVAx ₹ 2.51 lakh= ₹ 50.20 lakh and 05 DTRs of 25 KVA x₹ 1.65 each=₹ 8.25 lakh.

[31] Thakurnagar (Krishna Colony)-three transformers, Kanchantara Hotel (Main Bazar)-two transformers, Sanjaynagar-three transformers, Dariya Nagar/ Awas Vikas-12 transformers and Shakti Vihar-five transformers.

substation was not finalised/acquired which resulted into delay in the execution of the Part-B work.

- Also in Almora town, two transformers, one at SBI, Khatyali and other at Champanaula colony, were installed under R-APDRP Part-B. These transformers could not be energized because of dispute over land on which these transformers were installed. Action to install the transformers elsewhere is under process.

Management replied that the main reasons for delay in execution of Part B work of R-ADRP Programme were issues of Right of Way, public resistance, deployment of inadequate manpower by contractor, larger gestation period of various stages of approval like drawing approvals, *etc.* Reply is not convincing since these issues should have been considered before finalizing the agreements and accordingly scheduled completion time should have been fixed.

3.3.4 Operational Parameters

Aggregate Technical and Commercial (AT&C) loss is the difference between input energy and amount collected from the consumers. If UPCL reduces one and half *per cent* of its AT&C losses, it will increase the revenue by ₹ 41.01 crore[32]. Audit noticed that there was difference between the AT&C losses[33] of 20 projects/towns depicted in the DPRs of Part A of the scheme (2008-09) and AT&C losses recorded as base line loss (2011-12) as detailed below:

Table 3.3.1: Differences between the AT&C losses of 20 projects/towns

Sl.No.	Name of the Town[34]	AT&C loss as per Part-A DPR (2008-09) (In *per cent*)	Base line loss of the town For the three month billing cycle captured during different months (In *per cent*)	AT&C loss as per DPR of R-APDRP part-B (In *per cent*)	AT&C Loss of the town for the last trimester of 2014-15 (In *per cent*)
1.	Almora	14.15	38.58	38.11	35.78
2.	Khatima	50.78	68.02	45.40	52.22
3.	Rishikesh	49.90	33.84	49.37	29.14
4.	Vikasnagar	15.58	55.31	44.58	41.93
5.	Tehri	38.74	46.94	41.52	29.80
6.	Tanakpur	50.36	57.02	55.49	16.96
7.	Pithoragarh	55.76	48.85	57.63	40.27
8.	Gadarpur	49.66	80.97	37.64	78.25
9.	Gopeshwar	38.42	44.45	35.46	39.71
10.	Haldawani	39.14	56.56	51.43	29.26
11.	Hardwar	36.69	49.31	34.16	27.07
12.	Jaspur	55.13	79.45	74.10	73.94

32 Total energy sold in the year 2014-15= 11888.23 MUs x1.5/100= 178.32 MUs. Saving of revenue: 178.32×10^6 x ₹ 2.30= ₹ 41.01 crore.
33 AT&C losses represent the gap between the input energy and amount realized.
34 Details in respect of 20 out of 31 towns were made available to audit.

13.	Joshimath	44.19	59.28	54.17	42.30
14.	Kashipur	42.50	54.96	63.00	49.50
15.	Kichha	34.43	48.63	45.61	58.01
16.	Kotdwar	11.20	41.14	30.50	29.45
17.	Mussoorie	18.99	26.28	36.80	29.81
18.	Nainital	19.03	45.97	26.50	27.35
19.	Pauri	18.58	46.42	57.15	31.06
20.	Ramnagar	35.17	42.21	55.24	27.24

Source: Information/data compiled from records of UPCL

Audit also noticed that in five towns, the AT&C losses of the project area have increased in the range of 0.85 *per cent* to 40.61 *per cent* even after the commencement of Part B of the Programme, indicating that the expenditure amounting to ₹ 6.40 crore[35] incurred in these towns had not yet yielded the desired result. Reply of the Management is still awaited.

3.3.5 Miscellaneous points

3.3.5.1 Non-Registration of Scheme under Clean Development Mechanism

The *Clean Development Mechanism (CDM)* allows emission-reduction projects in developing countries to earn certified emission reduction (CER) credits, each equivalent to one ton of CO_2. Clause 13 (c) of R-APDRP Guidelines, provides that "the reduction of Transmission & Distribution losses as part of overall AT&C losses would also enable the Utilities to claim carbon credits for avoiding power generation (reducing CO_2 emission) under CDM mechanism subject to necessary approvals. The state utilities will be encouraged to take advantage of CDM benefits for reducing the cost of the scheme and making it financially viable". Reducing one *per cent* line loss will spare 118.88 MUs which is equivalent to 1,17,334.56 tons of Carbon emission. Audit observed that UPCL had not taken necessary steps required for registration under the scheme for availing CDM benefits.

The Management stated (April 2015) that CDM benefits can be availed on quantifiable loss reduction which will be available after successful implementation of R-APDRP Part-A. Further, correspondence is being done with the nodal agency for availing CDM benefits. The reply is not convincing as the mandatory six months period for submission of CDM form in respect of all the projects under R-APDRP has already passed.

35 Gadarpur ₹ 1.01crore, Khatima ₹ 1.01crore, Gopeshwar ₹ 1.02 crore, Kichha ₹ 1.14 crore and Nainital ₹ 2.22 crore.

3.3.5.2 Non-fixing of reliability indices

Standards of performance mentioned under Schedule II of Uttarakhand Electricity Regularity Commission (Standards of Performance) Regulations, 2007 require that the licensee (UPCL) shall compute and report the value of reliability/outage indices *i.e.* SAIFI, MAIFI & SAIDI[36] to the Commission each year. Further, the licensee was required to propose the target level of these indices annually while submitting *Annual Revenue Requirement* to the Commission which, in turn, was responsible for notifying them so that overall standards of performance, in respect of reliability of the distribution system, can be fixed.

Audit scrutiny of the records of UPCL showed that the UPCL had failed in its duty of reporting the value of above mentioned reliability/outage indices to the Commission. This eventually resulted in non-fixing of the maximum target level of these indices by the Commission leaving UPCL free from any obligation for bettering the reliability of distribution system by minimizing outages.

The Government accepted the audit observation and stated (December 2015) that they were trying to improve the reliability of the system.

3.3.5.3 Inadequate Vigilance Checking

The Vigilance squad had been set up to check power theft and tampering of meters. However, no targets were fixed for raids/checks to be conducted by Vigilance Squad. During audit, it was noticed that during 2010-11 to 2014-15 (upto September 2015), vigilance checked 10,033 connections, out of which only 944 connections were found to be in order. In 2,838 cases, FIRs were lodged and ₹ 6.25 crore were realized on spot from 2,614 consumers and electricity supply of 2,087 consumers was temporarily disconnected. It was noted that more than 90 *per cent* cases were found engaged in unauthorized use[37] of power supply in checked connections. As the total connections of utility as on March 2015 were 18.91 lakh against which only 10,033 connections were checked during five years, the percentage of checking was observed to be negligible.

[36] SAIFI (System Average Interruption Frequency Index) – Saifi index indicates the Average number of Outages of more than five minutes observed in a feeder, SAIDI (System Average Interruption Duration Index)- Saidi Index indicates how long the feeder remains interrupted after a disturbance occurred, and MAIFI (Momentary Average Interruption Frequency Index) – Maifi is interruption frequency index which shows the frequency of the chances of the occurrence of any disturbances in a particular feeder.

[37] As per information/Data received from vigilance wing of UPCL, 10,033 connections were checked by them, out of which 9,089 connections were found faulty (on 2,614 connections penalty was recovered on spot, 2,087 connections were temporarily disconnected, against 2,838 connections FIR was lodged, 371 connections were found on excess load, 429 connections were found in wrong categories and remaining 750 connections were found with other fault).

3.3.5.4 Monitoring

For monitoring the progress of the project, to ensure that all the required modalities of R-APDRP are adhered to and milestones of the schemes are duly achieved, a Distribution Reform Committee (DRC) was to be formed at the State level. The said DRC was formed in Uttarakhand on 29 July, 2009. Audit noticed that during July 2009 to March 2015, only four meetings of the DRC were held for approving the DPRs of the project. The DRC did not evaluate the progress of the scheme during the entire period.

Conclusion and Recommendations

The programme could not yield the desired objectives due to incomplete execution of the modules of Part-A and very slow progress of the works planned under Part-B. AT&C losses increased even after implementation of Part-B. UPCL failed to fix the reliability indices of power supply and proper monitoring of the scheme at the apex level. As the progress of Part-B works was very slow, there are high chances of non conversion of GoI loan into grant.

The milestones should be well defined in the DPRs of the projects. UPCL should ensure timely award of contracts after approval of DPRs by competent authorities. Regular meetings of the DRC should be held for monitoring the progress of the scheme. UPCL should fixed targets for checking of theft and tampering of power supply.

3.4 Non-disposal of excess inventory

Inventory worth ₹ 1.20 crore was lying idle due to non-disposal of the same.

Inventory is a tangible property and a major component of working capital which requires efficient management.

Inventory management involves determining the economic order quantity, providing proper storage facilities and ensuring efficient use and control of inventories.

Scrutiny of records (April 2014) of Executive Engineer (EE), 400 kv Sub-Station Kashipur showed that inventory costing ₹ 1.20 crore, procured during construction of the sub-station, could not be used at the sub-station due to being in excess of requirements. The unused store was lying idle in the open space at the sub-station since November 2006, as seen in the picture alongside. Since the inventory was no longer required, its use elsewhere could have saved valuable financial resources of the Corporation. However, audit further noticed that the Management has till date no documented policy to determine the optimum buffer stock to be kept by any division of the Corporation.

It was also seen that the EE, after retaining the inventory for six years, conveyed (March 2013) to senior officers the need for its utilization in other divisions. However, the same could not be accomplished and the inventory continues to lie in the open space in the sub-station. Thus, the possibility of deterioration in the quality of these items also cannot be ruled out.

On this being pointed out (April 2014), the Management replied (September 2015) that the items lying in the inventory is upto 4.67 *per cent* of the total items used in the lines and sub-stations under the jurisdiction of the division. It was also stated that the material was very specific, may not be available at procured cost and being continuously watched.

The reply is not convincing as the Corporation failed to utilize any of the item in respect of referred inventory between November 2006 and September 2015, and did not move the above inventory to its centralized store from where it could possibly be used by other divisions of the Corporation. The matter was earlier highlighted on three occasions during 2010-11 to 2014-15 and, every time, the Management assured the audit that this inventory would be utilized but failed to do so. Had the excess inventory been disposed off, it could have saved valuable financial resources of the Corporation.

The matter was referred (March 2015) to the Government; reply was awaited (December 2015).

STATE INFRASTRUCTURE AND INDUSTRIAL DEVELOPMENT CORPORATION OF UTTARAKHAND LIMITED

3.5 Wasteful Expenditure

Slackness of the SIDCUL in successfully implementing centrally sponsored projects cost the State exchequer ₹ 25.81 lakh.

GoI approved (September 2002) a project for construction of Urban *Haat* in Dehradun at a cost of ₹ 1.81 crore which was to be borne by Development Commissioner (DC) for Handlooms, DC for Handicraft (both functioning under Ministry of Textiles, GoI) and State Government in the ratio of 35:35:30 respectively. The *haat* was to be used for marketing handicrafts and handloom products of the craftsmen and artisans. As per the guidelines of the scheme of Urban Haat, the *Haat* was to be completed within 18 months of sanction. As per conditions of the sanction, if grantee fails to utilize the grant for the purpose for which the same had been sanctioned, the grantee would be required to refund the amount of the grant with interest thereon at the rate of six *per cent* per annum which was further increased to 10 *per cent* by Ministry of Textiles, GoI in July 2013. State Infrastructure and Industrial Development Corporation of Uttarakhand Limited (SIDCUL) was nominated as the nodal agency for implementation of the project and a land with an area of 3.46 acres was also earmarked for the project at *Resham* Farm, Natthanpur, Dehradun.

Scrutiny of records (May 2014) of the Managing Director (MD) SIDCUL showed that SIDCUL received first installments of ₹ 56.00 lakh (December 2002), ₹ 31.68 lakh (February 2003) and ₹ 31.68 lakh (December 2003) for the purpose from the State Government, DC Handlooms and DC Handicrafts respectively. The earmarked land was also transferred to the SIDCUL in March, 2003. SIDCUL took four years in completing various formalities[38] before it could get the map of the facility approved by the Mussoorie Dehradun Development Authority (MDDA) in February 2007. Due to delay in the formalities, the revision of project was taken into under consideration by SIDCUL. While the process of revision was undergoing, the State Government handed-over (September 2008) the earmarked land to the Department of Law and Justice. In place of this piece of land, the State did not provide any alternative site for construction of *Haat* to SIDCUL. By this time SIDCUL had already spent an amount of ₹ 25.81 lakh[39] on various activities of the project like approval of map by MDDA, payment to consultant, advertisement, inauguration, etc.

Owing to delay in implementation of the project, the GoI cancelled the project and recovered the released funds with penal interest of ₹ 72.06 lakh[40] at the rate of 10 *per cent* per annum. Besides, craftsmen and artisans of the State were also deprived of potential benefits of the project.

On this being pointed out (May 2014), the Management of SIDCUL confirmed the facts and stated (December 2014 and July 2015) that the refund to the GoI with penal interest had been made in February 2015.

The matter was referred to the Government (March 2015); reply was awaited (December 2015).

3.6 Infructuous Expenditure

Infructuous expenditure of ₹ 95 lakh on Project Development and Promotion Partnership (PD&PP) was due to improper contract management adopted by SIDCUL.

A Memorandum of Agreement (MoA) was signed (March 2006) between State Infrastructure and Industrial Development Corporation of Uttarakhand Limited (SIDCUL) and Infrastructure Leasing & Financial Service Limited (IL & FS) to establish

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[38] (i) Conversion of land use from agriculture to commercial (ii) No-objection certificate from Northern Railway and National Highway Authority and (iii) Approval of drawing for *Haat* from Mussoorie Dehradun Development Authority (MDDA).

[39] ₹ 16.65 lakh paid to MDDA for approval fee, ₹ 4.60 lakh paid as consultancy fee and ₹ 4.56 lakh on miscellaneous expenditure.

[40] Penal Interest= ₹ 72.06 lakh (₹ 34.556 lakh to DC, Handloom + ₹ 37.50 lakh to DC Handicraft) at the rate of 10 *per cent* on the received amount of ₹ 31.675 lakh from each.

a Project Development and Promotion Partnership (PD and PP) as an institutional agreement, where in both parties would work together and undertake diverse range of activities[41] for promoting infrastructure and industrial development.

As per Clauses 2.2 and 4.6 of the MoA, SIDCUL and IL and FS were to establish co-financing arrangement *i.e.* Project Development Fund (PDF) with an initial contribution of ₹ one crore each from SIDCUL and IL and FS. This fund was to be retained and managed by IL&FS in a separate bank account to meet out the expenses of studies undertaken, documentation, payment of professional and consultant fees. Further, for the purpose of development and promotion of various infrastructure projects in the State, the SIDCUL and IL & FS were to set up a formal institutional framework in the form of a Joint Venture Company (JV) in not more than six months (September 2006) from the signing of the MoA.

Scrutiny of records (June 2014) showed that a PDF of ₹ two crore was created with equal contribution of ₹ one crore by both parties to meet the project development expenses (PDE) on the projects mutually identified by the parties. Out of the fund, an expenditure of ₹ 1.90 crore was incurred as a PDE. The expenditure incurred was on project development fund, professional fees, feasibility study, consultant fee, *etc*., and the same was to be recovered from the successful bidders for the projects. However, neither the envisaged JV had been formed till April 2009 nor any project was developed. Subsequently, SIDCUL sent a modified MoA (May 2009) to IL and FS for signing, but it was not signed and thereafter, no further action was taken by SIDCUL in this regard. In August 2012, IL and FS intimated SIDCUL that there had been no significant movement towards the successful closure of proposed projects in PPP mode and chances of recovery of PDE were negligible. Thus, even after incurring such a huge amount *i.e.* ₹ 1.90 crore with the share of SIDCUL amounting to ₹ 95.00 lakh, representing 50 *per cent* of the total amount as PDE, the purpose to promote infrastructure and industrial development in Uttarakhand under PPP mode was defeated and the expenditure rendered infructuous.

On this being pointed out, SIDCUL accepted the facts and stated (December 2014) that audit observation is noted for future compliance and that IL & FS had been asked to refund the share deposited by SIDCUL with interest.

However, as per clause 2.2 of MoA, expenditure incurred from the PDF was to be recovered from the successful bidders for projects to come up in the state under PPP mode. As no successful bidder has come up till date, the chances of the recovery of the expenditure are grim. Thus, due to lack of foresight and improper contract management adopted by SIDCUL towards implementation of the MoA and non creation of the

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[41] Project Development and Implementation of projects in PPP, Proposal Preparation and Process Management for access to funds, Assistance for Industrial Promotion, Programme & Project Management for public funded projects and engaging consultants/professional to undertake the activities.

envisaged JV, no projects could be developed resulting in infructuous expenditure of ₹ 95.00 lakh. Further, recovery of this expenditure is also doubtful.

The matter was referred (March 2015) to the Government; reply was awaited (December 2015).

3.7 Forgoing of Revenue

The failure of the Corporation in cancelling allotment of plots as per terms and conditions of allotment resulted in forgoing of revenue to the tune of ₹ 4.30 crore by the Corporation.

The main objective of the State Infrastructure and Industrial Development Corporation of Uttarakhand Limited (the Corporation) was to promote Industrial Development and generate additional employment opportunities to bring about a significant increase in the State Domestic Product and eventual widening of resource base of the State. For this purpose, the Corporation provides plots for setting up of industries in its industrial estates. However, the allottee has to complete construction, install machinery and start commercial production within two years from the date of allotment/lease deed, failing which allotment of the plot is cancelled and deposits forfeited.

Audit scrutiny (June 2014) of the records showed that the Corporation allotted (January and April 2006) two plots, having area of 1992 sq. meters and 8047.71 sq. meters at the price of ₹ 13.94 lakh[42] and ₹ 44.26 lakh[43], at Integrated Industrial Estate (IIE) Pant Nagar to two private companies (the allottees) for manufacturing of 'helmets' and 'bio-fertilizers and bio-pesticides' respectively. However, the allottees neither completed construction nor started commercial production on the plots till the date of audit. The Corporation, should have cancelled the plots in 2008 as was required under the terms and conditions of the allotment. Thus the plots remained with the allottees, in violation of norms and posed a hindrance to the achievement of the objectives of the Corporation.

Audit found that the Corporation could fetch amounts of ₹ 4.30 crore[44] if the said allotments were cancelled on account of non-initiation of construction activities and re-allotted at current rates to new industries. This was potential revenue which could be realized by the Corporation. Besides, re-allotment would also be conducive to the objectives of the Corporation.

The Corporation stated (June 2015) that the cancellation process of the allotments is under consideration and that there was no loss because lease rent and maintenance charges had been realized.

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[42] 1,992 sqm @ ₹ 700 per sqm = ₹ 13.94 lakh.
[43] 8,047.71 sqm @ ₹ 550 per sqm = ₹ 44.26 lakh.
[44] 1,992 sqm @ ₹ (4,501.25 – 700) per sqm + 8,047.71 sqm @ ₹ (4,951.37 – 550) per sqm.

The reply is not acceptable as non-cancellation of plots allotted to industries unwilling to start business for a period of nine years was not only against prudent financial wisdom but also at odds with the objective of industrialization. The payment of lease rent and realisation of maintenance charges cannot be considered as safeguards against cancellation of allotment of plots.

Thus, failure of the Corporation in cancelling allotment of plots as per terms and conditions of the allotment resulted in forgoing of revenue to the tune of ₹ 4.30 crore by the Corporation.

The matter was referred to the Government (May 2015); reply was awaited (December 2015).

Dehradun **(SAURABH NARAIN)**
The 31 March 2016 **Accountant General (Audit), Uttarakhand**

Countersigned

New Delhi **(SHASHI KANT SHARMA)**
The 4 April 2016 **Comptroller and Auditor General of India**