

**CHAPTER–2**  
**Compliance Audit Observations**  
**(Economic Sector)**

## CHAPTER-2

### Compliance Audit

Audit observations based on Compliance audit of transactions in various Government departments, their field formations and autonomous bodies indicating lapses in management of resources and failures in the observance of the norms of propriety and economy are detailed in the succeeding paragraphs:

### Cooperative Department

#### 2.1 Design and implementation of the Loan Waiver Scheme, 2012

During the Budget speech (June 2012) the Chief Minister, who was holding the Finance portfolio, announced a loan waiver scheme, wherein, farmers who had mortgaged their land against loans upto a specific amount, and were unable to repay their loans leading to a situation of auction of their land would be provided relief, for which initial provision of ₹ 500 crore was made. Accordingly, the State Cabinet approved a Loan Waiver Scheme (LWS 2012) on 22 November 2012<sup>1</sup> providing for waiver of principal and interest of upto ₹ 1,650 crore to small and marginal farmers who had availed loan up to ₹ 50,000 and had at least repaid 10 *per cent* of the principal amount<sup>2</sup> upto 31 March 2012. The Cabinet approval specified that this amount of ₹ 1,650 crore<sup>3</sup> would be released to Uttar Pradesh Sahkari Gram Vikas Bank (UPSGVB). It is therefore clear that the Cabinet approval was applicable only to those farmers who had mortgaged their lands with UPSGVB. The minutes of the meetings of Government departments<sup>4</sup> prior to the submission of the Cabinet note reveal that only the UPSGVB took agricultural land as surety against loans. In other words, the scheme was aimed at benefitting the UPSGVB to the exclusion of other banks (including Public Sector banks and Cooperative banks<sup>5</sup>) who also provided loans to small and marginal farmers which were in danger of not being repaid, leading to recovery proceedings. The reasons for such bias in favour of UPSGVB are not on record.

In this connection, it is worth mentioning that the Revenue Department, GoUP had already prohibited (December 2007) loan recovery proceedings through auction of land, against small and marginal farmers, holding land up to 3.125 acres even if they had taken loans up to ₹ one lakh or more. Therefore, the scheme rationale is questionable.

The scheme was completed in May 2015, with release of ₹ 1,788 crore to UPSGVB, against which loans amounting to ₹ 1,783.79 crore<sup>6</sup> in respect of 7,58,579 borrowers were waived.

The rationale behind the scheme was questionable since it was applicable only to those farmers who had mortgaged their lands with the UPSGVB. However, the practice of auction of land for loan recovery had been stopped since 2007. Therefore, the scheme was aimed at benefiting UPSGVB to the exclusion of other banks.

<sup>1</sup> Which was launched by the Cooperative Department, GoUP on 12 December 2012.

<sup>2</sup> This condition was subsequently amended (April 2013) to include grants in aid by Government, previous loan waivers, dividends and insurance claims.

<sup>3</sup> GoUP subsequently (September 2014 to May 2015) increased this limit to ₹ 1,788 crore.

<sup>4</sup> Attended by Chief Secretary, GoUP, Principal Secretary, Institutional Finance, Principal Secretary, Revenue, Principal Secretary-II, Finance, Special Secretary, Cooperative, Managing Director, UPSGVB, Additional Director, Institutional Finance on 31.05.2012.

<sup>5</sup> This includes 52 District Cooperative Banks in which GoUP investment constitutes 90.74 *per cent* of paid up share capital of the Banks (source: Finance Accounts of GoUP 2016-17).

<sup>6</sup> ₹ 4.21 crore is pending for refund from UPSGVB as of June 2018.

Audit test checked 17 districts out of 75 districts in the State where records of the Office of the Commissioner and Registrar including Headquarters, and offices of Assistant Commissioner & Assistant Registrar (AC&AR)/ Joint Commissioner & Joint Registrar (JC&JR) were examined. Information/records were also test checked of 91 branches (1,95,524 borrowers) out of 395 branches (7,58,579 borrowers) in the State of the Uttar Pradesh Sahkari Gram Vikas Bank (UPSGVB) in the 17 selected districts, through the office of AC&AR/JC&JR.

There are four number of observations, and most of them are of a nature that may reflect similar errors/omissions in other Districts/branches of UPSGVB, but not covered in test audit. Department may therefore like to internally examine all the other UPSGVB branches to ensure that they comply with the requirement and rules.

In addition, Audit observed the following deficiencies in the implementation of the scheme.

✓ The scheme was applicable only to loans that were pre-existing as on 31 March 2012. However, Audit test check revealed instances<sup>7</sup> of waiver of loans disbursed by UPSGVB during January 2012 to March 2012. Such waiver violated the conditions of the Cabinet approval, since it is not possible that the loans ran the risk of default leading to distress sale of mortgaged lands of the farmers within three months of their availing of the loans. The Department failed to ensure that UPSGVB did not use public money to waive loans not covered under the scheme.

***Amendment in cut-off date enhanced burden on state exchequer***

The scheme as initially approved by the State Cabinet provided for the waiver of the outstanding principal and the interest thereon only upto 31 March 2012. At the request (February 2013/April 2013) of UPSGVB, the Department amended (April 2013) the cut-off date to provide for waiver of interest from March 2012 to the date when the GoUP released funds to UPSGVB. Accordingly, GoUP paid additional funds of ₹ 138 crore to UPSGVB. Audit observed that UPSGVB itself was responsible for the delay in release of installments, since it did not furnish utilisation certificates (which were mandatory for release of subsequent installments) and audit certificates. Details are given in **Table - 2.1**.

**Due to change in cut-off date for waiver of interest, Government had to bear an additional burden of ₹ 138 crore.**

**Table - 2.1**  
**Details of release and utilisation of funds by UPSGVB**

Date	Amount (₹ in crore)	Time gap between the release of funds	Date of submission of utilisation certificates	Date of submission of audit report by Chief Audit Officer
17.01.2013	450.00		19.02.2013	
30.03.2013	450.00	2 months	22.06.2013	03.09.2013
04.09.2013	375.00	5 months	10.07.2014	
22.11.2013	375.00	2 months	10.07.2014	
10.09.2014	129.00	10 months	04.04.2015 (₹ 70.42 crore) 03.02.2017 (₹ 58.58 crore)	
27.05.2015	9.00	8 months	27.04.2017 (₹ 5.12 crore)	

(Source: Information provided by the Cooperative Department)

<sup>7</sup> 97 cases with waiver amounting to ₹ 20.40 lakh.

In reply, the Government stated (June 2018) that if cut-off date had not been changed, the loan accounts could not have been closed, defeating the purpose of the scheme. The reply is not acceptable, for the reasons already given above. Further this amendment of the cut-off date resulted in the scheme becoming open ended, since UPSGVB continually charged interest on the loans till they were discharged.

### ***Waiver extended to ineligible beneficiaries***

**Benefit of loan waiver amounting to ₹ 79.67 crore was extended to 16,184 ineligible beneficiaries.**

Though the scheme stipulated that only those farmers who had repaid at least 10 *per cent* of principal amount<sup>8</sup> would be covered under the scheme, UPSGVB included interest repayments within the limit of 10 *per cent*. Audit observed that this was contrary to the specific clarification issued (April 2013) by the Cooperative Department in this regard. Audit scrutiny in the sampled 17 districts revealed that as a result, benefit of ₹ 79.67 crore was irregularly extended to three to 18 *per cent* ineligible borrowers (16,184 borrowers) who had repaid less than 10 *per cent* of the principal loan amount.

Audit further observed that the district level committees<sup>9</sup> constituted for the purpose failed to verify the list of beneficiaries prepared by the UPSGVB including their repayment capacity. Had this been done, ineligible beneficiaries would not have benefitted from the scheme.

In their reply, the Department stated (June 2018) that payment of interest for determining the eligibility of beneficiaries was in accordance to the scheme. The reply is not acceptable for the fact stated above.

### ***Non-compliance to orders to conduct 100 per cent audit of Loan Waiver Scheme***

**Due to serious discrepancies noticed in audit of UPSGVB, 100 per cent audit was ordered by the Department which was not carried out despite lapse of more than four years.**

The scheme initially provided for audit of 10 *per cent* records of the Loan Waiver Scheme by June 2015 by the Chief Audit Officer, Cooperative Societies & Panchayats, UP, Lucknow. Since the initial internal audit report (September 2013) flagged serious discrepancies<sup>10</sup> amounting to ₹ 4.76 crore in the implementation of the scheme by UPSGVB, the Department ordered (March 2014) the Commissioner and Registrar (C&R) to ensure conduct 100 *per cent* audit of the scheme. Audit observed that despite lapse of more than four years (June 2018) the 100 *per cent* audit had not been conducted. Audit observed that the failure to conduct this audit can be attributed to the Finance Department, which failed to issue formal approval despite regular pursuance by the Cooperative Department.

<sup>8</sup> Definition as amended by GoUP order of April 2013 (footnote 2 refers).

<sup>9</sup> Comprising concerned District Magistrate, Additional District Magistrate (Finance and Revenue), AC & AR (Cooperative) and one officer from UPSGVB to be nominated by the Managing Director, UPSGVB.

<sup>10</sup> Incorrect calculation of interest- ₹ 13,35,073; differences in the principal balance shown in Ledger Account and in the beneficiary list- ₹ 6,90,134; benefit of waiver given to ineligible farmers ₹ 38,33,437; names of farmers were listed twice in the beneficiary list ₹ 6,14,201 same farmers were being given waiver benefits in two accounts ₹ 6,87,684; Other irregularities ₹ 1,02,19,586, ₹ 2.99 crore, being repaid by the farmers after 31.03.2012, had been shown by the banks as refundable to the farmers but the same was pending for refund and ₹ 3.05 lakh, repaid by the farmers after 31.03.2012, had not been shown by the banks as refundable to the farmers.

**Assistance to UPSGVB through the scheme**

✓ Audit observed that except for the period of implementation of the scheme (2012-13 to 2015-16) UPSGVB was in losses during 2011-12 and 2016-17, as is evident from the **Table - 2.2**.

**Table - 2.2**  
**Statement showing year-wise profit/loss of UPSGVB**

		(₹ in crore)					
Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
1	Loans	4,359.37	4,244.04	3,962.74	3,679.03	3,967.67	3,948.47
	Recovery	669.02	1,188.45	1,151.34	571.66	474.97	375.31
	Adjustment	0.02	0.02	0	48.21	0.07	0.03
	Outstanding Balance	3,690.03	3,055.56	2,811.40	3,059.17	3,492.61	3,573.13
2	Interest Earned on loans	295.62	562.62	602.58	353.93	271.31	193.03
<b>3</b>	<b>Profit for the year</b>	<b>-64.87</b>	<b>81.79</b>	<b>18.11</b>	<b>20.00</b>	<b>15.16</b>	<b>-26.96</b>

(Source: Information provided by UPSGVB through Cooperative Department)

It is therefore evident that the scheme specifically improved the financial position of UPSGVB.

✓ Audit observed that there was inherent conflict of interest in planning and execution of the scheme as up to December 2012, the Principal Secretary, Cooperative Department also functioned as Chairman UPSGVB. Thereafter, during the implementation period, the Minister, Cooperative Department headed the bank<sup>11</sup>.

In reply, the Government stated (June 2018) that the objectives of the Scheme were framed considering the conditions of the small and marginal farmers, who had taken loans up to ₹ 50,000 against mortgage of the agricultural land and not as assistance to the UPSGVB. The reply is not tenable in view of the facts stated above.

## Forest Department

### 2.2 Loss due to non-realisation of Premium and Lease rent

#### Failure to ensure compliance to Government order resulting in non-realisation of premium, lease rent and interest thereon amounting to ₹ 81.18 lakh.

Government of Uttar Pradesh leased out (August 2008) five hectares of forest land for 30 years to Brhamvetta Shri Devaraha Hans Baba Trust (lessee) in district Mirzapur for construction of Ashram. Audit noticed (January 2017) that:

- till date, the Forest Department has not executed a lease agreement with the lessee, even though this was stipulated in the Government order.

<sup>11</sup> Between September 2007 to January 2013, the Principal Secretary, Cooperative Department held the charge of Administrator, UPSGVB since no elections were held in UPSGVB during this interim period.

- though the Government order stipulated that possession would be handed over only after the lessee deposited premium equal to value of land as per current market rate fixed by the District Magistrate (DM), the lessee is in possession of the land without paying the lease premium.
- no lease rent has been levied on the lessee till date, even though the Government order provided for annual lease rent at the rate of 10 *per cent* of the value of premium.
- the Division issued (January 2011) a Recovery Certificate (RC) to the District Magistrate (DM) for recovery of premium and lease rent for three years (2008 to 2010) since the transfer of the land. However, the Divisional Forest Officer (DFO) requested (March 2011) the DM not to proceed further with the recovery stating that the matter was under the consideration of GoUP.

The lease agreement is yet to be signed (August 2018), and ₹ 81.18 lakh<sup>12</sup> on account of premium, lease rent and interest thereon, remain uncollected. This will further increase every year.

In reply, the Department/Government stated (November/ December 2017) that the decision of the division to withhold the recovery process was not as per rules and, therefore, directions have been issued to the concerned Conservator of Forest and the DFO to ensure recovery of premium and lease rent through RC again. The fact remains that the Division handed over the land without signing the lease deed, and without ensuring payment of premium and lease rent. The Division, thus, failed to safeguard the financial interests of the State Government. Besides, though the DFO acted irregularly, by Management's own admission, in withdrawing the RC, no disciplinary proceedings have been initiated.

#### **Recommendation:**

**The Department should ensure immediate payment of premium and lease rent by the lessee. The Department should also consider initiation of disciplinary action against the DFO for misrepresenting facts to the District Magistrate.**

### **Department of Additional Source of Energy**

#### **2.3 Avoidable loss of interest**

##### **UPNEDA lost interest of ₹ 5.61 crore by not availing of auto-sweep facility.**

During 2015-16 and 2016-17 the Uttar Pradesh New & Renewable Energy Development Agency (UPNEDA) received huge funds for implementation of new and renewable energy schemes from Government of India and State Government which were parked in three<sup>13</sup> savings bank accounts at an interest rate of four *per cent* per annum. During April 2015 to March 2017, UPNEDA

<sup>12</sup> Premium: ₹ 26.88 lakh, lease rent for 9 years from 2008 to 2017 : ₹ 24.21 lakh, loss of interest on premium ₹ 20.18 lakh and loss of interest on lease rent ₹ 9.91 lakh (calculated at the rate at which State Government takes advances from Government of India).

<sup>13</sup> Central Bank of India (Account no. 2185286335), Allahabad Bank (Account No. 200107286631) and State Bank of India (Account No. 10070353437).

maintained substantial idle balances in three saving bank accounts which ranged<sup>14</sup> from ₹ 80.99 crore to ₹ 479.95 crore. Audit observed that UPNEDA could have earned interest of 5.25 to 6 *per cent* by availing of auto sweep facility, in the absence of which, UPNEDA suffered loss of interest of ₹ 5.61 crore during April 2015 to March 2017.

Following the audit observation, the Department informed (September 2017/ December 2017) that necessary instructions have been issued to these banks to provide auto-sweep facility.

## **Energy Department**

### **2.4 Non-realisation of Electricity Duty**

**The Director Energy Safety failed to ensure compliance to the Act, resulting in non-realisation of Electricity Duty and interest thereon amounting to ₹ 19.38 crore.**

The U.P. Electricity (Duty) Act, 1952 (Act) requires licensees to levy Electricity Duty (ED) on the energy sold to their consumers and remit the same to the State Government, within the prescribed period<sup>15</sup>. Failure to do so renders the licensees liable to pay interest at the rate of 18 *per cent* per annum. Unpaid ED and penal interest is recoverable as arrear of land revenue.

Director, Electrical Safety, is denoted as Electricity Inspector under the Electricity Act, 2003. In terms of the Electricity (Duty) Rules, 1952, the Directorate has been entrusted with monitoring the payment of ED by the licensee and examination of related records.

Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL) executed (May 2009) an agreement with Torrent Power Limited (TPL) for distribution of power in Agra urban area as Distribution Franchise (DF) for 20 years.

Audit observed that the agreement, *inter alia*, contravened the ED Act since it permitted TPL to pay ED after realisation from customers and not at the time of sale. During April 2010 to March 2017, TPL had deposited with the State Government only ₹ 273.01 crore towards ED, against the payable amount of ₹ 285.42 crore. Against penal interest of ₹ 8.50 crore, TPL had paid only ₹ 1.53 crore. Consequently, ₹ 19.38 crore (unpaid ED ₹ 12.41 crore and interest ₹ 6.97 crore) remained unrealised.

Directorate, in reply, stated (October 2017) that TPL had refused (October 2011) to agree to amend the agreement to pay ED on the basis of energy sold to the consumers as provided in the Act. The reply is not acceptable, as no agreement can run contrary to an Act of the Legislature. Further, the DISCOMs in the State invariably deposit the electricity duty on the basis of energy sold, and the franchisee of a DISCOM cannot do otherwise.

The matter was brought to the notice of the Department (August 2017); their reply is still awaited (August 2018) despite reminders sent to them in September 2017 and January 2018.

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<sup>14</sup> ₹ 18.06 crore to ₹ 92.15 crore in Central Bank of India, ₹ 41.53 crore to ₹ 181.20 crore in Allahabad Bank and ₹ 9.06 crore to ₹ 232.75 crore in State Bank of India

<sup>15</sup> Within two months following the close of the month in which meter reading was recorded, as per the rules.