

Chapter-4
Audit Observations of
State Public Sector Enterprises

CHAPTER-4

AUDIT OBSERVATIONS OF STATE PUBLIC SECTOR ENTERPRISES

This chapter discusses the financial performance and Compliance audit findings of Government Companies, Statutory Corporations and Government Controlled Other Companies (GCOC) as revealed from their accounts.

4.1 Financial Performance of State Public Sector Enterprises

4.1.1 Definition of Government Companies

A Government Company is defined in Section 2(45) of the Companies Act, 2013 as a 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 of a Government Company.

Besides, any other Company¹ owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments is referred to in this Chapter as GCOC.

4.1.2 Mandate of Audit

Audit of Government Companies and GCOC is conducted by the CAG of India under the provisions of Section 143(5) to 143(7) of the Companies Act, 2013 read with Section 19 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 and the Regulations made thereunder. Under the Companies Act, 2013, the CAG appoints Chartered Accountants as Statutory Auditors for Companies and gives directions on the manner in which the accounts are to be audited. In addition, CAG has the right to conduct a supplementary audit. The statutes governing three Statutory Corporations² require their accounts to be audited only by the CAG while in respect of Uttarakhand State Warehousing Corporation (USWC), CAG conducts supplementary audit.

4.1.2.1 Number of State Public Sector Enterprises

As on 31 March 2022, there were 32 State Public Sector Enterprises (SPSEs) under the audit jurisdiction of the CAG in the State of Uttarakhand. These include four Statutory Corporations and 28 Government Companies (including nine³ inactive government companies⁴ and one Government Controlled Other Company⁵) detailed in

¹ Companies (Removal of Difficulties) Seventh Order, 2014 issued by Ministry of Corporate Affairs *vide* Gazette Notification dated 04 November 2014.

² Uttarakhand Parivahan Nigam (UPN), Uttarakhand Forest Development Corporation (UFDC), Uttarakhand Peyjal Sansadhan Vikas Evam Nirman Nigam (Peyjal Nigam).

³ UPAI; Trans Cables Limited (TCL), a subsidiary of KMVN Limited; Uttar Pradesh Digitals Limited (UPDL), a subsidiary of KMVN Limited; Kumtron Limited (KUMTRON), a subsidiary of HILTRON; Uttar Pradesh Hill Electronics Corporation Limited (HILTRON), Uttar Pradesh Hill Phones Limited (UPHPL), a subsidiary of HILTRON; Uttar Pradesh Hill Quartz Limited (UPHQL), a subsidiary of HILTRON; Garhwal Anusuchit Janjati Vikas Nigam Limited (GAJVNL), a subsidiary of GMVN Limited; Kumaon Anusuchit Janjati Vikas Nigam Limited (KAJVNL), a subsidiary of KMVN Limited.

⁴ Inactive Government Company means a Company which has not been carrying on any business or operation, or has not made any significant accounting transaction for more than three years.

⁵ Uttarakhand Seeds and Tarai Development Corporation Limited (UKTDC).

Appendix-4.1.1. Out of nine inactive Government companies, seven⁶ are under liquidation. None of these Government Companies were listed on the stock exchanges.

This report summarises financial performance of 14 SPSEs⁷ based on receipt of their accounts during previous three financial years reckoned from 2019-20 to 2021-22 (or in respect of which at least one account pertaining to these years were received up-to 30 September 2022). Further, financial data of the latest finalised accounts of an SPSE has been considered to calculate performance parameters for succeeding years (**Appendix-4.1.1**). Accordingly, SPSEs covered in this report in the subsequent paragraphs are indicated in **Table-4.1.1**:

Table-4.1.1: Coverage and nature of SPSEs covered in this report

Classification of SPSEs	Total number of SPSEs in the State	Number of SPSEs covered in the Report				No. of SPSEs not covered in the report
		Accounts received up to			Total	
		2021-22	2020-21	2019-20		
Active SPSEs						
Government Companies	18	02 ⁸	08 ⁹	01 ¹⁰	11	07 ¹¹
Statutory Corporations	04	-	01 ¹²	01 ¹³	02	02 ¹⁴
Government Controlled Other Companies	01	-	01 ¹⁵	-	01	-
Inactive SPSEs						
Government Companies	09	-	-	-	-	09
Total	32	02	10	02	14	18

4.1.3 SPSEs and their contribution to the Gross State Domestic Product of the State

State Public Sector Enterprises consist of State Government Companies, Statutory Corporations and GCOs. SPSEs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the state economy.

A ratio of turnover of the SPSEs to the Gross State Domestic Product (GSDP) shows the extent of activities of the SPSEs in the state economy. The details of total turnover

⁶ UPAI, UPDL, KUMTRON, HILTRON, UPHPL, UPHQL and GAJVNL.

⁷ Excluding nine inactive companies and nine other SPSEs whose accounts were in arrears for three years or more (i.e. accounts not received for the period upto 2019-20).

⁸ UJVN Limited (UJVN) and Uttarakhand Metro Rail, Urban Infrastructure & Buildings Construction Corporation Limited (UKMRC).

⁹ Uttarakhand Power Corporation Limited (UPCL); Power Transmission Corporation of Uttarakhand Limited (PTCUL), Dehradun Smart City Limited (DeSCL), Kichha Sugar Company Limited (KSCL); Uttarakhand Project Development and Construction Corporation Limited (UPDCCL); Doiwala Sugar Company Limited (DoSCL); Kishau Corporation Limited (KCL); and Uttarakhand Purv Sainik Kalyan Nigam (UPNL).

¹⁰ Bridge, Ropeway, Tunnel and other Infrastructure Development Corporation of Uttarakhand Limited (BRIDCUL).

¹¹ Uttarakhand Bahudeshia Vitta Evam Vikas Nigam Limited (UBVVN), State Infrastructure and Industrial Development Corporation of Uttarakhand Limited (SIIDCUL), Kumaon Mandal Vikas Nigam limited (KMVNL), Garhwal Mandal Vikas Nigam Limited (GMVNL), Uttarakhand Alpsankhyak Kalyan Wakf Vikas Nigam (UAKWVN); SIIDCUL Plastic Park Ltd (SPPL) and Ecotourism Development Corporation of Uttarakhand (ETDC).

¹² Peyjal Nigam.

¹³ UFDC.

¹⁴ UPN and USWC.

¹⁵ UKTDC.

of 14 SPSEs covered in this chapter and GSDP of State of Uttarakhand for a period of three years ending 31 March 2022 are given in **Table-4.1.2**.

Table-4.1.2: Details of total turnover of SPSEs vis-à-vis GSDP of Uttarakhand

(₹ in crore)			
Particulars	2019-20	2020-21	2021-22
14 SPSEs total turnover	9,570.53	9,187.70	9,171.31
GSDP of Uttarakhand	2,36,988	2,34,660	2,53,832
Percentage of SPSEs total turnover to GSDP of Uttarakhand	4.04	3.92	3.61

Source: Latest Financial Statements and information received from Economics & Statistics Department, Uttarakhand.

It can be seen from **Table-4.1.2** that the total turnover of 14 SPSEs as per their latest audited accounts, decreased by 4.17 per cent during 2021-22 as compared to 2019-20. The contribution of SPSEs in GSDP remained marginal.

4.1.4 Investments in SPSEs and Budgetary support

4.1.4.1 Equity holding and Loans in SPSEs

The sector-wise total Equity, Equity contribution by Government of Uttarakhand (GoU) and Long-Term Loans including the loans given by GoU as on 31 March 2022 of 32 SPSEs are given in **Table-4.1.3**. The SPSEs wise details of equity and loans are as per **Appendix-4.1.2**.

Table-4.1.3: Sector-wise investment in SPSEs

Name of Sector	Investment ¹⁶				
	Equity		Long-term Loans		Total (Equity & Long-term Loans)
	Total	GoU	Total	GoU	
Power	3,527.47	3,522.47	4,542.27	551.76	8,069.74
Finance	24.45	17.88	2.21	1.00	26.66
Service	258.71	249.47	190.73	125.09	449.44
Infrastructure	33.00	30.30	75.47	21.02	108.47
Others	46.82	36.12	292.63	270.96	339.45
Total	3,890.45	3,856.24	5,103.31	969.83	8,993.76

Source: Latest Financial Statements and information received from SPSEs.

It can be seen that thrust of SPSEs investment was mainly on the Power sector. This sector had received 89.73 per cent of total investment.

4.1.4.2 Grants / Subsidies received by SPSEs

The details of total Grants/ Subsidies received by twelve¹⁷ SPSEs from Government of India (GoI) and GoU during the period from 2019-20 to 2021-22 are given in **Table-4.1.4**.

Table-4.1.4: Details of Grants/ Subsidy received by SPSEs

Year	Grant/ Subsidy from		Total
	GoU	GoI	
2019-20	1,110.63	489.68	1,600.31
2020-21	802.16	310.37	1,112.53
2021-22	1,297.35	158.08	1,455.43
Total	3,210.14	958.13	4,168.27

Source: Latest Financial Statements and information received from SPSEs.

¹⁶ Investment includes Equity and Long-term Loans.

¹⁷ UPCL, UJVN, DoSCL, KSCL, UKMRC, DeSCL, PeyJal Nigam, UKTDC, UBVVN, SIIDCUL, UFDC and SPPL.

The Peyjal Nigam received major amount of Grant of ₹ 2,560.47 crore (61.43 per cent of the total Grant/ Subsidy) from GoU during 2019-20 to 2021-22 (₹ 2,299.47 crore for creation of infrastructure and ₹ 261.00 crore for revenue expenditure). Further, during the period 2019-20 to 2021-22, DeSCL received grant of ₹ 381.50 crore (GoI: ₹ 187.50 crore and GoU: ₹ 194.00 crore) for Smart City development scheme of GoI; UPCL received grant of ₹ 682.22 crore (GoI: ₹ 654.80 crore for Deendayal Upadhyaya Gram Jyoti Yojana, Integrated Power Development Scheme, RAPDRP and SAUBHAGYA scheme and GoU: ₹ 27.42 crore); DoSCL and KSCL received subsidy of ₹ 332.67 crore (GoU: ₹ 317.53 crore for payment of cane price to farmers and DoSCL received subsidy from GoI: ₹ 15.14 crore as export sugar subsidy and buffer stock subsidy. SIIDCUL received subsidy of ₹ 174.11 crore (GoU: ₹ 87.52 crore under Mega Industrial and Investment Policy-2015 & Mega Textile Park Policy- 2014 and GoI: ₹ 86.59 crore for Industrial Development Schemes). Remaining six other SPSEs¹⁸ received grant/ subsidy of ₹ 37.30 crore from GoI and GoU.

4.1.4.3 Reconciliation with Finance Accounts of Government of Uttarakhand

The figures in respect of equity, loans and guarantees outstanding as per records of the SPSEs should agree with those appearing in the Finance Accounts of the GoU. In case, the figures do not agree, the concerned SPSEs and the Finance Department should carry out reconciliation of the differences. Audit observed that as on 31 March 2022 such differences exist in respect of 14 SPSEs (13 Government Companies and one Statutory Corporation) as detailed in *Appendix-4.1.3* and summarised in **Table-4.1.5**.

Table-4.1.5: Equity, Loans and Guarantees outstanding as per Finance Accounts of Government of Uttarakhand vis-à-vis records of SPSEs

Outstanding in respect of	Sector	Amount as per		Difference
		SPSEs	Finance Accounts	
Equity	Power Sector	3,517.47	3,502.79	14.68
	Other than Power Sector	331.03	300.63	30.40
	Total	3,848.50	3,803.42	45.08
Loan	Power Sector	551.76	380.04	171.72
	Other than Power Sector	373.40	215.47	157.93
	Total	925.16	595.51	329.65
Guarantees	Power Sector	122.21	122.21	0.00
	Other than Power Sector	196.50	1.25	195.25
	Total	318.71	123.46	195.25
Grand Total		5,092.37	4,522.39	569.98

Source: Information received from SPSEs and Finance Accounts for the year 2021-22.

The differences between the figures have been persisting for many years. The issue of reconciliation of differences was also taken up by the audit with the concerned SPSEs and the Departments from time to time, however, action in this regard is still awaited. Major difference in balances was observed in respect of three power sector SPSEs¹⁹ and four²⁰ other than power sector SPSEs as detailed in *Appendix-4.1.3*.

¹⁸ UJVN (₹ 0.53 crore), UKMRC (₹ 20.90 crore), UKTDC (₹ 6.78 crore), UBVVN (₹ 0.30 crore), UFDC (₹ 2.00 crore) and SPPL (₹ 6.79 crore).

¹⁹ UPCL, PTCUL and UJVN.

²⁰ UPN, SIIDCUL, KSCL and DoSCL.

4.1.4.4 Disinvestment, Restructuring and Privatisation

During the year 2021-22, there was no case of disinvestment/ restructuring/ privatisation of SPSEs. GoU has not prepared any policy on disinvestment of State Government equity invested in the SPSEs up to 31 March 2022.

4.1.5 Returns from SPSEs

4.1.5.1 Profit earned by SPSEs

Out of 14 SPSEs²¹ covered in this report, the seven SPSEs which earned profit during the year 2020-21, also earned profit in 2021-22. However, the profit earned decreased from ₹ 285.33 crore in 2020-21 to ₹ 270.24 crore in 2021-22. Further, Return on Equity (RoE) in respect of these seven SPSEs decreased from 7.29 per cent in 2020-21 to 6.65 per cent in 2021-22. The details of four SPSEs which contributed maximum profit are given in **Table-4.1.6**.

Table-4.1.6: Top four SPSEs which contributed maximum profit during 2021-22

Name of SPSE	Net profit earned (₹ in crore)	Percentage of profit to total profit of seven SPSEs
UJVN	121.86	45.09
UFDC	93.06	34.44
PTCUL	41.61	15.40
UPNL	9.11	3.37
Total	265.64	98.30

Source: Latest Financial Statements of SPSEs.

During 2021-22, four SPSEs contributed 98.30 per cent of the total profit of seven SPSEs. Out of these seven SPSEs, UJVN earned maximum profit.

4.1.5.2 Operating efficiency of SPSEs

The details of total profit/loss after tax, income from operating activities and other income in respect of 11 SPSEs²² are given in **Table-4.1.7**.

Table-4.1.7: Operating Efficiency of SPSEs

Particulars	₹ in crore)		
	2019-20	2020-21	2021-22
a. Income from Operating Activities (total turnover)	9,570.53	9,187.70	9,171.31
b. Other Income	200.98	211.38	249.15
c. Profit/Loss (after tax)	(-)292.26	68.50	53.89
d. Operating Efficiency percentage (c/a x 100)	(-)3.05	0.75	0.59
e. Loss incurred by UPCL	(-)577.31	(-)151.75	(-)151.75
f. Profit/Loss of other SPSEs excluding UPCL (c-e)	285.05	220.25	205.64

Source: Latest Financial Statements of SPSEs.

During the year 2021-22, total profit/loss of 11 SPSEs was ₹ 53.89 crore against the Income from Operating Activities of ₹ 9,171.31 crore with operating efficiency of 0.59 per cent. The operating efficiency has increased from (-)3.05 per cent in 2019-20 to 0.59 per cent in 2021-22. UPCL was the major contributor to the losses incurred as well as operating income earned by 11 SPSEs. Remaining 10 SPSEs had

²¹ Seven SPSEs earned profit; six SPSEs incurred loss; and one SPSEs namely KCL with Nil Profit/Loss as KCL had not commenced its operation.

²² Three SPSEs (KCL, UKMRC and DeSCL) did not have any Income from Operating Activities, hence, excluded.

positive operating efficiency showing a decreasing trend with decrease in profits from ₹ 285.05 crore (2019-20) to 205.64 crore (2021-22). The Other Income ranged between 2.10 per cent and 2.72 per cent of Income from Operating Activities.

4.1.5.3 Outstanding dues of UPCL against Power Generating Companies

UPCL (the sole distribution licensee) is engaged in the business of distribution and retail supply of power in the State of Uttarakhand. Purchase of power from State PSUs and Central PSUs during the period 2019-20 to 2021-22 is given in **Table-4.1.8:**

Table-4.1.8: UPCL's dues against Power Generating Companies

(₹ in crore)				
Sector-wise Purchase of Power	Opening Balance of dues as on 01 April 2019	Payment due during the period 2019-20 to 2021-22	Payment made against dues during the period 2019-20 to 2021-22	Closing Balance of dues as on 31 March 2022
Central owned PSUs ²³	378.66	4,475.78	4,712.98	141.46
State owned PSUs ²⁴	966.48	1,887.60	2,234.40	619.68
Total	1,345.14	6,363.38	6,947.38	761.14

Source: Information furnished by SPSEs.

It can be seen from the above that UPCL purchased power from State PSUs and Central PSUs amounting to ₹ 6,363.38 crore during the period 2019-20 to 2021-22. As on 31 March 2022, ₹ 761.14 crore was outstanding against State PSUs (81.41 per cent) and Central PSUs (18.59 per cent). Further, during the year 2019-20, UPCL defaulted on the payment of ₹ 98.69 crore²⁵ due to paucity of funds, however, there was no default during the year 2020-21 and 2021-22.

4.1.5.4 Dividend paid by SPSEs

GoU has not formulated any dividend policy as of 31 March 2022 under which SPSEs would be required to pay a minimum return on the paid-up share capital contributed by the State Government. The dividend declared/paid by SPSEs, where equity was infused by GoU is shown in **Table-4.1.9.**

Table-4.1.9: Dividend Payout by SPSEs

(₹ in crore)				
Year	No. of SPSEs which declared dividend	Paid-up Capital	Net Profit	Dividend Declared/Paid
1	2	3	4	5
2019-20	2	1,829.06	220.35	16.94
2020-21	2	1,941.65	178.56	44.87
2021-22	2	2,007.56	163.47	35.00

Source: Latest Financial Statement of SPSEs.

During 2019-20 to 2021-22, UJVN and PTCUL paid / declared dividend. UJVN and PTCUL paid/declared dividend at the rate of 2.42 per cent and 1.71 per cent respectively of their retained earnings during the year 2021-22. None of the other SPSEs had declared/ paid dividend.

²³ NTPC, NPCL, NHPC, SJVNL, and THDC.

²⁴ UREDA and UJVN.

²⁵ NTPC, UJVN and SJVNL.

4.1.6 Debt Servicing

4.1.6.1 Interest Coverage Ratio

Interest coverage ratio is used to determine the ability of a Company to pay interest on outstanding debt and is calculated by dividing Company's earnings before interest and taxes (EBIT) to interest expenses of the same period. Lower the ratio, lesser is the ability of the Company to pay interest on debt. An interest coverage ratio of below one indicates that the Company was not generating sufficient revenues even to meet its expenses on interest. The details of interest coverage ratio in SPSEs which had interest burden are given in **Table-4.1.10**.

Table-4.1.10: Interest coverage ratio of SPSEs

Year	Interest	Earnings before interest and tax (EBIT)	Number of SPSEs having liability of loans from Government, and other financial institutions	Number of companies having interest coverage ratio	
				more than one	less than one
2019-20	257.15	(-)92.10	8 ²⁶	5 ²⁷	3 ²⁸
2020-21	297.37	301.67	8	4 ²⁹	4 ³⁰
2021-22	291.08	280.31	8	4 ³¹	4 ³²

(₹ in crore)

Source: Latest Financial Statement of SPSEs.

During 2021-22, four SPSEs had interest coverage ratio of more than one and four SPSEs had interest coverage ratio of less than one. Therefore, the SPSEs, having interest coverage ratio of less than one, were not generating sufficient revenue even to meet their interest liability.

4.1.6.2 Age-wise analysis of interest unpaid on GoU Loans

As on 31 March 2022, interest amounting to ₹ 469.90 crore was unpaid on Long-Term Loans provided by GoU in respect of four SPSEs. The age-wise analysis of unpaid interest on GoU loans by SPSEs is depicted in **Table-4.1.11**.

Table-4.1.11: Interest unpaid on GoU Loans

Name of the Company	Total unpaid interest on loans	Age-wise analysis		
		Interest unpaid for less than one year	Interest unpaid for 1 to 3 years	Interest unpaid for more than three years
DoSCL	251.84	21.29	42.58	187.97
KSCL	205.44	18.35	36.70	150.39
UJVN	8.21	2.09	6.12	-
UKTDC	4.41	0.88	2.57	0.96
Grand Total	469.90	42.61	87.97	339.32

(₹ in crore)

Source: Information furnished by the SPSEs.

As on 31 March 2022 out of total unpaid interest of ₹ 469.90 crore, ₹ 457.28 crore interest was not paid by DoSCL and KSCL against total loans of ₹ 250.46 crore. The interest amount was not paid since receipt of loan during 2001-02 to 2015-16 (DoSCL) and 2002-03 to 2018-19 (KSCL). Both these SPSEs had not repaid their Loans also. UJVN did not pay interest for the period 2019-20 to 2021-22.

²⁶ Including BRIDCUL which repaid its loan amounting to ₹ three crore during the year 2019-20.

²⁷ PTCUL, UJVN, KSCL, BRIDCUL and UKTDC.

²⁸ UPCL, DoSCL and Peyjal Nigam.

²⁹ PTCUL, UJVN, BRIDCUL and UKTDC.

³⁰ UPCL, DoSCL, KSCL and Peyjal Nigam.

³¹ PTCUL, UJVN L, BRIDCUL, UKTDC.

³² UPCL, DoSCL, KSCL & Peyjal Nigam.

4.1.7 Performance of SPSEs

4.1.7.1 Return on Capital Employed

Return on Capital Employed (RoCE) is a ratio that measures a Company's profitability and the efficiency with which its capital is employed. RoCE is calculated by dividing a Company's Earnings before Interest and Taxes (EBIT) by the capital employed³³. The details of RoCE of 14 SPSEs during the period 2019-20 to 2021-22 are given in **Table-4.1.12**.

Table-4.1.12: Return on Capital Employed

(₹ in crore)			
Year	EBIT	Capital Employed	ROCE (in per cent)
2019-20	9.18	4,307.27	0.21
2020-21	401.62	5,454.17	7.36
2021-22	380.91	5,643.06	6.75

Source: Latest Financial Statement of SPSEs.

As can be seen, RoCE rose to 7.15 per cent from 2019-20 to 2020-21. However, it decreased by 0.61 per cent from 2020-21 to 2021-22. The main reason for increase in RoCE in 2020-21 was improvement in EBIT of UPCL by ₹ 427.35 crore³⁴ whereas there was marginal decrease of RoCE in 2021-22 as compared to 2020-21 due to decrease in EBIT of UJVN by ₹ 21.36 crore³⁵.

4.1.7.2 Return on Equity by SPSEs

Return on Equity (RoE) is a measure of financial performance to assess how effectively a Company's assets are being used to create profits. RoE is calculated by dividing net income (i.e. net profit after taxes) by shareholders' fund³⁶. It is expressed as a percentage and can be calculated for any Company if net income and shareholders' fund are both positive numbers.

Shareholders' fund reveals how much would be left for a Company's stakeholders if all assets were sold and all debts paid. A positive shareholder's fund reveals that the Company has enough assets to cover its liabilities while negative shareholder equity means liabilities exceed assets.

The details of total net income, Shareholders' Fund and RoE relating to the 14 SPSEs are given in **Table-4.1.13**.

Table-4.1.13: Return on Equity relating to SPSEs where funds were infused by the State Government

(₹ in crore)			
Year	Net Income (PAT)	Shareholders' Fund	RoE (in per cent)
2019-20	(-) 292.26	469.90	_ ³⁷
2020-21	68.50	539.23	12.70
2021-22	53.89	685.80	7.86

³³ Capital Employed = Paid up Share capital + Free Reserves and surplus + Long term loans – Accumulated Losses – Deferred Revenue Expenditure.

³⁴ EBIT (-) ₹ 447.57 crore in 2019-20 to (-) ₹ 20.22 crore in 2020-21.

³⁵ EBIT ₹ 190.77 crore in 2020-21 to ₹ 169.41 crore in 2021-22.

³⁶ Shareholders' fund = Paid up capital and free reserves minus net of accumulated losses and deferred revenue expenditure.

³⁷ Not worked out, as Net Income is negative.

As can be seen from above, the net income of SPSEs turned positive (₹ 68.50 crore) in 2020-21 as compared to (-) ₹ 292.26 crore in 2019-20. Consequently, RoE was 12.70 per cent in 2020-21. However, RoE decreased in 2021-22 by 4.84 per cent due to decrease in Net Income and increase in Shareholders' fund.

4.1.7.3 Rate of Real Return (RORR) on Government Investment

RORR measures the profitability and efficiency with which equity and similar non-interest-bearing capitals have been employed, after adjusting for their time value/Present Value (PV). It assumes significance when compared with the conventional rate of return (ROR) which is calculated by dividing Profit after Tax by the sum of all such investments counted on historical cost.

The RORR of GoU investments in 14 SPSEs has been computed based on following assumptions:

- Actual infusion of capital by GoU in the SPSEs in the form of equity, interest-free loans and grants and subsidies for operational and administrative expenses given by GoU to the SPSEs have been considered as investment by GoU.
- The average rate of interest on Government borrowings for the concerned financial year was adopted as compounded rate for arriving at PV since it represents the cost incurred by the Government towards investment of funds for the year and was therefore considered as the minimum expected rate of return on investments made by the Government.
- For the purpose of RORR calculation of GoU investment, the period beginning from 2000-01 to 2021-22 has been taken considering the investment in these 14 SPSEs as on 31 March 2001 as PV of GoU investment in the beginning of 2000-01.

The consolidated position of the RORR of GoU investment relating to the 14 SPSEs since 2000-01 till 31 March 2022 is indicated in **Table-4.1.14**.

Table-4.1.14: Return on Investment based on RoRR on Government Investment

(₹ in crore)

Year	PV of total investment at the beginning of the year	Equity Infused by the GoU during the year	Interest Free loans given by the GoU during the year	Grants/subsidies given by GoU for operational and administrative Expenditure	Total Investment during the year	Total investment at the end of the year	Average rate of interest on GoU borrowings (in per cent)	PV of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total earning for the year
A	B	C	D	E	F=C+D+E	G=B+F	H	I=G*(1+H/100)	J=G*H/100	K
OB		17.54	0.00	0.00	17.54	17.54	0.00	17.54		
2001-02	17.54	16.00	0.00	0.00	16.00	33.54	8.36	36.34	2.80	-30.06
2002-03	36.34	1.20	1.00	0.00	2.20	38.54	10.40	42.55	4.01	-13.80
2003-04	42.55	0.00	0.00	0.25	0.25	42.80	8.51	46.45	3.64	-34.73
2004-05	46.45	169.66	0.00	0.40	170.06	216.51	9.10	236.21	19.70	-180.75
2005-06	236.21	241.64	0.00	1.58	243.22	479.43	7.47	515.24	35.81	-125.29
2006-07	515.24	119.98	-0.25	1.00	120.73	635.97	7.79	685.51	49.54	-180.25
2007-08	685.51	229.20	0.00	0.00	229.20	914.71	7.99	987.80	73.09	-206.65
2008-09	987.80	72.08	0.00	3.35	75.43	1,063.23	7.75	1,145.63	82.40	-347.35
2009-10	1,145.63	697.83	0.00	9.18	707.01	1,852.64	7.64	1,994.18	141.54	-543.10
2010-11	1,994.18	31.78	0.00	0.12	31.90	2,026.08	7.34	2,174.79	148.71	-196.78
2011-12	2,174.79	42.78	0.00	0.00	42.78	2,217.57	7.83	2,391.21	173.64	5.33
2012-13	2,391.21	517.30	0.00	0.00	517.30	2,908.51	8.50	3,155.73	247.22	8.80
2013-14	3,155.73	258.80	0.00	0.29	259.09	3,414.82	7.57	3,673.33	258.50	339.32
2014-15	3,673.33	171.25	0.00	0.35	171.60	3,844.93	7.73	4,142.14	297.21	-134.66

Year	PV of total investment at the beginning of the year	Equity Infused by the GoU during the year	Interest Free loans given by the GoU during the year	Grants/ subsidies given by GoU for operational and administrative Expenditure	Total Investment during the year	Total investment at the end of the year	Average rate of interest on GoU borrowings (in per cent)	PV of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total earning for the year
A	B	C	D	E	F=C+D+E	G=B+F	H	I=G*(1+H/100)	J=G*H/100	K
2015-16	4,142.14	208.54	8.00	19.60	236.14	4,378.28	8.19	4,736.86	358.58	155.53
2016-17	4,736.86	130.01	0.00	12.96	142.97	4,879.83	8.91	5,314.62	434.79	-175.02
2017-18	5,314.62	53.15	0.00	61.21	114.36	5,428.98	8.27	5,877.96	448.98	-136.60
2018-19	5,877.96	193.01	0.00	232.01	425.02	6,302.98	8.15	6,816.68	513.69	-464.53
2019-20	6,816.68	133.34	0.00	220.90	354.24	7,170.92	7.26	7,691.53	520.61	-292.26
2020-21	7,691.53	147.58	0.00	206.30	353.88	8,045.41	6.83	8,594.91	549.50	68.50
2021-22	8,594.91	100.91	0.00	185.50	286.41	8,881.32	6.55	9,463.05	581.73	53.89
Total		3,553.58	8.75	955.00	4,517.33					

Source: Information as per financial statements and information received from SPSEs.

It may be seen from above that the balance of investments by GoU in these SPSEs increased to ₹ 4,517.33 crore³⁸ in 2021-22 from ₹ 17.54 crore in 2000-01 as GoU made further investments in the form of equity (₹ 3,536.04 crore), interest free loans (₹ 8.75 crore) and Grant/ Subsidies (₹ 955.00 crore) during the period 2001-02 to 2021-22. The PV of funds infused by GoU as on 31 March 2022 was ₹ 9,463.05 crore.

During 2013-14, earning of these 14 SPSEs was more than RORR. In the remaining years, earnings were less than RORR, mainly due to losses incurred by DoSCL, KSCL and UPCL. Two SPSEs viz. PTCUL and UJVN earned maximum profit during the year 2018-19 to 2021-22 due to their competitive advantage in the market being the only power-transmission company (PTCUL) and major power-generator (UJVN) in the State of Uttarakhand.

4.1.8 SPSEs incurring losses

4.1.8.1 Losses incurred

There were six³⁹ SPSEs out of 14 SPSEs covered in this chapter, which incurred losses as per their latest finalised accounts (i.e. at least one account pertaining to previous three years, ending March 2022) received up to 30 September 2022. The losses incurred by these SPSEs decreased to ₹ 216.35 crore in 2021-22 from ₹ 631.74 crore in 2019-20 as indicated in **Table-4.1.15**.

Table-4.1.15: Details of SPSEs that incurred losses

(₹ in crore)

Year	No. of loss making SPSEs	Net loss for the year	Accumulated loss	Net Worth ⁴⁰
2019-20	04 ⁴¹	(-) 631.74	(-) 4,366.67	(-) 2,915.66
2020-21	06 ⁴²	(-) 216.83	(-) 4,881.80	(-) 3,382.40
2021-22	06 ⁴³	(-) 216.35	(-) 4,882.64	(-) 3,383.24

³⁸ ₹ 4,517.33 crore = ₹ 3,553.58 crore (Equity) + ₹ 8.75 crore (Interest Free Loan) + ₹ 955.00 crore (Grants/ subsidies for operational and administrative expenditure).

³⁹ UPCL, UKMRC, DeSCL, KSCL, Peyjal Nigam and DoSCL.

⁴⁰ Net worth = Paid-up share capital and free reserves and surplus less accumulated loss and deferred revenue expenditure. Free reserves mean all reserves created out of profits and share premium account but do not include reserves created out of revaluation of assets and write back of depreciation provision.

⁴¹ UPCL, DoSCL, UKMRC and Peyjal Nigam.

⁴² UPCL, DoSCL, KSCL, DeSCL, UKMRC and Peyjal Nigam.

⁴³ UPCL, DoSCL, KSCL, DeSCL, UKMRC and Peyjal Nigam.

In 2021-22, out of total loss of ₹ 216.35 crore incurred by six SPSEs, loss of ₹ 151.75 crore was contributed by UPCL alone. In respect of UPCL, the main reason for losses was revenue realisation of ₹ 4.86 per unit against average cost of ₹ 4.97 per unit. As regards DoSCL and KSCL, the main reason for incurring losses was significant finance cost of ₹ 39.89 crore (93 per cent of total loss of ₹ 42.72 crore).

4.1.8.2 Erosion of Capital in SPSEs

As on 31 March 2022, there were seven SPSEs⁴⁴ with accumulated losses of ₹ 4,907.48 crore, out of which six SPSEs⁴⁵ incurred losses amounting to ₹ 216.35 crore during the year 2021-22. Further, one SPSE namely UKTDC had not incurred losses during 2021-22, though it had accumulated losses of ₹ 24.84 crore.

The net worth of these seven SPSEs have been completely eroded by accumulated losses and their net worth was negative. As on 31 March 2022, the net worth of these SPSEs was (-) ₹ 3,404.00 crore against equity investment of ₹ 1,503.48 crore. Out of seven SPSEs, whose capital has been eroded, one SPSE namely UKTDC had earned profit of ₹ 2.57 crore during 2021-22. In five⁴⁶ out of seven SPSEs, whose capital has been eroded, outstanding GoU Loans as on 31 March 2022 were ₹ 295.66 crore.

4.1.9 Audit of State Public Sector Enterprises

Comptroller and Auditor General of India appoints the statutory auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. CAG has a right to conduct a supplementary audit and issue comments upon or supplement the Audit Report of the statutory auditors. Statutes governing some Corporations require that their accounts be audited by the CAG and audited accounts and Separate Audit Report be submitted to the Legislature.

4.1.10 Appointment of statutory auditors of SPSEs by CAG

Section 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the CAG within a period of 180 days from the commencement of the financial year. The statutory auditors of these Companies for the year 2021-22 were appointed by the CAG.

4.1.11 Submission of accounts by SPSEs

4.1.11.1 Need for timely submission of Annual Report and Accounts

According to Section 394 of the Companies Act, 2013, Annual Report on the working and affairs of a Government Company is to be prepared within three months of its Annual General Meeting⁴⁷ (AGM). As soon as may be after such preparation, the Annual Report together with a copy of the Audit Report and comments of the CAG

⁴⁴ UPCL, DoSCL, KSCL, DeSCL, UKMRC, Peyjal Nigam and UKTDC.

⁴⁵ UPCL, DoSCL, KSCL, DeSCL, Peyjal Nigam and UKMRC.

⁴⁶ UPCL, DoSCL, KSCL, Peyjal Nigam and UKTDC.

⁴⁷ In case of first AGM, it shall be held within a period of nine months from the date of closing of the first financial year of the Company and in any other case within a period of six months, from the date of closing of the financial year.

upon or as supplement to the Audit Report must be laid before Legislature in case of a Government Company where State Government is also a member in addition to the Central Government. Similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary Legislative control over the utilisation of public funds invested in the Companies from the Consolidated Fund of State.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It also states that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statements for the financial year have to be placed in the said AGM for their consideration.

Section 129 (7) of the Companies Act, 2013 also provides for levy of penalty like fine and imprisonment on the persons including directors of the Company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

The annual accounts of various SPSEs were in arrears as on 30 September 2022, as detailed in the following paragraph.

4.1.11.2 Timeliness in preparation of accounts by Government Companies

As on 31 March 2022, there were 28 Government Companies under the purview of CAG's audit. However, only two Government Companies had prepared and submitted their accounts for audit by C&AG by 30 September 2022. Accounts of 19 Government Companies were in arrears. Details of arrears in submission of accounts of Government Companies are given in **Table-4.1.16**.

Table-4.1.16: Details of arrears in submission of accounts of Government Companies

Particulars		Number
Total number of Companies under the purview of CAG's audit as on 31 March 2022		28
Number of Companies which presented the accounts for the year 2021-22 for Audit by 30 September 2022		02 ⁴⁸
Number of Companies which were under Liquidation		07 ⁴⁹
Number of Companies whose accounts were in arrears		19
Number of annual accounts in arrears in respect of 19 Companies		130
Break- up of Arrears	(i) Inactive (Two companies namely TCL & KAJVNL)	57
	(ii) Active (17 companies)	73
Age-wise analysis of arrears against 'Others' category		
One-year (2021-22) accounts - Nine companies ⁵⁰		09
Two years (2020-21 and 2021-22) - Two Companies ⁵¹		04
Three years and more - Six Companies ⁵²		60

There are nine inactive companies (including seven under liquidation) in the State where arrears of accounts of two inactive companies ranged between 22 and 35 years. GoU had invested ₹ 37.31 crore (Equity ₹ 12.28 crore and Loans ₹ 25.03 crore) in these nine inactive companies. This is a critical area as the investments in these inactive

⁴⁸ UJVN and UKMRC.

⁴⁹ UPAI, UPDL, KUMTRON, HILTRON, UPHPL, UPHQL and GAJVNL.

⁵⁰ UPDCCL, UPCL, PTCUL, DeSCL, KCL, DoSCL, KSCL, UPNL and UKTDC.

⁵¹ SPPL and BRIDCUL.

⁵² SIIDCUL, KMVN, GMVN, UAKWVN, ETDC and UBVVN.

companies do not contribute to the economic growth of the State and remain outside the oversight of the State Legislature. (*Appendix-4.1.1*).

Further, there were 17 active companies, whose 73 annual accounts were in arrears for one year to 17 years as on 30 September 2022. During the period of arrears of accounts, the GoU had invested ₹ 368.14 crore (Grant/Subsidy: ₹ 314.56 crore Equity ₹ 44.08 crore, Loan: ₹ 9.50 crore) in nine Companies whereas, no investment was made in seven companies during the period of arrears of accounts. One Company⁵³ had neither furnished any information nor prepared/submitted their first account. In the absence of finalisation of accounts of the Companies, investments made by the GoU remained outside the oversight of the Audit and State Legislature. (*Appendix-4.1.4*).

The Accountant General (Audit) made regular correspondence with the Chief Secretary, GoU for expediting finalisation of accounts of these companies.

Further, a virtual meeting was organized on 31 January 2022 and attended by the Secretary (Finance), GoU along with MDs/ Director (Finance) of the SPSEs in which it was assured by the Secretary (Finance) that the preparation / submission of accounts in arrears of SPSEs would be completed by March 2022.

4.1.11.3 Timeliness in preparation of accounts by Statutory Corporations

Audit of four Statutory Corporations is conducted by the CAG. None of the Statutory Corporations prepared and submitted their accounts for the year 2021-22 for audit till 30 September 2022. Twelve accounts of these Statutory Corporations were in arrears for the period between one to six years as on 30 September 2022.

During the period of arrears of accounts, the GoU had invested ₹ 1,124.66 crore (Grant/Subsidy: ₹ 1,030.31 crore, Loan: ₹ 94.35 crore) in three Statutory Corporations whereas no further investment was made in one Statutory Corporation. In the absence of finalisation of accounts by the Statutory Corporation, investments made by the GoU remained outside the oversight of the Audit and State Legislature.

4.1.12 C&AG's oversight - Audit of accounts and supplementary audit

4.1.12.1 Financial reporting framework

Companies are required to prepare the Financial Statements in the format laid down in Schedule III to the Companies Act, 2013 and in adherence to the mandatory Accounting Standards prescribed by the Central Government, in consultation with National Advisory Committee on Accounting Standards. The Statutory Corporations are required to prepare their accounts in the format prescribed under the rules, framed in consultation with the CAG and any other specific provision relating to accounts in the Act governing such Corporations.

4.1.12.2 Audit of accounts of Government Companies by Statutory Auditors

The statutory auditors appointed by the C&AG under Section 139 of the Companies Act, 2013, conduct audit of accounts of the Government Companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

⁵³ Uttarakhand Alpsankhyak Kalyan Wakf Vikas Nigam (UAKWVN).

The CAG plays an oversight role by monitoring the performance of the statutory auditors in audit of public sector undertakings with the overall objective that the statutory auditors discharge the functions assigned to them properly and effectively. This function is discharged by exercising the power to:

- Issue directions to the statutory auditors under Section 143 (5) of the Companies Act, 2013; and
- Supplement or comment upon the statutory auditors' report under Section 143 (6) of the Companies Act, 2013.

4.1.12.3 Supplementary Audit of accounts of Government Companies

The prime responsibility for preparation of Financial Statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Act is of the management of an entity.

The statutory auditors appointed by the CAG under section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the Financial Statements under section 143 of the Companies Act, 2013 based on an independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India and directions given by the CAG. The statutory auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

The certified accounts of selected Government Companies along with the report of the statutory auditors are reviewed by CAG by carrying out a supplementary audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the AGM.

4.1.13 Result of CAG's oversight role

4.1.13.1 Audit of Accounts of Government Companies under Section 143 of the Companies Act, 2013

Nine Financial Statements for the year 2021-22 and previous years were received from Nine Government Companies⁵⁴ during the period 01 December 2021 to 30 September 2022. Of which, seven Financial Statements of SPSEs were reviewed in audit by the CAG and in respect of remaining two⁵⁵ financial statements, it was decided not to review the same. The results of the reviews are detailed in the following paragraph:

4.1.13.2 Significant comments of the CAG issued as supplement to the Statutory Auditors' reports on Government Companies

Subsequent to the audit of the Financial Statements for the year 2021-22 and previous years by the Statutory Auditors, the CAG conducted supplementary audit of the Financial Statements of seven Government Companies. Significant comments issued on the Financial Statements of Government Companies, the financial impact of which was ₹ 81.51 crore on the profitability and ₹ 102.90 crore on assets / liabilities, are detailed in **Table-4.1.17**.

Table-4.1.17: Impact of the Comments on the Profitability and financial position of Government

⁵⁴ DeSCL, PTCUL, KSCL, DoSCL, UKTDC, UPDCCL, UJVN, UKMRC and GMVN.

⁵⁵ UKTDC, KSCL.

Companies		
Sl. No.	Name of the Company	Comments
1.	UJVN (2021-22)	<p>a. Capital Work in Progress (CWIP) as well as Profit was overstated by ₹ 8.69 crore due to booking of expenditure incurred on housekeeping expenses (₹ 2.72 crore) and on purchase of insurance cover of the under-construction project i.e. Vyasi Project (₹ 5.97 crore) in CWIP instead of charging it to the Profit and Loss account.</p> <p>b. Other Financial Liabilities understated, and Profit overstated by ₹ 71.63 crore due to not making provision in accounts for amount payable to UPCL (₹ 62.97 crore) and HPSEB (₹ 8.66 crore) as per directions of UERC.</p> <p>c. Capital Work-in-Progress as well as the Other Current Liabilities were understated due to non-provision for ₹ 5.24 crore being expenditure incurred on Vyasi Project (₹ 4.64 crore) and Maneri Bhali-I (₹ 0.60 crore) during the period January to March 2022 not made in accounts.</p>
2.	PTCUL (2020-21)	Capital Work-in-Progress overstated and Property Plant and Equipment understated due to completed assets not capitalised in accounts amounting to ₹ 6.44 crore (400 KV Roorkee-Muzaffarnagar line ₹ 5.27 crore and 400 KV Rishikesh-Nahtore line ₹ 1.17 crore).
3.	DoSCL (2020-21)	Other Current Assets overstated and Loss understated by ₹ 61 lakh due to excess booking of subsidy receivable as ₹ 2.86 crore as against actual receipt of ₹ 2.25 crore.
4.	DeSCL (2020-21)	<p>a) Provision of expenses relating to consultancy charges, advertisement expenses etc. not made in accounts, which resulted in understatement of Short-Term Provisions and Expenditure and overstatement of Other Long Term Liabilities (unutilised A&OE Grant) by ₹ 1.48 crore.</p> <p>b) Due to not booking grants received against Administrative and Operating expenditure (A&OE) as “Other Income” to the extent of depreciation charged in Profit and Loss account, “Other Income” and Loss for the year was understated and Other Long-Term Liabilities (Unutilised Grant) were overstated by ₹ 58 lakh.</p>
5.	UPDCCL (2020-21)	Other Current Liabilities as well as Capital work in progress were understated by ₹ 8.23 crore due to not making provision for expenses relating to work done as on 31 March 2021 for “Renovation of Har ki Pauri, Haridwar” under Namami Gange Scheme, in the Accounts.

4.1.13.3 Significant Comments on Audit of Accounts of Statutory Corporations

Audit of four Statutory Corporations⁵⁶ are conducted by the CAG. Six⁵⁷ Financial Statements for the previous years were received from three⁵⁸ Statutory Corporations during the period 01 December 2021 to 30 September 2022. All the six Financial Statements of Statutory Corporations were reviewed in audit by the CAG.

The significant comments issued by the CAG on the accounts of Statutory Corporations, having financial impact of ₹ 98.55 crore on the profitability of ₹ 177.40 crore is as detailed in **Table-4.1.18**.

⁵⁶ In case of UPN, UFDC and Peyjal Nigam, CAG is the sole auditor whereas in case of USWC, CAG issued supplementary comments on the Statutory Auditor reports.

⁵⁷ UFDC (2019-20), USWC (2015-16 to 2017-18) and Peyjal Nigam (2019-20 to 2020-21)

⁵⁸ UFDC, USWC and Peyjal Nigam.

Table-4.1.18: Impact of the Comments on the Profitability and financial position of Statutory Corporations

Sl. No.	Name of the Statutory Corporation	Comments
1.	USWC (2015-16 to 2017-18)	<p>a. Deferred Revenue Expenditure understated and Loans and Advances overstated by ₹ 29 lakh due to incorrect classification of Deferred Revenue Expenditure.</p> <p>b. Provision for leave encashment and dearness allowance not made in accounts, which resulted in understatement of Current Liabilities and Provisions and overstatement of Profit by ₹ 22 lakh.</p>
2	UFDC (2019-20)	<p>a. Current Liabilities and Provisions understated and Profit overstated by ₹ 1.98 crore due to non-provisioning for Sixth and Seventh pay commission arrears in the Accounts.</p> <p>b. Current Liabilities and Provisions as well as Fixed Assets understated by ₹ 59 lakh due to not making provision for amount payable towards construction of boundary wall in the Accounts.</p> <p>c. Not making provision for Shortage of Material of ₹ 1.42 crore which was noticed in different Divisional Sales Managers units during the period 1983-84 to 2003-04 and material shortage cases of ₹ 1.99 crore pending against employees who had already retired resulted in overstatement of Profit and understatement of Provision for Loss by ₹ 3.41 crore.</p>
3	Uttarakhand Peyjal Nigam (2019-20 & 2020-21)	<p>2019-20</p> <p>a. Depicting of Loans and Advances given to various parties/ schemes under the head Current Liabilities as negative balances resulted in understatement of Current Liabilities as well as Loans and Advances by ₹ 40.66 crore.</p> <p>b. Current Liabilities as well as Work-in-Progress were understated by ₹ 4.97 crore due to not making provision for amount payable to contractors in the Accounts.</p> <p>c. Current Liabilities and Provisions as well as Deficit were understated by ₹ 44.11 crore due to not making provision for interest payable to Government of Uttarakhand during the period 2002-03 to 2008-09.</p> <p>d. Not accounting income from centage resulted in understatement of Income and overstatement of Deficit by ₹ 40 lakh.</p> <p>2020-21</p> <p>a. Depicting the Loans and Advances given to various parties/ schemes under the head Current Liabilities as negative balances resulted in understatement of Current Liabilities as well as Loans and Advances by ₹ 19.20 crore.</p> <p>b. Current Liabilities as well Work-in-Progress were understated by ₹ 14.71 crore due to not making provision for amount payable to contractors in the Accounts.</p> <p>c. Current Liabilities and Provisions as well as Deficit were understated by ₹ 47.26 crore due to not making provision for interest payable to GoU during the period 2002-03 to 2008-09.</p> <p>d. Not accounting income from centage resulted in understatement of Income and overstatement of Deficit by ₹ 1.17 crore.</p>

4.1.14 Non-compliance with provisions of Accounting Standards/ Ind-AS

In exercise of the powers conferred by Section 469 of the Companies Act, 2013, read with Section 129 (1), Section 132 and Section 133 of the said Act, the Central Government prescribed Accounting Standards 1 to 7 and 9 to 29. Besides these, the Central Government notified 41 Indian Accounting Standards (Ind-AS) through Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) (Amendment) Rules, 2016.

During the year 2021-22, Compliance to the Accounting Standards by the SPSEs remained reasonably fair. It was noticed that the Statutory Auditors pointed out 13 instances of

non-compliance to the Accounting Standards on two⁵⁹ accounts and CAG, in the Supplementary Audit, pointed out one instance of non-compliance to the Accounting Standards on one⁶⁰ account and one⁶¹ instance of non-compliance of Ind-AS.

4.1.15 Management Letters

Material observations on the Financial Statements of SPSEs were reported in the form of comments by the CAG under Section 143 (6) of the Companies Act, 2013. Besides these comments, irregularities or deficiencies observed by CAG in the financial reports or in the reporting process, were also communicated to Management of respective SPSEs through Management Letters for taking corrective action. During the period 01 December 2021 to 30 September 2022, Management Letters to four SPSEs viz. DeSCL, PTCUL, DoSCL and UJVN were issued. The deficiencies requiring attention of the Management were highlighted in these Management Letters.

4.1.16 Conclusions

- A ratio of turnover of the SPSEs to the Gross State Domestic Product (GSDP) shows decreasing trend in last three years. This shows decreasing contribution of the SPSEs in the state economy.
- Out of the total profit of ₹ 270.24 crore earned by seven SPSEs, 98.30 per cent was contributed by four SPSEs. Two of the profit earning SPSEs had declared/ paid dividend to GoU during the year 2021-22, however, five other SPSEs had not paid/declared any dividend.
- Out of total loss of ₹ 216.35 crore incurred during 2021-22 by six SPSEs, loss of ₹ 151.75 crore was contributed by UPCL alone. The net worth of seven SPSEs has been completely eroded by accumulated losses and their net worth was (-) ₹ 3,404.00 crore. Out of these seven SPSEs, five SPSEs had outstanding GoU loan of ₹ 295.66 crore.
- SPSEs were not adhering to the prescribed timeline for submission of their Accounts as per the Companies Act, 2013, as a result, 130 annual accounts of 19 Government Companies were in arrears. This included 57 annual accounts of two inactive companies. Further, 12 annual accounts of four Statutory Corporations were also in arrears.
- The financial impact of comments of CAG on the financial statements of SPSEs was ₹ 180.06 crore on the profitability and ₹ 280.30 crore on assets/ liabilities.

4.1.17 Recommendations

The State Government may consider to:

- *formulate a dividend policy specifying minimum rate of dividend to be contributed by profit earning SPSEs;*
- *formulate plan for making UPCL viable;*
- *ensure timely submission of financial statements of SPSEs by clearing the backlogs.*

⁵⁹ GMVN and DoSCL.

⁶⁰ DoSCL.

⁶¹ UJVN.

DEPARTMENT OF ENERGY

4.2 Subject Specific Compliance Audit on Project Management by Power Transmission Corporation of Uttarakhand Limited

4.2.1 Introduction

In Uttarakhand, the management of the intra-state power transmission system and of the Grid operations are vested with the Power Transmission Corporation of Uttarakhand Limited (Company). The Company was incorporated on 27 May 2004 under the erstwhile Companies Act, 1956 to plan, establish, operate and maintain an integrated and efficient power transmission network in the State of Uttarakhand. Planning of intra-state transmission system is done by the Company in co-ordination with Uttarakhand Power Corporation Limited (UPCL), Central Electricity Authority (CEA), Central Transmission Utility (CTU) and Generating Companies.

As on 31 March 2022, the paid-up share capital of the Company was ₹ 654.88 crore, Revenue from operations was ₹ 346.50 crore and it earned Profit after Tax of ₹ 43.52 crore. The Company had a transmission network comprising 3,373.73 Circuit Kilometers (CKm) of Transmission lines and 48 Sub stations (S/s) with transformation capacity of 8,992.50 Mega Volt Amperes (MVA).

4.2.2 Organizational Set up

The Management of the Company is vested with the Board of Directors (BoDs), appointed by the Government of Uttarakhand (GoU), comprising a Chairman, Managing Director and four Directors handling Project, Operation, Human Resources and Finance. Managing Director is the chief executive officer of the Company.

4.2.3 Audit Objectives

Objective of audit was to assess whether:

- Planning for construction of Substations/ transmission lines was realistic, optimal and adequate.
- Projects were executed economically, efficiently and effectively within the stipulated time.
- Robust monitoring and internal control mechanisms were in place to review project implementation and strengthening of the transmission system.

4.2.4 Audit Criteria

The audit findings are evaluated against audit criteria sourced from the following:

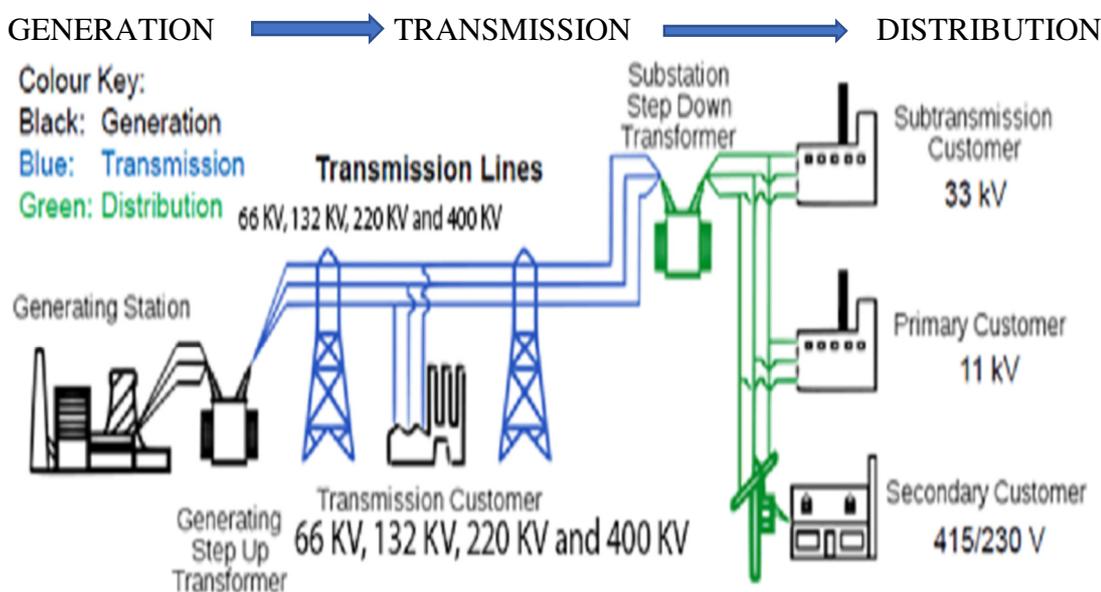
- Electricity Act, 2003, Manual of Transmission Planning Criteria (MTPC), 2013 of Central Electricity Authority (CEA), Indian Electricity and State Grid Codes.
- Directions from GoU/ Ministry of Power (MoP), Government of India (GoI) and norms/guidelines issued by Uttarakhand Electricity Regulatory Commission (UERC)/CEA.
- Annual plans, project reports, circulars, manuals and Management Information System reports of the Company.

An audit sample comprising all 11 completed projects involving cost of ₹ 397.93 crore and nine ongoing projects awarded at a cost of ₹ 680.78 crore during the period 2018-19 to 2021-22 were selected for examination in Audit. Further, Project wing, five Operation and Maintenance Divisions to which completed projects were transferred and grant received by the Company under Power System Development Fund, MoP (GoI) were also covered in audit.

The audit objectives were discussed (July 2022) with the Additional Chief Secretary, Department of Energy, GoU and Company Management during Entry Conference held on 06 July 2022. The audit findings were reported (February 2023) to both Department and the Company. Reply of the Company was received on 18 April 2023. The reply of the Department was awaited (May 2023). The audit findings were also discussed with the Department and Company Management in the Exit Conference held on 1 May 2023. The replies received from the Company Management and in the Exit Conference have been suitably incorporated in the Report.

4.2.6 Transmission process and transmission assets

The Major elements of transmission systems are transmission lines and sub-stations⁶² which cater to power demand of downstream network of distribution licensee. To reduce losses and increase efficiency during transmission, power generated at Power Plant at relatively low voltage (11 KV) is stepped up at high voltage before transmission and then stepped down to low voltage for distribution to consumers. A pictorial representation of transmission process is given below:



Increased demand for power as per projected load growth necessitates construction of new sub-stations, capacity augmentation of existing sub-stations and laying of new transmission lines. Transmission network of the Company at the beginning and at the end of 2018-22 is depicted in **Chart-No. 4.2.1** and **4.2.2**.

⁶² Sub-stations are the interface between distribution grid and transmission systems. Sub-stations step down voltage in the transmission line to the level suitable for distribution.

Chart-4.2.1: Status of Transmission lines as on 31 March of respective year

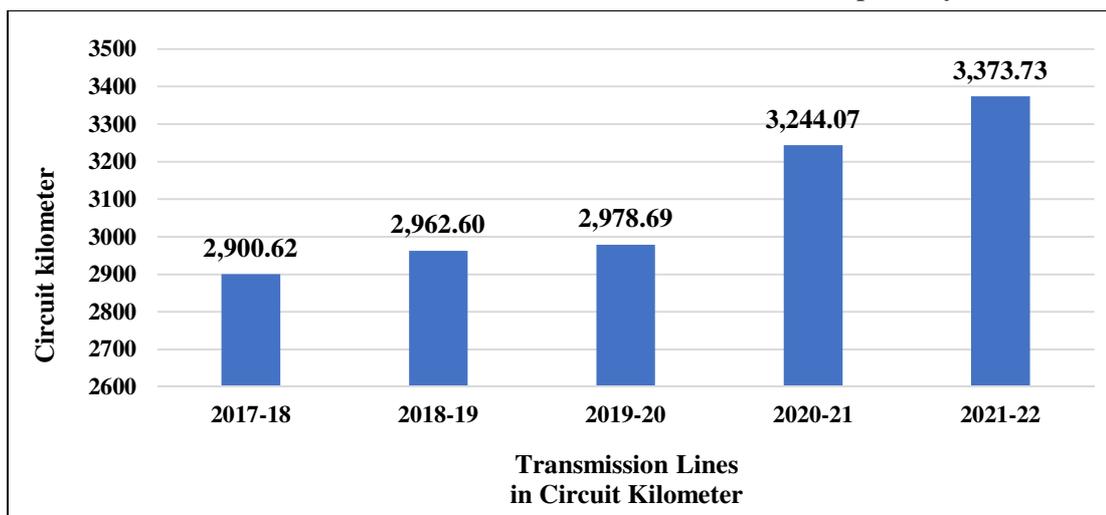
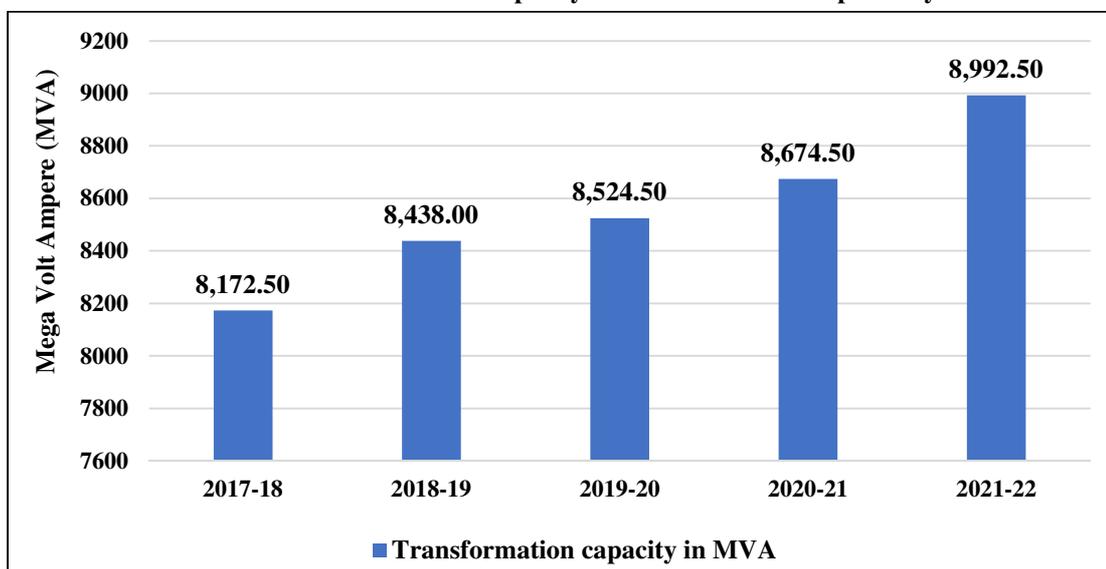


Chart 4.2.2: Transformation capacity as on 31 March of respective year



It may be seen that during the period 2017-18 to 2021-22, the Company constructed 473.11 CKm transmission lines and added 820 MVA transformation capacity⁶³ through construction of four⁶⁴ new S/ss and augmentation of existing S/ss.

4.2.7 System availability

As per Uttarakhand Electricity Regulatory Commission (UERC) Regulation 2018, the Company is entitled for full recovery of Annual Transmission Charges (ATCs) only if it achieves target availability of 98 *per cent* for its alternating current system and in case of availability of less than 98 *per cent*, the recovery of ATC is reduced to that extent on pro-rata basis. The Company had achieved the targets⁶⁵ during 2018-19, 2019-20, 2020-21 and 2021-22 and the system availability was 99.15, 99.23, 99.56 and 99.55 *per cent* respectively.

⁶³ Transformation capacity is the aggregate capacity of all transformers at sub-stations of the Company.

⁶⁴ 220/33 KV GIS S/s Harrawala, Dehradun, 220/132/33 KV S/s Pirankaliyar, Roorkee, 132/33 KV GIS S/s Bageshwar and 220/33 KV Substation Jaffarpur, Kashipur.

⁶⁵ As per UERC tariff orders.

Audit Findings

4.2.8 Planning of transmission system – capacity assessment requirement and DPR preparations

The requirement of improvement and strengthening of transmission system is assessed by the Company based on the requirement of UPCL, UJVNL and Independent Power Producers (IPP).

The Company did not have any Project Planning and Management Manual (Manual) to be followed for planning and execution of transmission projects, viz. route, topography, survey, material requirement, type of construction, etc., for lines and land requirement, switchyard civil work and construction works, etc., for substations. Absence of clear policy or procedure led to instances of ad hoc decisions in project planning and execution, causing delays in commissioning Substations (S/ss) and associated lines.

In the Exit Conference, the Company Management assured (May 2023) that they would prepare their own Project Planning and Management Manual at the earliest.

4.2.8.1 Approval of projects

As per the Manual of Transmission Planning Criteria (MTPC) 2013, ‘To identify the bottlenecks for strengthening transmission system and to plan for new projects load flow study of transmission system as a whole on regular basis is to be conducted.’

Audit noticed that no regular studies of transmission system as a whole were conducted by the Company till December 2020. The Company was conducting only project wise load flow study. It was further noticed that the Company, in January 2021, conducted for the first-time a detailed load flow study of transmission system as a whole. Based on the study, the approval of 10 transmission projects was accorded by the BoDs in December 2021.

The deficiencies noticed due to not conducting regular load flow studies, bottlenecks and constraints in the transmission system are discussed in the succeeding paragraphs.

4.2.8.2 Norms of MTPC, 2013 of CEA not complied

As per requirement of MTPC when the capacity of existing substation exceeds 150 MVA for 132 KV S/s, 320 MVA for 220 KV S/s, effort should be made to explore possibility of planning a new S/s instead of adding transformer capacity at an existing S/s. Further, the maximum load on any transformer at S/s should not exceed 80 per cent of its rated capacity. The Company had adopted norm for 132 KV S/ss of 120 MVA. Further, the size and number of interconnecting transformers (ICTs) shall be planned in such a way that the outage of any single unit would not overload the remaining ICT(s) or the underlying system (N -1 contingency).

Audit noticed that out of 48 S/ss:

- Six S/ss (five S/ss⁶⁶ of 132 KV and one S/s⁶⁷ of 220 KV) had exhausted their installed capacity of 120 MVA and 320 MVA respectively (*Appendix-4.2.1*). During

⁶⁶ 132 KV S/s Jwalapur, Bhagwanpur, Bazpur, Laksar and Majra Dehradun.

⁶⁷ 220 KV S/s Roorkee.

the period 2018-22, the transformers installed in these S/ss were critically overloaded (utilization at 80 *per cent* and above of rated capacity) and were not meeting N -1 contingency norms as per provisions of MTPC. However, the plan for construction of new S/s where installed capacity had exhausted was under planning stage (December 2022).

- Nine S/ss⁶⁸ although were not overloaded yet were not meeting N -1 contingency norms as per provisions of MTPC. In case of outage of any single transformer, the remaining transformers would not be able to cater to the load. The Company did not take any corrective measures to enhance the installed capacity of the S/ss. (*Appendix-4.2.2*)

Thus, delay in planning of additional S/ss and not meeting N-1 contingency norms may result in damage to the transformers/equipment of the S/ss, adversely impacting reliable power supply to the consumers and failure of Grid.

Company Management accepted the fact and stated (April 2023) that 10 new S/ss of different capacity were proposed under Uttarakhand Transmission Strengthening & Distribution Improvement Programme (UTSDIP) which would provide relief by reducing load at the existing S/ss in order to make them N -1 compliant. Further, capacity augmentation of the existing S/ss was also being proposed, which would provide relief to existing S/ss in order to make them N-1 compliant. However, all the new S/ss were planned belatedly and were still (December 2022) at the proposal stage even though all the six S/ss, as pointed out by audit, were critically overloaded during the period 2018-22.

4.2.8.3 Critical loading of 220 KV Roorkee-Puhana line

As per MTPC, thermal loading limit⁶⁹ of Aluminum Conductors Steel Reinforced (ACSR) Zebra conductor is 703 amp at 45⁰ C.

Roorkee-Puhana 220 KV Single Circuit line had ACSR Zebra conductor. It was noticed that the peak load on the said line during the last four years was 700, 721, 709 and 632 amp in September 2018, May 2019, September 2020 and September 2021 respectively, Indicating being fully loaded. The line was also not meeting N -1 contingency provisions of MTPC (being a single circuit line) which also impacted reliable supply to the consumers. The facts were corroborated with the report on Load Flow Study on Transmission System of the Company (January 2021) and reports of State Load Dispatch Centre (SLDC) on constraints and bottlenecks in the Company (2016 to 2022) which stated that the Roorkee - Puhana line was fully loaded and was not N-1 compliant.

The Company Management stated (April 2023) that the Company had planned to construct 400 KV S/s at Landhora and 220 KV S/s at Manglore to reduce the load on the line. It further stated that peak load on 220 KV Roorkee-Puhana line was 721 amp

⁶⁸ 132 KV S/s Purukul, Bindal, Srinagar, Manglore, Chudiyala, Ramnagar, Almora, Pithoragarh, and 400 KV S/s Kashipur.

⁶⁹ Thermal Loading Limit (TLL) limits the temperature attained by the energized conductors and restrict sag and loss of tensile strength of the lines. The TLL of conductor limits the maximum power flow of the lines

in 2019-20 against its full load capacity of 800 amp. The reply about full load capacity was incorrect since as per MTPC, full load capacity of ACSR zebra conductor was 703 amp instead of 800 amp.

4.2.8.4 Transfer of project to Central Sector due to poor planning

The Company planned (September 2005) to construct 400 KV Double Circuit (D/C) Srinagar- Kashipur line to evacuate power from upcoming hydro projects in the State and as per DPR, cost of the project was ₹ 838.10 crore. Based on Preliminary route survey of the line, the Company invited (December 2008) tender but could not enter into the agreement as recovery of tariff (CERC/UERC) was not ascertained. CERC declared the said project as deemed Inter State Transmission System (ISTS) on 31 January 2013. Accordingly, an agreement with the contractor was signed in December 2013. The contractor did not commence⁷⁰ the work and there was considerable delay in implementation of project which resulted in cancellation of Asian Development Bank (ADB) grant/loan of 150 million dollars in March 2016 and avoidable liability of commitment charges of ₹ 2.28 crore. This fact was highlighted in **Paragraph 3.8** in Report of the C&AG for the year ended 31 March 2019, for Government of Uttarakhand. The Company forfeited (June 2017) the Bank Guarantee of ₹ 106.13 crore of the contractor and terminated (November 2017) the contract due to poor performance of the contractor.

Subsequently, the line was redesigned and renamed Khandukhal- Rampura and a new DPR for ₹ 1,099.40 crore was accepted under ADB funding in May 2018. As per DPR, the annual net financial benefits were envisaged from ₹ 42.00 crore to ₹ 99.61 crore during the estimated life of 30 years of the transmission line. The Company invited bids in March 2019 in two packages. The rates quoted by L1 bidders (one for each package) were higher than the estimated cost by 14.90 *per cent* and 16.04 *per cent* respectively. Although ADB granted approval for award of work to the L1 bidder but the Company time and again requested ADB to allow it to invite detailed cost analysis and to negotiate with the L1 bidders. This was not agreed to by ADB considering the importance of the said project, timelines to meet and quality of construction required for such critical network which was going to be the backbone of the 400 KV network. The tender was scrapped by the Company in June 2020 despite the Financial Bid Evaluation Report being approved by ADB wherein ADB intimated the Company to proceed to award the contract to L-1 bidders. Ultimately, the BoD decided (December 2020) to hand over the project to Central Sector as it was not able to achieve the targeted timeline towards matching with the scheduled commissioning date of the Hydro project.

The Company Management stated (April 2023) that the transmission line was handed over to Central Sector for construction and the work had been awarded by PFC Consulting Ltd. to the developer through Tariff Based Competitive Bidding (TBCB) and developer had to commission the line, matching with commissioning schedule of Generator. The reply was not justified as the Company could not award the work even

⁷⁰ Not deployed skilled manpower, Contractor failed to review route survey, tower location and proper tower schedule & Non-Establishment of the site offices; etc.

after approval was granted by ADB to award the work and lost the opportunity to earn annual net financial benefits as envisaged in the DPR.

4.2.8.5 Deficiency in planning and execution of construction of S/ss and their associated lines.

Para 8.2 of MTPC stipulates that the concept to commissioning for transmission elements generally takes three to five years; about three years for augmentation of capacitors, reactors, transformers etc., and about four to five years for new transmission lines or substations. Therefore, system study for firming up the transmission plans may be carried out within three to five years' time horizon.

In the execution of existing S/s at Pirankaliyar and its associated lines, audit noticed that the Company had adopted piece meal/ad-hoc approach in planning and construction of said S/s and its lines and did not envisage growing demand for the long term in the area as stipulated in MTPC. It was further noticed that:

- For meeting the growing demand and to provide relief to existing S/ss Bhagwanpur and Roorkee, the Company awarded the contract for construction of S/s in October 2014 and construction of line in February 2016 at a cost of ₹ 29.90 crore and ₹ 5.92 crore respectively. The S/s and line works were completed in September 2018.
- The Company within six months⁷¹ planned and approved an extension⁷² of S/s in March 2015 and awarded (December 2015) work of Puhana - Pirankaliyar line costing ₹ 6.01 crore.
- The stringing of second circuit of Puhana - Pirankaliyar line was again planned in November 2016 at a cost of ₹ 1.64 crore to meet the growing load demand, improving the reliability of power in Bhagwanpur & Chudiyala area and meeting N-1 contingency condition without ensuring availability of land in S/s to construct bay⁷³ for termination of second circuit of the line.

The work of Puhana-Pirankaliyar line was completed in September 2020 but the second circuit constructed at a cost of ₹ 1.64 crore could not be terminated. Thus, poor planning led to the investment of ₹ 1.64 crore remaining blocked since September 2020. Moreover, the said S/s was also not compliant with N-1 requirement at 220/132 level as it depends on Single Circuit of 220 KV Puhana - Pirankaliyar line for supply.

In Exit Conference, the Company Management assured (May 2023) that the alternate arrangement would be made at the S/s to terminate the idle line within next 18 months.

Recommendations:

The Company may consider to:

- **prepare and adopt Project Planning and Management Manual and**

⁷¹ Initially awarded contract for construction of S/s in October 2014.

⁷² Installation of 2x100 MVA, 220/132 KV Transformers and construction of 220 KV Single Circuit Puhana – Pirankaliyar on Double Circuit tower.

⁷³ For termination (connection to S/s) of both the lines (LILO and Puhana – Pirankaliyar line), four number of 220 KV bays were required at the S/s whereas space in S/s was available only for construction of three bays.

- *have long-term planning for transmission projects with due consideration of future requirements by conducting load flow study of the transmission system on regular basis.*

4.2.9 Project Management of transmission system

A transmission project involves activities from the concept to commissioning. Major activities in a transmission project are:

- Project formulation, appraisal, and approval phase, and
- Project execution phase.

The cases related to not complying with recommendations of the GoI constituted Task Force on transmission projects are detailed in para 9.1 (b) and 9.3.

The MoP, GoI constituted (February 2005) a Task Force on transmission projects. The task force suggested and recommended (July 2005) the following remedial actions to accelerate the completion of Transmission systems.

- *Undertake various preparatory activities such as surveys, design & testing, processing for forest & other statutory clearances, tendering activities, etc., in advance/ parallel to project appraisal and approval phase and go ahead with construction activities, once Transmission Line Project sanction/approval is received.*
- *Standardise designs of tower fabrication so that 6-12 months can be saved in project execution.*

4.2.9.1 Project Execution

The planning and execution of works of new S/s along with its associated transmission line should be done concurrently. In the event of a time gap in completion of S/s and its associated lines, the completed S/s or transmission line remains unutilized till completion of the associated transmission line or S/s respectively. Without commissioning of both S/s and associated lines, benefits of Return on Equity (RoE) and depreciation cannot be claimed through tariff and the consumers are not benefited through reliable and improved power supply. The deficiencies noticed in project execution during audit are as detailed in **Table-4.2.1**.

Table-4.2.1: Deficiencies noticed in project execution during audit

Sl. No.	Name and particulars of Project	Nature of lapse	Impact
a.	<i>220/33 KV S/s at Jaffarpur, Rudrapur and associated line</i>		
	The work of associated line (LILO) of 220 KV S/s Jaffarpur was awarded (15 November 2016) for ₹ 5.70 crore with scheduled date of completion being 14 November 2017.	In violation of requirement of the agreement, the Company accepted Performance Bank Guarantee (PBG) of ₹ 57.50 lakh after a delay of eight months in the form of Demand Draft. The contractor completed only	Due to delay in completion of line, the S/s remained unutilised for 24 months resulting in loss of revenue of ₹ 15.66 crore during that period, as

Sl. No.	Name and particulars of Project	Nature of lapse	Impact
	As per the agreement, the contractor was required to deposit Performance Bank Guarantee (PBG) within 30 days from the issue of LOA.	<p>the foundation work of towers and had not erected even a single tower till August 2019.</p> <p>The company terminated (August 2019) the contract and balance work of line was awarded to L3 bidder at L1 rate in November 2019.</p> <p>The line was completed/energized (31 March 2021) after delay of 24 months from completion of S/s in March 2019.</p> <p>The Company did not terminate the contract despite non-submission of PBG in time.</p>	envisaged in the DPR. Further, consumers were also deprived of reliable and quality power supply.
<p>The Company Management stated (April 2023) that S/s was completed on 07 March 2019 but contractor could not complete the line work till date and therefore, the contract was terminated in August 2019. The balance work was awarded in November 2019 but due to Covid 19 Pandemic from March 2020, the work was completed in March 2021.</p> <p>The reply was not acceptable as the Company should have terminated the contract of L1 bidder much earlier as he failed to submit the PBG in stipulated period i.e. up to 15 December 2016. Moreover, the Company took considerable time (20 months) to terminate the contract on the grounds of poor performance of the contractor, which delayed the project.</p>			
b.	<i>132/33 KV S/s at Padartha, Haridwar and associated line</i>		
	DPR for construction of 132/33 KV S/s at Padartha, and its associated LILO line including construction of five well foundations in river Ganga was approved (November 2016) by the Company. The works of S/s, Line and well foundation were awarded during July 2017 to April 2018.	<p>Though the line was going through forest area, the Company belatedly applied (August 2018) for forest clearance, which was obtained only in October 2019.</p> <p>Thus, the recommendation of Task Force for advance action for obtaining approval was not complied with.</p>	Delay in submission of application for forest clearance resulted in delay in commissioning of the project by 16 months as the S/s was completed in April 2021 and associated line was completed only on 16 August 2022.
<p>In the Exit Conference, Company Management assured (May 2023) that recommendation of Task Force would be followed in future.</p>			

Sl. No.	Name and particulars of Project	Nature of lapse	Impact
c.	220/33 KV GIS S/s at Baram, Jauljivi Pithoragarh and associated line		
	<p>Standing Committee⁷⁴ in its meeting held in November 2014 and July 2015 finalized:</p> <p>Phase I – Construction of LILO of 220 KV Dhauliganga-Pithoragarh line for construction of proposed 220 KV Gas Insulated Substation (GIS) at Baram, Jauljivi.</p> <p>Phase II - The said S/s would be connected to Jauljivi 400/220 KV S/s (PGCIL) through 220 KV DC line (line and S/s under Company scope) and existing link (LILO) at 220 KV S/s Jauljivi (PTCUL) would be disconnected.</p> <p>Construction work of S/s at Jauljivi and LILO line (construction of 39 numbers of towers) were awarded on 15 November 2016 (₹ 55.91 crore) and on 14 October 2015 (₹ 12.66 crore) respectively.</p> <p>The proposal for forest clearance for the line was submitted (September 2016) which was approved (August 2020) by MoEF.</p> <p>CEA in the Standing Committee directed (September 2018) the Company to go for Phase II instead of Phase I as LILO was an interim arrangement.</p>	<p>The Company apprised BoDs about directions of CEA (September 2018) in March 2022 after a delay of more than three years.</p> <p>Further, the Company had not applied for forest clearance for diverted route (from 27 tower) up to December 2022 which further delayed the completion of the project.</p> <p>As LILO line was an interim arrangement and S/s Baram would ultimately be connected to S/s Jauljivi (PGCIL), the Company should have applied for forest clearance of diverted route after finalization of land (28 March 2017) for 400 KV PGCIL Jauljivi S/s.</p> <p>The Company terminated the contract (13 April 2023) for construction of LILO line under Phase I as contractor had only completed foundation work of towers and no tower was erected.</p>	<p>The S/s constructed at a cost of ₹ 70.77 crore was lying unutilized since December 2021 as the associated line was not completed (March 2023).</p> <p>The Company booked Interest during Construction period (IDC) of ₹ 3.25 crore to the cost of S/s (December 2021 to September 2022).</p> <p>Thus, the Company was deprived of revenue earning through tariff and consumers were also deprived of reliable and quality power supply.</p>
<p>In the Exit Conference, Company Management assured (May 2023) that the work of line would be completed by November 2024.</p>			

⁷⁴ Power System Planning of Northern Region.

Sl. No.	Name and particulars of Project	Nature of lapse	Impact
d.	132/33 KV GIS S/s at Lohaghat & Champavat and associated lines		
	<p>The Company approved 132/33 KV Air Insulated S/s (AIS) at Lohaghat and associated line amounting to ₹ 103.76 crore which was approved by UERC in December 2012.</p> <p>Due to land constraint, it was decided to have GIS instead of AIS in June 2013. Revised DPR of the S/s was prepared at a cost of ₹ 93.16 crore which was approved by UERC in January 2015.</p> <p>No work was awarded for construction of S/s, however, the associated line work of 132/33 KV S/s at Lohaghat amounting to ₹ 40.90 crore was awarded (15 April 2015) to contractor⁷⁵ with scheduled date of completion 24 months from the date of LOA.</p>	<p>E-tender for construction of S/s was floated (December 2016) after delay of 23 months from investment approval (January 2015) by UERC.</p> <p>The Company could not resolve the queries raised by the bidders in pre-bid conference regarding TQR and FQR in tender documents and effect of introduction of GST Act (July 2017) and hence tender was scrapped (August 2017).</p> <p>The same procedure was repeated and tenders were scrapped time and again⁷⁶ and finally it was decided to finance the project under ADB funding.</p> <p>The work of line was almost completed (physical progress 98 <i>per cent</i>) as of November 2022.</p> <p>The tender was not invited for construction of S/s till March 2023.</p>	<p>The line constructed at a cost of ₹ 72.65 crore was lying idle/ unutilized since November 2022 as the work of associated S/s was not awarded by the Company till date (March 2023).</p> <p>Thus, the Company was deprived of revenue earning through tariff and consumers were also deprived of reliable and quality power supply.</p>
<p>The Company Management stated (April 2023) that e tender for construction of 132/33 KV GIS S/s Lohaghat was floated but the tender of S/s was scrapped due to queries raised by bidders in respect of GST, Joint venture (JV) Clause in SBD. Accordingly, the tender conditions were reviewed and amendments in the SBD were approved by the BoDs. After amendment in SBD, the tender was re-floated and three bidders submitted their bids. However, competent authorities decided to scrap the tender as the above work was proposed under ADB funding.</p> <p>However, the Company took 23 months to float the initial tender and could not resolve the queries of bidders in time due to which the tender was scrapped time and again.</p>			

4.2.9.2 Non-awarding of works after approval of Detailed Project Reports (DPRs)

The Company prepared DPRs for construction of S/ss along with associated lines on the request of UPCL and UJVNL for supply of quality and reliable power to industrial

⁷⁵ M/s Transglobal Power Ltd.

⁷⁶ NIT floated in December 2016, July 2018, and May 2020 and scrapped in August 2017, January 2020 and December 2020 respectively.

consumers and to evacuate power from Small Hydro Project Madhyamaheshwar respectively.

Audit observed that there was considerable delay in implementation of two projects as detailed in **Table-4.2.2**.

Table-4.2.2: Delay in implementation of projects

Sl. No.	Name of Project/ Approval of DPR by BoD	Investment approval by UERC in	Nature of Lapse	Impact
a.	220/33 KV GIS S/s at Selaqui and associated line			
	<p>Estimated value ₹ 164.46 crore. Approved in November 2018.</p> <p>Revised DPR (ADB funding) cost ₹ 89.67 crore. Approved in December 2021.</p>	<p>March 2019.</p> <p>April 2022</p>	<p>The e-tender floated in February 2019 could not be finalized as issues relating to TQR and FQR raised in pre bid meetings by the prospective bidders could not be resolved due to stringent conditions of bids resulting in no response/single bid from bidders.</p> <p>The tender was scrapped in December 2020 and it was decided to execute the work through ADB funding for which revised DPR (December 2021) and fresh approval (April 2022) of UERC were obtained.</p>	<p>The Industrial consumers were deprived of quality and reliable power supply as work was not awarded so far (March 2023).</p> <p>The Company was also deprived of financial benefits ranging from ₹ 8.54 crore to ₹ 16.32 crore per annum, as envisaged in DPR.</p>
<p>The Company Management stated (April 2023) that many prospective bidders raised queries and requested to amend the Joint venture (JV) clause. Accordingly, the tender conditions were reviewed and amendment in JV clause, TQR, FQR in SBD was accorded in 71 BoDs meeting. The tender witnessed better participation (four bids received). However, competent authority of the Company decided (23.01.2020) to scrap the tender as the work was proposed under ADB funding. The tender for work is under process and is expected to be awarded by July 2023.</p> <p>The reply was not convincing as there was delay of more than three years in finalisation of important clauses of SBD.</p>				

Sl. No.	Name of Project/ Approval of DPR by BoD	Investment approval by UERC in	Nature of Lapse	Impact
b.	220/33 KV GIS S/s at Baramwari and associated line			
	Estimated cost of ₹ 237.48 crore approved in May 2018. Revised DPR cost ₹ 149.70 crore (based on ADB funding pattern) approved in December 2020.	June 2021	Proposal for investment approval was not submitted to UERC against first DPR (May 2018). Part –I of e-tender for S/s was opened on 22 October 2021 and part –II bid was opened on 22 March 2022. The proposal of L1 bidder was valid up to 30 May 2022 therefore, the Company requested the bidder for extension of validity. The L1 bidder refused to extend the validity. Accordingly, the tender was scrapped. This indicates that unusually long time was taken by the Company in finalising the tender.	As the Small Hydro Power Plant was scheduled to be commissioned in March 2023, in the absence of GIS S/s there may be loss of power generation. Further, as Secretary Power (GoU) highlighted in a letter to the Managing Director, the Company may be penalized for not fulfilling its commitment. Moreover, the delay would also result in revenue loss of ₹ 50 crore per annum to the Generation Company as power could not be evacuated from the SHP in the absence of S/s and associated line.
The Company Management accepted the facts and stated (April 2023) that the case for awarding of work after opening of price bid was put up for consideration of competent authorities of the Company on 17 May 2022 but could not be concluded as L1 bidder refused to extend the bid validity beyond 30 May 2022. The GoU had nominated (15 February 2023) M/s Braithwaite & Co. Ltd. (a GoI undertaking) as executing agency for construction of S/s and allotment of work is under process.				

4.2.9.3 Award of work without ensuring availability of land

To accelerate the completion of Transmission systems, the task force of MoP, GoI had recommended (July 2005) to undertake various preparatory activities such as surveys, design & testing, processing for forest & other statutory clearances, tendering activities etc., in advance/ parallel to project appraisal and approval phase and go ahead with construction activities once Transmission Line Project sanction/approval is received.

DPR for construction of 220 KV Jaffarpur S/s and associated line was approved in June 2013. Since forest land was involved, the Company applied (March 2014) for

forest clearance after a delay of eight months from the date of approval of DPR. The work could not be commenced at scheduled time as the lease deed was executed in January 2017. The contractor claimed (August 2018) price variation for transformers amounting to ₹ 1.46 crore, due to increase in price of raw material, which was paid by the Company.

The cost overrun of ₹ 1.46 crore due to price variation could have been avoided by ensuring timely availability of land as per the recommendations of the task force.

The Company Management accepted the observation and stated (April 2023) that in future recommendation of Task Force would be followed and forest clearance of land for S/s would be pursued before award of contract.

4.2.9.4 Inappropriate Technical Qualification Requirement (TQR) in Tender

The Company floated (18 May 2016) e-tender for “Upgradation of control and protection system and replacement of different substations equipment.” The LOA was issued (22 July 2016) for ₹ 31.17 crore to JV⁷⁷ which included supply part of ₹ 28.99 crore and erection part of ₹ 2.18 crore. The scheduled date of completion of said work was six months from the date of LOA i.e. 21 January 2017.

The TQR in bidding document *inter alia* mentioned that “The bidder or its JV partner or its collaborator or its manufacturer (OEM) should have constructed/ supplied the material for construction of Bays and Substations of 132 KV and above voltage level successfully for Government utilities/ Departments/ Public Sector in the last five years and these works should be working satisfactory.”

Scrutiny of records revealed that two JV partners were manufacturers only and they did not have any experience of erection/ construction works whereas the third partner did not meet any of the criteria of TQR. Further, the third partner was registered in 2015 having experience of less than five years only. Despite this, the JV was qualified in techno commercial bid merely on the basis of meeting criteria for experience in supply basis as per the condition of TQR i.e. construction/supply. Audit further noticed that the Company ignored the fact that work involves both construction and supply part and did not factor it in the TQR condition. Instead of incorporating construction and supply in TQR it included construction/ supply of material for construction of Bays and Substations of 132 KV’. As JV was qualified in techno commercial bid without factoring inexperience in construction as a mandatory condition, the project could not be completed (December 2022) even after grant of four extensions to them.

In Exit conference, the Company Management stated (May 2023) that the major amount of work was for supply of equipment. Hence, for better participation and competition, the TQR was proposed for the participation of Original Equipment Manufacturer (OEM). Now tender terms and conditions had been changed accordingly. The reply of the Company is self-explanatory and proves audit observation.

⁷⁷ M/s Ishaan Enterprises (lead Partner), M/s CTR Manufacturing Company Industries Limited and M/s Venson Electric Pvt. Limited.

4.2.9.5 Short deduction of Penalty/ Penalty not imposed

The penalty clause of LOA stipulates that the tenderer should strictly observe the completion time allowed for carrying out the work. Any delay that may take place in supply and erection beyond contractual cutoff date started as per stipulated delivery period shall be subject to penalty at the rate of ½ per cent of the contract value per week with a ceiling of 10 per cent of the total contract value.

It was noticed that the Company had short deducted/not imposed penalty of ₹ 9.06 crore due to delay on the part of the contractor as detailed in **Table-4.2.3**.

Table-4.2.3: Details of short deduction/ non-imposing of penalty

Sl. No.	Name of work/ Date of award and executed value	Completion		Penalty (₹ in crore)		Short deduction/ Non imposition of penalty (₹ in crore)	Reasons for delay on the part of the contractor	Audit conclusion
		Schedule & actual date	Delays (in months)	leviable	levied			
1	132 KV GIS S/s Bageshwar/ 26.09.2014 ₹ 47.16 crore	25.03.16 and 24.10.19	43	4.71	nil	4.71	Remote location (2 months), lack of space to dump excavated earth of approach road (3 months), lack of storage space at site for materials (1 month).	Reasons for delay not satisfactory as all these factors were taken into consideration at the time of finalisation of tender and fixing the scheduled completion period for the work to be executed.
2	220 KV GIS S/s IIP Harrawala, Dehradun/ 16.06.2015 ₹ 51.19 crore	15.12.16 and 4.08.18	20	5.12	0.77	4.35	High voltage test of 220 KV cable termination kit not available in India (52 days), Not taking vendor approval by the contractor in time (167 days) and rainy season (60 days).	Reasons for delay not satisfactory as these factors were taken into consideration at the time of finalisation of tender and fixing the scheduled completion period for the work to be executed.
Total				9.83	0.77	9.06		

Thus, the Company had short deducted/not imposed penalty of ₹ 9.06 crore despite delay on the part of contractors.

In Exit Conference the Company Management assured (May 2023) that the imposition of penalty will be reviewed.

Recommendations:

The Company may consider to:

- i. initiate all activities for project execution in advance/ parallel to project appraisal and approval phase as per recommendations of Task Force, 2005 to avoid delay in completion of projects;*
- ii. have a review mechanism to analyse reasons for excessive delays in constructing substations to minimize such delays in future;*
- iii. devise and implement contract conditions without any ambiguity to safeguard the financial interest of the Company.*

4.2.10 Fund Management

One of the major objectives of the National Electricity Policy, 2005 is to ensure the financial turnaround and commercial viability of the Power Sector. For the construction of transmission projects, the Company draws loans from REC/PFC and ADB up to 70 per cent of project cost and avails equity from the State Government (GoU) for the balance 30 per cent of the project cost.

The deficiencies noticed in fund management are discussed below: -

4.2.10.1 Non-availing of Power System Development Fund (PSDF) grant

MoP, GoI approved (January 2014) the scheme for transmission system strengthening work under PSDF by giving 100 per cent grant to hilly States. MoP, GoI vide its letter dated 21 February 2017 stated that Availability Based Tariff (ABT) framework at State level as mandated in National Electricity Policy would also be considered for PSDF Funding.

The Company invited (August 2017) tender for implementation of Intra-State ABT metering scheme for online ABT meters to be installed at interface points for Energy Accounting and Transmission level Energy Auditing. The work was awarded (July 2018) to the contractor⁷⁸ for ₹ 19.47 crore without submitting the proposal for PSDF grant to the Nodal Agency viz. National Load Dispatch Center (NLDC). The project was completed in April 2022 and the Company booked interest during construction of ₹ 0.80 crore.

Audit noticed that the Company requested NLDC (January 2020) for reimbursement of at least 50 per cent of the Project cost after a delay of more than one year. However, no funds were received under PSDF as the proposal⁷⁹ for the said work was not submitted to NLDC to avail 100 per cent grant before the award of the work. Had the Company submitted the proposal to NLDC in 2017 itself to avail 100 per cent PSDF grant for said work, the burden of ₹ 20.27 crore (₹ 19.47 crore + ₹ 0.80 crore) on consumers through tariff could have been avoided.

The Company Management stated (April 2023) that they were not fully aware whether installation of ABT meter was eligible under such grants. The installation of ABT meters in its substations and preparation of DPR was already planned in the year 2014. The project was completed successfully, and the state is harnessing the benefits of its implementation. No loss occurred to the Company and the Company has met all the regulations of Hon'ble UERC.

The reply of the Company Management was not acceptable as MoP, GoI had intimated (February 2017) about consideration of ABT metering under PSDF funding before award of the work by the Company in July 2018, which however was not considered by the Company. However, as regards the reply that there was no loss to the Company, the burden of ₹ 20.27 crore (₹ 19.47 crore + ₹ 0.80 crore) was passed on to the consumers through tariff, which could have been avoided.

⁷⁸ M/s Secure Meters Limited.

⁷⁹ Moreover, AP Transco had submitted the scheme for ABT metering on 06 April 2017 and the same was approved by MoP on 27 July 2018 and Telangana Transco had also submitted the same proposal on 11 October 2017.

4.2.10.2 Lapse of PSDF grant

The Company submitted (April 2015) the proposal to NLDC for Renovation and upgradation of protection system for PSDF grant. MoP, GoI sanctioned (March 2016) ₹ 125.05 crore for the same and released grant of ₹ 112.08 crore during the period November 2016 to March 2021.

During scrutiny of records, it was noticed that against the sanctioned 10 works, the Company could award only nine works for execution. Bids for one work relating to supply and erection of battery and battery chargers for various S/ss with estimated value of ₹ 3.18 crore were floated in July 2018 but one disqualified bidder filed writ petition in the High Court against his disqualification. The Hon'ble High Court directed (04 March 2020) while disposing the writ petition that the Company should take appropriate decision within two weeks from the date of receipt of representation of the bidder. The bidder submitted (06 March 2020) his representation⁸⁰ but no decision was taken by the Company as directed by the High Court and later on tender was scrapped in January 2022. Again, fresh tender was called in March 2022 against which only two bidders participated, of which one bidder was disqualified. The Company keeping in view uncertainty in completing the said work before the final time extension, decided (21 November 2022) to cancel the tender. In the meantime, CEA directed (June 2022) that no further time extension shall be granted and projects shall be short closed, if not completed by 31 December 2022. Accordingly, the project was short closed in December 2022 as no further extension was granted by CEA.

Thus, delay in taking decision (21 months) in resolving the issues of the disqualified bidder resulted in short closure of the project and loss of opportunity to avail grant and create infrastructure with estimated cost of ₹ 3.18 crore.

Company Management while accepting the facts stated (April 2023) that due to uncertainty about completing the said work before the final time extension, it was decided (21 November 2022) to cancel the second tender. However, reply is silent on the issue of not taking timely decision on representation of the bidder within two weeks as directed by the Hon'ble High Court.

4.2.10.3 Release of grant as loan by State Government

Two projects viz. 400 KV S/s at Srinagar (Khandukhal) and Srinagar PH line were approved (2007) under Uttarakhand Integrated Transmission Project (UITP) Scheme by CEA and MoP. These projects were funded by ADB.

The ratio of funding of these projects was 30 per cent equity by GoU and 70 per cent as debt from ADB. Since, Uttarakhand is a special category State, Central Government passed on 90 per cent (₹ 160.66 crore) of ADB loan (i.e. 70 per cent of project cost) to GoU as grant with the intention that it may benefit end users through low tariff and remaining 10 per cent (₹ 17.85 crore) as loan at the rate of nine per cent per annum.

⁸⁰ Bidder in its representation stated that as per tender document, each bidder was required to submit 20 Experience/ Performance Certificate whereas he had submitted 22 Experience/ Performance Certificate. Therefore, even if certificate issued by CGPL is ignored then also the bidder was technically qualified and rejection of its technical bid was erroneous.

Audit noticed that the GoU, instead of releasing grant, transferred ₹ 160.66 crore (90 per cent of ₹ 178.51 crore) as loan to the Company. As the Company received ₹ 160.66 crore as a loan⁸¹, the burden of such release was passed on to consumers.

In Exit Conference, GoU intimated (May 2023) that the grant received from GoI was issued to the Company as loan with concurrence of Finance Department of GoU. However, the intended purpose of grant given by GoI to benefit the end users through low tariff, was affected.

4.2.10.4 Unutilised equity not returned/adjusted by the Company

The equity of ₹ 72.47 crore was granted by GoU for two works as detailed in **Table-4.2.4** with the following conditions:

- i) The amount sanctioned should be used for the project for which it was given and no deviation of any kind was allowed;
- ii) Any leftover amount against the sanctioned amount should be surrendered to GoU without any delay; and
- iii) Utilisation Certificate of amount sanctioned along with physical and financial progress to be provided to GoU.

Table-4.2.4 Unutilised equity

Sl. No.	Name of the Project	Amount (₹ in crore)	Date of receipt of equity	Remarks
1.	400 KV D/C Loharinag Pala Koteshwar Transmission Line.	19.70	March 2009	GoU directed (January 2011) the Company to stop/ abandon the transmission line project as GoI had decided to stop/ abandon the Loharinag Pala Hydro Project of NTPC due to agitation from environmentalists. Accordingly, the Company terminated the contract in January 2011.
2.	400 KV D/C Khandukhal-Rampura Transmission Line.	52.77	October 2014	The project was not executed as it was transferred to central sector in December 2020.
Total		72.47		

It may be seen from **Table-4.2.4** that both the projects were closed, and funds obtained as equity were not utilised as per the terms and conditions of release of equity. The Company neither surrendered the sanctioned amount of ₹ 72.47 crore as per terms and conditions of release of equity by GoU nor sought permission of GoU to utilise the equity on other projects.

In Exit Conference, the Company Management stated (May 2023) that they would seek permission from GoU to utilise the equity in other projects.

⁸¹ Loan reflects as liability in books of accounts of Company while grant is not reflected as liabilities and not required to be repaid.

4.2.10.5 Cost disallowed by UERC due to delay in commissioning of projects

The Company awarded contracts for various works/ projects which were commissioned from April 2018 to March 2022. However, UERC in tariff petitions, disallowed ₹ 4.87 crore of Interest during Construction (IDC) in four projects due to delay in commissioning of the projects. The disallowance of IDC is detailed in **Table-4.2.5**.

Table-4.2.5: Disallowance of IDC*(₹ in crore)*

Sl. No.	Name of the Project	Scheduled / Actual date of commissioning of project	Delay in months	Cost claimed by the Company in tariff petition	Cost Approved by UERC in Tariff	IDC disallowed by UERC
1.	220 KV S/s IIP Harrawala, Dehradun	15.12.2016 / 04.08.2018	20	57.02	56.29	0.73
2.	132 KV S/C Ranikhet – Bageshwar line	15.05.2016 / 08.01.2020	44	49.66	47.67	1.99
3.	132 KV GIS S/s Bageshwar	25.03.2016 / 08.01.2020	46	56.03	54.78	1.25
4.	220 KV S/s Jaffarpur	14.04.2015 / 31.03.2021	71	42.53	41.63	0.90
Total IDC disallowed by UERC				205.24	200.37	4.87

It may be seen from **Table - 4.2.5** that due to delay of 20 to 71 months in the construction of projects, the UERC disallowed IDC of ₹ 4.87 crore and the Company could not recover the same through tariff resulting in burden of ₹ 4.87 crore to the Company. Further, UERC while considering the tariff petitions, stated that the reasons given by the Company for the delay in implementing these projects were controllable and could have been mitigated through proper planning and monitoring.

The Company Management stated (April 2023) that planning of future projects would be done according to conditions faced in the ground.

Recommendations:**The Company may consider to:**

- i) ensure timely completion of works to avoid lapse of PSDF grant and disallowance of cost by UERC; and*
- ii) take necessary approval of GoU for utilisation of unutilised equity.*

4.2.11 Monitoring Mechanism and Internal Control

An effective monitoring mechanism plays a vital role in efficient implementation and execution of the projects as well as efficient operation of the transmission system such as:

- Develop detailed project timelines with clear milestones, responsibilities, and risk mitigation strategies to ensure timely completion.
- Coordinate with forest, environment, and land authorities in a timely manner to fast-track approvals and avoid delays as recommended by Task Force (2005), Ministry of Power, GoI.
- Conduct regular review meetings with contractors, consultants, and regulatory bodies to resolve bottlenecks.

Audit noticed that the Company management did not take necessary steps in planning of new S/s or augmentation of old S/s, for review and monitoring of inordinately delayed projects, making critical procurements in synchronization with project execution and in ensuring recovery of the amounts from both the contractors as discussed in earlier paragraphs. These were largely due to deficient monitoring on the part of the Company management.

4.2.11.1 Internal Audit

The Company did not have its own internal audit wing. However, the internal audit function was outsourced by the Company. It was observed that the scope of Internal Audit work was assigned to an outsourced agency since 2007-08 to conduct Financial Audit, Compliance Audit, Value for Money Audit, Environmental Audit and Concurrent Audit as per Internal Audit Manual of the Company. However, the standard of internal audit by the outsourced agency was not up to mark as outsourced firms neither reported systemic deficiencies nor pointed out significant observations relating to non-compliance of rules and regulations. The firms restricted their audit report only to the extent of arithmetical accounting errors and overlooked propriety issues. This issue was also highlighted in the Performance Audit of the Company, in the Report of the CAG for the year ending March 2012, wherein the Company Management had accepted the audit observation and assured that internal audit wing would be formed very soon. However, the Company did not establish internal audit wing despite an assurance given in 2012. During 2018-22, internal auditors were paid audit fees of ₹ 16.04 lakh and they submitted a total of 16 audit reports.

The Company Management stated (April 2023) that internal audit was outsourced considering the shortage of manpower. After approval of additional manpower for Internal Audit department, the separate internal audit cell would be established. Further, suggestions of audit were noted for future compliance.

Recommendations

The Company may consider to:

- i) strengthen its monitoring mechanism for Project management; and*
- ii) establish its own internal audit wing commensurate with the size and need of the Company.*

4.2.12 Conclusions

1. In the absence of Project Planning and Management Manual, the projects were not identified on regular basis. The planning of the identified projects was inadequate which resulted in overloading of substations.
2. The Company failed to execute most of the projects within the scheduled time frame. It did not have effective mechanism to review the justification submitted for inordinate delay in completion of projects and suggest standard operating procedure to avoid delays in future. There were instances of deficiencies in agreements made and award and execution of contracts. The Company also lacked any formal review mechanism for monitoring of projects that could help it in identifying potential bottlenecks and taking corrective actions in time.

3. Ineffective fund management by issuing of letter of award before sanction of projects under Power System Development Fund Scheme of Ministry of Power, Government of India resulted in grant of ₹ 20.27 crore being un-availed.
4. The Company did not have its own Internal Audit Wing, resulting in ineffective internal audit mechanism in place for timely system improvement.

4.3 Loss of revenue

Undue favour to consumer resulting in loss of revenue of ₹ 5.96 crore.

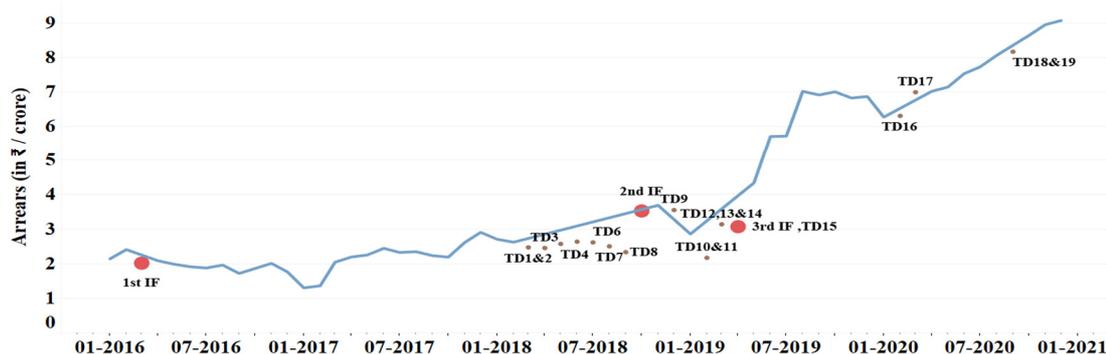
Uttarakhand Power Corporation Limited (UPCL⁸²), a Government of Uttarakhand Undertaking, is the sole electricity distribution Licensee in the State. UPCL has been empowered by UERC⁸³ to safeguard its interest against defaulting customers through security deposit and power to disconnect electric supply *on temporary basis (TD)* in case dues are not paid by the consumer within the notice period of 15 days and *on permanent basis* in case dues are not cleared within six months of date of TD.

In addition to the above, UPCL issued guidelines⁸⁴ for facilitation of the consumers with instalment facility who are not able to pay their electricity dues due to special circumstances. As per conditions of the instalment facilities so granted, the instalments were payable along with regular bills and in the event of default in payment of instalments or regular bills, the electricity supply was to be disconnected without notice and the restoration was possible only upon payment of all outstanding dues.

Scrutiny of records (March 2022) of the Electricity Distribution Division - Kashipur of UPCL revealed that one customer, M/s Multiwal Pulp & Board Mills Pvt Ltd., consistently had arrears of revenue despite grant of instalment facility thrice⁸⁵ and multiple temporary disconnections⁸⁶ during the period from March 2016 to May 2019 as detailed in **Chart- 4.3.1**.

Chart-4.3.1: Arrears, instalment facility and temporary disconnections

Graph depicting Arrears, Installment Facilities (IF) & Temporary Disconnections (TD)



⁸² A Company incorporated in February 2001 under the provisions of the Companies Act, 1956.

⁸³ Uttarakhand Electricity Regulatory Commission (UERC) is a quasi-judicial body constituted for functioning as a State Regulator in Power Sector.

⁸⁴ vide OM No. 1900 dated 27 June 2011 and OM No. 3893 dated 20 May 2017.

⁸⁵ March 2016, October 2018; and April 2019.

⁸⁶ 13 & 22 March 2018; 21 April 2018; 07 May 2018; 04 June 2018; 17 July 2018; 20 August 2018; 18 September 2018; 05 December 2018; 11 & 28 February 2019; 12, 25 & 30 March 2019; 25 April 2019; 25 February 2020; 13 March 2020 and 01 September 2020.

It may be seen from the above graph that despite grant of instalment facilities in March 2016 and October 2018, the arrears were not fully paid by the consumer. Further, by the time instalment facility for the third time for ₹ 2.17 crore was granted (April 2019), the arrears stood close to the security deposit (₹ 2.21 crore) held by UPCL. After TDs, the consumer was favoured by restoring power without realising the outstanding arrears.

In the meantime, UPCL received (June 2019) a communication from the Interim Resolution Professional (IRP) intimating that Corporate Insolvency Resolution Process (CIRP)⁸⁷ was initiated against the consumer under the provisions of Insolvency & Bankruptcy Code – 2016 and that the electricity dues up to 21 May 2019 were to be claimed from IRP. Besides, UPCL was also directed to ensure regular supply of electricity to the consumer, the bills of which were to be paid by the consumer as per normal routine. Accordingly, claims for the period up to 21 May 2019 for ₹ 3.84 crore were forwarded to IRP and uninterrupted supply of electricity to the consumer was ensured by UPCL. However, the consumer defaulted or made partial payments of its monthly bills till the end of billing month September 2020 when the last TD was carried out. This resulted in overall outstanding dues soaring up to ₹ 8.17 crore. The permanent disconnection (PD) is yet to be done despite lapse of more than 31 months (April 2023⁸⁸) as matter was pending under CIRP.

Since the Security Deposit of ₹ 2.21 crore is lying with UPCL, the balance ₹ 5.96 crore (₹ 8.17 crore less ₹ 2.21 crore) remains unrecovered as the consumer is under insolvency process since May 2019.

The Company Management stated (May 2023) that although all available measures to recover the dues are exercised, in many cases, coercive action makes the prospects of even partial recovery very feeble. Further, permanently disconnecting the connection may not have resulted in recovery of outstanding dues at once but may have been detrimental to Government initiatives to encourage industries in the State of Uttarakhand. Therefore, they acted in a reasonable and practical manner in accordance with Government policies to encourage the industries and did not resort to coercive action to keep the Consumer as a going concern to keep the prospects of recovery of dues alive.

The Company Management reply was not acceptable as the consumer was unduly favoured by granting instalment facility multiple times without due diligence and evaluation of the creditworthiness of the consumer. Further, arrears were allowed to swell by restoring power supply on 18 occasions (after TD) without realising outstanding dues which was in violation of UPCL's own conditions of granting instalments facility as well as the provisions of the UERC Regulations, 2007.

⁸⁷ CIRP is the process of resolving the corporate insolvency of a corporate debtor in accordance with the provisions of the Insolvency & Bankruptcy Code 2016.

⁸⁸ Electricity bills are being generated continually based on fixed charges and late payment surcharge, as a result, the electricity bill for April 2023 depicted outstanding balance of ₹ 20.45 crore.

The Energy Department, Government of Uttarakhand during meeting held (May 2023) for discussions of paragraph, accepted the audit observations and admitted that an organised system of internal checks and monitoring is needed to be put-in-place to deal with such cases.

Thus, undue favour extended to the consumer resulted in accumulation of electricity dues which subsequently became irrecoverable to the extent of ₹ 5.96 crore after institution of insolvency proceedings against the consumer.

Dehradun
The 25 August 2025



(SANJEEV KUMAR)
Accountant General (Audit),
Uttarakhand

Countersigned

New Delhi
The 02 September 2025



(K. SANJAY MURTHY)
Comptroller and Auditor General of India

