

## COMPLIANCE AUDIT

### GARHWAL MANDAL VIKAS NIGAM LIMITED

#### *Loss of income*

***Garhwal Mandal Vikas Nigam Limited had to forego lease rent of ₹1.08 crore due to leasing out the space at a rate lower than the prevailing rate.***

Garhwal Mandal Vikas Nigam Limited (GMVN) has its multi-storey corporate office building at Rajpur Road Dehradun which is a prime location of the city. The ground and part of the first floor of the building were being used by GMVN for its own purpose. The space available for rent with GMVN was 13,655.64 sq ft<sup>1</sup> and it was leased to various departments/institutions of the Central/State Government for commercial purpose since 2001<sup>2</sup>.

Scrutiny of records (March 2015) of the Managing Director, GMVN and further information collected (December 2017) from GMVN showed that out of its 13,655.64 sq ft area, 10,107.57 sq ft<sup>3</sup> was leased to Reserve Bank of India (RBI)<sup>4</sup> and Securities and Exchange Board of India (SEBI)<sup>5</sup> at the rate of ₹ 90 per sq ft for the first year, with five *per cent* appreciation every year. Instead of leasing out the remaining area<sup>6</sup> of the building at the equivalent rate paid by SEBI and RBI, the area was leased out by GMVN at a significantly lower rate of ₹ 24.63 per sq ft to the State Information and Public Relations Department (SIPRD), Uttarakhand since December 2013. It was further noticed that after vacation of leased out area of 3,548.07 sq ft by SIPRD in December 2016; 2,257.33 sq ft area was leased to RBI, Dehradun at a higher rate of ₹ 108.00<sup>7</sup> per sq ft since May 2017 by GMVN.

Thus, by leasing out of accommodation at a rate lower than the rate being charged from RBI/SEBI, GMVN was deprived of lease rent of ₹ 1.08 crore<sup>8</sup> for the period from December 2013 to November 2016.

GMVN, while accepting the facts, stated (February 2018) that despite regular request to SIPRD to pay the differential amount of ₹ 1.08 crore, no payment was received. The reply is not acceptable as GMVN being a commercial organisation should have leased space of the building

<sup>1</sup> The part of the first floor (1,257.38 sq ft), second floor (3,580.69 sq ft) and third floor (7,817.57 sq ft) since July 2012.

<sup>2</sup> Initially, 1,310 sq ft area on the first floor was leased out by GMVN to HUDCO (since 01.05.2001).

<sup>3</sup> RBI-7,817.57 sq ft; SEBI-2,290 sq ft.

<sup>4</sup> From 13 July 2012 to till date.

<sup>5</sup> From 1 September 2013 to till date.

<sup>6</sup> 3,548.07 sq ft area

<sup>7</sup> ₹ 108.00 per sq ft for Ist year and ₹ 112.50 per sq ft for IInd year.

<sup>8</sup> December 2013 to November 2016: due rent ₹ 1.39 crore -paid by SIPRD ₹ 0.31 crore = Balance ₹ 1.08 crore.

at the market rate /rate being charged from RBI/SEBI to safeguard its financial interest. By not doing so, it incurred a loss of income of ₹ 1.08 crore.

The matter was reported to the Government (April 2018); their Reply was awaited (August 2019).

## UTTARAKHAND BAHUDESHIA VITTA EVAM VIKAS NIGAM LIMITED

### *Loss of revenue*

***Company could not recover ₹ 12.94 crore extended as loan from beneficiaries. Besides, the Company refunded ₹ 8.29 crore to National level Corporations from its own resources to avoid additional interest.***

The Uttarakhand Bahuudeshia Vitta Evam Vikas Nigam Ltd. (Company) was established (October 2001) under Companies Act, 1956 as an enterprise of Social Welfare Department, Government of Uttarakhand. The objectives of the Company are to promote/aid/assist/organise/financial assistance for socio economic and educational development of scheduled castes and scheduled tribes in the State. The Company advances loans on easy terms, /margin money loan and/ or subsidy to the beneficiary population, Cooperatives of the State for their trade, business or other economic activities at low rate of interest and also to act as an agent<sup>9</sup> of the Government for distribution of loans.

The State Government had given guarantee to the National level Corporations (NCs)<sup>10</sup> for providing the loans to the Company to undertake various social welfare schemes<sup>11</sup>. For this purpose, Company entered into agreements with the NCs for providing the loans to the beneficiaries. As per the terms and conditions of the agreement, these loans were provided to the beneficiaries by enhancing the rate of interest by three *per cent* from the rate of interest on which the amount was borrowed by the Company. To secure the recovery of loan, Company was required to obtain post dated cheques (PDCs) from the beneficiaries. The loan was to be repaid to NCs in quarterly installments within stipulated period. In case of default in the repayment of loan, additional interest at the rate of two *per cent* over and above the normal rates of interest was also applicable on the overdue amount.

The Company borrowed ₹ 23.27 crore from NCs during 2001-02 to 2016-17. Of this amount, ₹ 18.47 crore was disbursed as loan to 2012 beneficiaries of targeted groups in all the districts of the State. It recovered ₹ 15.35 crore along with interest and ₹ 12.94 crore<sup>12</sup>(₹ 8.29 crore as principal + ₹ 4.65 crore as interest) was pending for recovery from defaulting 1,382

<sup>9</sup> State Channelising Agency (SCA).

<sup>10</sup> National Schedule Castes Finance and Development Corporation, National Schedule Tribe Finance and Development Corporation, National Backward Classes Finance & Development Corporation, National Safai Karmacharis Finance & Development Corporation, National Disabled Welfare Corporation and National Minorities Finance Corporation.

<sup>11</sup> Schemes carried out by National Corporations for which UBVEVNL is working as a SCA.

<sup>12</sup> ₹ 8.29 crore (principal) + ₹ 4.65 crore (interest).

beneficiaries for the period ranging from one to 16 years (March 2018). The Company repaid ₹ 20.98 crore<sup>13</sup> to NCs till March 2018. The Company paid ₹ 8.29 crore from its own resources to avoid the two *per cent* additional interest leviable in case of delay in repayment of loan to NCs. Further, out of 1,382 defaulter beneficiaries, Recovery Certificates (RCs) were issued to only 313 (22.64 *per cent*) defaulters.

On being pointed out, Management stated (January 2017) that even after sufficient efforts *i.e.* issuances of notices and RC's in some cases, the loan amount could not be recovered. Audit observed non-recovery of loan was due to poor recovery mechanism- all Post Dated Cheques from beneficiaries were not collected and deposited in the banks and Recovery Certificates were not issued against as many as 1,069 defaulting beneficiaries (77.35 *per cent*).

The laxity of Company in recovery of loan from beneficiaries resulted in non-realisation of the loan amount of ₹ 12.94 crore besides loss of ₹ 8.29 crore which the Company refunded from its own resources to NCs to avoid levy of additional interest.

The matter was reported to Government (May 2018); Reply was awaited (August 2019).

## UTTARAKHAND FOREST DEVELOPMENT CORPORATION

### *Loss of interest*

***The Corporation lost opportunity of earning an extra interest of ₹1.14 crore due to imprudent management of its fund.***

As per UP Forest Corporation Act, 1974 adopted (01 April 2001) by Uttarakhand Forest Development Corporation (Corporation), the Corporation shall have its own fund which shall be a local fund and to which shall be credited all monies received by or on behalf of the Corporation. The money of the fund shall be kept in the State Bank of India or in a co-operative bank or in any scheduled bank.

The Corporation invited (30 January 2017) various public sector banks to offer their best rates for investment of fund money in fixed deposit of one year duration. In response, eight banks<sup>14</sup> quoted (30 January to 02 February 2017) their interest rates in three slabs i) investment of upto ₹ one crore<sup>15</sup>, ii) investment between ₹ one and five/ten<sup>16</sup> crore<sup>17</sup> and iii) investment above ₹ 5/10 crore<sup>18</sup>. The highest rate (6.5 *per cent* per annum) in the slab of ₹ one to five crore was offered by Syndicate Bank. During January-February 2017, the Corporation invested ₹ 104.05 crore in six short term fixed deposits each valuing more than ₹ five crore in two scheduled

<sup>13</sup> ₹ 18.27 crore (principal) + ₹ 2.71 crore (interest).

<sup>14</sup> Punjab National Bank, Syndicate Bank, Bank of Baroda, Allahabad Bank, Oriental Bank of Commerce, Central Bank, Indian Overseas Bank and UCO Bank.

<sup>15</sup> 6.75 *per cent* to seven *per cent* per annum.

<sup>16</sup> ₹ one to five crore (Syndicate Bank, Central Bank of India and Allahabad Bank) & ₹ one to ten crore (UCO Bank, Oriental Bank of Commerce, Indian Overseas Bank, Bank of Baroda and Punjab National Bank).

<sup>17</sup> 4.00 *per cent* to 6.50 *per cent* per annum.

<sup>18</sup> 4.50 *per cent* to 5.51 *per cent* per annum

banks<sup>19</sup> for one year at interest rates ranging from five *per cent* to 5.51 *per cent* against which it earned an interest of ₹ 5.61 crore. The Corporation had the option of earning an interest of ₹ 6.93 crore by investing the fund in slabs of ₹ one crore to ₹ five crore in Syndicate Bank offering higher interest rate of 6.50 *per cent* by splitting the amount into fixed deposits of smaller values of ₹ one crore to ₹ five crore as was done in February 2017 wherein ₹ 10.68 crore was split into three fixed deposits of less than ₹ five crore. Had the Corporation invested its funds in slabs carrying higher interest rate of 6.50 *per cent*, it could have earned an additional interest income of ₹ 1.32 crore (as detailed in *Appendix-3.6.1*).

The Government stated (June 2018) that the amount was invested in fixed deposit on the offer of Syndicate Bank which had offered highest rate in the slab above five crore and added that investment in more than one fixed deposit on the same date cannot be made through a single ID. It also stated that the Punjab National Bank (PNB) had offered a better rate (5.5 *per cent*) on the loan<sup>20</sup> given by them to the Corporation as compared to other banks.

The reply is not acceptable as the Corporation should have invested its funds in the slab of ₹ one to five crore to avail higher rate of interest (6.50 *per cent*) offered by Syndicate Bank. As regards inability to make investment in more than one fixed deposit on the same date, it was found that the Corporation had invested its fund in PNB by making four fixed deposits (₹ nine crore each) on the same date (01 February 2017). Also, the statement of the Corporation was not justified as it had split ₹ 10.68 crore for making three fixed deposits<sup>21</sup> in February 2017 in the slab of ₹ one to five crore to earn higher interest (@ 6.50 *per cent*) offered by Syndicate Bank. Further, even after considering the higher rate of interest charged by Syndicate Bank on the loan taken by the Corporation, the loss to the Corporation worked out to ₹ 1.14 crore<sup>22</sup> (*Appendix-3.6.1*).

The Corporation, thus, lost opportunity of earning an extra interest of ₹ 1.14 crore due to imprudent management of funds.

### **UTTARAKHAND POWER CORPORATION LIMITED**

#### ***Undue favour to consumer***

***Uttarakhand Power Corporation Limited (UPCL) gave undue favour to consumer by rescheduling the instalments repeatedly despite regular default in payments resulting in accumulation of arrears and non-realisation of revenue amounting to ₹ 3.34 crore.***

Clause 4.1 of the Uttarakhand Electricity Regulatory Commission (UERC) (the electricity supply code) Regulations, 2007 provides that the UPCL may issue a disconnection notice in writing, as

<sup>19</sup> Punjab National Bank and Syndicate Bank.

<sup>20</sup> To meet out its requirements as and when required, corporation takes loans against its FDRs.

<sup>21</sup> ₹ 4.999 crore (03.02.2017), ₹ 4.999 crore (04.02.2017), ₹ 0.68 crore (05.02.2017).

<sup>22</sup> [Difference of Interest that would have been earned on ₹ 104.05 crore @ 6.50 *per cent* (₹ 6.93 crore) and Interest earned @ five to 5.5 *per cent* (₹ 5.61 crore) = ₹ 1.32 crore] - [Difference of Interest that would have been paid on loan @ 8.5 *per cent* (₹ 0.52 crore) and interest paid on loan @ five to 5.5 *per cent* (₹ 0.34 crore) = ₹ 0.18 crore] = ₹ 1.14 crore (As detailed in the *Appendix 3.6.1*).

per Section 56 of the Electricity Act 2003, to the consumer who defaults on his payment of dues, giving him 15 clear days to pay the dues. It may disconnect the electricity supply of the consumer on expiry of the said notice period. If the consumer does not clear all the dues including arrears within six months of the date of disconnection, such connections shall be disconnected permanently. Further, only 12 installments for repayment of outstanding dues were permissible<sup>23</sup>.

Scrutiny of records (June 2017) and further information collected (January 2018) from the Executive Engineer, Electricity Distribution Division (EE, EDD), Kashipur revealed that electricity connection was released to a consumer<sup>24</sup> on 01.10.2013 with a sanctioned load of 3100 KW. The consumer continuously defaulted in making payments of electricity bills since the first bill (November 2013) to October 2017. The UPCL did not take appropriate action as per the UERC Regulations and it rescheduled the installment facility, which it had provided to the consumer for making payment of dues on ten occasions despite the consumer's continuous default in making payment of dues. The dues continued to mount from ₹ 44.91 lakh in April 2014 to ₹ 89.09 lakh in April 2015; ₹ 1.12 crore in April 2016 and ₹ 2.23 crore in April 2017. UPCL disconnected the electricity supply on 1.11.2017 and issued (November 2017) a demand notice of ₹ 2.65 crore to the consumer under Section-3 of the Recovery of Dues Act, 1948. Against it, the consumer appealed<sup>25</sup> to the High Court, Nainital for granting relief in the payment of electricity dues. The High Court ordered (December 2017) the consumer to pay the first installment (₹ 25 lakh) of the arrear on or before 27 December 2017 and further installments<sup>26</sup> on or before the 27th of the next succeeding month. Even after the order of the High Court, the consumer did not pay electricity dues and the division issued (January 2018) Recovery Certificate (under section 5 of the Recovery of Dues Act, 1948) of ₹ 2.33 crore<sup>27</sup> (till October 2017) to the District Magistrate (DM), Udham Singh Nagar for realisation of its dues after adjusting the security amount. The consumer again filed a petition (30.01.2018) in the High Court seeking time extension for payment of electricity dues. The High Court ordered (20.03.2018) the consumer to deposit ₹ 25 lakh by 21.03.2018; 50 *per cent* of the amount, representing the installments that had fallen due between 27.12.2017 and 27.03.2018 within 15 days; and the balance 50 *per cent* within one month. The consumer paid ₹ 25 lakh (₹ 10 lakh on 21.03.2018 and ₹ 15 lakh on 22.03.2018) and the connection was restored. However, the consumer did not deposit any amount thereafter and the electricity dues rose to ₹ 3.34 crore upto March 2018. UPCL disconnected the electricity supply of the consumer on 04.04.2018 and issued (21.06.2018) Recovery Certificate amounting to ₹ 3.34 crore to the DM concerned.

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<sup>23</sup> Vide Managing Director's order dated 27.06.2011 & 20.05.2017.

<sup>24</sup> Shrishti Steel Industry, Kashipur.

<sup>25</sup> Special appeal no. 1023 of 2017.

<sup>26</sup> The arrear amount was distributed in 18 equal installments.

<sup>27</sup> Total arrear: ₹ 2.65 crore – Security amount: ₹ 0.32 crore = ₹ 2.33 crore.

UPCL provided (03.10.2017 and 07.11.2017) the facility of 29 and 18 installments for payment of electricity dues to the consumer instead of 12 installments which was also in violation of its own order and thereby extended undue benefit to the consumer.

On this being pointed out, the Government stated (May 2018) that with a view to maximising chances of recovery of arrears, installment facility was provided. However, the efforts of UPCL remained unsuccessful.

The non-initiation of timely action by UPCL against the consumer according to the clause 4.1 of UERC Regulations, 2007 and allowing the situation to persist led to accumulation of arrear of ₹ 3.34 crore. UPCL, in violation of its order (May 2017), enhanced the number of installments for payment of electricity dues over the prescribed limit which was an undue favour to the consumer.

Had UPCL followed the UERC Regulations, 2007, it could have avoided accumulation of electricity dues of ₹ 3.34 crore.