

## CHAPTER-III

### Performance reviews relating to Statutory corporations

#### 3.1 Construction and Allotment of Properties by Uttar Pradesh Avas Evam Vikas Parishad

##### Highlights

*The Government took 21 to 272 months in giving approval for six schemes due to non-submission of complete details with the proposals by the Parishad. As a result, the Parishad could not acquire 8,860.36 acres of land and the area remained undeveloped and unurbanized.*

**(Paragraph 3.1.9)**

*The Government's order rendered Section 28 of the Adhiniyam regarding acquisition of land by the Parishad ineffective and resulted in extending undue favour to a private builder by leaving 1,765 acre of land (already notified under Section 28 of the Adhiniyam) in his favour.*

**(Paragraph 3.1.10)**

*Development and betterment charges of Rs104.82 crore could not be realised due to encroachment on land.*

**(Paragraphs 3.1.13 and 3.1.17)**

*Funds of Rs.8.60 crore deposited by the Parishad with District Collectors remained idle for more than three years due to non-announcing of awards by the District Collectors for want of complete details.*

**(Paragraph 3.1.15)**

*The Parishad could not construct 40,482 properties as per the target assigned by the Government indicating failure of the Parishad to achieve the objective of the housing policy.*

**(Paragraph 3.1.24)**

*The land rate for first allotment in Hardoi Road Scheme, Lucknow fixed at Rs.2,355 per sqm was without the approval of the competent authority in violation of the costing guidelines and resulted in enhancement of cost of properties by Rs.8.32 crore.*

**(Paragraph 3.1.33)**

*Parishad suffered loss of Rs.2.52 crore on allotment of 602 properties due to fixation of lower land rate for 2004-05 in contravention of its policy.*

**(Paragraph 3.1.34)**

*In Vasundhara Scheme, non-consideration of higher rate obtained in earlier auction for fixing reserve price in subsequent auctions and incorrect fixation of reserve price of plots for commercial purposes resulted in non-realisation of Rs.13.44 crore.*

**(Paragraphs 3.1.36 and 3.1.37)**

*The Parishad did not evolve any system to adjust variation of final cost and the cost already charged from the allottees.*

**(Paragraph 3.1.38)**

*An undue benefit of Rs.4.12 crore was extended to a co-operative society by providing land at lower rates.*

**(Paragraph 3.1.39)**

*Claim of Rs.26.90 crore towards cost of land was not preferred with the State Government/State Urban Development Agency under the Valmiki Ambedkar Malin Basti Avs Yojna.*

**(Paragraph 3.1.46)**

### **Introduction**

**3.1.1** The Uttar Pradesh Avas Evam Vikas Parishad (*Parishad*) was established in April 1966 under the Uttar Pradesh Avas Evam Vikas Parishad Adhiniyam, 1965 (*Adhiniyam*) with the main objective of providing houses/plots at affordable prices in tune with the State and National Housing Policy towards solving the housing problems being faced by different sections of the society.

The *Parishad* undertakes the following stage-wise activities for construction and allotment of properties:

- Acquisition of land;
- Development of land;
- Construction of properties; and
- Allotment of properties.

The Management of the *Parishad* is vested in a Board of Directors comprising 14 members. The Board is headed by a Chairman. The Housing Commissioner is the Chief Executive of the *Parishad* and is also Member of the Board. The Housing Commissioner looks after the day-to-day affairs of the *Parishad* with the assistance of an Additional Housing Commissioner-cum-Secretary, two Joint/Deputy Housing Commissioners, a Finance Controller, a Chief Engineer, a Chief Architect and Planner and a Legal Advisor at the Headquarters.

A performance review on the working of the *Parishad* was included in the Report of the Comptroller and Auditor General of India (Commercial)-Government of Uttar Pradesh for the year 2000-01 which has been partially discussed by the Committee on Public Undertakings (August 2006).

### **Scope of audit**

**3.1.2** The present performance review conducted during October 2005 to May 2006 covers the performance of the *Parishad* regarding acquisition of land, development of land, construction and allotment of properties (houses and plots) during the five years from 1 April 2001 to 31 March 2006.

There were 142 schemes under implementation by 36 Construction Divisions (CDs), three Electrical Divisions (EDs) and 59 Estate Management Offices (EMOs) of the *Parishad* as on 31 March 2006. Audit examined the records at the Head Office, 14\* CDs and seven\*\* related EMOs in respect of 20 schemes. The sample selected in audit was based on turnover of the Construction Divisions and their concerned EMOs. The turnover of 14 CDs was Rs.398.36 crore which represented 66.65 per cent of the total turnover of Rs.597.67 crore.

### **Audit objectives**

**3.1.3** The audit objectives were to ascertain whether:

- the process of acquisition of land was completed in time after assessing the suitability of land and taking adequate measures to safeguard the interests of the *Parishad* from encroachments;
- adequate planning for development of land was made and pollution control measures were adopted effectively;

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\* CDs-2, 3, 12, 13, 19 and 21 of Lucknow, CDs-10, 16, 27 and 32 of Ghaziabad, CD-17 and 18 of Kanpur, CD-35 of Allahabad, CD-26, Moradabad.

\*\* EMOs of Allahabad, Vrindavan Lucknow, Hardoi Road Scheme Lucknow, Kanpur-Scheme No.1 and 3, Ghaziabad and Moradabad.

- construction was cost effective and qualitative;
- the process of allotment of developed plots (residential, commercial and institutional) and constructed houses was transparent so as to achieve the objective of providing plots/houses to the society at affordable price; and
- allotment of houses for weaker section of the society under the Government schemes was made strictly as per the terms and conditions of the schemes.

#### **Audit criteria**

**3.1.4** The audit criteria considered for assessing the achievement of audit objectives was to check the extent of adherence to:

- provisions of the Uttar Pradesh Avas Evam Vikas Parishad Adhiniyam, 1965, Land Acquisition Act, 1894 (LAA) and Uttar Pradesh Land Acquisition Karar Niyamawali, 1997 (LAKN);
- guidelines for implementation of the schemes of the State and Central Government for weaker sections of the society;
- costing guidelines of the *Parishad*;
- The Registration and Allotment Regulation, 1979; and
- Water (Prevention and Control of Pollution) Act, 1974.

#### **Audit methodology**

**3.1.5** The following mix of audit methodologies was adopted for achieving the audit objectives:

- Study of State Housing Policy, Board's agenda and minutes, administrative and annual reports, physical and financial progress reports of the *Parishad*;
- Scrutiny of land acquisition records, project layouts and estimates, tenders and contracts, procurement and consumption of building materials;
- Examination of costing of properties for determining the cost proposed to be recovered from the allottees;
- Examination of documents relating to allotment of properties; and
- Issue of audit enquiries and interaction with the Management.

#### **Audit findings**

**3.1.6** Audit findings, arising as a result of the performance review, were reported to the Management/Government in June 2006 and were discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 10 August 2006 which was attended by the Housing Commissioner and Finance Controller of the *Parishad*. The views expressed by the members in the meeting have been taken into consideration while finalising the review.

The audit findings are discussed in the succeeding paragraphs:

#### **Acquisition of land**

**3.1.7** The *Parishad* acquires land, from persons or classes owning land, under the provisions of the Uttar Pradesh Avas Evam Vikas Parishad Adhiniyam, 1965, Land Acquisition Act, 1894 and Uttar Pradesh Land Acquisition *Karar Niyamawali*, 1997.

The *Parishad*, in order to acquire the land, publishes notification under section 28 of the *Adhiniyam* specifying the boundaries of the housing scheme. Thereafter, notices are issued to land owners, their objections are heard and modifications in area of the proposed schemes are made under section 29, 30 and 31 and approval of the Government is obtained under Section 31 (2). Then, finally the scheme is notified under Section 32 in the Government's Gazette. Thereafter, proposal alongwith compensation rate settled with the landowners under LAKN is sent to the District Administration for acquisition of land in favour of the *Parishad* under LAA. Further, Section 35 of the *Adhiniyam* provides that where a notice has been published under Section 28 in respect of a housing scheme, the Housing Commissioner may restrain any person from erecting, re-erecting or altering any building or otherwise develop any land in the scheme except in accordance with the scheme.

**Targets and achievements**

**3.1.8** The targets and achievements of land acquisition during the five years up to 31 March 2006 are detailed below:

(Land in acres)

Sl. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Land available for development	4050.29	3494.86	3935.02	3273.26	3158.11
2.	Target fixed for acquisition	848.86	1117.36	1460.71	1900.77	864.85
3.	Land acquired	156.32	1145.41	98.52	359.38	573.25
4.	Total land available at year end	4206.61	4640.27	4033.54	3632.64	3731.36
5.	Land developed during the year	711.75	705.25	760.28	474.53	1062.13
6.	Total land available for development at the year end	3494.86	3935.02	3273.26	3158.11	2669.23
7.	Percentage of acquisition of land to target fixed	18.42	102.51	6.73	18.91	66.28

As would be seen from the above, the percentage of acquisition of land was very poor and ranged between 6.73 and 66.28 during the five years except in the year 2002-03.

During the performance review, cases of non-acquisition of land due to delay in notification under Section 32 from the date of notification under Section 28 and getting approval of the Government under Section 31 (2) of the *Adhiniyam*, submission of incorrect information and encroachment of notified land besides failure in realisation of betterment and development charges were noticed by Audit, as discussed in the succeeding paragraphs:

**Systemic deficiencies in acquisition of land**

**3.1.9** Systemic deficiencies noticed in respect of land acquisition are discussed below:

- The position of acquisition and development of land in respect of 14 schemes is given in **Annexure-16**. From the **Annexure**, it would be seen that delay (after allowing a reasonable period of 12 months\*) in acquiring land ranged between 10 and 86 months from the date of issue of notification under Section 28 of the *Adhiniyam* during the five years up to 31 March 2006. The main reason for delay is that there is the absence of a specific provision in the *Adhiniyam* regarding time frame for acquiring land under Section 32 from the date of notification issued by the *Parishad* under Section 28 of the *Adhiniyam*. Delay in acquisition of land resulted in encroachment of land in some cases as discussed in subsequent paragraphs.

\* Maximum time limit prescribed for process of acquisition of land in *Adhiniyam* from the date of issue of first notification under Section 28 was 6 weeks for Section 29, 60 days for Section 30, 6 months for Section 31 (1), no time limit prescribed for sanction by the Government under Section 31 (2) and after sanction of the Government notification is made for acquiring land under Section 32.

Despite lapse of 21 to 272 months from the date of issue of notification under Section 28 of *Adhiniyam*, *Parishad* could not acquire.

- The position of six\* schemes in which there was inordinate delay in acquisition of land and where no progress has been made after issue of notification under Section 28 of the *Adhiniyam* is detailed in **Annexure-17**. From the **Annexure**, it will be seen that the *Parishad* issued the first notification (under Section 28) for acquisition of 8,860.36 acre of land for six housing schemes during September 1983 to August 2004 but the notification under Section 32 of the *Adhiniyam* could not be issued even after the lapse of 21 to 272 months from the date of the notification under section 28 of the *Adhiniyam*, due to non-submission of complete information to the Government and delay in decision at the Government level under Section 31 (2) of the *Adhiniyam*. As a result of the delay in issue of notification under Section 32 of the *Adhiniyam*, the affected farmers (landowners) could neither undertake any construction activity nor could the area be urbanized as per the themes of the Housing Policy.

The Management stated (October 2006) that acquisition of land was done as per prescribed procedure and delay was inevitable in certain cases. The reply of the Management is not tenable as specific reasons for delay were not furnished to Audit.

- The *Parishad* deposits funds with District Collectors (DCs) as per their demand in respect of land notified under Section 32 of the *Adhiniyam* for the schemes sanctioned by the Board or the State Government, without fixation of compensation rate. The *Parishad* charges interest at the rate of 16 per cent on land acquisition cost deposited with DCs. The funds lying with DCs remain idle till the date of payment to landowners. The interest during idle period increases the land acquisition cost. The State Government, with a view to reduce the interest burden, issued an order (January 1993) according to which funds lying with DCs were to be invested in term deposits. Despite Government's order, Audit noticed that the funds were lying idle with DCs and in none of the cases these were invested in term deposits.
- The housing co-operative societies, which are adjacent to the *Parishad's* schemes, encroach the land of the *Parishad* for which notification under section 28 and 32 of the *Adhiniyam* had already been issued. The *Parishad*, however, failed to restrain the housing societies from encroaching the land of the *Parishad* as per the provisions of Section 35 of the *Adhiniyam*. This leads to delay in award of compensation with consequent delay in taking possession of land leading to higher compensation rates being demanded by landowners. This enhances the land acquisition cost. The *Parishad* could not produce any records to show the action taken against the housing societies who had encroached the land of the *Parishad*.

Some cases noticed by the Audit involving deficiencies in the process of acquisition of land are discussed below:

#### ***Sultanpur Road Scheme***

##### ***Undue favour to a private builder***

**3.1.10** The *Parishad* issued notification (August 2004) under Section 28 of the *Adhiniyam* for acquisition of 4,465.398 acre of land at Sultanpur Road Scheme in Lucknow district. During hearing of objections (November/December 2004), the *Parishad* noticed that Ansal Properties and Industrial

\* (1) Loharamau Road Scheme, Sultanpur (2) Delhi-Saharanpur Bye-pass Road, Ghaziabad (3) Atrauli Scheme, Agra (4) Jagriti Vihar Scheme No.-11, Meerut (5) Jaunpur-Allahabad Road Scheme, Jaunpur and (6) Sultanpur Road, Lucknow.

**Despite having sufficient funds and the resources, Parishad submitted a proposal to the Government to leave 1765 acre of notified land in favour of APIPL.**

Private Limited (APIPL) had unauthorisedly purchased 58 acre of land from the landowners in the area notified by the *Parishad* and had started construction and booking for houses and plots. The *Parishad* restrained APIPL from construction through the Court and demolished (January 2005) the unauthorised constructions. APIPL requested (February 2005) the *Parishad* to accept their scheme in 1765 acre of land notified by the *Parishad* which was rejected (February 2005) by the *Parishad*. The *Parishad* submitted (May 2005) a proposal for development of a colony on 4,085.423 acre of land for the approval of the Government which was returned (June/July 2005) by the Government with objections. Revised proposal submitted (December 2005) by the *Parishad* was again returned (April 2006) by the Government directing the *Parishad* to assess its capability for successful implementation of the scheme, despite the fact that the Government was fully aware that the *Parishad* had successfully developed colonies and had sufficient funds (Rs.469.23 to Rs.844.11 crore). The State Government amended (30 December 2005) the procedure for acquisition of land for residential schemes of Hi-Tech Township through private builders. According to the amendment, (a) the Board can leave land notified under Section 28 for Hi-Tech Township and (b) if a registered licensee has purchased at least 60 *per cent* of land notified under Section 28, the purchased land shall not be included under Section 32 of the *Adhinyam*. The *Parishad* decided (May 2006) to leave 1765 acre of land in favour of APIPL and submitted the proposal to the Government for approval. Thus, the amendment in the procedure of acquisition of land by the Government facilitated the *Parishad* to extend undue favour to APIPL by leaving the notified land in favour of APIPL.

The Management stated (October 2006) that acquisition of land for Sultanpur Road Scheme was delayed as amendment in the prescribed policy was under consideration of the Government. The reply of the Management is not tenable as no decision was taken by the Government to leave the land in favour of APIPL.

#### ***Vrindavan Scheme***

**3.1.11** The *Parishad* issued (September 1991) notification under Section 32 of the *Adhinyam* for acquisition of land for Vrindavan Scheme-1 and 2 of Lucknow. It, however, could not acquire the entire land proposed to be acquired as discussed below:

- Under Scheme-1, the *Parishad* deposited Rs.14 crore with the DC for award of 344.386 acre of land. The DC, however, did not declare award for 22 acre of land. Despite the lapse of two years *Parishad* did not make efforts either to get the award of the land or get the refund of the amount deposited for 22 acre of land.
- Under Scheme-2, the *Parishad* proposed to DC for acquisition of 843.09 acre of land out of which DC declared 44 awards for 768.38 acre of land till 31 March 2006 and possession of land was given to the *Parishad*. The remaining 65.71 acre of land could not be awarded to the *Parishad* as it did not deposit (February 2006) compensation amounting to Rs.1.06 crore as demanded by the DC due to reasons not available on records.

The Management stated (October 2006) that efforts are being made to deposit the amount of compensation with DC.

**3.1.12** The *Parishad* issued (December 1999) notification under section 28 of the *Adhinyam* for acquisition of land for Vrindavan Scheme-3 and 4. The DC took more than four years in issuing notices to landowners, hearing them and deciding the clear area to be acquired and getting approval of the Government

for change in land use from agriculture to residential. Notification under section 32 of the *Adhiniyam* could only be issued in April 2004 to acquire 376.141 acre for Scheme -3 and 654.340 acre for Scheme -4.

Even after fixation of compensation rate, the *Parishad* did not make adequate efforts to enter into agreements with landowners to acquire 834.491 acre of land.

Section 2 of the LAKN provides that adequate efforts should be made for negotiation of the compensation rates of land with the landowners. It was observed (May 2006) during audit that the *Parishad*, after issuing notification under section 32 of the *Adhiniyam*, did not make any efforts for negotiation of compensation rates with landowners under Section 2 of LAKN and deposited Rs.50.18 crore with the DC (Scheme-3: Rs.18.34 crore and Scheme-4: Rs.31.84 crore) belatedly in March 2005. The compensation rates were decided by the Commissioner in July 2005. The *Parishad* also did not make adequate efforts for making agreements with landowners so that the proposal could be sent to DC for award of land acquired. As a result, the *Parishad*, could take possession of only 195.99 acre of land (116.59 acre of land in Scheme-3 and 79.40 acre in Scheme-4) so far against the acquired land of 1,030.481 acre (August 2006).

#### ***Non-realisation of development charges***

*Parishad* could not realise development charges of Rs.36.71 crore from the landowners due to sending demand notices to original landowners not the existing landowners.

**3.1.13** The *Adhiniyam* did not provide for realisation of development charges. The decision, however, for exemption of acquired land/allotment of notified land had been taken by the *Parishad*/Government after realising development charges. In this connection, the *Parishad* should have conducted survey and issued legal notices to the existing landowners for development charges. In the case of Vrindavan Scheme-1, Lucknow, notification under Section 32 of the *Adhiniyam* was issued in September 1991 for acquisition of 386.96 acre of land. Out of this land, unauthorised construction was done on 89.664 acre of land after the issue of notice in September 1991. The Board in September 2001 decided to allot the land in favour of the occupants by realising development charges. It was noticed in audit that CD-12 did not carry out survey to identify the actual owners of land to whom demand notices were to be issued and from whom development charges were to be realised. Further, it belatedly prepared computation sheets for 133 landowners and sent (May 2003 to February 2006) to EMO for realising development charges of Rs.36.71 crore from them. All demand notices were received back undelivered due to the fact that original landowners had already sold their land to others in the notified area. Thus, due to issue of notices to wrong persons, development charges of Rs.36.71 crore remained unrealised.

The Management stated (October 2006) that action is being taken to remove the encroachment of land. The reply of the Management is contrary to the statement furnished in ARCPSE meeting to carry out fresh survey to find out actual occupants and recover the development charges by issuing Recovery Certificates.

#### ***Loni Road and Delhi Bulandsahar By-Pass Scheme***

Land measuring 95.341 acre of land were purchased by 39 housing societies out of the *Parishad's* notified land due to inordinate delay in acquisition process.

**3.1.14** The *Parishad* issued (August 1997) notification under section 28 of the *Adhiniyam* to acquire land for Loni Road Scheme, Ghaziabad. The notification under Section 32 of the *Adhiniyam* for acquisition of 335.024 acre was, however, issued after a period of seven years in February 2005. Similarly, in the case of Delhi-Bulandsahar Bypass Scheme, the *Parishad* issued notification under Section 28 of the *Adhiniyam* in November 1998 and it took four years in issuing notification for acquiring 703.720 acre of land. In the intervening period, 12 housing societies had purchased 41.760 acre of land in Loni Road Scheme and 27 societies had purchased 53.581 acre of land directly from the landowners in Delhi-Bulandsahar By-pass Scheme. The *Parishad*

under Section 35 of the *Adhiniyam* could have restrained the housing societies from encroaching the land of the *Parishad*.

Thus, as a result of in-action of the *Parishad* to restrain the activities of the societies, delay in acquisition process and inadequate efforts for rate settlement with landowners, awards for possession of land could not be declared by the DC so far (August 2006) under the Loni Road Scheme. Under the Delhi-Bulandsahar Bye-pass Scheme, however, possession of only 64.99 acre of land could be taken (March 2006).

The Management stated (October 2006) that the cases of unauthorised purchase of land by the societies who approached the DC for deciding the amount of compensation to be paid by them would be decided by the *Parishad* on merits of each case after taking possession of the land.

#### ***Indira Nagar Extension-2 Scheme, Lucknow***

**3.1.15** The *Parishad* deposited (February/April 2003) Rs.8.60 crore towards compensation for acquisition of 172.93 acre of land in the first phase for Indira Nagar Extension-II Scheme, Lucknow. It was noticed (May 2006) in audit that the DC, with a view to finalise the compensation rate of land and to avoid further delay in declaration of awards thereagainst, intimated (May 2003) total amount of compensation of Rs.19.68 crore and requested the *Parishad* to pay the balance amount of Rs.11.08 crore, but this was not deposited by the *Parishad*.

**Incorrect submission of survey reports to DC caused delay in acquiring land.**

It was further noticed that the *Parishad* had furnished incorrect information about the land (*Khasara* numbers) to be acquired and that the area of unauthorised constructions was much more than that intimated to the DC. The Management had not furnished the correct survey report so far (August 2006). As a result, award for the land could not be declared and the *Parishad's* funds of Rs.8.60 crore remained idle with the DC (August 2006). These funds were not invested in term deposits inspite of the instructions of the State Government of January 1993.

The Management stated (October 2006) that due to no fixed time schedule for completion of formalities for acquisition of land at various levels *Parishad* did not have its ownership and prevention from encroachment of land could not be done effectively. As a result, with the time gap, boundaries of the land were defined repeatedly which should not be taken as incorrect information. The reply of the Management is contrary to the statement made in the ARCPSE meeting in which it was admitted that survey report was incorrect and fresh survey was being carried out.

#### ***Dev Prayagam Scheme***

**3.1.16** The *Parishad* commenced Dev Prayagam scheme for which it purchased (May 2003) 19.82 acre of land for Rs.3.50 crore from Allahabad Development Authority including 5.82 acre encroached land valuing Rs.1.03 crore, which could not be retrieved so far. It was noticed during audit that the *Parishad* had not verified the status of land at the time of taking over possession of the land and, though three years had elapsed, no further progress had been made.

The Management stated (October 2006) that Allahabad Development Authority has been requested either to refund the amount or to give possession of land to the *Parishad*.

**Kanpur Schemes**

**Indecision for levy of betterment charges**

**Parishad's failure in taking decision to leave the occupied land resulted in non-realisation of betterment charges aggregating Rs.68.11 crore.**

**3.1.17** Notifications under Section 28 of the *Adhiniyam* for acquisition of land for Scheme No. 1 and 2 of Kanpur were issued in July 1972 and for Scheme No. 3 of Kanpur in December 1979. Commencement of these schemes was notified under Section 32 of the *Adhiniyam* in September 1980 for Scheme No. 1 and 2 and in August 1982 for Scheme No. 3. In the meantime, encroachments took place on 287.25 acre of land in Scheme No. 2 (Hanspuram) and on 37.80 acre of land of Scheme No. 1 and 3 (Kesawpuram). The District Administration expressed (June 1986) the view that removal of encroachment from Scheme No. 1, 2 and 3 was not possible due to dense unauthorised constructions. In such circumstances, the *Parishad* had an option under the provision of Section 50 of the *Adhiniyam* to exempt the land and realise betterment charges. It was noticed (May 2006) in audit that the *Parishad*, even after lapse of 20 years, did not take decision to leave the land in favour of the occupants after realising the betterment charges amounting to Rs.68.11 crore (computed at the rate of 20 per cent on the value of land: Rs.340.53 crore) from the landowners in case of 325.05 acres of land in the said schemes (Hanspuram Scheme No. 2: 287.25 acre of land valued at Rs.310.31 crore and Keshwapuram, Scheme No. 1 and 3: 37.80 acre of land valued at Rs.30.22 crore).

The Management stated (October 2006) that the efforts are being made to resolve the issue.

**Development of land**

**3.1.18** The *Parishad*, after taking possession of acquired land starts development which includes preparation of layout plan, external development and internal development. External development includes construction of main and outer roads, water and sewerage system, electric supply system in the scheme. Internal development viz. construction of internal and service roads, water and sewerage system, parks and other public utilities is done in the pockets for allotment of plots and houses so as to populate the area.

**Targets and achievement**

**3.1.19** The table below indicates the position of land development during the five years up to 31 March 2006:

(Land in acres)

Sl. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Land available for development in the beginning	4050.29	3494.86	3935.02	3273.26	3158.11
2.	Target for development	300.13	350.14	688.32	740.31	898.11
3.	Land developed	711.75	705.25	760.28	474.53	1062.13
4	Percentage of achievement to total land available for development	17.57	20.18	19.32	14.50	33.63

It would be seen from the above that:

- the targets were achieved in all the five years except in the year 2004-05. The poor performance in 2004-05 was a result of nil development against the target of 78.78 acre in 16 schemes,
- the percentage of land developed to total land available for development ranged between 14.50 and 33.63 per cent during the five years from 2001-02 to 2005-06. The low utilisation of available land indicated poor planning on the part of *Parishad*, and
- lack of rigorous efforts for removal of 2087.01 acre disputed/encroached land under various schemes also posed bottlenecks in development of land.

It was noticed in audit that the *Parishad* in several schemes failed to observe the time schedule fixed for development and also failed to adhere to pollution control measures *etc.* as discussed below:

***Kanpur Scheme No. 2***

933 houses constructed at a cost of Rs.25.09 crore remained unallotted due to non-development of infrastructure facilities.

**3.1.20** The land earmarked for development of infrastructure facilities *viz.* roads, water supply and drainage system in Kanpur Scheme No. 2 was under dispute due to which development works could not be started. Construction of houses was started without completion of development work and 933 houses at a cost of Rs.25.09 crore were completed during 1987 to 1992 on undeveloped land, but could not be allotted to the public so far (August 2006) due to non-development of infrastructure facilities. Thus, expenditure of Rs.25.09 crore incurred by the *Parishad* had been unfruitful so far.

The Management stated (October 2006) that normally after completion of Main Trunk Line, construction of houses and sectoral developmental work is executed simultaneously. In case of non-settlement of dispute in time non-availability of land goes beyond the control of the Management. The reply of the Management is not tenable as the houses were constructed without taking physical possession of the land on which the approach road was to be constructed.

***Pollution control measures***

Pollution control measures were not implemented in any of the residential colony developed by the *Parishad*.

**3.1.21** As per the State Housing Policy, the *Parishad* has to ensure a pollution free environment. The *Parishad* has to ensure that sewage of the colonies is not discharged in open spaces/*nullas*/rivers without treatment. It was observed in audit that the *Parishad* had not made any arrangement for treatment of sewage in any of its developed/developing residential colonies so far (August 2006). In most of the colonies, the sewage was being drained out in open places and *nullas* finally turning into rivers resulting in health hazards.

The Management stated (October 2006) that provisions for construction of Sewerage Treatment Plant (STP) were being included in various schemes of the *Parishad*.

Land measuring 12.047 acre of land transferred to Mohan Meakins for construction of water treatment plant was unauthorisldly sold to a builder for commercial use.

**3.1.22** In Vasundhara scheme, Mohan Meakin Limited and National Cereal Products Limited, Ghaziabad were unauthorisldly discharging polluted water in the drainage system of the *Parishad* which turns into the Hindon canal and finally into the Yamuna river and pollutes its water. Despite complaints of the Irrigation Department (September 2005 and March 2006), the Management of the *Parishad* did not restrain Mohan Meakin and National Cereal Products Limited, Ghaziabad from discharging the polluted water.

It was noticed in audit that 12.047 acre of land was transferred (June 2004) to Mohan Meakins with the condition that the land be used for construction of a water treatment plant. Mohan Meakins, instead of using the land for this purpose, sold (August 2005) the land to a builder and continued to discharge the polluted water through the drainage system of the scheme. The *Parishad* has not reported the matter to the Pollution Control Board for taking necessary action.

The Management stated (October 2006) that in the instant case the plea of the builder (for construction) had been rejected by the High Court in June 2006. The reply of the Management is not tenable as the *Parishad* did not take any action for taking back the land after the Court's decision.

**3.1.23** The Management did not develop any infrastructure for disposal of garbage of the residential colonies developed by it. As a result, the garbage

was being dumped on road sides by the residents of the colonies and had been affecting the quality of environment and is a health hazard.

The Management stated (October 2006) that the *Parishad* had provided RCC dustbins in the schemes for disposal of garbage. It was further stated that out of 164 schemes executed, 147 schemes had been handed over to the local bodies with sufficient funds for maintenance. The reply of the Management is not tenable as provision of RCC dustbins is not sufficient and the Management should have constructed permanent garbage houses.

**Construction of properties**

**3.1.24** The State Government assigns targets for construction and allotment of properties every year under the Housing Policy and based on this the *Parishad* is required to prepare its construction plan to achieve the assigned targets. The table below gives the details of targets *vis-a-vis* achievement of construction of properties:

<b>(Properties in number)</b>							
Sl No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	Total
	<b>Targets</b>						
1.	Government targets	N.A.	N.A.	25000	33000	24000	82000*
2.	<i>Parishad</i> 's construction plan	6064	7705	10379	8908	7620	
3.	Availability of funds (Rs. in crore)	469.23	581.30	467.61	739.35	844.11	
	<b>Achievement</b>						
	<b>Physical</b>						
4.	Undertaken for construction	6647	9227	13545	17273	10700	41518*
5.	Completed properties	3819	5220	9151	9692	7546	26389*
6.	Work-in- progress	2828	4007	4394	7581	3154	15129*
7.	Offered to EMO for allotment	5518	4910	8450	6875	8414	
	<b>Shortfalls</b>						
8.	In planning (1-2)	NA	NA	14621	24092	16380	
9.	In actual construction (1-4)	NA	NA	11455	15727	13300	
10.	In completion (2-5)	4245	2485	1228	(-) 784	74	
11.	In offering to EMO (1-7)	NA	NA	16550	26125	15586	

Audit scrutiny revealed that the *Parishad* had not evolved a system of ascertaining the demand of properties to prepare a construction plan and the targets accordingly. Further, reasons for shortfall in achievement of targets and constraints had neither been discussed at any stage nor apprised to the Board.

It would also be seen from the table that:

- the Management had not drawn up its construction programmes in accordance with the Government's target, despite availability of huge funds ranging between Rs.467.61 crore and Rs.844.11 crore during the five years ending 31 March 2006.
- The *Parishad* did not achieve targets of construction of 82,000 properties assigned by the Government during the period from 2003-04 to 2005-06. The *Parishad* undertook construction of 41,518 properties (including work-in-progress) in these three years. For the years 2001-03, the *Parishad* did not provide the Government targets to Audit. Thus, the *Parishad* failed to fulfill the objectives of the Housing Policy as it could not construct 40,482 properties.

**Cost effectiveness**

**3.1.25** The main objective of the *Parishad* is to construct houses/plots and provide them at affordable prices to different sections of the society. In order to meet its stated objective the *Parishad* should evolve a system of cost control. It was, however, observed by Audit that the *Parishad* has not evolved any system to control the cost of construction as discussed in succeeding paragraphs:

\* These figures are for 2003-04 to 2005-06.

### ***Uneconomical purchase***

**3.1.26** Steel and cement were issued by the *Parishad* to contractors at firm rates as per terms and conditions of the contract bonds. The actual purchase rates were, however, higher than the rates given in contract bonds. The difference of the rates were charged in costing of properties. The higher purchase rates of cement and steel were attributed to purchases made in piece meal in local markets. The benefit of bulk buying direct from manufacturers through rate contracts was not obtained so as to have stable rates.

***Parishad could not evolve system to get benefit of bulk purchase of cement and steel.***

Comparison of the purchase rates of cement and steel among the six CDs of Lucknow and Kanpur districts within one circle and inter circle comparisons revealed difference in rates during the same period and also where the suppliers were the same. This indicated that the purchase system was deficient in as much as rate contracts were not centrally entered into to have uniform rates for a long period. This resulted in enhancing the cost of the properties constructed to the extent of Rs.22.21 lakh during the five years up to 2005-06 as detailed in **Annexure-18**.

The Management stated (October 2006) that steel and cement were being purchased through competitive tenders and against the requirement of three months only. The reply of the Management is not tenable as procurement of steel and cement should have been made on Rate Contract basis for each district.

### ***Non-adjustment of cost of empty cement bags and scrap steel***

**3.1.27** The *Parishad* issues cement and steel to the contractors for use in the construction work. The cost of these material is recovered from the contractors. The *Parishad*, however, receives back empty cement bags from the contractors, sells it and treats it as its own income. The scrap steel is, however, not being received back from the contractors. It was noticed in audit that value of empty cement bags and scrap steel is not being deducted from the cost of work. The value of these items in respect of 12 CDs amounted to Rs.21.08 lakh as shown in **Annexure-19**.

The Management stated (October 2006) that the empty cement bags and steel scrap recovered from the contractors was disposed off and credit was given to the stores account. The reply of the Management is not tenable as the value of empty cement bags and steel scraps was not recovered from the contractors.

### ***Non-recovery of royalty***

**3.1.28** The *Parishad* is required to obtain *Ravannas*\* in Form-MM 11 from the suppliers/contractors in support of payment of royalty for the various building materials. If Form-MM 11 is not submitted by the contractor, royalty should be deducted from the bills of the contractor.

It was noticed in audit that CDs 10,16, 27 and 32 of Ghaziabad were deducting royalty at the lower rate from the bills of the contractors and in the case of CDs 17 and 18 of Kanpur, 21 of Lucknow and 26 of Moradabad, neither were contractors/suppliers submitting Form-MM 11 nor were the Divisions deducting royalty. For the period 2004-05 and 2005-06, an amount of Rs.39.80 lakh of royalty remained unrecovered from the contractors.

The Management stated (October 2006) that the concerned officers have been instructed to deduct the royalty as per rules.

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\* Ravannas is called Challan in Form MM-11.

### **Quality control system**

**3.1.29** The *Parishad* has obtained (July 2003) ISO 9001:2000 Accreditation Certificate from Asia Pacific, BVQI\* India for its qualitative management system and transparency. It is further developing its working capabilities according to the goal set for quality under the ISO arrangements.

During audit the following system deficiencies were noticed with regard to quality assurance:

#### **Deficiency in documentation of use of materials of specified standard**

**3.1.30** Building materials (bricks, stone grits, stone ballast, brick ballast *etc.*) purchased by the CDs/supplied by the contractors are tested in laboratories of the Divisions. Test results showing status of their quality is reported in Form-*Kha*. In case the materials are not of specified standards, remarks are given in Form- '*Kha*' that materials require grading with stipulation, *inter alia*, to furnish compliance within seven days.

Scrutiny of Form-'*Kha*' of five CDs\*\* revealed that in samples tested during 2003-04 to 2004-05, grading of under/oversize materials was required in 3.23 to 100 *per cent* of test reports (**Annexure-20**). There was nothing on record to establish that materials were tested in laboratories after grading. As such, in the absence of documentation of testing after grading, reliability of the use of building materials of the specified standard could not be vouchsafed in audit.

The Management stated (October 2006) that to ensure the quality of material procedures were prescribed in the Quality Control Manual and sampling and testing of the material was being done accordingly. The reply of the Management is not tenable as no documentation in this regard was available.

#### **Use of undersize bricks**

Undersize bricks were being used by the contractors in construction of houses.

**3.1.31** Test check of records of CDs - 10, 16, 27 and 32 of Ghaziabad revealed that these CDs allowed the contractors to use undersize bricks. As compared to the specification of M-150 bricks average length of one brick was short by 0.81 cm. The contractors, therefore, required 5,02,970 extra bricks (**Annexure-21**) to complete the work for which (due to increase in number of joints) consumption of mortar (cement and sand) increased proportionately. Since, consumption of cement issued by these CDs was as per standard norms (for use of M-150 bricks) in all cases, the contractors could have used sand (being managed by contractors) in excess of the norms. This affected the quality of the houses.

The Management stated (October 2006) that the consumption of material was taken as per the norms of Uttar Pradesh Public Works Department and two *per cent* variation was also permissible in the prescribed norms. Therefore use of local bricks did not affect quality. The reply of the Management is not tenable as use of undersize bricks increased the number of joints which required additional consumption of jointing material.

#### **Allotment of properties**

**3.1.32** CDs offer the completed properties to EMOs to allot/sell them according to the rules prescribed by the *Parishad*. It was noticed in audit that out of 55,790 properties (houses and plots) offered by CDs to EMOs up to

\* British Varitas Quality International.

\*\* CD-21, Lucknow, CDs-10,16,27 and 32 of Ghaziabad.

March 2006 under 14 schemes (**Annexure-16**), 51,731 properties were allotted and 4,059 properties were lying unsold as of 31 March 2006.

The *Parishad* is to follow the costing guidelines for arriving at the cost of developed land and constructed houses. The deficiencies noticed in adhering to the guidelines by the *Parishad* are discussed below:

#### ***Hardoi Road Scheme***

**Allotment rate of developed land were fixed in violation of costing guidelines and without approval of the competent authority.**

**3.1.33** Para 5.3 of the costing guidelines provides that, to derive the sale rate of land in any scheme, 12 *per cent* supervision charges and 2 *per cent* maintenance charges are to be loaded on the expenditure incurred on acquisition and development of land. The total acquisition and development cost so arrived at is divided by the total saleable area to arrive at the acquisition/development rate. To this, eight *per cent* other centages\* are added to arrive at the rate of developed land. The rate so arrived at requires approval of the competent authority of the *Parishad*.

It was noticed in audit that the *Parishad* purchased (December 2003) land measuring 219 acre from Lucknow Development Authority (LDA) at a cost of Rs.12.31 crore for development of Hardoi Road Scheme. The rate for the first allotment in the scheme was fixed at Rs.2,355 per sqm without the approval of the competent authority. The land rate for the scheme as worked out by Audit in accordance with provisions of para 5.3 of the guidelines comes to Rs.1,900 per sqm. The fixation of land rate by the *Parishad* in violation of the costing guidelines resulted in enhancement of cost of the properties by Rs.8.32 crore.

The Management stated (October 2006) that in respect of fixation of rates of land, action would be taken after verification of records.

#### ***Vasundhara Scheme***

**Fixation of lower land rates resulted in loss of Rs.2.52 crore.**

**3.1.34** According to para 5.3.6 of the costing guidelines, decision for annual increase in land rate is to be taken by the Housing Commissioner on joint recommendations of the Superintending Engineer and the Joint Housing Commissioner. If pace of disposal of properties is slow in any scheme, the power to freeze the land rate rests with the Housing Commissioner. In accordance with the above provision, the *Parishad* increases the land rate every year at the rate of 16 *per cent* over the previous year land rate for all housing schemes. It was observed in audit that, in contravention of its policy, the *Parishad* increased the land rate for the year 2004-05 for Vasundhara housing scheme at 8 *per cent* only without assigning any reason therefor, though the scheme was located in a fast moving area and the land rates had already been enhanced at the rate of 16 *per cent* per annum up to 2003-04 for the above scheme. This resulted in loss of Rs.2.52 crore approximately (calculated at the differential rate of Rs.500 per sqm) on allotment of 602 properties (50,480 sqm) (excluding auction) during 2004-05.

The Management stated (October 2006) that the rate was fixed in view of market rates of the scheme and salability. The reply of the Management is not tenable in view of the provisions of the costing guidelines of the *Parishad*.

#### ***Auction of plots***

**3.1.35** Para 16.1 of the costing guidelines provides that while fixing the reserve price of the land which is to be sold for commercial purposes, the price

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\* Eight *per cent* other centages includes three *per cent* collection charges, two *per cent* *Parishad* assets and three *per cent* for unforeseen expenditure.

obtained in the auction of nearby plots is to be kept in view. The land rate is to be fixed at double the rate of the prevalent land rate of the residential plots where auction of properties in nearby plots had not taken place. Audit scrutiny revealed that the *Parishad* violated its own costing guidelines in fixation of reserve price for allotment of commercial plots as discussed below:

**Commercial plots**

**3.1.36** In Vasundhara scheme, Ghaziabad, commercial plot no. 11/com-A (1,036 sqm) was sold at the rate of Rs.27,000 per sqm in auction (November 2004). The *Parishad*, however, while fixing (December 2004) the reserve price of plots (plot No. 14/com-2 and 11/com-1B) measuring 6,859 sqm and 414.40 sqm did not consider the price of Rs.27,000 per sqm obtained in November 2004. The *Parishad*, in violation of the provisions of the costing guidelines, fixed the reserve price at Rs.18,145 per sqm and Rs.15,120 per sqm respectively resulting in properties being sold at Rs.18,200 per sqm and Rs.21,000 per sqm at rates much lower than the price of Rs.27,000 per sqm obtained in the auction made just one month before in the same area. This, at the minimum, resulted in lower realisation of Rs.6.28 crore.

The Management stated (October 2006) that reserve price was fixed at double the residential rates. The reply of the Management is not tenable as the rate was not fixed as per the provisions of the costing guidelines of the *Parishad*.

**Residential group housing plots**

**3.1.37** The prevalent land rates in even sector and odd sector in Vasundhara scheme, Ghaziabad were Rs.8,100 per sqm and Rs.6,750 per sqm respectively.

It was noticed in audit that the *Parishad* sold group housing residential plots through auction in July and August 2004 to builders. As no auction had taken place for the residential group housing plots in the nearby areas, the land rates should have been fixed at double the rates of the prevalent rates, in terms of Para 16.1 of the costing guidelines, but this was not done. This resulted in lower realisation of Rs.7.16 crore as worked out below:

Sl. No.	Particulars	Residential plots	
		Even sector 6 GH-04	Odd sector 5 GH-08
1.	Date of auction	5.7.2004	18.8.2004
2.	Area of plot (sqm)	8146.17	3225.35
3.	Normal Land rate as per policy of the <i>Parishad</i>	8100	6750
4.	Reserve price to be twice at normal rate	16200	13500
5.	Reserve price fixed for auction	8100	7560
6.	Actual bid price at which plots sold	8125	11710
7.	Difference between double the reserve price and actual bid	8075	1790
8.	<b>Amount of loss (Rs. in crore)</b>	<b>6.58</b>	<b>0.58</b>

The Management stated (October 2006) that incase of group housing scheme sale rate of land is fixed at par with the rates of residential land. The reply of the Management is not tenable as the plots were sold to builders for commercial use. Therefore reserve price should have been fixed as applicable for commercial plots.

**Non-adjustment of cost recovered from allottees**

**3.1.38** In accordance with the costing guidelines, costing is to be done by the CDs after incurring 50 per cent actual expenditure on the projects till the date of completion and anticipated expenditure for completion of the project. It was noticed in audit that, in Vasundhara Scheme, Ghazaibad, the actual construction expenditure on completion of 17 projects was less than the cost

Non-consideration of earlier auction price in fixation of reserve price for subsequent auction resulted in short realisation of Rs.6.28 crore.

Incorrect fixation of reserve price for sale of group housing residential plots resulted in lower realisation of Rs.7.16 crore.

realised from allottees by Rs.1.30 crore. But the *Parishad* did not evolve any system to adjust such variation in cost already charged from the allottees (**Annexure-22**).

The Management stated (October 2006) that the costing of the house is done as per the costing guidelines after completion of 75 *per cent* construction and provision for 25 *per cent* expenditure was made. There is no provision for revision of cost subsequently unless the construction cost is exceeded. The reply of the Management is not tenable as it is against the objective of the *Parishad* to provide houses at affordable prices and adequate planning and study is necessary before fixing of the costs to be collected from the allottees.

**Undue favour to a housing society**

**3.1.39** The allotment rules of the *Parishad* provide that land could be allotted to registered societies only if each member of the society is registered with the *Parishad*. In this regard a list of the registered members was required to be furnished by the societies.

It was noticed in audit that the *Parishad* in contravention of the allotment rules allotted 21,264.45 sqm land to the Vartalok Sahakari Avas Samiti during August 1999 to May 2000 without obtaining the list of members registered with the society. It was further noticed that the *Parishad* allotted (August 1999) 11,710 sqm land at the rate of Rs.3,000 per sqm against the applicable rate of Rs.4,200 per sqm and again allotted (May 2000) 9,554.45 sqm land at the rate of Rs.4,200 per sqm against the applicable rate of Rs.5,570 per sqm and the registration in favour of the society was done in March 2003. **Further, only 60 *per cent* cost for 11,710 sqm land was charged from the society for reasons not available on record.** Thus, the *Parishad* extended undue benefit of Rs.4.12 crore to the society.

The Management stated (October 2006) that 40 *per cent* area was left for parks and roads as the size of the plots was big. The reply of the Management is not to the point as the *Parishad* should have charged for the entire area of land sold to the society.

**Bulk sale of land**

**3.1.40** A pocket of 19.97 acre (80803.40 sqm) land was allotted (May 1997) at an amount of Rs.2.55 crore (at the rate of Rs.315 per sqm) to Sajam Housing Company (Private) Limited (SHCL) in Scheme no. 3 of Jhunsi, Allahabad and the entire amount was to be paid by March 1998.

The Management decided to sell (May 1997) the half developed pocket of land on the ground that the *Parishad* would get negligible benefit in case it is developed by *Parishad*, as the saleable area would be maximum 50 *per cent*. It was, however, noticed during audit that the layout of the sold pocket of land was approved for 68.89 *per cent* saleable area. Thus, incorrect estimation of saleable area by the Management at the time of deciding the sale resulted in loss of Rs.1.54 crore as detailed below:

Particulars	At 50 <i>per cent</i> saleable land = 0.50 sqm	At 69 <i>per cent</i> saleable land = 0.69 sqm
1	2	3
Cost of 1 sqm developed land (Rs)	490	490
Sale price at the rate of Rs.1000 per sqm in 1996-97	500	690
Margin (Rs)	10	200
Margin on 80803.40 sqm (Rs)	808034	16160680
Loss assessed at the time of sale of land (3-2)		<b>15352646</b>

**Undue benefit of Rs.4.12 crore was extended to the housing society due to allotment of land at lower rate.**

**Incorrect estimate of saleable area while taking decision for allotment led to a loss of Rs.1.54 crore.**

The Management approved (February 1998) the layout plan with the condition to pledge 20 per cent land within three months in favour of the *Parishad* so as to ensure satisfactory internal development work by SHCL. SHCL did not pledge the land. The Management neither ensured that internal development work was carried out by SHCL nor took action to repossess the land due to breach of terms of agreement. As a result, SHCL neither paid the dues of Rs.2.71 crore (Rs.1.74 crore principal and interest of Rs.0.97 crore up to November 2005) of the *Parishad* nor developed the pocket (August 2006). It was also noticed that SHCL had been reporting that unauthorised constructions were being made in the pocket but the *Parishad* had not taken any remedial action in this regard.

#### *Non-marketability of properties*

**Creation of non-marketable properties at inconvenient places resulted in non-liquidation of funds to the extent of Rs.65.62 crore.**

**3.1.41** In 16 schemes of the *Parishad*, 1196 properties (institutional/commercial/residential plots and houses of various categories) were lying unsold for two to 20 years. The main reasons for non-marketability of these properties were the location of these properties at inconvenient places and lack of demand. This resulted in non-liquidation of the *Parishad*'s funds to the extent of Rs.65.62 crore as shown in **Annexure-23**.

The Management stated (October 2006) that action for disposal of properties was being taken.

#### *Unauthorised occupancy in the properties of the Parishad*

**Inaction of Management was noticed in vacating the unauthorisedly occupied properties worth Rs.1.08 crore.**

**3.1.42** Properties of the *Parishad* valuing Rs.1.08 crore as shown in **Annexure-24** have been unauthorisedly occupied *viz.* commercial: one plot, residential: two plots and residential houses: 11 numbers. These properties have remained unauthorisedly occupied due to inaction on the part of the Management to get these properties vacated.

Further, four plots were occupied by *Jhuggi-Jhopari* habitants in Allahabad. The Management did not make efforts to settle them under the Government's special schemes for poor section of the society so that costlier properties of the *Parishad* could be got vacated.

The following photograph indicates that vacation of the plot has now become difficult as it has been occupied by a large number of persons by constructing their huts. Timely action could have prevented this encroachment.



**Plot No. CP-23 of GTB Nagar, Allahabad**

The Management stated (October 2006) that action to vacate the encroached property is being taken.

**Undue retention of plots**

**3.1.43** The Registration and Allotment Regulation, 1979 (RAR 1979) (Amended-1995) provides that, in case of non-availability of applicants of reserved categories\*, the properties shall be allotted to the applicants of the General category. Test check of records of EMO, Ghaziabad revealed that the Management had been carrying over many unallotted plots of Reserved categories during allotments instead of making allotments to applicants of General category in terms of said rule of 1979 as shown in the table below:

Years	No. of plots	Plot size (Sqm)
1997-98	3	177.53 to 180
1998-99	17	65 to 336
2000-01	2	162 to 324
2002-03	9	162 to 258.12
2003-04	101	78 to 261
<b>Total</b>	<b>132</b>	

As would be seen from the above, the EMO, Ghaziabad was having 132 plots of various sizes which could not be allotted to reserved categories during June 1997 to February 2004 and, kept them for allotment to MP/MLA and Displaced Persons. As stated (September 2006) by EMO, Ghaziabad, 41 and 128 applications respectively from MP/MLA and Displaced Persons had already been received for allotments.

As per RAR 1979, after exhausting the quota of reserved classes, balance plots should have been allotted to the General category instead of retaining them and converting them into the reserved category for MP/MLA and Displaced Persons only. Further, orders of the Housing Commissioner (December 2005) to retain the plots for special allotment to Displaced Persons were in violation of the RAR 1979 and these plots should have been included in the Schemes open for the general category.

The Management stated (October 2006) that Vasundhara scheme was not popular earlier due to which MLA/MPs did not avail the benefit of reservation. The scheme became popular at a later stage and MLA/MPs are getting the registrations done for allotment of properties under the scheme. As per quota of five *per cent*, they can be allotted 180 plots (five *per cent* of 3590 plots available) out of which, 76 plots have been allotted. Further allotment is in progress.

**Implementation of Government's special schemes for weaker sections**

**3.1.44** The *Parishad* implemented the following two Government's special schemes for weaker sections:

- Valmiki Ambedkar Malin Basti Avas Yojna of Central Government
- Ashrayheen Yojna of State Government

The deficiencies noticed in the implementation of these schemes are discussed in the succeeding paragraphs:

\* Scheduled Caste-21 *per cent*, Scheduled Tribe-2 *per cent*, Other Backward Class-27 *per cent*, P & Rs.-5 *per cent*, Member of Parliament/Member of Legislative Assembly/Freedom Fighter-5 *per cent*, Retired Government Servant-5 *per cent*, Board/Nagar Nigam/Local Body employees-2 *per cent*, Handicaped-2 *per cent*, FC-2 *per cent*, General category-31 *per cent* besides Displaced Persons-10 *per cent*.

**Valmiki Ambedkar Malin Basti Avas Yojna**

**3.1.45** With a view to provide shelter or upgrade the existing shelter for people living below poverty line in urban slums, the Government of India launched the Valmiki Ambedkar Malin Basti Avas Yojna (VAMBAY) in 2001-2002. The *Parishad* is one of the executing agencies in the State. Under the scheme, subsidy to the extent of 50 per cent of cost was to be provided by the Central Government through State Urban Development Agency (SUDA) and the remaining 50 per cent, recoverable from the beneficiaries, was to be arranged by executing agency. The land for the construction of houses under the scheme was to be provided by SUDA free of cost.

The table below shows targets and achievements and the overall status of the scheme:

Year	Target (Nos.)	Achievement (Nos.)			Cost incurred (Rs. in lakh)	Subsidy received (Rs. in lakh)
		On SUDA land	On own land	Total		
2001-02 <sup>1</sup>	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2002-03	2155	812	1338	2150	661.62	431.00
2003-04	2300	200	2100	2300	560.57	496.10
2004-05	3008	151	-- <sup>2</sup>	151	12.68	429.35
2005-06 <sup>3</sup>	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>Total</b>	<b>7463</b>	<b>1163</b>	<b>3438</b>	<b>4601</b>	<b>1234.87</b>	<b>1356.45</b>

It would be seen from above that although the *Parishad* constructed houses as per targets during 2002-03 and 2003-04, only 151 houses were constructed (five per cent of target) during 2004-05 due to non-provision of land by SUDA.

**Non-preferment of claim for cost of land**

**Parishad did not claim the cost of land aggregating Rs.26.90 crore from the State Government.**

**3.1.46** According to the guidelines of the scheme, land for construction of houses was to be provided by SUDA free of cost. It was noticed in audit that the *Parishad* constructed 3,438 houses on its own developed land measuring 93,450 sqm, out of 4,601 houses constructed during the year 2002-03 to 2003-04. The *Parishad* did not claim the cost of land aggregating Rs.26.90 crore from the State Government/SUDA.

The Management stated (October 2006) that in the absence of land to be made available by SUDA, the *Parishad* decided to construct the houses on its land. The reply of the Management is not tenable as construction of houses was to be made on the land given by SUDA. Therefore claim for reimbursement of cost of land (Rs.26.90 crore) needs to be preferred with the Government/SUDA.

**Non-Receipt of subsidy**

**3.1.47** Under the scheme subsidy of Rs.25,000 and Rs.20,000 per house was admissible for houses constructed by the *Parishad* in the cities having population of more than 10 lakh and less than 10 lakh respectively.

<sup>1</sup> The *Parishad* taken up the scheme w.e.f. June 2003.

<sup>2</sup> No construction undertaken on own land.

<sup>3</sup> No targets were given for the year 2005-06.

It was noticed in audit that the *Parishad* had constructed 2,304 houses in Lucknow, Kanpur and Agra (760 in 2002-03 and 1,544 in 2003-04) cities having population of more than 10 lakh in excess of the target given by SUDA with the approval of Housing Commissioner of the *Parishad*. On the request of the *Parishad*, the State Level Co-ordination Committee accorded approval (August 2005) to the houses constructed in excess of the targets. The subsidy was, however, granted at rates lower than the rates at which subsidy was admissible for the houses constructed in these cities by adjusting the excess houses constructed in these cities against the targets of houses to be constructed in cities with less than 10 lakh population. The amount of Rs.1.02 crore received less as subsidy was loaded into the cost which was recoverable from the beneficiaries defeating the economy parameters of the scheme.

The Management stated (October 2006) that the admissible subsidy was granted by the Government, hence no additional burden was put on the beneficiaries. The reply of the Management is not tenable as the rate of subsidy per house was reduced as these houses were constructed in excess of the target given by SUDA.

#### ***Excess loading of cost***

**3.1.48** Scrutiny of costing of the VAMBAY projects revealed that the Management realised excess cost from the beneficiaries ranging between Rs.654 and Rs.14,860 per house.

Excess cost of  
Rs.92.14 lakh  
was realised from  
2178  
beneficiaries.

It was noticed in audit that the *Parishad*, under five projects, fixed the sale price of 2,178 houses at a uniform rate of Rs.50,000 per house although their actual construction cost was less than that, and ranged between Rs.35,140.13 and Rs.49,346.43 per house. The *Parishad*, thus, in contravention of the policy of cost realisation from the beneficiaries on actual construction cost basis, irregularly realised excess cost of Rs.92.14 lakh from 2,178 beneficiaries. This was against the objective of the scheme to provide houses at affordable prices and was more so when the houses were meant for the weaker sections of society.

The Management stated (October 2006) that the allottees were charged at ceiling cost of Rs.50,000 per house. The reply of the Management is not tenable as the sale price of houses should have been worked out at the actual construction cost only which was lower than the ceiling cost.

#### ***Unfruitful expenditure***

**3.1.49** According to the guidelines of the scheme, construction of houses was to be started after obtaining list of beneficiaries from SUDA. The *Parishad*, however, constructed houses without obtaining list of beneficiaries. As a result, 1,050 houses constructed during 2002-03 and 2003-04 in nine schemes remained unallotted (March 2006). This resulted in non-fulfillment of the objective of the scheme besides blocking of *Parishad's* funds to the tune of Rs.9.15 crore (including land cost of Rs.5.74 crore). *Parishad* has not claimed for reimbursement of cost of land from SUDA so far (October 2006).

#### ***Non-compliance of reservation policy***

**3.1.50** The scheme guidelines stipulated allotment of houses to female members of the household or jointly in the name of husband and wife. The guidelines also provided for reservation for SC/ST, OBC, Physically handicapped and other weaker sections.

It was noticed in audit that out of 1,328 houses in three housing schemes, 688 houses were allotted in the name of male members only. Further, reservation

parameters were not complied with in allotment of 1,050 houses in two schemes.

The Management stated (October 2006) that the reply would be furnished after detailed examination of records.

### ***Ashrayheen Yojna***

**3.1.51** The Urban Development Minister, Government of Uttar Pradesh desired (May 1997) that *Parishad* should frame a scheme for providing houses to the economically weaker sections of the society who earned their livelihood on daily wages basis. Accordingly, the *Parishad* framed the Ashrayheen Yojna for providing houses for such families whose annual income does not exceed Rs.15,000. The cost of house was to be recovered from the beneficiaries in 20 years.

It was noticed in audit that the State Government had not issued any guidelines for the scheme. The *Parishad* since inception had constructed 11,008 houses under the scheme. Out of 11,008 houses, 3,132 houses could not be allotted as of March 2006 due to the fact that Management undertook construction of houses without conducting survey of potential beneficiaries and assessing the convenient distance from the main city areas. This resulted in idle investment of Rs.11.17 crore.

The Management stated (October 2006) that houses were constructed as per approved lay out plan from the competent authority as such implementation of the schemes was not ineffective. The fact, however, remains that *Parishad* is yet (October 2006) to allot the houses constructed under the scheme and it was admitted by the Management in ARCPSE meeting that 1,250 houses remained un-allotted indicating that the scheme was not implemented effectively.

It was also noticed in audit that in Vrindavan Scheme, Lucknow, registration for properties under the scheme was done to provide houses at an instalment of Rs.10 per day (Rs.300 per month). Out of total number of 1,613 houses constructed, allotment of 1,396 houses, was made by fixing monthly installments ranging from Rs.967 to Rs.1,564. Further, out of total allotments made up to March 2006, 217 houses were allotted to other categories of society having annual income of more than Rs.15,000 per annum. Audit scrutiny revealed that the houses were allotted to a category of class whose income was more than Rs.15,000 per annum as is evident from the instalment fixed for the allotted houses.

## **Internal Control/Internal Audit**

### ***Internal Control***

**3.1.52** Internal control is a management tool designed for providing reasonable assurance for efficiency of operation, reliability of financial reporting and compliance with applicable laws and statutes. Internal Audit is a system designed to ensure proper functioning as well as effectiveness of the internal control system and detection of errors and frauds. Audit analysis of internal control procedures/mechanism and internal audit system of the *Parishad* revealed the following deficiencies in the internal control mechanism:

***Operational and procedural controls***

**3.1.53** The *Parishad* does not have an operational and procedural controls system as the land acquisition registers showing scheme-wise deposits made in advance with DCs, date of final award, compensation paid to landowners and date of possession of land were not updated.

The Management stated in the ARCPSE meeting that the reconciliation was under progress.

***Financial controls***

**Issue of cheques with joint signature was not in vogue.**

**3.1.54** There was lack of proper financial control in the *Parishad* as:

- the cheques were being issued for payment with the signature of the Executive Engineers only. The *Parishad* has not adopted the system of issue of cheques under joint signature of Head of Accounts wing of CDs so as to ensure participation of Finance and Accounts wing also.

The Management assured to implement the rules for joint signature of Executive Engineer and Head of Accounts Wing.

- There were 12 bank accounts at the Headquarters of the *Parishad* in which remittances are received from EMOs. No reconciliation was, however, done with the remittances sent by the EMOs and those credited in the bank accounts.

The Management stated that reconciliation was under progress.

***Monitoring***

**The intended benefit could not be derived despite investment of Rs.1.01 crore on supply of hardware and software development.**

**3.1.55** The *Parishad* entered (7 December 1998) into a turn key contract with Tata Consultancy Services (TCS) for supply of hardware and developing software at a cost of Rs.1.01 crore in order to facilitate monitoring of land acquisition, architectural and project planning, property and estate management *etc.* It also entered (2002) into agreement for annual maintenance and support services for application software at an annual service charge of Rs.13 lakh.

It was noticed in audit that TCS installed and handed over (2002) all software modules and hardware to the *Parishad*. The *Parishad*, however, could not provide adequate and proper data input in respect of all the targeted areas of its working. As a result, the major functions which were to be computerised could not be made fully operational and the Management had to depend on the support services of TCS though the computerisation was to be made user friendly.

Thus, the *Parishad* could not derive the intended benefit of computerisation despite investment of Rs.1.01 crore and recurring expenditure of Rs.13 lakh per annum on support services for the last four years.

The Management stated (October 2006) that the required hardware and software modules made available by TCS were being utilised properly. The reply of the Management is not tenable as the *Parishad* could not derive the desired out put from the respective modules.

***Internal Audit***

**3.1.56** Audit and Accounting manuals have not been prepared. The Internal Audit Wing (IAW) comprised four Junior Accounts Officers and seven Auditors under the supervision of an Assistant Accounts Officer and headed by an Accounts Officer. The *Parishad* had 36 construction divisions, three

electrical divisions and 11 circle offices besides the Headquarters office.

It was noticed that the IAW had never conducted audit of the Headquarters office. The position of audited units, periodicity, scope and coverage of Internal Audit was not furnished to Audit. The IAW is not adequately staffed with reference to the size of the *Parishad*. Therefore, the impact of internal audit system is ineffective.

The Management stated (October 2006) that extension and strengthening of IAW was being done.

#### **Acknowledgement**

**3.1.57** Audit acknowledges the co-operation and assistance extended by different levels of officers of the *Parishad* and the Government at various stages of conducting the audit.

The above audit findings were reported to the Government in June 2006; the reply is awaited (October 2006).

#### **Conclusion**

**The *Parishad* could not fully achieve its main objective of providing houses and plots at affordable prices due to delay in acquisition of land as a result of increase in the cost of acquisition of land, non-investment of idle funds lying with District Collector Offices, failure to secure the land from encroachments and slow pace of development of the available land coupled with mis-match of the construction plan with the target assigned by the Government resulting in huge shortfall in construction of houses and plots. Adequate arrangements were not made for pollution control in the colonies developed by it defeating the purpose of sustainable development. The purchase system for cement and steel was uneconomical. Cost recovered from allottees in respect of developed land and houses was not adjusted on the basis of the actual expenditure. In contravention of the costing guidelines, auction rates received in earlier auctions were not considered while fixing reserve prices for subsequent auction of plots. Apart from the above, weaker sections of the society were not benefited in accordance with the guidelines of the Government schemes for providing houses to the weaker sections of society.**

#### **Recommendations**

- *Adhiniyam* should be suitably amended to fix a time frame for acquisition of land and an effective monitoring system should be evolved so that land is not subjected to encroachments;
- Government should instruct the DCs to immediately invest the funds not immediately payable, in term deposits so as to reduce the cost of acquisition of land;
- The *Parishad* should prepare its land development and construction plans in accordance with targets assigned by the Government and after making arrangement for treatment of sewage water before disposal in accordance with the pollution control requirements;
- Purchase system of building materials should be rationalised and a system for adjustment of cost of houses after completion of work evolved to provide houses and plots to the people at affordable prices;

- **Reserve prices should be fixed strictly in accordance with the costing guidelines for auction of commercial plots; and**
- **The *Parishad* should ensure allotment of houses to weaker sections of society strictly as per the terms and conditions of the Government schemes.**

### 3.2 Construction and Operation of Warehouses by Uttar Pradesh State Warehousing Corporation

#### Highlights

*The Corporation failed to get competitive rates for construction of godowns due to inviting tenders for smaller volume of work than actual requirement.*

*(Paragraph 3.2.8)*

*Construction of godowns for FCI not conforming to specifications resulted in under assessment of storage capacity and consequential loss of storage charges of Rs.34.48 crore.*

*(Paragraph 3.2.9)*

*Construction of a road at a low lying area without upgrading the level of land resulted in wasteful expenditure of Rs.65.99 lakh.*

*(Paragraph 3.2.10)*

*The Corporation was deprived of capital subsidy of Rs.4.69 crore due to non-deferment of loan from UBI, and delayed submission of claim for subsidy resulted in extra payment of interest of Rs.29.11 lakh.*

*(Paragraphs 3.2.12 and 3.2.13)*

*The Corporation sustained loss of Rs.3.09 crore due to improper and inadequate storage of wheat stock.*

*(Paragraph 3.2.19)*

*The Corporation incurred avoidable expenditure of Rs.1.03 crore on weighment of stock due to non-installation of weigh bridges and failure in timely repair and maintenance of existing weigh bridges.*

*(Paragraphs 3.2.20 and 3.2.21)*

*An amount of Rs.7.71 crore towards storage losses remained unsettled due to delay in finalisation of investigation reports.*

*(Paragraph 3.2.17)*

*There was excessive storage loss of Rs.15.47 crore as compared to permissible storage loss in rice stored by the Food Department.*

*(Paragraph 3.2.18)*

*The Corporation made avoidable payment of interest aggregating Rs.1.85 crore on a loan obtained for construction of godowns at a higher rate and due to delayed refund of Government loan obtained for wheat purchase.*

*(Paragraphs 3.2.24 and 3.2.26)*

#### Introduction

**3.2.1** Uttar Pradesh State Warehousing Corporation (Corporation) was established by the Government of Uttar Pradesh in 1958 under provisions of the “Agriculture produce (Development and Warehousing) Corporation Act 1956” which was subsequently replaced by the “Warehousing Corporation Act 1962”. The Corporation is a statutory body and its paid up Share Capital was Rs.13.37\* crore as on 31 March 2005 equally contributed by the Government of Uttar Pradesh and the Central Warehousing Corporation. The main functions of the Corporation *inter-alia* include construction of godowns,

\* Matching contribution of Rs.2.21 crore has not been received from the Central Warehousing Corporation.

purchase, sale, storage and distribution of agricultural produce, seeds, manures, fertilizers, agricultural implements and notified commodities.

The Management of the Corporation is vested in a Board of Directors consisting of 11 members including Chairman and one Managing Director. The Managing Director is the Chief Executive Officer of the Corporation. The Managing Director is assisted by one Deputy Managing Director, five General Managers (GMs) and 12 Regional Managers (RMs). The Corporation has 12 Regional offices with 157 warehouse centres headed by Senior Warehouse Superintendent/Warehouse Superintendent as on 31 March 2006.

#### **Scope of Audit**

**3.2.2** The present performance review conducted during April to June 2006 covers the construction activities undertaken by the Corporation and the operation of warehouses for the five years up to 31 March 2005 (the year up to which accounts have been finalised). A test check of records of the Head Office and five regional offices (out of 12 regional offices) was carried out with specific reference to the storage capacity. The storage capacity of five regional offices test checked was 18.03 lakh MT which represented 62.03 *per cent* of the total storage capacity of 12 regional offices of 29.06 lakh MT.

#### **Audit Objectives**

**3.2.3** The Audit objectives were to ascertain whether:

- proper and adequate storage facilities were constructed/created and made available to the consumers/depositors in an economic and efficient manner at the right time and at the right location;
- storage capacities were utilised up to the optimum level and hiring/dehiring of private storage capacity was done economically and efficiently;
- adequate measures were taken to minimize losses of food grains during storage;
- norms for deployment of manpower were adhered to; and
- Fund Management was efficient.

#### **Audit Criteria**

**3.2.4** Audit criteria considered for assessing the achievement of audit objectives was to check the extent of adherence to:

- instructions/directions regarding construction of godowns;
- provisions of Warehousing Corporation Act;
- guidelines/directions issued by Government of India/CWC/FCI regarding occupancy/utilisation of godowns; and
- guidelines/directions of the Board of Directors.

#### **Audit Methodology**

**3.2.5** The audit methodology adopted for achieving the audit objectives keeping in view the audit criteria were examination of:

- Government policies/circulars, Agenda and Minutes of Board Meetings, Annual Reports, Project Reports, physical and financial progress reports.
- layout plans of godowns, estimates, tenders, agreements and measurement books for execution of works.
- register/records relating to godown wise capacity and its utilisation.
- issue of audit enquiries and interaction with the Management.

**Audit Findings**

**3.2.6** Audit findings arising from the performance review of the Construction activities and Operation of Warehouses in the Corporation were reported to the Management/ Government in July 2006 and were discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 10 August 2006. The Joint Secretary (Co-operative), Government of Uttar Pradesh and Managing Director of the Corporation attended the meeting. Views expressed by the Management/Government in the meeting and detailed replies given by the Management in August 2006 have been taken into consideration during finalisation of the review.

The audit findings are discussed in succeeding paragraphs:

**Construction of Godowns**

**3.2.7** During the last five years ending 31 March, 2006 the Corporation constructed 35 godowns of 12.29 lakh MT capacity at a cost of Rs.167.65 crore by utilising its own funds. Scrutiny of records relating to construction of godowns revealed the following:

**Invitation of tenders for smaller volume of work than actually involved**

**3.2.8** With a view to obtain the most competitive rates, open tenders are invited by Government organisations for the estimated quantity of work to be executed. It was noticed in audit that the State Government directed (February 2001) the Corporation to construct godowns at 19 locations with a total capacity of 5,00,000 MT ranging between 10,000 to 1,00,000 MT capacity. As against this, the Corporation prepared (February 2001) estimates for 10,000 M.T. capacity godowns uniformly at a standard cost of Rs.1.27 crore and invited tenders for construction of godowns of 10,000 MT capacity only even for the locations where the actual demand placed by the State Government was for construction of godowns of more than 10,000 MT capacity. As a result, the Corporation could not get the benefit of competitive rates for higher volume of work.

Audit scrutiny relating to the construction of godowns at six locations as indicated in the table below revealed that the Corporation while inviting tenders for construction of godowns at these centres ignored the actual capacity requirement.

Sl No	Location	Capacity required by State Government (In M.T)	Capacity shown in tenders (In M.T)	Date of tender	Estimated Value of work (Rs. in crore)	Extended scope (In M.T)	Extended value (Rs. in crore)	Increase in cost (In per centage)	Date of extension
1.	Babrala (Shahjahanpur)	100000	10000	02/01	1.27	25000	3.23	154	16.4.2001
2.	Kursi Road (Barabanki)	25000	10000	02/01	1.27	23750	2.59	103	16.4.2001
3.	Khimsepur (Farrukhabad)	20000	10000	02/01	1.27	25000	2.53	100	16.4.2001
4.	Jainpur (Kanpur Dehat)	20000	10000	02/01	1.27	25000	2.61	106	16.4.2001
5.	Firozabad	20000	10000	02/01	1.27	23940	3.07	142	18.6.2001
6.	Etah	20000	10000	02/01	1.27	50500	5.71	350	16.4.2001

It is evident from the table that against the demand for construction of godowns at six places which ranged between 20,000 M.T and 1,00,000 M.T capacity, the estimates were prepared for construction of 10,000 M.T. capacity godowns at a cost of Rs.1.27 crore per godown and tenders were invited accordingly. It was noticed that the Corporation subsequently asked the same contractors to execute the construction for extended quantity at the rates

already awarded to them, though variation in quantity was up to 350 per cent. Thus, the Corporation, due to invitation of tenders for a quantity smaller than the actual requirement was deprived of obtaining competitive bids for the actual volume of work.

The Management stated (August 2006) that the extended part of work was given to the same contractor to avoid fresh tendering for extended scope of work which would naturally involve longer time in completion of the project. The reply is not tenable because the tenders for entire quantity of work at respective sites should have been invited, *ab-initio*, in order to get the competitive rates for higher volume of work.

***Construction of godowns not conforming to FCI specifications***

**3.2.9** The Food Corporation of India (FCI) asked (July 2001) the Corporation to construct covered godowns of 5 lakh MT capacity on seven year guarantee basis to commence from kharif season of 2001-02. The Corporation submitted (July 2001) a proposal to FCI for construction of 5 lakh MT capacity godowns at 17 locations in the State. The FCI approved and revised the proposal (July 2001 to October 2001) for construction of 6 lakh MT capacity godowns at 14 locations and issued (September 2001) broad guidelines to the Corporation in respect of specifications to be followed while constructing the godowns.

It was noticed (December 2005) in audit that the Corporation constructed the godowns with 6 lakh MT capacity and offered the same for storage to FCI during January to June 2002. The FCI provisionally accepted the storage capacity as 5.33 lakh MT only against the capacity of 6 lakh MT. The FCI, on receiving (January to June 2002) complaints from its field offices *viz.* Agra, Allahabad, Gorakhpur *etc.* regarding the construction of godowns not conforming to laid down specifications constituted (December 2003) a committee of its three officers to examine and ascertain the quality as well as effective capacity of the godowns. The Committee observed (January 2004) that the godowns constructed by the Corporation did not conform to specifications of FCI. The FCI, on the basis of findings of the Committee assessed (February 2005) the effective capacity of godowns at 3.86 lakh MT only as against the capacity of 5.33 lakh MT provisionally accepted earlier. The FCI also issued (February 2005) a revised seven years guarantee for effective storage capacity of 3.86 lakh M.T. only. The Corporation represented (May 2005) to FCI to release guarantee for full capacity of 6 lakh MT as constructed and offered by them. The request was, however, turned down (June 2005) by the FCI.

The Corporation, therefore, suffered loss of potential revenue of Rs.34.48 crore up to 31 March 2006 (storage charges calculated at the rate of Rs.35.80 per MT per month for 2.14 lakh MT for the period from July 2002 to March 2006) due to construction of godowns not conforming to FCI's specifications. The Corporation would be incurring recurring loss of revenue to the extent of Rs.9.19 crore (calculated at the rate of Rs.35.80 per MT per month for 2.14 lakh MT) per year for the remaining period of guarantee (3 years 3 months).

The Management/Government stated (June/July 2006) that FCI did not provide any modified guidelines for construction of godowns and godowns were constructed on the basis of specifications prevailing in the past and efforts at higher level were being made to get reservation of full capacity. The reply is not tenable in view of the fact that the guidelines of FCI indicating specifications were made available in September 2001 and the request of the

**Construction of godowns not conforming to FCI specifications resulted in loss of revenue to the extent of Rs.34.48 crore.**

Corporation for releasing full capacity had already been rejected by the FCI.

***Wasteful expenditure on construction of a road at Lakhimpur Industrial area***

**Construction of road at a low lying area without upgrading the level of land resulted in wasteful expenditure of Rs.65.99 lakh.**

**3.2.10** The Corporation entered (January 2001) into an agreement with Ratan Lal & Associate for construction of office building, boundary wall, drain work and road at Lakhimpur Industrial Area centre for Rs.91.63 lakh. The work was completed (October 2001) at a cost of Rs.1.02 crore including construction of a road at a cost of Rs.65.99 lakh. The road was, however, damaged (November 2003) within two years. It was seen during audit from the reports submitted to headquarters by the concerned centre that the main reason for damage of the road was that the level of the road inside the premises was lower than that of the connecting road resulting in water logging and damage.

As the road was completely damaged and became unserviceable, the Corporation had to re-construct the road (April 2005) with sub-base and cement concrete at a cost of Rs.1.07 crore and the entire expenditure of Rs.65.99 lakh incurred earlier on construction of the road became wasteful.

The Management while admitting (September 2006) the audit observation stated that the level of campus and internal road thereon was lower than the level of the approach road provided by UPSIDC which resulted in water logging and caused damage. The Corporation should have taken care to keep the level of campus and internal roads higher than the level of approach road in order to avoid the possibilities of water logging.

***Deferment of loan for construction of godowns***

**3.2.11** During the presentation of the Union Budget for 2001-02 (February 2001), the Finance Minister in his speech announced a credit linked subsidy scheme for rural godowns towards Agriculture and Rural Development. According to the guidelines issued by the Government of India, Ministry of Agriculture (March 2002) for Rural Godowns Scheme, a capital subsidy of 25 *per cent* of the capital cost of the project for construction/renovation/expansion of rural godowns subject to a maximum of Rs.37.50 lakh per project was admissible provided such projects were financed by the commercial banks and loan was sanctioned on or after 1 April 2001. The subsidy was to be released in two instalments, 50 *per cent* of the subsidy was to be released by NABARD as advance to the participating bank on submission of project profile cum claim form and the remaining 50 *per cent* was to be disbursed to the participating banks after conducting the inspection. The subsidy so disbursed by NABARD was to be kept by the bank in a separate reserve fund Account of the borrower and was to be adjusted finally against the loan amount on completion of the project. No interest was chargeable by the bank on the loan equivalent to the amount of subsidy released by NABARD.

**The Corporation could not avail capital subsidy of Rs.4.69 crore due to non-deferment of sanction of loan.**

**3.2.12** It was noticed during audit that the Corporation was sanctioned a term loan of Rs.64 crore at the interest rate of 12 *per cent* per annum by the Union Bank of India (UBI) on 15 March 2001 for construction of godowns in rural areas. The loan of Rs.64 crore was released to the Corporation during 29 March 2001 to 27 December 2001. Godowns at 14 locations of capacity ranging between 3,110 M.T to 92,000 M.T at each location were constructed by the Corporation up to March 2003. The Corporation could not avail the capital subsidy of Rs.4.69 crore (**Annexure-25**) applicable at 25 *per cent* on

the project cost of these godowns as the loan for construction of these godowns was sanctioned to the Corporation just 16 days before 1 April 2001. Since the announcement of the capital subsidy for construction of rural godowns was made in the Budget speech of 2001-02 in February 2001 *i.e.* prior to the sanction of loan, the Corporation, should have deferred sanction of loan by UBI up to 1 April 2001 to avail the capital subsidy aggregating Rs.4.69 crore against the term loans.

Thus, due to non-availment of subsidy of Rs.4.69 crore, the Corporation had to make avoidable payment of interest of Rs.1.13 crore worked out at the rate of 8 *per cent* on Rs.4.69 crore for the period 2003-04 to 2005-06.

The Management stated (August 2006) that an official notification in respect of the subsidy in question was issued in February 2002 and copy of which was provided by the bank in March 2002 whereas the loan was sanctioned in March 2001. The reply is not tenable as the intention of the Government to extend the existing scheme applicable for construction of cold storages, for construction of rural godowns was announced during the budget speech of February 2001. The Corporation should have taken note of such an important declaration and acted upon it suitably.

**3.2.13** The Corporation obtained (2001-02) two loans aggregating Rs.82.40 crore from Bank of India (Rs.65.40 crore) and from State Bank of India (Rs.17 crore) during November 2001 to July 2002 for construction of rural godowns at 18 places. The Corporation approached the banks in May 2002 asking the banks to approach NABARD for getting the capital subsidy on the above loan and claims for subsidy were submitted by the participating banks in May 2002. The participating banks resubmitted the claims on 26 March 2003 as desired by NABARD for submission of claims premises-wise. The advance subsidy of Rs.3.23 crore (BOI Rs.2.02 crore and SBI Rs.1.21 crore) was released by NABARD on 17 April 2003. Due to procedural delays in submission of claims as per requirement of NABARD and resultant late release of subsidy the Corporation had to pay additional amount of interest of Rs.29.11 lakh to the banks for the period from June 2002 to March 2003 on the amount of subsidy released by NABARD in April 2003 (calculated at interest rate of 11 *per cent* and 10.5 *per cent* per annum payable on the loan from BOI and SBI respectively).

The Management stated (August 2006) that after receipt of notification in February 2002, they had requested the respective banks in May 2002 to put up the claim for subsidy to NABARD. The banks, in turn, approached NABARD in May 2002. In response to this the subsidy was released (April 2003) by NABARD to the banks 10 months later. The reply is not tenable as NABARD released the subsidy within a period of 22 days from the date of re-submission of claim of subsidy as per their requirement. This shows that the Corporation did not pursue effectively the case of release of subsidy with the participating banks resulting in delayed release of subsidy by NABARD.

#### ***Utilisation of Central assistance***

**3.2.14** The Corporation had received Central assistance of Rs.8.16 crore during 1999-2001 through the Department of Food and Civil Supplies for construction of godowns of 2000 M.T. each at 25 locations identified by the Corporation. The Corporation proposed the construction of godowns at 22 locations on its land and godowns at three locations were proposed on land of the Department of Food and Civil Supplies. The Corporation could, however, construct godowns only at 23 locations (20 locations of the Corporation and three locations of the Government) leaving two locations (Naubasta and

**The Corporation could not utilise Central Assistance of Rs.64.80 lakh due to improper selection of sites for construction of godowns.**

Sultanpur) where the land was not actually available for construction. The Corporation requested (June 2001) the State Government for construction of godowns at the other two locations, but the Government refused (August 2001) to do so. As a result, the Corporation could not utilise Central assistance of Rs.64.80 lakh (Rs.32.40 lakh for each godown) due to improper selection of site for construction of godowns at these two places. Consequently, the additional 4000 M.T. storage capacity could not be created by the Corporation which could have contributed to additional revenue for the Corporation.

The Management confirmed (August 2006) the audit observation.

### Operation of warehouses

**3.2.15** The operation of warehouses mainly comprise the following activities:

- Storage of agricultural produce and fertilizers.
- Handling and transportation on behalf of depositors and
- Wheat procurement

The activity wise audit findings are discussed in the succeeding paragraphs:

#### Storage Activities

**3.2.16** Food Corporation of India (FCI), the State Government (Food Department), State Government Agencies and Fertilizers PSUs were the main depositors of agriculture produce and fertilizers with the Corporation. The Corporation was required to provide proper storage facilities to these depositors at prescribed rates for storage of wheat, rice, fertilizers and gypsum etc.

The storage activities of the Corporation for the last five years ending 31 March 2005 are shown in the table given below:

Sl. No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
1.	No. of Warehousing Centres	155	185	147	152	158
	(a) Owned godowns (nos.)	90	106	116	117	118
	(b) Hired godowns (nos.)	154	158	121	187	91
2.	Annual Capacity Available:					
	(a) Owned (MT)	1290260	1645020	2362351	2415700	2424570
	(b) Hired (MT)	854841	1944930	961932	324360	421700
	<b>Total</b>	2145101	3589950	3324283	2740060	2846270
3.	Annual Capacity Utilisation (In M.T.)	2146392	3381467	2921177	2581955	2718188
4.	Capacity Utilisation (In per cent)	100.06	94.19	87.87	94.23	95.50
5.	Expenditure (excluding on Wheat Purchase) Rs. in crore	45.53	69.38	100.05	80.26	100.56
6.	Expenditure per M.T. per year (In Rs.)	212.12	205.18	342.50	310.85	369.95
7.	Income (excluding on Wheat Purchase) Rs. in crore	72.62	102.67	114.21	91.75	126.81
8.	Income per M.T. per year (in Rs.)	338.33	303.63	390.97	355.35	466.52
9.	Net income (Rs. in crore)	27.09	33.29	14.16	11.49	26.25
10.	Net income (in Rs.) per M.T.	126.21	98.45	48.47	44.50	96.57

It would be seen from the above table that:

- the capacity utilisation of godowns ranged between 87.87 and 95.50 per cent during the five years up to 31 March 2005 except for the year 2000-01 when it was more than 100 per cent; and
- the net income per MT per year during the period subsequent to the year 2000-01 showed a declining trend.

#### Settlement of storage losses

**3.2.17** Food Corporation of India (FCI) fixed (May 1998) norms for storage losses in rice at 0.5 per cent for storage up to one year and 0.75 per cent beyond one year. The storage losses beyond the permissible limits were to be

settled by FCI only after obtaining investigation report from the Corporation.

Scrutiny of records by audit revealed that in 462 cases storage losses valuing Rs.15.13 crore were found to be in excess of the permissible limit during the last five years up to 2005-06. These cases were referred to the Vigilance Division of the Corporation for detailed investigation and for submitting report thereon for onward submission to FCI to regularise the storage losses. The year-wise details of cases referred to Vigilance Division for investigation and cases settled by FCI are as under:

(Rs. in lakh)

Year	Cases referred to Vigilance Division		Cases disposed off		Cases pending for investigation	
	No.	Amount	No.	Amount	No.	Amount
Opening	49	222.43				
2001-02	62	104.75	59	89.09	52	238.09
2002-03	151	473.64	107	393.62	96	318.11
2003-04	121	429.00	79	124.58	138	622.53
2004-05	52	204.69	17	117.23	173	709.99
2005-06	27	78.95	04	18.37	196	770.57
<b>Total</b>	<b>462</b>	<b>1513.46</b>	<b>266</b>	<b>742.89</b>		

Due to delay in finalisation of investigation reports, 196 cases of storage loss of Rs.7.71 crore remained unsettled with FCI.

From the above table it may be observed that the number of cases settled had come down to only 4 as against 59 cases settled in 2001-02 leading to increase in pending cases which mounted to 196 at the end of 2005-06 as against 49 cases at the beginning of 2001-02. The above table also indicates that 266 cases of storage loss valuing Rs.7.43 crore could only be settled by FCI during the last five years by waiving off recovery of Rs.6.76 crore and recovering only Rs.67.99 lakh from the Corporation. At the end of 31 March 2006, 196 cases involving storage loss of Rs.7.71 crore remained unsettled due to delay in finalisation of investigation reports by the Vigilance Division of the Corporation.

#### **Storage loss in rice stored by the Food Department**

Excessive storage losses beyond the permissible limit worked out to Rs.15.47 crore remain unadjusted.

**3.2.18** The State Government had prescribed (August 2003) permissible storage losses of 0.4 per cent in respect of the rice stored in the warehouses of the Corporation under the State pool w.e.f 1999-2000. It was noticed in audit that the actual storage losses in the rice stored by the Food Department during 2000-01 to 2004-05 were much higher and ranged between 0.69 and 0.88 per cent. The losses beyond permissible limit worked out to 16,380.13 MT valuing Rs.15.47 crore as per the details given below:

(Quantity in MT)

Year	Receipt	Issue	Stock	Storage loss {2-(3+4)}	Loss as per norms (MT)	Loss beyond 0.40 per cent	Rate (Rs. per MT)	Amount (Rs. in lakh) (7X8)
1	2	3	4	5	6	7	8	9
2000-01	517079.30	512515.00	0	4564.30	2068.32	2495.98	8689.00	216.88
2001-02	510670.70	506394.40	0	4276.30	2042.68	2233.62	9031.00	201.72
2002-03	616843.50	610657.10	934.60	5251.80	2467.37	2784.43	9383.00	261.21
2003-04	1135664.40	1119086.40	8809.30	7768.70	4542.66	3226.04	9594.00	309.51
2004-05	1849584.80	1711657.70	124888.70	13038.40	7398.34	5640.06	9880.00	557.24
<b>Total</b>				<b>34899.50</b>	<b>18519.37</b>	<b>16380.13</b>		<b>1546.56</b>

The Corporation has, however, not taken any remedial action to curtail these abnormal losses.

#### **Storage of wheat stock at Tikonia centre**

**3.2.19** The Food Department of the State Government entrusted the storage of 2,73,760 quintals of wheat during Rabi Marketing seasons 2000-2001 and 2001-2002 to the Corporation. The Corporation identified the location and the

stock of wheat was stored in the open on unused roads of Mandi Samiti at Tikonia Centre of district Lakhimpur Kehri. Of the above, 2,36,838 quintals of wheat was lifted up to March 2003 and the balance quantity of 37,137 quintals of wheat including storage gain of 215 quintals (valuing Rs.3.09 crore) was found damaged and, therefore, could not be lifted. In the meantime a committee was constituted (August 2003) by the Food Commissioner, comprising of senior officers of the State Government, Central Warehousing Corporation (CWC), FCI and U.P. State Warehousing Corporation (UPSWC) to ascertain the extent of damage of stock. As per the report of the committee, the damaged wheat was found unfit for human consumption and, therefore, the Committee recommended (September 2003) its disposal through auction.

**The Corporation suffered loss of Rs.3.09 crore due to improper storage stock of wheat.**

It was noticed in audit that the Food Department held the Corporation responsible (October 2004) for damage to the stock on the grounds that (i) the storage was done at a low lying area, (ii) the storage was inadequate, (iii) the stock was left uncared for and (iv) the stock was not transferred by the Corporation to a safer place which led to such a massive damage to the stock. Accordingly, the Food Department deducted the full value of the damaged stock of Rs.3.09 crore from the storage charges bills of the Corporation for the month of August and September 2004. Further, the Department also disposed of the damaged stock of wheat for Rs.66.32 lakh in February and March 2005 through auction and retained the sale proceeds with it.

The Management stated (August 2006) that the storage was done as per directions of the Food Department and damage to stock had taken place due to prolonged storage in the open. The reply of the Management is not tenable as the Corporation being a storage agency was responsible for safe storage of stock and it should have, therefore, made alternative arrangements for safe storage of stock in question by transferring it to a suitable place. The Corporation's failure to do so, thus, resulted in damage of stock and consequential losses to the Corporation.

#### ***Installation of weigh bridges***

**3.2.20** Weigh Bridges constitute an important part of warehousing activities. The weighment is carried out invariably in respect of both inward and outward stock at warehouse centres. The storage charges realised by the Corporation are inclusive of weighment charges or else the expenditure incurred on weighment of the stock, is to be borne by the Corporation.

It was observed by Audit that out of 157 warehouse centres as on 31 March 2006, the Corporation had its own weigh bridges at 50 warehouse centres only and the weigh bridges at these warehouses earned revenue of Rs.2.73 crore during 1997-98 to 2005-06. At the remaining 107 centres, weighment was carried out through others' weighbridges. Test check of records of 19 warehouse centres where weighbridges were not available, revealed that the Corporation had incurred an aggregate expenditure of Rs.74.73 lakh (**Annexure-26**) on weighment from out side sources during the last five years up to 2005-06. This could have been reduced had the Corporation analysed the feasibility of installation of weigh bridges at various locations.

The Management stated (August 2006) that considering the capital as well as operating cost of the weigh bridges, the installation of weigh bridges was not found economical at all the centres and also that weighment was to be outsourced as per the decision taken by the Chairman of the Corporation during the meetings held in 2001-02. The reply is not tenable because the Corporation had never carried out any analysis so as to assess the feasibility of

installation of weigh bridges. Further, despite the decision of the Board, the Corporation had installed the weigh bridges in subsequent years (2004-05) which indicates that the Management had also felt the necessity for installation of its own weigh bridges.

**3.2.21** The weigh bridges installed at 17 centres were out of order for the last one to six years up to 31 March 2006 and the Corporation had to avail weighment facilities from other parties and paid weighment charges aggregating Rs.28.15 lakh (**Annexure-27**) ranging between 0.51 lakh and Rs.6.11 lakh *per centre* during the above period. The Corporation could have avoided the expenditure by timely repair and maintenance of these weigh bridges.

The Management stated (August 2006) that they have an Annual Maintenance Contract (AMC) to keep the weighbridges in order and it takes 48 hours for minor repairs and comparatively more time is required for major repairs. The reply is not tenable as the weigh bridges in question were lying out of order for a period of more than one year.

**Wheat procurement and storage**

**3.2.22** The State Government nominated the Corporation as Government agency to purchase wheat directly from the farmers from 1998-1999 onwards under the Minimum Support Price Scheme of Government of India at various specified centres at the rates declared for respective Rabi Marketing Seasons (RMS) for both State and Central Pool on behalf of the Government.

The year wise position of wheat procurement by the Corporation, the actual cost of procurement and the value realised thereof during the five years up to 31 March 2005 was as follows:

Year	Qty. Procured (Qtls)	Actual cost of procurement including incidental and other expenses (Rs. in lakh)	Value realised (Rs. in lakh)	Loss (Rs. in lakh) prior to revision of incidental	Loss per quintal (Rs.)
2000-01	1039307	7326.48	7130.20	196.28	18.88
2001-02	1126949	8486.24	8175.52	310.72	27.57
2002-03	731956	5676.89	5375.06	301.83	41.24
2003-04	450148	3437.18	3262.92	174.26	38.71
2004-05	542470	3909.37	3822.88	86.49	15.94
			<b>Total</b>	<b>1069.58</b>	

It may be observed that the Corporation had been incurring losses on procurement of wheat and delivery thereof to the nominated body, due to actual cost of procurement being invariably higher than the delivery rates. It is evident from the above table that the loss had gone up to Rs.41.24 per quintal in subsequent years from Rs.18.88 per quintal in 2000-01. The actual cost of procurement was higher mainly because of higher administrative expenditure and interest than that actually admissible under Government orders for the respective procurement seasons. The Management had, however, not taken any action to control the factors which contributed to higher cost of procurement.

The Management stated (August 2006) that the loss in wheat procurement is set off when the incidentals for the respective years are revised by the Government. The reply is not tenable because the Corporation has been incurring losses even after adjustment of incidental charges on revision by Government of India. For instance, it sustained a net loss of Rs.64.70 lakh for the year 2000-01 even after adjustment of Rs.1.32 crore received on account of revision of incidentals from the Government of India. There is, thus, an

urgent need to control the factors contributing to higher cost of procurement.

### Handling and Transport operations

**3.2.23** The Corporation undertakes handling and transport (H&T) activities on behalf of the depositors, mainly for the Food Department and the FCI. The Government was paying the Corporation for H&T work at prescribed rates decided by the State Government from time to time. In case of FCI, the Corporation was getting reimbursement of actual expenditure incurred on H&T alongwith supervision charges at the rate of 8 *per cent* thereon. It was noticed in audit that at 18 centres under nine regions (**Annexure-28**) the H&T rates awarded to the contractors by the Corporation for FCI were higher as compared to those awarded for the Food Department for the same period and for the same locations. In certain cases the same contractor was executing the H&T activities at higher rates for FCI than the rates for the Food Department at the same location. This indicated extending of undue benefit to private parties (contractors) at the cost of the Government agencies (amount unascertainable).

The Management stated (August 2006) that higher rates were awarded keeping in view the fact that in the case of FCI, the Corporation has to arrange transportation also in addition to handling work, whereas in the case of the Food Department only handling work is involved. The reply is not tenable as the comparison made by the Audit is in respect of only handling activity undertaken by the contractors for both the parties (*viz.* FCI and Food Department).

### Fund Management

The Corporation does not have a system of preparing cash flow and fund flow statements so as to ascertain the requirement of funds at different point of time and to make optimum use of available resources. A few instances of fund mismanagement are discussed in succeeding paragraphs:

#### *Payment of interest at higher rates*

**3.2.24** The Corporation obtained loan of Rs.64 crore from Union Bank of India (UBI) in March 2001 for the construction of godowns at interest rate of 12 *per cent* per annum. This rate was subsequently reduced to 10.5 *per cent* per annum with effect from November 2002. The Corporation also obtained another loan of Rs.17 crore from SBI in October 2001 at 11 *per cent* rate of interest which was reduced to 10.5 *per cent* in April 2002 and remained at par with UBI rate of interest from November 2002 onwards.

It is, thus, evident from the above that the Corporation paid higher rate of interest (at 12 *per cent*) to UBI during November 2001 to October 2002 as compared to the interest rate of the SBI loan during October 2001 to March 2002 (11 *per cent* per annum) and during April 2002 to October 2002 (10.5 *per cent* per annum) which could have been brought down to 11 and 10.5 *per cent* per annum *i.e.* at par with the rates of SBI term loan, by negotiations with UBI. Failure of the Corporation to negotiate the rate of interest with UBI so as to bring it at par with those of SBI during the period November 2001 to October 2002 resulted in incurring of additional payment of interest aggregating Rs.81.76 lakh (**Annexure-29**).

The Management stated (August 2006) that requests were made to the Union Bank of India for reduction in the rate of interest and the bank in their letter dated 03 May 2002 had confirmed that there was no change in their interest rate (12 *per cent*). The reply is not tenable as the letter of the bank produced

Failure to negotiate the rate of interest with UBI caused additional payment of interest aggregating to Rs.81.76 lakh.

by the Management is only a confirmation of their Prime Time Lending Rate (PTLR) and not the refusal for reduction in the interest rate.

**3.2.25** It was further noticed by Audit that the terms and conditions of the loan of Rs.64 crore obtained (March 2001) from UBI stipulated that the amount of loan could be repaid in full or part at any time without payment of any early repayment charges. The Corporation had surplus funds of Rs.5.52 crore since January 2005, in addition to the bank balance ranging from Rs.1.16 to Rs.14.33 crore in their bank account for their day to day operations. The surplus funds were kept in Fixed Deposit Receipts (FDRs) during January 2005 to January 2006 in different banks at interest rates ranging from 4.5 to 6 *per cent* per annum which were lower than the applicable rate of interest of 8 *per cent* payable on the above loan for the corresponding period.

There was no justification for investing surplus funds in the FDRs carrying lower rate of interest and simultaneously having outstanding balance of term loan bearing a higher rate of interest. This resulted in an avoidable payment of interest of Rs.11.91 lakh (at differential rate of interest between the rates of FDR and that of loan) due to parking of funds in FDRs during January 2005 to January 2006.

The Management/Government stated (June/August 2006) that surplus funds were kept to meet out future liabilities on account of purchases, payment of advance income tax and salary of employees. The replies of the Management/Government are not tenable as surplus funds were not utilised for payment of liabilities by the Corporation during the above period and heavy balances were kept in their bank accounts.

#### ***Refund of loans***

**3.2.26** The Corporation was required to use its own funds as well as loans from the Food Department at prescribed rates of interest. According to the policy of the State Government, the loan was to be released to the Corporation at the beginning of each RMS (April) and the Corporation was required to refund the loan to the Government latest by 31 July of each year of procurement. It was noticed in audit that the Corporation obtained loans from the State Government for procurement activities to the extent of Rs.8 crore and Rs.10 crore for the Rabi Marketing Seasons 2001-2002 and 2002-2003 respectively. The Corporation also received Rs.11.26 crore during June/July 2001 and Rs.16.68 crore during June/July 2002 from the FCI/State Government agencies for supply of wheat. The Corporation, thus, had enough funds to refund the loans in time but it failed to do so. The loan was refunded by the Corporation to the Government/Food Department up to March after a delay of five months in each year. As a result, the Corporation had to make avoidable payment of interest to the extent of Rs.1.03 crore for the delayed period of refund of loan which indicated imprudent fund management.

The Management stated (August 2006) that the part payment of loan to the tune of Rs.9.35 crore for 2001-02 and Rs.12.47 crore for 2002-03 was made to the State Government within the prescribed period *i.e.* July of each year and the balance was paid at the earliest possible. The reply is not tenable as the actual loan amount was Rs.8 crore and Rs.10 crore for 2001-02 and 2002-03 respectively and the loan was repaid after a delay of five months *i.e.* by the end of March 2002 and March 2003 and not within the stipulated time.

#### ***Parking of funds in private bank***

**3.2.27** The Government of Uttar Pradesh had directed (December 1992) all

**Delayed refund of loan with interest beyond the prescribed period resulted in avoidable payment of interest to the extent of Rs.1.03 crore.**

Despite restriction imposed by the Government, Corporation maintained account with a private bank having huge balance of Rs.2.09 crore.

the Managing Directors (MDs) of the Public Sector Undertakings (PSUs)/Nigams to ensure that PSUs/Nigam do not keep their bank accounts in private banks. It was noticed (August 2006) in audit that the Corporation in violation of the Government orders, was operating a bank account in a private bank viz. Kotak Mahindra Bank, Lucknow and had kept a heavy balance of Rs.2.09 crore with the bank at the end of March 2006.

### Internal Control System

**3.2.28** Internal control is a process designed for providing reasonable assurance for efficiency of operation, reliability of financial reporting and compliance with applicable laws and statutes. Internal Audit is a system designed to ensure proper functioning as well as effectiveness of the internal control system and detection of errors and frauds. Audit analysis of internal control procedures/mechanism and internal audit system revealed that the internal control mechanism was ineffective as discussed below:

- There was a system of physical verification of stock on monthly and quarterly basis by the same centre in-charge and the respective Regional Manager. This system is deficient as physical verification should have been conducted by independent officials/authorities other than the officials/officers responsible for handling the stock.
- The Corporation has its own Internal Audit wing headed by one General Manager (Internal Audit) who is reporting to the Managing Director but he is also holding the charge of General Manager (Finance) with effect from July 2006 which could dilute the effectiveness of internal audit. The Management also agreed that the Internal Audit wing was inadequately staffed. The Corporation had not prepared any Audit or Accounts Manual; these were stated to be in the process of preparation.

### Acknowledgement

**3.2.29** Audit acknowledges the co-operation and assistance extended by different levels of officers of the Corporation/Government at various stages of conducting the performance audit.

The above matters were reported to the Government in July 2006; the reply is awaited (October 2006).

### Conclusion

**The performance of the Corporation with regard to its stated objectives was found to be deficient. The Corporation could not construct godowns conforming to FCI specifications and it failed to get competitive rates for construction of godowns due to non-inviting of tenders for the actual volume of work. The Corporation also committed wasteful expenditure on construction of a road without upgrading the level of land. The Corporation was deprived of capital subsidy due to non-deferment of loan from bank. The Corporation did not prepare cash/fund flow statements resulting in mismanagement of funds. The Corporation had to make extra payment of interest due to failure to pursue subsidy claims and delayed refund of Government loans. The Corporation sustained major losses due to damage to stock caused by improper storage. The Corporation also failed to contain storage losses within permissible limits. Heavy**

expenditure was incurred on outsourcing of weighment ignoring the need for own weigh bridges.

**Recommendations**

- The Corporation should strictly observe prescribed tendering procedures to get the full benefit of competitive rates.
- The Corporation should prepare cash/fund flow statements for optimum utilisation of funds and efforts should be made for timely refund of loans and Government dues.
- The Corporation should evolve a system by which storage losses can be minimised.
- The Corporation should consider installation of a reliable weighment system.
- The Internal Control System should be strengthened to make it more effective.