

CHAPTER-IV

4. Transaction Audit Observations

Important audit findings noticed as a result of test check of transactions made by the State Government companies/Statutory corporations are included in this Chapter.

Government companies

Uttar Pradesh State Agro Industrial Corporation Limited

4.1 Loss due to non-levy of centage on deposit works

Failure of the Company to levy centage on deposit works resulted in loss of Rs.98 lakh.

The Government Order (March 1999) stipulated that Public Sector Undertakings, Corporations and other construction units/Autonomous Bodies should levy centage at the rate of 12.5 *per cent* on deposit works in respect of schemes financed under Bundelkhand Vikas Nidhi (BVN), Purvanchal Vikas Nidhi (PVN) and Vidhayak Nidhi (VN) *etc.* executed by them.

It was noticed (December 2005) in audit that the Company installed 3979 hand pumps at a cost of Rs.7.82 crore under BVN, PVN and VN schemes during 2003-04 to 2004-05 and it was authorised to levy centage of Rs.98 lakh in accordance with the above provisions. The Company, however, did not levy any centage on the above deposit works executed by it. Thus due to non-levy of centage on above works, the Company suffered a loss of Rs.98 lakh.

The Government accepted (August 2006) the audit observation and stated that it had issued instructions to charge centage at the rate of 12.5 *per cent* on BVN, PVN and VN deposit works and to issue supplementary bills for recovery of centage charges not levied earlier.

4.2 Undue favour to rice millers

The Company extended undue favour of Rs.26.16 lakh to rice millers by not recovering the value of Custom Mill Rice short delivered.

The Company was entrusted (October 2003) the work of procurement of food grains (paddy and wheat) by the Food Department of Government of Uttar Pradesh under the Minimum Support Price Scheme. As per the scheme, the Company purchases paddy from farmers at the minimum support price and delivers it to the contracted rice millers for its hulling* at the approved rate. The rice millers were required to deliver Custom Milled Rice (CMR) to the Company, at the recovery rate prescribed by the Government of India. The prescribed recovery rate of CMR up to the season 2003-04 was 67 *per cent* of paddy delivered to rice millers. Subsequently, the Government revised (December 2003) the recovery rate of CMR from 67 *per cent* to 64 *per cent* for western districts of the State from Kharif season 2003-04. The Government, further, clarified (July 2004) that CMR in respect of Kharif season 2003-04 or for earlier years outstanding for delivery by the rice millers

* Hulling is a process of conversion of paddy into rice.

would be first adjusted from the CMR of Kharif season 2004-05. This meant that out of the CMR delivered in the year 2004-05, CMR short delivered in the earlier years would be adjusted first.

It was noticed (November 2005) in audit that during the year 2004-05, the Company delivered 11,501.695 MT paddy to the rice millers of Mathura, Pilibhit, Shahjahanpur and Bareilly districts (western districts) for hulling. Against this, 7,361.085 MT CMR was to be delivered by the rice millers (at the prescribed recovery rate of 64 *per cent*). The millers, however, delivered 7107.093 MT CMR only and adjusted the balance CMR of 253.992 MT valuing Rs.26.16 lakh (calculated at the rate of Rs.10,300 per MT) against CMR of 2003-04 on account of difference of pre-revised (67 *per cent*) and revised recovery rate (64 *per cent*). Since the millers had already delivered CMR for 2003-04 at the then applicable recovery rate(s) and no quantity of CMR was outstanding for delivery, adjustment on the basis of revised recovery rate of 64 *per cent* was not justified. Thus the Company, by not taking any action to recover the value of CMR not delivered by the rice millers, extended undue favour to rice millers to the tune of Rs.26.16 lakh

The Management/Government stated (May/August 2006) that the adjustment of CMR has been made by the rice millers at their own level as per provisions of the GO of July 2004. The reply of the Management is not tenable since the GO of July 2004 was applicable only for the CMR outstanding for delivery for 2003-04 or for earlier years to be adjusted against CMR of 2004-05 and there was no CMR outstanding for the year 2003-04 or earlier years for delivery by the millers.

Uttar Pradesh State Handloom Corporation Limited

4.3 Excess payment of ex-gratia

Computation of ex-gratia for service rendered for fraction of a year resulted in excess payment of Rs.24.13 lakh.

The State Government introduced (June 1993) a Voluntary Retirement Scheme (VRS) for the employees of Public Sector Enterprises/ Corporations. Under the scheme, an employee opting for voluntary retirement was entitled to get ex-gratia calculated at the rate of one and half months' emoluments (Pay and Dearness Allowance) for each year of completed service rendered or emoluments for remaining service at the time of taking retirement under VRS, whichever was less. The State Government further clarified (September 2001) that service completed for fraction of a year would not be counted for the purpose.

It was noticed (June 2005) in audit that the Company, considered total period of service rendered including period of fraction of a year in computing the ex-gratia amount. This was against the provisions of the VRS and resulted in excess payment of ex-gratia amounting to Rs.24.13 lakh to 627 employees during September 1998 to February 2004.

The Management/Government stated (June 2006) that the term 'completed year' has not been defined in the Office Memorandum (OM) dated 8 June 1993 issued by the State Government. The reply is not tenable as the term 'completed year' has been clearly defined in the OM of June 1993.

Uttar Pradesh Drugs and Pharmaceuticals Limited**4.4 Avoidable Payment of demand charges**

The Company failed to reduce its contracted load according to requirement which resulted in avoidable payment of Rs.39.05 lakh towards demand charges.

Uttar Pradesh Drugs and Pharmaceuticals Limited, Lucknow (the Company) was sanctioned power load of 530 KVA in October 1982 by Co-operative Electric Supply Society (CESS), a licensee of the erstwhile U.P. State Electricity Board (UPSEB). The Company applied (July 1983) for an additional load of 295 KVA to meet its requirement, which was sanctioned in March 1985. Subsequently, however, due to decrease in its production activities, the Company applied (November 1990) for surrender of additional load of 295 KVA. The CESS sanctioned reduction of contracted load from 825 KVA to 530 KVA in January 1991. As per tariff schedule applicable for large and heavy industries, demand charge is levied on the actual maximum demand recorded in a month or 75 per cent of the contracted load whichever is higher.

The examination (October 2002) of records of the Company by Audit and further scrutiny of the information furnished (July 2004 and February 2006) by the Management revealed that actual demand of the Company during the period May 1991 to December 2005 ranged between 50 KVA to 266 KVA against the contracted load of 530 KVA. As a result, it had to pay demand charges for 397.5 KVA per month (75 per cent of the contracted load of 530 KVA). While applying for reduction in the contracted load in November 1990, the Company failed to assess correctly its demand, since actual demand was ranging from 133 KVA to 275 KVA (except 400 KVA in January 1986) during the period from March 1985 to November 1990, and get the contracted load reduced to 300 KVA. Non-reduction of contracted demand resulted in avoidable payment of demand charges of Rs.39.05 lakh to CESS/Board/Madhyanchal Vidyut Vitran Nigam Limited during the period from May 1991 to December 2005.

The matter was reported to the Management/Government in March 2006; their replies are awaited (October 2006).

Uttar Pradesh State Spinning Company Limited**4.5 Avoidable payment of interest**

The Company suffered loss of Rs.82.07 lakh due to parking of surplus funds in short term deposits bearing lower rates of interest instead of repaying loan obtained on Cash Credit Limit bearing higher rates of interest.

The Company has three spinning mills located at Barabanki (BBK), Rai-Bareilly (RBL) and Mau Nath Bhanjan (MNB). In order to meet working capital requirements, RBL and MNB obtained cash credit limit (CCL) from Union Bank of India and Allahabad Bank respectively at interest rate ranging from 14.25 to 15.5 per cent per annum. On the other hand, BBK had surplus funds, which were invested in term deposits with Allahabad Bank at interest rate ranging from 5.35 to 6.66 per cent per annum.

It was noticed (August 2005) in audit that during April 2003 to June 2005, RBL and MNB utilised consolidated maximum monthly CCL limit ranging

from Rs.5.09 to Rs.5.65 crore whereas BBK kept its surplus funds, ranging from Rs.2 crore to Rs.6.65 crore in fixed deposit receipts (FDRs) with Allahabad Bank, in addition to keeping bank balance ranging from Rs.0.62 crore to Rs.1.33 crore in their bank accounts for their day to day working capital requirement. There was no rationale behind investing surplus funds in the FDRs carrying lower rates of interest in one of its units while having outstanding balances of CCL at higher rates of interest in other units. Had the surplus funds of BBK been utilised in paying/reducing CCL of RBL and MNB, the Company could have saved interest expenditure to the tune of Rs.82.07 lakh calculated at the differential rate of interest of 7.59 per cent (14.25 minus 6.66) per annum.

Thus, the Company suffered loss of Rs.82.07 lakh by deploying surplus funds in short term deposits bearing lower rates of interest instead of repaying loan obtained on CCL bearing higher rates of interest.

The Management/Government stated (June 2006) that while deciding to stop inter-unit transfer of funds, all relevant factors including interest demand which may have to be paid to bank by Raibareilly and Mau Nath Bhanjan units were considered. It was further stated that funds in the shape of short term deposit were deposited by Barabanki unit to meet out the liability of Deferred Trade Tax pertaining to the period July 2001 to June 2004. The reply of the Management is not tenable as deferred trade tax liability is to be paid in annual instalments during the period July 2006 to July 2008.

Uttar Pradesh State Yarn Company Limited

4.6 Avoidable expenditure

The Company incurred avoidable expenditure of Rs.19.59 lakh on hiring of a DG set due to non-consideration of consumption norms of HSD in its operation.

The general procedure for inviting tenders provides for invitation of tenders from the suppliers/contractors in two parts *viz.* technical and financial bids, to enable the Management to decide the award of work at technically and economically viable rates.

It was noticed (January 2006) in audit that the Jaunpur unit of the Company had been hiring a DG set of 500 KVA capacity regularly since February 1998 to provide uninterrupted electricity supply in case of power failure. In this connection, fresh tenders were invited (April 2003) for hiring of one DG set of 500 KVA capacity and the lowest rates of Sanchopal Diesels (SD) at Rs.60,000 per month plus issue of High Speed Diesel (HSD) and Mobil oil required for operation of the DG set during service period were approved (May 2003) by the Company. Accordingly, an order was placed on the firm in June 2003 for hiring of the DG set. The DG set was supplied, installed and put to operation with effect from July 2003.

Audit examination further revealed that the offer of SD was finalised (Rs.60,000 per month) by the committee constituted for finalisation of tender on the basis of the financial bid only without considering and evaluating the technical specifications affecting the cost of operation of DG set *viz.* consumption of HSD required for generating power to be used by the Company. It was noticed that the DG set offered by SD generated only three KWh power by consuming one litre of HSD, whereas the DG set offered by the second lowest tenderer Shanky Engineering Works (SEW) (Rs.65000 per

month plus HSD) generated 3.8 KWh. The offer of SEW was not considered by the committee as the cost of consumption of HSD to be supplied by the Company was not taken into account to assess the value of the contract. During the period from July 2003 to December 2005, DG set of SD generated 1119270 KWh units by consuming 369863 liters HSD (value Rs103.56 lakh). Had the Company hired DG set of SEW these units could have been generated by using 294545 litres of HSD valuing Rs.82.47 lakh, and the Company could have saved Rs.19.59 lakh after reducing the differential rent of Rs.1.50 lakh calculated at the rate of Rs.5000 per month for 30 months.

The Management/Government stated (July/October 2006) that SEW in its offer submitted two rates of consumption of HSD as 3.8 KWh per litres and 3.5 KWh per litres which was confusing and contradictory. The reply of the Management is not tenable since the Company did not include any condition in the terms and condition of the tender regarding technical specification of DG set. Since HSD consumption was a key factor for evaluating the economic viability, this should have been called for in quotation itself and evaluated accordingly.

Uttar Pradesh Projects Corporation Limited

4.7 Loss in construction of pump house

The Company suffered loss of Rs.47.29 lakh in construction of a pump house due to imprudent decision to abandon the work.

A Memorandum of Understanding (MOU) was signed (March 2001) between the Irrigation Department (Department) and the Company for construction of a Pump House at Tronica City, Ghaziabad at an estimated cost of Rs 2.50 crore to be completed by October 2001. The MOU, *inter-alia*, provided that the work would be executed as per the drawings and designs approved by the Department. It further envisaged that any dispute between the Company and the Department would be finally settled at the Government level.

It was noticed (August 2005) in audit that the Aligarh unit of the Company started the aforesaid work (June 2001) and incurred expenditure of Rs 1.30 crore up to March 2002. The Company, however, preferred bills of Rs.1.22 crore for the works executed up to March 2002 with the Department. The work was stopped (April 2002) due to dispute on certain claims between the Company and the Department. The dispute on claims was referred to the Government which was finally settled at the Government level (January 2003) for payment of Rs.82.58 lakh. The Company in its Board meeting (28 March 2003) decided to abandon the work on the ground of non-receipt of advance payment against executed and balance works from the Department. The Department, accordingly, in terms of provisions of the MOU rescinded the contract and withdrew the work (November 2003) from the Company. The Company, thus, suffered loss of Rs.47.29 lakh due to curtailment in payments against preferred claims by the Department (Rs.39.42 lakh) and non-claiming of testing fees (Rs.7.87 lakh) on construction of pump house due to imprudent decision of the Company to abandon the work mid-way.

The Management stated (August 2006) that the contention of Audit is not correct as the minutes of a meeting relating to the final payment of Rs.82.58 lakh decided at the Government level were not available with the Company. The reply of the Management is not tenable as matter was settled (January 2003) in terms of clause 5 of MOU at the Government level which was binding on both the Department and the Company.

The matter was reported to the Government in May 2006; the reply is awaited (October 2006).

Uttar Pradesh State Bridge Corporation Limited

4.8 Excess expenditure

The Company suffered loss of Rs.99.97 lakh due to incurring of excess expenditure on construction of a road.

The National Highway Authority of India (NHAI), New Delhi awarded (May 2002) a contract to the Company for executing the work of widening and strengthening of the existing two lane to four lane road (186.500 to 188.500 Km and 194.00 to 196.750 Km) on National Highway-2 at total cost of Rs.3.70 crore without any escalation clause with schedule date of completion as March 2003. The Managing Director of the Company accorded (November 2002) technical sanction for Rs.3.70 crore (including labour component of Rs.27.49 lakh and profit of Rs.20.44 lakh) for execution of the work.

Audit examination of records (June 2005) revealed that the Bridge Construction Unit (BCU), Allahabad of the Company started the work in May 2002 and belatedly completed the work in March 2004 after incurring an expenditure of Rs.4.03 crore. The BCU, however, submitted bills of Rs.3.25 crore as per the quantity executed to NHAI for payment against which an amount of Rs.3.03 crore was paid by NHAI. Thus, the BCU incurred excess expenditure of Rs.99.97 lakh (Rs.402.77 lakh - Rs.302.80 lakh). Out of Rs.99.97 lakh incurred as excess expenditure by the Company, Rs.94.98 lakh was on account of labour cost only as against Rs.27.49 lakh provided in the technical sanction of the detailed estimate. The remaining amount of Rs.4.99 lakh was incurred on other heads.

The Management stated (July 2006) that excess expenditure of Rs.67.49 lakh was related to idle labour who were not associated with the construction work of the road. The reply of the Management is not to the point as total expenditure of Rs.122.47 lakh on account of labour was charged to the work, out of which Rs.66.16 lakh only was paid to contract labour against actual work and the fact remains that the Company suffered loss of Rs.99.97 lakh due to excess expenditure incurred on the aforesaid work which has not been claimed by the Company from NHAI.

The matter was reported to the Government in May 2006; reply is awaited (October 2006).

Uttar Pradesh Samaj Kalyan Nirman Nigam Limited

4.9 Loss due to non-levy of centage charges on deposit works

Failure of the Company to levy centage charges on deposit works resulted in loss of Rs.3.53 crore.

As per the order of the Government dated 24 March 1999 (GO), the Public Sector Undertakings, Corporations and other construction units/Autonomous Bodies should levy and collect from their clients centage charges at the rate of 12.5 *per cent* on deposit works in respect of schemes financed under Bundelkhand Vikas Nidhi (BVN), Purvanchal Vikas Nidhi (PVN) and Vidhayak Nidhi (VN) *etc.* executed by them.

It was noticed (February 2006) in audit that the Company incurred an expenditure of Rs.28.23 crore on the execution of 141 works under VN for

various Government departments/agencies during 2004-05 and 2005-06 (up to January 2006). As per the provisions of the above order, the centage charges of Rs.3.53 crore were to be levied by the Company. The Company, however, did not levy centage charges on the above deposit works executed by it. As a result the Company suffered loss of Rs.3.53 crore.

The Management stated (June 2006) that centage charges were not levied as the G.O. was neither addressed nor endorsed to the Company or its Administrative Department. The reply of the Management is not tenable as G.O. was circulated to all the Departments for compliance.

The matter was reported to the Government in May 2006; reply is awaited (October 2006).

4.10 Irregular expenditure on construction of own office building

The Company incurred irregular expenditure of Rs.2.97 crore on construction of its own office building.

The State Government imposed (September 1999) restriction on construction of new residential/ non- residential buildings by the Government Departments/Public Sector undertakings. The Government orders further envisaged that prior approval/sanction of the Government be obtained where construction of any residential/non-residential building was found inevitable.

It was noticed (February 2006) during audit that although the Company was having its own office building at Lekhraj Market Complex, Indira Nagar, Lucknow, it purchased (February 2000) land (40000 Sq ft.) worth Rs.1.79 crore out of its own funds from Lucknow Development Authority for construction of office building at Gomti Nagar Lucknow without obtaining approval from the Government. The construction work was started on 30 March 2000 and was abandoned mid-way in December 2003 after incurring an expenditure of Rs.1.18 crore when a Director of the Board raised (December 2003) the issue in the Board meeting of the Company. As a result, the Company approached (August 2004) the Government for *ex-post facto* approval for the construction of the new office building. The Government, however, directed (November 2004) the Company to specify the reasons for not obtaining prior approval of the Government before commencement of the work and to fix responsibility for utilising funds without the approval of the Government.

The Management's decision for taking up the construction of the new office building without prior approval of the Government, thus, resulted in irregular expenditure of Rs.2.97 crore. No further construction had been undertaken thereafter.

The Management stated (May 2006) that the proposal for construction of office building was approved by the Board of Directors due to requirement of office space by the Company. As far as G.O. is concerned, it was not in the notice of the Company and therefore, necessary approval could not be sought from the Government. Now, *ex-post facto* approval has been sought (August 2004) from the Government which is still awaited. The reply is not tenable in view of the fact that the letter dated 08 November 2004 of the Government seeking clarifications/reasons for not obtaining prior approval of the Government clearly states that construction should have been started only after approval by the Government.

The matter was reported to the Government in April 2006; reply is awaited (October 2006).

Uttar Pradesh State Sugar Corporation Limited

4.11 Unfruitful expenditure

The Company incurred unfruitful expenditure of Rs.3.64 crore on annual repair and maintenance of the closed sugar mill due to non-adherence to the time schedule for repair and maintenance.

Annual Repair and Maintenance (ARM) of a sugar factory is required before start of every crushing season. As ARM takes three to four months time, therefore, time is the essence for an ARM programme.

It was noticed (June 2005) in audit that the Government decided (February 2004) to operate Rampur Sugar Mill (closed since November 1999) for the crushing season 2004-05 (October to March). The Company, accordingly, submitted (February 2004) a proposal to the Government for sanction of loan of Rs.3 crore for carrying out annual repair and maintenance of the Sugar Mill in a time bound programme between 25 February and 29 June 2004. The proposal was approved by the Government and funds to the tune of Rs.3 crore were released (March 2004) thereagainst to re-start the mill for crushing after repairs.

Audit scrutiny revealed (June 2005) that the Company could not start the repair work as per schedule approved by the Government and commenced the repair work of sugar mill belatedly from 22 July 2004. The test and trial run of the plant carried out after repairs on 22 November 2004 failed. The defects noticed in the trial run were rectified and total expenditure of Rs.3.64 crore was incurred on annual repair and maintenance of the mill. The mill finally started its production on 28 February 2005 but was closed just after five days on 05 March 2005 due to non-availability of sugarcane.

Delay in start of annual repair and maintenance work by 4 months from the date of approval of the proposal and further delay of two months in rectifying the defects resulted in lapse of crushing season 2004-05. As a result, the expenditure of Rs.3.64 crore (Government loan: Rs.3 crore and Company's funds: Rs.0.64 crore) incurred on annual repair and maintenance of the mill became unfruitful.

The matter was reported to the Management/Government in May 2006; their replies are awaited (October 2006).

4.12 Undue favour to a private party

The Company suffered loss of Rs.34.98 lakh on sale of unlifted quantity of molasses at lower rates.

Molasses, a by-product of sugar industry, are recovered during the refining process of raw sugar and sold to distilleries and other industries for making alcohol and ethanol. To dispose off the molasses in the open market, the Company invites tenders and allotment is made to the highest bidder. Clause 5 of the terms and conditions of allotment orders issued in favour of purchaser firms, *inter-alia*, stipulate that if the purchaser fails to lift the entire allotted quantity of molasses within the validity period and the Company subsequently sells the unlifted quantity of molasses at lower rates, the differential amount would be recovered from the concerned purchaser.

Audit examination of the records (September 2005) of Siswabazar unit of the Company revealed that the Company invited tenders (31 August 2004) and allotted (8 September 2004) 7805 Quintals of molasses at the rate of Rs.540 per quintal in favour of Sarraiya Aswani, Gorakhpur which was to be lifted by

24 September 2004. The firm failed to lift the allotted quantity within the stipulated period. The Company, subsequently, invited tender (23 November 2004) and allotted (27 November 2004) 11000 quintals of molasses at the rate of Rs.330 per quintal to the same firm which was lifted by the firm.

It was further noticed in audit that the Company invited tenders (28 February 2005) and the same firm was allotted (7 March 2005) 13000 quintals of molasses at the rate of Rs 446 per quintal which was to be lifted by 12 April 2005. The firm, however, lifted only 2435 quintals of molasses during the stipulated period. The Company extended the validity period up to 15 May 2005 for lifting of the balance quantity of 10565 quintals of molasses but the firm failed to lift the same even during the extended period. The Company, subsequently, invited tender (28 June 2005) and allotted (30 June 2005) 15000 quintals of molasses at the rate of Rs.270 per quintal to the same firm which was lifted by the firm.

The Company, thus, suffered loss of Rs.34.98 lakh (calculated at differential rate of Rs 210 per quintal on 7805 quintals and at differential rate of Rs.176 per quintal on 10565 quintals) due to extending undue favour to the firm by frequent allotment to the same firm without recovering the differential amount on account of sale of unlifted quantity of molasses at lower rates.

The Management stated (July 2006) that the condition regarding recovery of differential amount from the purchaser of molasses was incorporated in the allotment order with a view to create pressure on the purchaser for lifting of the molasses. It was further stated that this condition was relaxed by the Managing Director in commercial interest and good faith. The reply of the Management is not tenable in view of the specific provision in the allotment orders regarding recovery of differential amount from the purchaser of molasses in case of default and habitual default of purchaser.

The matter was reported to the Government in May 2006; reply is awaited (October 2006).

Uttar Pradesh Rajya Chini Avam Ganna Vikas Nigam Limited

4.13 Short lodging of claim

The Company suffered loss of Rs.38.54 lakh due to short lodging of claim for damaged sugar.

The Pipraich unit of the Company obtained (April 2001) an insurance policy of Rs.7 crore from the United India Insurance Company Limited (UIICL) for insurance of stock of sugar against risk of fire and flood for the period from April 2001 to March 2002. Clause 6 of General Conditions of the Policy stipulates that on the happening of any loss or damage the Insured shall lodge its claim in writing for the loss or the damage having regard to their value at the time of the loss or damage, not including profit of any kind.

It was observed (September 2005) in audit that 9332 bags of sugar of the Company got damaged (in its godown no.1) due to water logging caused by floods (September 2001). In terms of the Policy, the Company should have lodged claim for Rs.1.35 crore being the value of sugar (for 9332 bags at the rates ranging between Rs.1445 and Rs.1450 per bag) on the date of incident reduced by realisable value of damaged sugar to be received. The Company auctioned (June 2003 to March 2004) the damaged sugar for Rs.91.50 lakh (price actually received ranged from Rs.880 to Rs.1155 per bag). The Company as such suffered loss of Rs.43.50 lakh on disposal of the damaged sugar which should have been compensated out of the claim lodged (January

2002) for the loss with the Insurer. The Company, however, lodged claim with the Insurer for Rs.11.57 lakh only on the basis of re-processing cost which was accepted for Rs.4.96 lakh only by the insurance Company without assigning any reason. The Company thus suffered a loss of Rs.38.54 lakh due to under preferment of claim with UIICL.

The matter was reported to the Management/Government in April 2006; their replies are awaited (October 2006).

Power Distribution Companies

4.14 Non-recovery of shunt capacitor surcharge

Four Power Distribution Companies suffered loss of revenue due to non-recovery of shunt capacitor surcharge of Rs.5.83 crore.

4.14.1 Clause 4 (ii) of rate schedule LMV-3 (applicable to public lamps including street lighting system, traffic control signals, lighting of public parks etc.) of Uttar Pradesh Power Corporation Limited (UPPCL), effective from 1 December 2004, provides that in respect of connections without Static Tri-Vector Meters (TVMs), if capacitors of appropriate rating are found missing or non-operational, a surcharge of 10 per cent of the amount of the bill shall be levied.

During the audit of Electricity Urban Distribution Divisions (EUDDs) of three power Distribution Companies, it was noticed that the following Divisions were supplying electricity on the basis of unmetered supply under LMV-3 to the Nagar Nigams/Municipalities for street light points under various separate connections and in these cases neither had the static TVM nor the shunt capacitors been installed. In terms of the provisions of the rate schedule, shunt capacitor surcharge of Rs.89.69 lakh on the energy charges of Rs.8.97 crore as detailed below should have been levied.

Sl. No.	Name of Company/ Division	Period	Energy charges levied (Rs. in crore)	Shunt capacitor surcharge not levied (Rs. in lakh)	Remarks
1.	Purvanchal Vidyut Vitran Nigam Limited (EUDD-I, II and III Gorakhpur)	December 2004 to January 2006	1.24	12.38	On this being pointed out (February 2006) by Audit, the Divisional officers of all the three divisions stated (September 2006) that supplementary bills have been issued (March to June 2006), the recoveries of which are, however, awaited (October 2006).
2.	Madhyanchal Vidyut Vitran Nigam Limited (EUDD-Chowk and Hussainganj, Lucknow)	December 2004 to February 2006	4.37	43.73	On this being pointed out (March 2006) by Audit, EUDD Hussainganj, Lucknow raised (June 2006) supplementary bills for the objected amount, the recovery of which is awaited (October 2006). In respect of EUDD Chowk, the Divisional Officer stated (July 2006) that installation of shunt capacitor on street light connections was not possible since the connections of street light points were not released at single point. The reply is not tenable as the shunt capacitor on street light points were required to be installed in terms of tariff provisions.

3.	Dakshinanchal Vidyut Vitran Nigam Limited (EUDD-II, IV and V Agra and EUDD I and II Aligarh)	December 2004 to March 2006	3.36	33.58	On this being pointed out (February and April 2006) by Audit, the EUDDs II, IV and V Agra and EUDD-I Aligarh raised (June 2006), supplementary bills for the objected amount (Rs. 27.23 lakh) the recoveries of which are awaited (August 2006). The Divisional Officer of EUDD-II Aligarh stated (June 2006) that since supply of energy to street light points was unmetered, no shunt capacitor was installed and as such surcharge was not leviable. The reply is not tenable as shunt capacitor on street light points were required to be installed in terms of tariff provisions.
		Total	8.97	89.69	

4.14.2 Similarly, Clause 1 of the rate schedule LMV-5, effective from 1 December 2004, applicable to private tube wells/pump sets (PTW) for irrigation purposes having a contracted load up to 25 Brake Horse Power (BHP) provides that the new connections shall be released only after installation of shunt capacitors of appropriate ratings and all existing pump sets were also required to install shunt capacitors. Clause 6 of the above rate schedule further provides that all the consumers were required to maintain an average power factor of 0.85 and above during any billing period in order to stabilise the voltage. In respect of the consumers without static Tri Vector Meters (TVMs), if the capacitors of appropriate ratings were found missing or in-operational, a surcharge 10 per cent of the amount of the bill was to be levied.

During the audit of Electricity Distribution Divisions (EDDs) of two power Distribution Companies, it was noticed that the following Divisions were supplying electricity to various PTW consumers without installation of TVMs/shunt capacitors. These Divisions neither took any action to ensure installation of shunt capacitors nor levied shunt capacitor surcharge amounting to Rs. 5.27 crore on energy charges of Rs.52.69 crore (at the rate of 10 per cent) as detailed below:

Sl. No.	Name of Company/Division	Period	Energy charges levied (Rs. in crore)	Shunt capacitor surcharge not levied (Rs. in crore)	Remarks
1.	Dakshinanchal Vidyut Vitran Nigam Limited (EDD-I Mathura and EDD-I and III Aligarh)	December 2004 to February 2006	22.00	2.20	It was noticed in audit (December 2005 and March 2006) that these EDDs were giving unmetered supply to 28,927 PTW consumers (existing and new) having connected load of 1,94,554 BHP under rate schedule LMV-5. EDD-I Mathura stated (June 2006) that surcharge had been levied while EDDs I and II Aligarh stated (June 2006) that they will levy the surcharge from the ensuing month. Levy of shunt capacitor surcharge by Aligarh I and II divisions and recovery in case of Mathura division was awaited (October 2006).
2.	Paschimanchal Vidyut Vitran Nigam Limited (EUDD-II Muzaffarnagar, EDD Baghpat, EDD-I and II Meerut and EDD Saharanpur)	December 2004 to March 2006	30.69	3.07	It was noticed in audit (August 2005 and April 2006) that these EDDs were giving unmetered supply to 46,543 PTW consumers (including 5,031 new) having connected load of 2,83,223 BHP under rate schedule LMV-5. On this being pointed out by Audit, all the divisions levied (December 2005 to May 2006) the shunt capacitor surcharge amounting to Rs. 3.07 crore against which Rs.34.19 lakh (out of Rs.57.05 lakh) was recovered by one Division (EDD-II Meerut). The recovery of the balance amount of shunt capacitor surcharge (Rs. 2.73 crore) is awaited.
		Total	52.69	5.27	

Thus, non-levy of shunt capacitor surcharge resulted in loss of revenue of Rs.5.83 crore to the Power Distribution Companies.

The matter was reported to the Management/Government in March/May-June 2006; their replies are awaited (October 2006).

Purvanchal Vidyut Vitran Nigam Limited

4.15 Irregular load factor rebate

The Company allowed irregular credit of load factor rebate of Rs.3.42 crore to consumers.

The Rate Schedules HV-2 (September 2003/December 2004) applicable to large and heavy consumers provide graded load factor rebate ranging from 7.5 to 25 per cent for any excess consumption over the defined KVAh per KVA (of maximum recorded demand), on the energy charges for such excess consumption. Consumers with arrears were, however, not eligible for such rebate. In case the consumer had obtained an order of stay from a court or from any statutory authority against recovery of arrears, the amount of load factor rebate would accrue to the account of the consumer but would be payable only after the dispute regarding arrear is finally decided by the court or the statutory authority.

It was noticed (February 2006) in audit that in Electricity Urban Distribution Divisions (EUDDs)-II and III, Gorakhpur, two heavy power consumers (Jalan Con Cost Private Limited and Govind Mills Limited) having arrear of Rs.1.25 crore and of Rs.73.59 lakh respectively obtained stay orders (July 1998) from the High Court, which have not been vacated so far (September 2006). As per the above provisions of the rate schedules the amount for load factor rebate on their monthly bills was to be calculated but the actual credit thereof was to be given to the consumers after the final decision of the court. It was, however, noticed in audit that the Divisions irregularly allowed actual credit of load factor rebate aggregating Rs.3.42 crore (Jalan Con Cost Private Limited: Rs.2.25 crore and Govind Mills Limited: Rs.1.17 crore) by adjusting their monthly bills of electricity dues during the period from April 2000 to November 2005.

The concerned Divisional Officer stated (July 2006) that supplementary bills for recovery of the rebate have been raised (February 2006). The recoveries are, however, awaited (October 2006).

The matter was reported to the Management/Government in March 2006; their replies are awaited (October 2006).

4.16 Under assessment of energy

The Company suffered loss of revenue aggregating Rs.62.05 lakh due to under assessment of energy by application of incorrect multiplying factor.

The energy recorded on a three-phase meter is subject to a multiplying factor (MF) which is based on dial factor of the meter and capacities of Current Transformers (CTs) and Potential Transformers (PTs) installed on the line before it passes through the meter. Correctness of capacity of CTs and PTs are, therefore, to be ensured not only at the time of their installation but also subsequently through periodical checking.

It was noticed (February/March 2006) in audit of Electricity Urban Distribution Division-II, Gorakhpur (EUDD) that a power supply connection for 2300 KVA load was released in favour of Fertilizer Corporation of India,

Gorakhpur (consumer) at 132 KV extra high tension and was being billed under rate schedule HV-2. The premises were later on taken over by Sashastra Suraksha Bal (September 2003), a Government organisation and billing was accordingly changed to rate schedule LMV-4 (A), applicable to the public institutions/Government organisations at the contracted load of 1500 KVA. The energy meter of the consumer was installed at the 132 KV, FCI Transmission sub-station, Gorakhpur with MF of 120, according to which consumer was being billed. The Urban Electricity Test and Commissioning Division (UETCD) in its inspection (August 2004), however, found the MF of the energy meter to be 158. The findings of the inspection were intimated by the UETCD to the EUDD in November 2005 after a lapse of 15 months due to which the EUDD continued calculating the energy consumption of the consumer by applying the old MF of 120 during the period from August 2004 to September 2005 (the billing from month of October 2005 was done at MF of 158). This resulted in under assessment of energy consumption of 20,63,914 KWh (calculated at differential MF of 38). The consumer was, thus, short billed for revenue aggregating Rs.62.05 lakh (calculated at the rate of Rs.3.25 per KWh for 20,63,914 KWh, after giving high voltage rebate of 7.5 per cent on rate of charge and excluding electricity duty). No responsibility was fixed for these lapses.

The Divisional Officer of the EUDD, however, at the instance of Audit, issued (April 2006) a supplementary bill to the consumer for Rs.54.70 lakh (at Rs.2.90 per KWH for 1886235 KWh without allowing high voltage rebate), the recovery of which is awaited (October 2006).

The matter was reported to the Management/Government in April 2006; their replies are awaited (October 2006).

4.17 Undue favour to consumer

Despite dishonour of cheques in the past, the Company extended undue benefit to a consumer by extending the facility of payment by cheque, which resulted in accumulation of energy dues to Rs.46.13 lakh.

Clause 6.23.1 of Uttar Pradesh Electricity Supply Code -2002 (Code) provides the facility to the consumer for payment of energy dues by cash (up to Rs.20,000) or by cheque/demand draft. In case a cheque given by the consumer for payment of electricity dues is not encashed within seven days of its presentation to the bank, the Divisional Officer shall require him to pay the bill within seven days in cash and may also withdraw the facility of payment by cheque. Further, if there are two instances of dishonourment of cheques of a consumer in a financial year, the consumer shall be required to make all payments in cash till the end of the following financial year. In addition, the Division may initiate action against the consumer under section 138 and 142 of the Negotiable Instruments Act, 1938.

It was noticed (January 2006) in audit of Electricity Distribution Division, Chandauli that a connection with contracted load of 250 KVA was released in May 2003 in favour of Hem Ganga Polytex (Private) Limited, Ramnagar, Chandauli (consumer). The consumer either defaulted in making payment of monthly energy bills on due dates or the cheques given by him were dishonoured. Against energy bills of Rs.24.94 lakh for the period May 2003 to May 2004, the consumer paid Rs.21.94 lakh through 11 cheques during July 2003 to May 2004, out of which five cheques (including first three cheques) aggregating Rs.13.82 lakh were dishonoured. The Division, however, came to know about the dishonourment of cheques belatedly, by nine to 11 months

after the date of their presentation in the banks due to failure in timely reconciliation with the bank statements. Consequently, the connection was temporarily disconnected in May 2004. The dues of energy accumulated to Rs.16.82 lakh (May 2004). The supply was restored (February 2005) under One Time Settlement (OTS) scheme of November 2004 with the condition that the consumer shall pay the electricity dues up to January 2005 amounting to Rs.23.15 lakh in five equal monthly installments (Rs.4.63 lakh each) along with subsequent monthly energy bills. The Division accepted payment of Rs.28.28 lakh (including amount of OTS: Rs.23.15 lakh) through six cheques during February to October 2005 which were also dishonoured on their presentation into the bank for payment. The Division disconnected the supply temporarily in November 2005 and issued (June 2006) notice under Section 5 of Dues Recovery Act for recovery of energy dues of Rs.46.13 lakh (including OTS amount Rs.23.15 lakh) accumulated up to December 2005. Recovery of dues was awaited (October 2006).

The Division, thus, in contravention of the provisions of the Code extended undue favour to the consumer by extending the facility for making payment through cheques despite the consumer's repeated defaults in payment and frequent dishonour of cheques. The Division also did not take any action against the consumer under the Negotiable Instruments Act, 1938. This resulted in accumulation of energy dues to Rs.46.13 lakh.

The Division stated (January 2006) that the information of dishonoured cheques was received late from the bank due to which it could not ascertain the actual receipt of payment from the consumer and continued to extend the facility of payment by cheque. It further stated (July 2006) that no action could be taken under the Negotiable Instruments Act, 1938 due to non-awareness of the provisions of the Act. The reply is not tenable as the Division failed to reconcile the accounts with the bank statements in time. Further, despite unsatisfactory payment behaviour of the consumer in the past, the Division irregularly allowed him to make payment through cheque under OTS scheme also.

The matter was reported to the Management/Government in May 2006; their replies are awaited (October 2006).

4.18 Undue benefit to consumer

The Company extended undue benefit of Rs.33.29 lakh to a consumer in releasing the connection by tapping an existing 33 KV line instead of constructing an independent feeder at the cost of the consumer.

Clause 3.5 of Uttar Pradesh Electricity Supply Code-2002 (Code) issued by Uttar Pradesh Electricity Regulatory Commission provides that load other than furnace, rolling mills and mini steel plants may be given to a consumer at independent feeder on request, provided all the charges for construction of the independent feeder (cost of bay and line material) are borne by the consumer. Further, the erstwhile Uttar Pradesh State Electricity Board's order dated May 1994 strictly prohibits tapping of its 33 KV trunk line for giving connection to the consumer.

It was noticed (May 2005) in audit of Electricity Distribution Division-I, Gorakhpur (Division) that Asian Fertilizer Limited, Gorakhpur (consumer) requested (October 2002) for supply of 700 KVA load at 33 KV independent feeder. The Company sanctioned (November 2002) the supply with the condition that the cost of construction of independent feeder (cost of 33 KV

bay: Rs.17.50 lakh and cost of line material: Rs.15.79 lakh*) was to be borne by the consumer. The Division, however, neither conducted any survey nor prepared the estimate for construction of 33 KV independent feeder from grid sub-station. The Company, however, in contravention of order of May 1994, released (November 2002) the connection by tapping the existing 33 KV trunk line emanating from sub-station Shatrughna Pur to sub-station Sardar Nagar. The Division is continuing to supply electricity to the consumer by tapping the trunk line (April 2006).

The Company thus extended undue benefit of Rs.33.29 lakh to the consumer in releasing the connection by tapping existing 33 KV line instead of constructing independent feeder at the cost of the consumer.

The matter was reported to the Management/Government in May 2006; their replies are awaited (October 2006).

4.19 Inadmissible financial benefits to seasonal industries

Inadmissible benefits extended to seasonal industries during the off-season period resulted in loss of revenue aggregating Rs.31 lakh.

Rate Schedule HV-2 of Uttar Pradesh Power Corporation Limited, applicable to the consumers having contracted load above 75 KW for industrial and/or processing purposes, provides that the consumer shall be billed for energy charges for actual units of energy consumed and demand charges for the billable demand during the month subject to minimum charges. The billable demand shall be the actual maximum demand or 75 *per cent* of the contracted load, whichever is higher. It further provides for rebate to seasonal industries such as Sugar, Ice, Rice mill and Cold Storage provided their period of continuous operation is at least four months but not more than nine months in a financial year and the consumer restricts his demand to 30 *per cent* of the contracted demand during off-season period.

The tariff for such industries during the off-season period will be the same as the tariff for the season except that the billable demand shall be 30 *per cent* of the contracted demand and minimum charges per month shall be equal to 30 *per cent* of applicable minimum monthly charges under their respective category. The benefits of seasonal industries shall be denied during that season if the consumer's demand exceeds 30 *per cent* of the contracted load in any month during the 'Off Season' period. Instead he will be billed as per normal tariff *i.e.* demand charges at the rate of Rs.180 per KVA on billable demand plus energy charges subject to minimum monthly charges at the rate of Rs.425 per KVA per month on contracted load.

It was noticed (June 2005 and February 2006) in audit of Electricity Distribution Division (EDD) Salempur and Deoria that three connections were released to Uttar Pradesh State Sugar Corporation Limited for its sugar factories at Baitalpur, Deoria and Bhatni (consumers) at low-tension (LT) voltage (0.4 KV). The consumers were being billed under rate schedule HV-2 allowing off season benefits applicable to seasonal industries for 'off season' period of billing (April to November), though the consumers did not observe the conditions of restricting their demand to 30 *per cent* of the contracted load and drew more than 30 *per cent* of contracted load during 'off-season' period of the financial years 2003-04 to 2005-06. Thus, due to incorrect billing by the

* Calculated for 4 kms. line at the rate of Rs.3.948 per km. on 10.5 mtrs long rail with ACSR dog conductor based on the cost schedule of Rural Electrification and Secondary System Planning Organisation (RESPO) for the year 2002-03.

divisions for this period, the Company was put to loss of revenue aggregating to Rs.31 lakh (including low tension voltage surcharge applicable on demand charges) by short billing the consumer as detailed below:

Sl. No.	Name of Divisions (EDD)	Name of the unit /Contracted load	Off season period (Year)	30% load of contracted load (KVA)	Maximum demand drawn in off season (month)	Amount to be billed (Rs. in lakh)	Amount billed (Rs. in lakh)	Amount under billed (Rs. in lakh)
1	2	3	4	5	6	7	8	8
1.	Deoria	Baitalpur/ 425 KVA	2003-04 (April- November)	128	234 (September-03)	12.51	7.84	4.67
			2004-05 (April- November)	128	234 (November-04)	16.37	12.08	4.29
			2005-06 (April- November)	128	168 (June-05)	14.74	9.30	5.44
						43.62	29.22	14.40
2.	Deoria	Deoria/ 331 KVA	2004-05 (April-November)	100	190 (November-04)	7.17	4.18	2.99
			2005-06 (April- November)	100	154 (September-05)	11.49	4.99	6.50
						18.66	9.17	9.49
3.	Salempur	Bhatni/ 391 KVA	2004-05 (April- November)	118	168 (November 04)	13.65	6.54	7.11
					Grand Total	75.93	44.93	31.00

On being pointed out by Audit, the Divisional Officers raised (June 2005 and July 2006) the supplementary bills, the recoveries of which were awaited (October 2006).

The matter was reported to the Management and the Government in April 2006; their replies are awaited (October 2006).

4.20 Non-levy of fixed and additional charges

Non-levy of fixed and additional charges for excess demand and short assessment in supplementary bills thereof resulted in loss of revenue of Rs.14.35 lakh.

Rate Schedule LMV-2 of Uttar Pradesh Power Corporation Limited applicable to all the consumers having Trivector/ M.D.I meters installed provides that the consumer shall be billed for fixed charges during a month at fixed rate for the actual maximum demand or 75 per cent of the contracted load whichever is higher. Further, if the maximum demand in any month exceeds the contracted load, such excess demand shall be levied as additional charges at twice the fixed rate. The load expressed in KVA shall be multiplied by 0.9 (with effect from 1 December 2004) to work out the equivalent contracted load in KW.

It was noticed (February 2006) in audit of Electricity Urban Distribution Division-I, Gorakhpur that the actual maximum demand of N.E. Railway, Gorakhpur (consumer) having contracted load of 5250 KW and billed under rate schedule LMV-2 exceeded the contracted load ranging between 5,525 and 6,698 KW during the period February 2004 to August 2005. The consumer was, however, billed for the fixed charges (at the rate of Rs 80 per KW) on contracted load of 5,250 KW instead of on the actual maximum demand drawn. In addition, the excess demand drawn over contracted load by the consumer in these months was liable to be charged at the rate of Rs 160 (twice the fixed charge) per KW, which was not done. Non levy of fixed charges for excess demand of 11,610 KW (1,06,110–94,500 KW) at normal rate of Rs.80 per KW and additional charges at double the normal rate (i.e. Rs.160 per KW) amounted to Rs.27.87 lakh

On this being pointed out by Audit, the Division issued (March 2006) a supplementary bill for Rs.23.52 lakh and the amount was also recovered in March 2006.

It was observed in audit that while issuing the supplementary bill, the Division failed to levy the fixed charges at normal rate on the excess demand over the contracted demand. It was further observed that the Division has not started

levying the fixed charges at the normal rate of Rs.80 per KW on the excess demand over the contracted demand for the period September 2005 to date (August 2006) amounting to Rs.5.48 lakh on 6846 KW. Further, it applied conversion factor as 0.85 instead of the applicable 0.90 for conversion of maximum demand recorded in KVA into KW which resulted in short levy of additional charges (at Rs.160 per KW) on 2822 KW amounting Rs.4.52 lakh for the period September 2005 to June 2006.

Short issue of the supplementary bill by Rs.4.35 lakh (Rs.27.87 lakh -Rs.23.52 lakh), non-levy of fixed charges of Rs.5.48 lakh during September 2005 to August 2006 and short levy of additional charges of Rs.4.52 lakh during September 2005 to June 2006, thus, resulted in loss of revenue aggregating Rs.14.35 lakh.

The matter was reported to the Management/Government in April 2006; their replies are awaited (October 2006).

4.21 Undue favour to a consumer

Failure of the Company in taking adequate measures to realise the dues resulted in accumulation of dues to Rs.24.47 lakh towards electricity charges.

Clause 4.66.1 (a) of Uttar Pradesh Electricity Supply Code-2002 (Distribution Code) provides that if electricity bills are not paid by the consumer by the due date of payment indicated on the bill, the supply is to be disconnected after seven days of the due date for payment. Clause 6.31.1 of the Code further provides that action for the recovery of arrears may be initiated as arrears of land revenue as per the provisions of Uttar Pradesh Government Electrical Undertaking (Dues Recovery) Act, 1958.

It was noticed (January 2006) in audit of Electricity Distribution Division- II, Ballia (Division) that Shivam Cold Storage (Consumer) having contracted load of 136 KVA paid its energy bills up to May 2003. The consumer, thereafter, did not pay the monthly bills during the period June 2003 to April 2006 (except for a payment of Rs.3.50 lakh in July 2004) and the arrears accumulated to Rs.24.47 lakh (April 2006).

It was further noticed in audit that the Company neither disconnected the supply in accordance with the provisions of the Distribution Code nor initiated action for recovery of dues (April 2006).

The matter was reported to the Management/Government in March 2006; their replies are awaited (October 2006).

Madhyanchal Vidyut Vitran Nigam Limited

4.22 Avoidable additional expenditure

The Company had to incur an expenditure of Rs.13.06 lakh on the reconstruction of a stolen line due to failure in putting the sub-station and line on commercial load immediately after its completion.

As per the instructions issued by the Rural Electrification and Secondary System Planning Organisation (RESPO) of Uttar Pradesh Power Corporation Limited, as soon as secondary sub-station and associated lines are completed, these should be energised and put to commercial load to reduce the load on the existing sub-station and meet the increasing demand of consumers. The sub-station and associated lines are constructed by the Secondary Works/Workshop Divisions and handed over to the user divisions (Distribution Divisions) for putting them on commercial load.

A 33/11 Kilo Volt (KV) sub-station at Patranga (Faizabad) and its associated line (7.90 km) from Rozagaon to Patranga was constructed by the Electricity Workshop Division, Faizabad (EWD) under the 'Internal Resources Scheme'. The construction was started in July 2001 and completed in September 2002 at a cost of Rs.85.70 lakh (Rs.45.52 lakh for sub-station and Rs.40.18 lakh for the line). The sub-station and line were handed over to the Electricity Distribution Division-I, Faizabad (EDD-I) in September 2002 by the EWD, Faizabad for putting the same on commercial load immediately.

It was noticed (June 2004) in audit of EDD-I, Faizabad that despite taking over the possession of the sub-station and line in September 2002, the system was not put to commercial load until October 2003 due to non construction of 11 KV feeders and associated line and non-availability of technical staff. In the meantime, line material valuing Rs.8.56 lakh* was stolen on the midnight of 3 December 2002 and of 3 May 2003 due to delay in energisation of the sub-station and line. The Division had to incur an expenditure of Rs.13.06 lakh on the reconstruction (October 2003) of the line damaged due to theft so as to put (October 2003) the sub-station / line on commercial load.

The Company, thus, suffered a loss of Rs 13.06 lakh on reconstruction of the stolen line due to delay in energisation of sub-station and line immediately after its taking over besides delay of one year in catering to the demand of consumers.

The matter was reported to the Management/Government in March 2006; their replies are awaited (October 2006).

4.23 Short assessment of penalty against theft of electricity

The Company suffered loss of revenue due to non/under assessment of penalty aggregating Rs.17.15 lakh against theft of electricity.

Clause 6.17.1 and 6.17.2 of Uttar Pradesh Electricity Supply Code-2002 (Code -2002), effective from 1 July 2002, provide that in case of theft of electricity, the consumer shall be assessed, within a month from the date of inspection, for penalty at thrice the rate per unit of applicable tariff, on the units of energy computed as per $L \times F \times H \times D$ ** formula, taking power factor as 0.50 for small & medium power consumers, in addition to any other action that may be taken against him under any other law. The above provisions were reiterated in clause 8.2 (iv) of the revised Uttar Pradesh Electricity Supply Code -2005 (Code -2005), effective from 18 February 2005, with the addition that the factor ('F') in the $L \times F \times H \times D$ formula shall be taken as one, in case of direct theft of electricity.

It was noticed (August 2005) in audit of Electricity Distribution Divisions (EDDs), Gonda and Ambedkar Nagar (Divisions) that in raids conducted by the Company during October 2004 to May 2005, 13 consumers (EDD, Gonda: 10; EDD Ambedkar Nagar: 3) were found involved in direct theft of electricity for industrial purposes but the Divisions did not assess the penalty aggregating Rs.17.15 lakh (EDD Gonda: Rs.10.35 lakh; EDD Ambedkar Nagar: Rs.6.80 lakh) on these consumers as per the provisions of the Code.

On this being pointed out by Audit, the Divisions raised (September to December 2005) the bills aggregating Rs.9.36 lakh (EDD Gonda: Rs.5.62

* Rs.2.26 lakh being cost of 4.418 km ACSR Dog conductor and 2.472 km AAAC conductor and stock material of Rs.6.30 lakh being cost of 14.90 km ACSR Dog conductor and other associated material

** 'L' stands for connected load in KW, 'F' for factor for different types of supply, 'H' for average number of hours per day the supply is made available in the distribution mains and 'D' for 180 days in case of consumers other than domestic and agriculture.

lakh; EDD Ambedkar Nagar: Rs.3.74 lakh) only against Rs.17.15 lakh due to incorrect application of power factor 0.50 instead of one (from 18 February 2005) and assessment of energy at one and half times instead of three times and issued (September 2005 to December 2005) notices for recovery under Uttar Pradesh Electrical Undertakings (Dues Recovery) Act, 1958. The recovery is awaited (October 2006).

The matter was reported to the Management/Government in May 2006; their replies are awaited (October 2006).

4.24 Undue benefit to a consumer

The Company extended undue benefit to a consumer due to non-levy of compounding charges of Rs.30 lakh.

Clause 8.2 (iv) of the Uttar Pradesh Electricity Supply Code-2005 (Code), provides that in case of theft of electricity, the assessment of units for consumption of energy for the past period shall be made as per the $L \times F \times H \times D^*$ formula. The units so assessed shall be billed at thrice the normal tariff applicable. Clause 8 of the Uttar Pradesh Electricity Supply Code-2005 (Code), read with section 152 (1) and (2) of the Electricity Act, 2003 (Act) further provides that in case of theft of electricity, the consumer is punishable under the Code of Criminal Procedure, 1973 (2 of 1974). The offender may, however, pay for compounding of offence at the specified rates applicable on various categories of consumers/persons (*viz.* Agriculture: Rs.2,000 per HP, Industrial: Rs.20,000 per HP; Commercial: Rs.10,000 per KW) in lieu of criminal proceedings.

It was noticed (July 2005) in audit of Electricity Distribution Division (Division), Rahimnagar, Lucknow that during raid of the premises of Neptune Polyfibers, Mohibullapur, Lucknow (an industrial consumer) on 28 June 2005, the consumer was found indulging in theft of energy, taking direct supply from Low Tension (LT) line by using *Katia*. The connected load was found to be 177 Brake Horse Power (BHP) against the sanctioned load of 22 KVA (26.54 BHP) for industrial service.

The Divisional Officer raised (November 2005) bill of Rs.33.19 lakh for the consumption of energy against theft of electricity, in accordance with clause 8.2 (iv) of the aforesaid code. The division, however, neither lodged the FIR with the police for initiating criminal proceedings against the consumer nor levied compounding charges of Rs.30 lakh (at the rate of Rs.20,000 per BHP for 150 BHP) in lieu of initiating criminal proceedings as prescribed in the aforesaid code. Thus, the Division extended undue favour to the consumer by not initiating criminal proceedings or realising compounding charges of Rs.30 lakh in lieu of initiating criminal proceedings, for theft of electricity.

The matter was reported to the Management/Government in April 2006; their replies are awaited (October 2006).

4.25 Under charge of revenue

Incorrect application of tariff resulted in non-realisation of revenue aggregating Rs.10.31 lakh.

Rate Schedule of Uttar Pradesh Power Corporation Limited (UPPCL) effective from 1 December 2004 provides that the Government organisations and public institutions shall be billed under LMV-4 (A) whereas the

* 'L' stands for the connected load, 'F' shall be 100 for direct theft, 'H' stands for the average supply hours made available at the feeder for the corresponding month, D shall be 180 days.

companies registered under the Companies Act, 1956 shall be billed under LMV-2. The tariff of LMV-2 (Fixed charges: Rs.80 per KW per month plus energy charges: Rs.3.90 per KWh) is higher than that of LMV-4 (A) (Fixed charges: Rs.75 per KW per month plus energy charges: Rs.3.25 per KWh).

It was noticed (September 2005) in audit of Electricity Urban Distribution Division, Gomti Nagar, Lucknow (Division) that three companies {The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited (PICUP), Uttar Pradesh Bhumi Sudhar Nigam Limited (UPBSN) and Uttar Pradesh State Sugar Corporation Limited (UPSSC)} of Lucknow registered under the Companies Act, 1956 were being billed under Rate Schedule LMV-4 (A). On this being pointed out by Audit (September 2005), the Division started billing two Companies (*viz.* PICUP and UPBSN) from September 2005 and one Company (*viz.* UPSSC) from March 2006 under LMV-2 but supplementary bills for the differential amount (Rs.10.31 lakh) accrued due to change in billing from Rate Schedule LMV-4 (A) to LMV-2 were not raised so far. This has resulted in undercharge of revenue aggregating Rs.10.31 lakh (PICUP: Rs.4.73 lakh, UPBSN: Rs.2.60 lakh for the period December 2004 to August 2005 and UPSSC: Rs.2.98 lakh for the period from December 2004 to February 2006) due to incorrect application of tariff.

The matter was reported to the Management/Government in May 2006; their replies are awaited (October 2006).

Paschimanchal Vidyut Vitran Nigam Limited

4.26 Short assessment of penalty

Failure of the Company to assess the penalty in accordance with the provisions of the Uttar Pradesh Electricity Supply Code for unauthorised use of electricity resulted in short assessment of penalty of Rs.51.15 lakh.

Clause 4.46 (a) of Uttar Pradesh Electricity Supply Code 2005 (Code) issued by Uttar Pradesh Electricity Regulatory Commission provides that the consumer shall not supply any energy supplied to him to other premises unless he is authorised to do so. Clause 6.8 (c) of the said code further provides that if unauthorised use of electricity is being made by the consumer, he shall be liable to pay a sum towards penalty at one and half times the rate per unit of tariff applicable to the consumer on units assessed as per the $LxFxHxD^*$ formula prescribed in the Code.

It was noticed (August 2005) in audit of Electricity Urban Distribution Division, III (Division) Meerut that Shaw Wallace Distillers Limited, unit-Central Distillery and Breweries, Kankerhera, Meerut (consumer) was having an electric connection under rate schedule HV-2 for a contracted load of 1000 KVA on 11 KV voltage supply. The consumer established another factory (SKOL Breweries Limited, unit- Central Distillery and Breweries) adjacent to the existing factory and applied (January 2004) for release of fresh load of 1000 KVA for new factory and reduction of 60 *per cent* of contracted load from 1000 KVA to 400 KVA (February 2004) for the existing factory. The fresh load to the new factory was not sanctioned (January 2004) due to safety consideration. The load in the existing factory was also not reduced by the Division, which was not permissible as per the provisions of the aforesaid Code, as the consumer was drawing maximum monthly demand of more than 400 KVA.

Subsequently, during inspection (26 April 2005) of the premises of the consumer by the Executive Engineer of the division, it was found that the consumer was unauthorisedly using electricity by extending the existing 11 KV line for operating his new factory on 1000 KVA load. The consumer was

* L stands for connected load in KVA, H for average number of hours per day the supply is made available from the distribution mains, feeding the consumer, D for 180 days and F for factor for different types of supply.

thus, liable to be assessed for 21,60,000 KVAh arrived at after applying $L \times F \times H \times D$ formula (taking 'H' as 16 hours). The consumption (KVAh) so assessed was to be billed at one and half times the rate per unit (Rs.3.50 per KVAh) of the tariff applicable to consumer category after adjusting the amount paid by the consumer. Accordingly, the consumer was to be assessed for Rs.1.13 crore and, after adjusting Rs.47.41 lakh already paid by the consumer against the regular monthly bills, the short recovery amounted to Rs.65.59 lakh for unauthorised use of electricity. The Division, however, on the basis of the consumer's proposal for reduction of 60 per cent of the contracted load, which had already been rejected by the Division, considered 60 per cent of the actual consumption as unauthorised and assessed (May 2005) penalty at Rs.14.44 lakh for the same *i.e.* on 7,75,962 KVAh (60 per cent of 12,93,270 KVAh) and the amount was paid (May 2005) by the consumer. The basis taken by the Division was not correct, as the reduction in load from 1000 KVA to 400 KVA was not sanctioned. The consumer was thus, under assessed for penalty by Rs.51.15 lakh (Rs.65.59 lakh - Rs.14.44 lakh) for unauthorised use of electricity.

The Divisional Officer stated (May 2006) that the consumer did not construct any new factory. A unit (SKOL Breweries Limited) was separated from the existing factory and a fresh connection of 1000 KVA load was released in May 2005. The load of the existing factory could not, however, be reduced so far due to non-completion of the formalities by the consumer. There was no unauthorised use of electricity and as such no penalty was to be levied. The reply of the division is not tenable since at present (May 2006) two connections each of 1000 KVA load are running in the name of two separate consumers. The checking report (April 2005) of the Division and subsequent regularisation by releasing a fresh connection to SKOL Breweries Limited in May 2006 itself confirms that the existing consumer (Shaw Wallace Distillers Limited) unauthorisedly extended its line to SKOL Breweries Limited.

The matter was reported to the Management/Government in April 2006; their replies are awaited (October 2006).

Dakshinanchal Vidyut Vitran Nigam Limited

4.27 Undue benefit to consumer

The Company in contravention of its own directives and the provisions of the Distribution Code, released connection by tapping trunk line emanating from 132/33 KV sub-station thereby extending undue benefit of Rs.65.91 lakh to the consumer.

Clause 3.5 of the Uttar Pradesh Electricity Supply Code-2002 (Code) issued by Uttar Pradesh Electricity Regulatory Commission (UPERC) provides that load to consumers, other than for furnaces, rolling mills and mini steel plants may be given at an independent feeder at the consumer's request and all necessary charges (cost of bay and independent feeder) shall be payable by the consumer. Further, the erstwhile Uttar Pradesh State Electricity Board's order dated May 1994, strictly prohibits tapping of its 33 KV trunk line under any circumstances for giving connection to the consumer.

It was noticed (November 2005) in audit of Electricity Urban Distribution Division II, Agra (Division), that a consumer (Radhaswamy Satsang, Dayalbagh) of Agra, having connected load of 1025 KVA against three connections of light, fans and power being supplied at 0.4 and 11 KV common feeder, requested (date not intimated) for amalgamation of load and arranging supply of power at 11 KV independent feeder emanating from 33/11 KV sub-

station Dayal-Bagh to the consumer's premises. The proposal was approved (February 2003) by the Director (Distribution) of Uttar Pradesh Power Corporation Limited (UPPCL), Lucknow with the condition that connection would be released by constructing a separate bay and an independent feeder on 11 KV line at the cost of the consumer. The Division, however, did not prepare the estimate as per the above orders, due to which the work could not be executed. The consumer subsequently requested (December 2003) for release of amalgamated load at 33 KV independent feeder instead of at 11 KV independent feeder as requested earlier, to avoid frequent break downs on 11 KV supply and to draw more stable supply.

The Company instead of constructing 33 KV independent feeder at a cost of Rs.65.91 lakh (cost of bay: Rs.19.15 lakh; 6 Kms 33 KV line: Rs.44.98 lakh; metering: Rs.1.78 lakh), sanctioned (March 2004) load of 512 KW under the System Improvement Scheme (chargeable to the Company) and allowed release of connection by tapping 33 KV trunk line emanating from 132/33 KV sub-station by constructing 1.5 Kms. double circuit 33 KV link line at Company's cost (Rs.6.83 lakh). Accordingly, the Division prepared an estimate for Rs.6.83 lakh, executed the work and released (August 2005) the load of 455 KW to the consumer by tapping the existing trunk line.

The Company, thus, in contravention of order of May 1994 not only extended an undue benefit of Rs.65.91 lakh to the consumer (due to non-construction of separate bay and 33 KVA independent feeder) but also incurred avoidable expenditure of Rs.6.83 lakh on construction of 1.5 Kms double circuit 33 KV link line by tapping the existing trunk line.

The Management stated (August 2006) that in view of the order of the erstwhile Uttar Pradesh State Electricity Board (Board) dated June 1980, if the category of consumer remains unchanged, the supply could be provided by tapping the existing feeder. The reply of the Management is not tenable since the order issued by the Board in May 1994, strictly prohibiting the tapping of trunk line under any circumstances, supersedes the earlier order of June 1980.

The matter was reported to the Government in May 2006; the reply is awaited (October 2006).

4.28 Undue benefit to the consumers

The Company extended undue benefit to the consumers due to non-recovery of compounding charges aggregating Rs.43.15 lakh against theft of electricity.

Clause 8 of the Uttar Pradesh Electricity Supply Code-2005 (Code), read with section 152 (1) and (2) of the Electricity Act, 2003 (Act) provides that in case of theft of electricity, the culprit consumer, is punishable under the Code of Criminal Procedure, 1973 (2 of 1974). The offender may, however, pay for compounding of offence at the specified rates applicable on various categories of consumers/persons (*viz.* Agriculture: Rs.2,000 per HP, Industrial: Rs.20,000 per HP; Commercial: Rs.10,000 per KW) in lieu of criminal proceedings.

It was noticed (August 2005) in audit of Electricity Distribution Division- I, Aligarh (Division) that in the raids conducted during February to June 2005, 32 consumers (Private Tubewell: 9, commercial process: 6 and Industrial process: 17) were found involved in theft of electricity, taking direct supply from Low Tension (LT) line by using *Katia*. The connected load in respect of PTWs and Industrial process was 262 HP (PTW: 67.5 HP and Industrial: 194.5 HP) and in respect of commercial process consumers was 29 KW. The

compounding charges thus liable to be levied on the consumers worked out to Rs.43.15 lakh.

On this being pointed out by Audit, the Management stated (August 2006) that the Division has issued (August 2006) demand notices under Section 3 of Dues Recovery Act, 1958 for recovery of compounding charges of Rs.43.15 lakh; the recovery was awaited (October 2006).

The matter was reported to the Government in May 2006; the reply is awaited (October 2006).

4.29 Loss of revenue

The Company suffered loss of revenue aggregating Rs.57.46 lakh due to wrong application of tariff for defence installation consumer.

Rate Schedule LMV-4A of Uttar Pradesh Power Corporation Limited effective from 1 December 2004 applicable for light, fan and power covers energy supply to the Public Institutions including Defence Installations for which the rate of charge has been fixed at Rs.75 per KW per month as fixed charge and Rs.3.25 per KWH for energy consumption.

It was noticed (February 2006) in audit of Electricity Distribution Division-II, Mathura (Division) that Garrison Engineer, Military Engineering Service, Mathura (consumer) having contracted load of 2975 KW was getting energy supply at 33 KV line for its defence installations and was to be billed under rate schedule LMV-4A. The division, however, billed the consumer at lower rate under rate schedule LMV-1 applicable for domestic light, fan and power category of consumer (fixed charge at Rs 30 per KW per month *plus* energy charges at Rs.2.90 per KWh) during the period February to December 2005. The consumer was thus short billed by Rs.57.46 lakh due to wrong application of tariff during the above period.

The Management stated (August 2006) that the division had already issued (March 2006) a supplementary bill for Rs.57.46 lakh at the instance of Audit. Recovery is, however, awaited since the consumer has filed an application in Consumer Grievance Redressal Forum against applicability of tariff LMV-4A.

The matter was reported to the Government in April 2006; reply is awaited (October 2006).

Statutory corporations

Uttar Pradesh Financial Corporation

4.30 Non recovery of dues due to failure in taking physical possession of defaulting unit

Failure in taking over physical possession of the defaulting unit resulted in non- recovery of dues of Rs.11.64 crore.

The Uttar Pradesh Financial Corporation (UPFC) sanctioned (December 1987) and disbursed a loan of Rs.52 lakh to Giri Resorts (Private) Limited (GRPL) for setting up a hotel at Hardwar. Subsequently, at the request of GRPL, the Corporation also sanctioned (January 1991) an additional loan of Rs 28.50 lakh to meet the cost overrun in construction of the hotel. Out of this additional loan, the Corporation disbursed only Rs.15.06 lakh during 1992-93 and balance amount of loan was cancelled. The loans were disbursed against the prime security of Rs.84.56 lakh available in the form of land, building and Plant & Machinery of the hotel.

Though the operation of the hotel started in 1990, GRPL was not regular in repayment of loan. Consequently, UPFC, at the request of GRPL, rescheduled (January 1996) the repayment of the loan. As GRPL failed to honour the revised payment schedule, the Corporation issued (April 1998) a Recovery Certificate for recovery of loan, which was subsequently withdrawn (October 2001) by the Corporation due to receipt of enquiries from intending buyers. The Corporation issued (November 2001) notice under section 29 of the State Financial Corporation Act giving 15 days notice for payment of over dues by GRPL failing which the Corporation was to take possession of the unit. For invoking personal guarantees, the Corporation, however, sent (August 2002) notices to the promoters/guarantor of GRPL and sent (September 2003) Recovery Certificate to the Collector, Bijnore for recovery of loan from the personal property of the promoters but no recovery could be effected so far due to stay order of recovery proceedings issued (February 2004) by High Court, Allahabad against one Director and stay order issued in November 2003 by High Court, Allahabad against personal arrest of one Director.

While conducting (June 2005) the audit of Dehradun Region of the Corporation, it was noticed that the Corporation had issued advertisements for sale of hotel of GRPL during 2001 to 2003 (last advertisement was released in November 2003) without taking physical possession of the defaulting unit. The intending buyers were not permitted to have a look at the hotel from inside by the owner (borrower) and therefore offers received for purchase of hotel could not materialise. The Regional Office sought (January 2002) permission from the headquarters of the Corporation to take physical possession of the hotel which has not been granted so far (October 2006).

Thus, failure of the Management in taking physical possession of the defaulting unit resulted in non recovery of dues of Rs.11.64 crore (Principal: Rs.0.58 crore; interest: Rs.11.06 crore) as on March 2006.

The Management/Government stated (May/October 2006) that possession of the hotel could not be taken to avoid huge security expenses, non-availability of any offer in hand and difficulty in physical separation of the building. The reply of the Management is not tenable as without taking physical possession of the hotel, the Management would not be in a position to sell the hotel.

4.31 Undue favour to borrower in one time settlement

The Corporation suffered loss of Rs.74 lakh due to approval of OTS below the Realistic Realisable Value of assets in contravention of its OTS policy.

The Corporation framed (October 2001) its One Time Settlement (OTS) policy to liquidate its Non-Performing Assets (NPAs) in a time bound manner through negotiations with defaulting units. As per the OTS policy revised in October 2001 and effective up to May 2005 where the amount of sanction of loan or outstanding principal was more than Rs.25 lakh, the amount of OTS for the units situated at specified places* would be determined at par with the Realistic Realisable Value (RRV) of the mortgaged assets (Prime + Collateral + others) or matrix value (outstanding principal + expenses + 80 per cent of outstanding simple interest + taxes) whichever is higher for the loan disbursed during April 1995 to March 1997.

* Noida, Greater Noida, Ghaziabad City, Kanpur City, Agra City, Dehradun City and Lucknow City.

It was noticed (June 2005) in audit that the Corporation had sanctioned two term loans of Rs.60 lakh (December 1994) and Rs.20.15 lakh (March 1997) under Fixed Assets Term Loan (FATL) and Special Scheme for Rehabilitation (SSR) respectively to Savitri Overseas Limited (SOL) an export oriented unit situated at Noida. The loans were secured by mortgage of land and building, plant and machinery worth Rs.1.46 crore. The Corporation disbursed (April 1996 and March 1997) Rs.77.32 lakh (FATL: Rs.57.17 lakh and SSR: Rs.20.15 lakh) to SOL. SOL started making defaults in repayment of dues from November 1999. The Corporation issued (November 1999) notice under Section 29 of the State Financial Corporation Act, 1951 to SOL for taking over the unit. Personal Recovery Certificate (PRC) was also issued (March 2004) against the promoters/directors but it was returned (March 2004) by the Revenue Authorities with the remarks that details of personal assets had not been mentioned in the PRC. Permission to take over the possession of the assets of SOL was given by the Head Office of the Corporation on 20 April 2004. The Corporation for taking physical possession of the unit allowed time up to 3 May 2004. In the meantime, SOL approached on 30 April 2004 Delhi High Court and obtained stay against recovery under Section 29 of the SFC Act.

Considering the pending request of SOL made in October 2003 for settlement of the dues under one time settlement scheme (OTS) on principal outstanding, the Corporation approved (August 2004) the OTS for Rs.1.63 crore which was more than the RRV (Rs.1.21 crore) and matrix value (Rs.1.07 crore). SOL did not honour the OTS in view of higher valuation of assets and, therefore, OTS was cancelled (September 2004) by the Corporation. The Corporation subsequently offered (May 2005) fresh OTS for Rs.1.37 crore against RRV (Rs.2.11 crore) and matrix value (Rs.1.20 crore) which was accepted and paid (September and October 2005) by SOL.

It was noticed (June 2005) in audit that the OTS for Rs.1.37 crore approved (May 2005) by the Corporation in favour of SOL was in contravention of its OTS policy which provides that the settlement should be linked with value of assets and the OTS amount should not be less than the RRV of assets *i.e.* Rs.2.11 crore in the instant case.

The approval of OTS in the above case, without considering RRV of assets resulted in loss of Rs.74 lakh to the Corporation.

The Management/Government stated (July/October 2006) that OTS was revised since it was above the matrix. The reply of the Management is not tenable since the OTS policy stipulates that OTS amount should not be less than RRV of the assets.

4.32 Inadmissible payment of brokerage and underwriting commission

The Corporation in violation of RBI guidelines made an inadmissible payment of brokerage and underwriting commission aggregating Rs.82.79 lakh to the subscribing banks without executing agreement.

The Small Industries Development Bank of India (SIDBI), with the concurrence of Reserve Bank of India (RBI), allots quota for issuance of Statutory Liquidity Ratio (SLR) bonds by Uttar Pradesh Financial Corporation (Corporation). The terms of the issuance of SLR bonds, *inter-alia*, provided for payment of brokerage and underwriting commission in accordance with the RBI guidelines issued in May 1975, and subsequent clarifications issued in June 1981 and June 1988. According to the RBI guidelines, payment of brokerage and underwriting commission not exceeding 12 paise and 38 paise respectively per Rs.100 was payable, provided an agreement was executed by

the bond floating Corporation with the banks and other institutions regarding underwriting and broking services. It was further provided in RBI guidelines (June 1981) that the obligation in respect of payment of brokerage and underwriting commission would arise not from the mere announcement in the prospectus but from an agreement to that effect entered into between the bond floating Corporation and the underwriting banks.

Audit examination of records (May 2005) revealed that SIDBI allotted quota of SLR bonds of the value of Rs.277.23 crore to the Corporation between 2000-01 and 2002-03 for issue in the market. The Corporation neither appointed any bank/institution for underwriting and brokerage services nor did it enter into any agreement for it with any bank. In order to get these bonds fully subscribed, the Corporation directly approached the prospective banks/institutions for subscription. The Corporation could get the SLR bonds subscribed for Rs.165.58 crore by the banks and for which the Corporation paid brokerage and underwriting commission of Rs.19.87 lakh and Rs.62.92 lakh respectively to the subscriber banks. Thus, the Corporation, in violation of the RBI guidelines, made an inadmissible payment of brokerage and underwriting commission aggregating Rs.82.79 lakh to the subscriber banks.

The Management/Government stated (July/September 2006) that the Corporation had paid brokerage to the banks only after actual confirmation of subscription made by them which was as per past practice and in accordance with the RBI guidelines. It was further stated by the Management that the banks, with the acceptance of the Corporation's proposal, entered with them in an implied agreement, therefore, after subscription of the proposed/negotiated amount by the banks, the Corporation had released the underwriting commission to the respective banks. The reply of the Management/Government is not tenable because in terms of guidelines of RBI (June 1981) the obligation of payment of brokerage and underwriting commission would arise only if an agreement is entered into with the Bank for underwriting the issue. In the instant case the Corporation had directly made the proposal to the subscribing banks, and, therefore, the payment of brokerage and underwriting commission of Rs.82.79 lakh was inadmissible.

General

4.33 Persistent non-compliance with Accounting Standards in preparation of financial statements

Accounting Standards (AS) are the acceptable standards of accounting recommended by the Institute of Chartered Accountants of India and prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards under Section 210A of the Companies Act, 1956. The purpose of introducing AS is to facilitate the adoption of standard accounting practices by companies so that the annual accounts prepared exhibit a true and fair view of the transactions and also to facilitate the comparability of the information contained in published financial statements of companies. Under Section 211 (3A) of the Companies Act 1956 it is obligatory for every company to prepare the financial statements (profit & loss* account and balance sheet) in accordance with the AS. Under Section 227 (3)(d) of the Act, *ibid*, the statutory auditors of the companies are required to report whether profit and loss account and balance sheet complied with the AS referred to in sub-section (3C) of Section 211 of the Companies Act, 1956. A review of the financial statements and the Statutory Auditors' report thereon in respect of 14 selected companies revealed non-compliance with one to six Accounting Standards as detailed in **Annexure-30**.

It would be seen from the **Annexure** that:

- out of 14 companies which finalised their previous years' accounts as of March 2006, 10¹ companies did not comply with AS-2 relating to determination of the value at which inventories are carried in financial statements until the related revenues are realised and provides that inventories should be valued at the lower of cost or net realisable value.
- five² companies violated AS-15 which deals with accounting for retirement benefits to employees (*viz.* provident fund, pension, gratuity, leave encashment *etc.*) and provides that the contribution payable by the employer towards retirement benefits be charged to Profit and Loss for the year on accrual basis and the accruing liability calculated as per actuarial valuation.
- four³ companies persistently flouted AS-9 which deals with the revenue recognition.
- three⁴ companies persistently flouted AS-12 which deals with method of accounting for Government grants as to whether it related to capital or revenue.

The matter was reported to the Government in June 2006; the reply is awaited (October 2006).

4.34 Delay in placement of Annual Reports of Government Companies before the State Legislature

As per Section 619 A (3) of the Companies Act, 1956 where State Government is a member of a Company, the State Government shall cause an Annual Report on the working and affairs of the Company alongwith the Audit Report and comments or supplement of the Comptroller and Auditor General of India to be placed before the State Legislature within three months from the date of Annual General Meeting (AGM) of the Company in which the accounts have been adopted. The placing of the Annual Report before the State Legislature gives it an opportunity to have important information regarding the performance of a Government company, in which the State Government is the major share holder.

Audit scrutiny of related records revealed that the Annual Reports of most of the companies had either not been placed or had been placed belatedly after holding AGMs. A review of data relating to 26 companies out of 48 working Government companies as on 31 March 2006 revealed that:

- There were delays ranging from 5 to 19 months in placing before the State Legislature the Annual Reports of two companies (at Sl. No. 1(b to e) and 2(g) of **Annexure-31**) after approval of their accounts in the AGM.
- Five Companies (Sl. No. 1 (a), 2 (e and f), 3 (a), 4 (d and e) and 5(e) of the **Annexure**), submitted their Annual Reports to the State Government after delays ranging from 1 to 74 months. The information as to whether these Annual Reports have been placed before the State Legislature is still awaited (October 2006) from the Government.
- Twenty one (excepting companies at Sl. No. 1,2,3,4 and 5 of the **Annexure**) Government companies who finalised their accounts for the last three to five years as shown in **Annexure**, had not submit their Annual Reports to the Government so far. The delay ranges from 1 to 135

¹ Serial No. 1,2,3,4,6,7,11,12,13 and 14 of Annexure.
² Serial No. 2,4,9,10 and 12 of Annexure.
³ Serial No. 3,5,9 and 12 of Annexure.
⁴ Serial No. 1,2 and 8 of Annexure.

months*. Consequently, the Annual Reports of these companies could not be placed before the State Legislature as of October 2006. Reasons for non-submission of Reports as attributed by the companies were mainly due to non-receipt of directives from the Government for submission of Reports, delay in Hindi translation and delay in printing of Hindi Annual Reports, etc.

The matter was reported to the Government in August 2006; their reply was awaited (October 2006).

Follow up action on Audit Reports

4.35 Audit Reports of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive.

Audit Reports for the year 2000-2001, 2001-02, 2002-03, 2003-04 and 2004-05 were placed in the State Legislature in August 2002, September 2003, July 2004, July 2005 and March 2006 respectively. 180 paras/reviews involving PSUs under 22 Departments featured in the Audit Reports (Commercial) for the years from 2000-01 to 2004-05. No replies in respect of 91 paras/reviews have been received from the Government by 30 September 2006 as indicated below:

Year of Audit Report	Total Paragraphs/reviews in Audit Report	No. of departments involved	No. of paragraphs/reviews for which replies were not received
2000-01	39	12	8
2001-02	38	9	17
2002-03	42	10	15
2003-04	30	10	25
2004-05	31	8	26
Total	180		91

Department wise analysis is given in **Annexure-32**. The Power and Industrial Development Departments were largely responsible for non-submission of replies.

Outstanding compliance to the Reports of Committee on Public Undertakings (COPU)

4.36 In the Audit Reports (Commercial) for the years 1995-96 to 2004-05, 372 paragraphs and 50 reviews were included; out of these, 138 paragraphs and 19 reviews had been discussed by COPU up to 30 September 2006. COPU had made recommendations in respect of 51 paragraphs and two reviews in the Audit Reports for the years 1995-96 to 2000-01.

The reply of the department/follow up action only on one recommendation of COPU in respect of the paragraph included in the Audit Report 1996-97 has been received (September 2006).

Action taken on the cases of persistent irregularities featured in the Audit Reports

4.37 With a view to assist and facilitate discussions of the irregularities of persistent nature by the COPU an exercise has been carried out to verify the extent of corrective action taken by the concerned auditee organisation. The results thereof in respect of Government companies are given in **Annexure-33** and in respect of Statutory corporations the same are given in **Annexure-34**.

* Calculated from the due date of placing the annual reports in the State Legislature that is at Sl. 5 (e) col. no. 5.

Response to inspection reports, draft paragraphs and reviews

4.38 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned administrative departments of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through the respective heads of departments within a period of six weeks. Inspection reports issued up to March 2006 pertaining to 61 PSUs disclosed that 9290 paragraphs relating to 2794 inspection reports remained outstanding at the end of September 2006; of these, 833 inspection reports containing 2986 paragraphs had not been replied to for more than five years. Department-wise break-up of inspection reports and audit observations outstanding at the end of 30 September 2006 is given in **Annexure-35**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary, Finance and the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Out of 39 draft paragraphs and six draft performance reviews forwarded to the various departments between March and October 2006, the Government had not replied to 31 draft paragraphs and five draft reviews so far (October 2006) as detailed in **Annexure-36**.

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/reviews and Action Taken Notes for recommendation of COPU as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment in a time bound schedule, and (c) the system of responding to audit observations is revamped.

**Lucknow,
The**

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Countersigned

**New Delhi,
The**

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Comptroller and Auditor General
of India**