

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 Small Industries Corporation Limited

4.1 Loss due to non-levy of centage charges

Non-levy of centage charges on deposit works executed under Vidhayak Nidhi resulted in loss of Rs.79.38 lakh to the Company.

The State Government order (GO) of 24 March 1999 stipulates that 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 executed under Bundelkhand Vikas Nidhi (BVN), Purvanchal Vikas Nidhi (PVN) and Vidhayak Nidhi (VN) *etc.* executed by them. It was noticed (February 2006) that the Company executed 479 works valuing Rs.6.35 crore under VN for various Government departments/agencies during 2005-06. Accordingly, in terms of the provisions of the above GO, centage charges of Rs.79.38 lakh were to be levied and collected from the clients. The Company, however, did not levy centage charges on the above deposit works executed by it, and suffered loss of Rs.79.38 lakh.

The matter was reported to the Management and the Government in April 2007; their replies are awaited (October 2007).

Uttar Pradesh State Industrial Development Corporation Limited

4.2 Wrong calculation of discount

Due to wrong calculation of discount, the Company incurred extra expenditure of Rs 1.39 crore on laying of Treated Effluent Disposal pipeline for CETP Treated Water Disposal Project at Tronica city, Ghaziabad

Spans Envirotech Pvt. Ltd. (consultant) was engaged (May 2005) by the Company to prepare design and detailed estimate for laying of Treated Effluent Disposal Pipeline at Tronica City, Ghaziabad. The Detailed Estimate (DE) prepared by the consultant for Rs.5.14 crore also included supply and laying of 450 mm outer dia HDPE pipes (of PE 63 or superior material as per BIS 4984-1995) suitable for PN 6 pressure rating at a cost of Rs.4.77 crore. The rates of HDPE pipes were to be based on the price list of Kedia Tubes Shahibabad with 40 *per cent* discount at the lowest analysed rate for PE 100 grade material. The Company approved the estimate and accorded Technical Sanction for Rs.5.14 crore. Based on the approved estimate, the Company invited (September 2005) tenders and awarded the work (October 2005) in

favour of the lowest bidder (O P Gupta Construction Pvt. Ltd.) at a cost of Rs.5.05 crore (Tender Value Rs.5.09 crore). The Company executed (October 2005) a Contract Bond with the contractor for execution of work. The contractor took up the work as per schedule and executed (February 2006) partially the supply and laying of 6668 metres of HDPE pipes of PE 100 grade material for which payment of Rs.4.71 crore was made to the contractor.

It was, however, noticed (September 2006) that the consultant while preparing the detailed estimate wrongly calculated the item rate (cost of pipes and laying charges) as Rs.7096 per meter instead of Rs.5007 per meter by considering the discount at 15 per cent instead of 40 per cent of the price list of Kedia Tubes. Thus, due to wrong calculation of discount, the rate of above item was over estimated by Rs.2089 per meter and consequently overall cost of tender was inflated by 27.31 per cent aggregating Rs.1.39 crore. Thus, the Company ignored the condition of 40 per cent discount while analysing the rates and sanctioning TS, which resulted in overstatement of tender value by Rs.1.39 crore and facilitated the bidders for quoting unreasonable higher rates on the estimated cost of tender. Consequently, the Company had to incur extra expenditure to that extent.

The Management stated (August 2007) that rate analysis was based on price list of Kedia tubes on PE 100 grade material including discount of 15 per cent. The Management's reply is not tenable as the price list of Kedia Tubes was with discount at 40 per cent but in analysis of rate, 15 per cent discount was considered.

The matter was reported to the Government in April 2007; the reply is awaited (October 2007).

4.3 Extra expenditure

The Company incurred extra expenditure of Rs.27.02 lakh due to inclusion of cost of extra rubber rings in the estimates.

The Directorate of Industries (DI), issues notification every year for the rates of RCC pipes inclusive of the cost of rubber rings of different diameters and the Company accordingly prepares the estimates for inviting tenders on the basis of the DI rates. It was noticed (October 2006) that the Company, after preparing estimates and inviting tenders, awarded (April 2004 to November 2005) seven works for laying and jointing of sewer lines and other appurtenant works in Tronica City, Ghaziabad and Growth Centre, Jainpur at a cost of Rs.15.16 crore to various contractors. It was further noticed that the Company took the rates of RCC pipes of different diameters as notified by DI as a basis for preparation of estimates. The rates of RCC pipes notified by DI were inclusive of the cost of rubber rings. But, in spite of inclusion of cost of rubber rings in the cost of RCC pipes, the Company included the cost of rubber rings separately in the estimates. As a result, the estimates of works were inflated to that extent and resulted in extra expenditure of Rs.27.02 lakh.

The Management stated (August 2007) that the provision of two rubber rings for joining of sewer lines in the estimates was already made as advised by the IIT Kanpur and Delhi. The reply of the Management is not tenable as advice of IIT (September 2005) was obtained belatedly after the award of contract

and the Company neither mentioned the requirement of two rubber rings in the tender nor in the bill of quantity.

The matter was reported to the Government in May 2007; the reply is awaited (October 2007).

4.4 Loss due to undue favour to allottee

Non-realisation of transfer levy resulted in loss of Rs.2.04 crore to the Company.

As per guidelines issued (December 1998) by the Company, if one allottee Company is merged with another in accordance with law and holds at least 51 *per cent* common share holding at the time of application for permission to sub-divide the plot, the Company will not realise transfer levy from the allottee company. In case of common shareholding being less than 51 *per cent* at the time of application, transfer levy at 15 *per cent* is chargeable if the plot is lying vacant for more than three years and is located in fast moving area.

Pioneer Plastic (Sahibabad) Limited (PPSL) was allotted (September 1982) a plot measuring 42550.17 sqm at premium amount of Rs.2.95 lakh in Site IV, Sahibabad. PPSL requested for amalgamation with Pioneer Polyfab Limited (PPL) which was allowed (September 1998) by the Company. PPL requested (July 2004) for sub-division of plot into small plots for disposal of the same to prospective buyers for industrial purposes, which was allowed (December 2004) by the Company.

It was noticed (April 2007) that the common shareholding of PPL was reduced (July 2004) from 54.29 to 35.80 *per cent* at the time (July 2004) of application for sub-division of plot. Accordingly, PPL was liable to pay transfer levy on the reconstitution (sub-division) of plot, as a case of fresh transfer. Accordingly, the Company was required to realise transfer levy of Rs.2.04 crore at the rate of 15 *per cent* of the premium amount of Rs.13.62 crore (as the plot was situated in fast moving area and lying vacant for more than three years) before allowing sub-division of plot, which was not charged. Thus, non-charging of transfer levy from PPL resulted in loss of Rs.2.04 crore to the Company.

The matter was reported to the Management and the Government in June 2007; their replies are awaited (October 2007).

Uttar Pradesh State Agro Industrial Corporation Limited

4.5 Extra expenditure on procurement of Galvanised Iron pipes

The Company incurred extra expenditure of Rs.63.35 lakh on re-tendering for supply of Galvanised Iron (GI) pipes during currency period of existing firm contract.

The Company invited (January 2006) tenders for supply of five lakh meters 32 mm hot dip galvanised (GI) pipes to be used for installation of Hand Pumps during 2006-07 with the condition that approved rates would be effective during 1 April 2006 to 31 March 2007 and no price variation was allowable during the period of the contract.

It was noticed (February 2007) that the Company approved (March 2006) the rate of Rs.111.78 per meter in favour of K.L Concast Pvt. Ltd (firm) and various supply orders (March to June 2006) were placed for supply of GI pipes against which firm supplied 1.28 lakh meters pipes. The firm requested (May 2006) the Company to increase the rates of pipes due to increase in prices of iron and zinc. The Company instead of ordering the firm to supply the GI pipes at agreed firm prices, re-tendered (June 2006) for balance quantity (3.72 lakh meter) of GI pipes and approved (June 2006) rates of Rs.129.31 per meter in favour of three firms (including K.L Concast Pvt Ltd). The firms supplied 3,61,384 meter of GI pipes during August to December 2006 at the revised rates of Rs.129.31 per meter and payments were made accordingly. Thus, the decision of the Company to re-tender for the quantity instead of asking the firm to supply at the agreed firm prices resulted in extra expenditure of Rs.63.35 lakh (Rs.129.31 – Rs.111.78 = Rs.17.53 per meter for 3,61,384 meter).

The Government stated (August 2007) that extra expenditure had been calculated on the basis of rates of January (Rs.111.78 per metre) whereas market rate was Rs.137.50 per metre. The reply is not tenable as no price variation was allowable during the period of contract and the firm should have been asked to supply the balance quantity on agreed rates.

4.6 Undue favour to suppliers

The Company extended undue favour to suppliers by accepting supply of Galvanised Iron (GI) pipes valuing Rs.99.83 lakh not conforming to IS specification.

The Company procures Galvanised Iron (GI) pipes as per IS Code:1239 for use in installation of Hand Pumps. The Code stipulates that the weight of medium size 32 mm GI pipes to be supplied should be 3.13 kg per meter with permissible variation of ± 7.5 per cent for qualities per lot of 10 tonnes. Thus, acceptable weight of G.I. pipes per meter was to be between 3.365 kg (maximum) and 2.895 kg (minimum). Clause 24 of the supply order provides that all the pipes supplied were to be rejected if found sub-standard/under weight.

It was noticed (February 2007) that against 17 orders placed (September 2005 to September 2006) by the Company for procurement of GI pipes, the Company accepted under weight supply of 71,685 meters of GI pipes having weight ranging between 2.515 kg and 2.890 kg per meter valuing Rs.99.83 lakh in 26 lots not conforming to IS standards. The Company instead of rejecting the lots utilised the sub-standard pipes in contravention to clause 24 of the supply order. Thus, the Company extended undue favour to supplier by accepting sub-standard/underweight GI pipes valuing Rs.99.83 lakh and also compromised on the quality of the pipes used.

The matter was reported to the Management and the Government in May 2007; their replies are awaited (October 2007).

Uttar Pradesh Rajkiya Nirman Nigam Limited

4.7 Excess expenditure

The Company incurred excess expenditure of Rs.24.53 lakh on engagement of architects for preparation of drawing and design without obtaining competitive rates through tenders.

The Government Order (G.O) of February 1997 stipulated that the Public Sector Undertakings and other executing agencies would levy centage charges at the rate of 12.5 *per cent* on deposit works which consists of 1.5 *per cent* for preparation of designs and detailed estimate (including preliminary estimate and project report) and 11 *per cent* for execution of work (including audit expenses).

It was noticed (February 2007) that Unit IV, Kanpur of the Company entered (August 2001) into MOU with *Chhatrapati Sahoo Ji Maharaj* University, Kanpur (Client) for construction of various buildings in the University campus on cost plus centage basis. Clause 12 of MOU provided that the Company would engage architect from a panel of architects after approval of the client. The professional fee of the architect was to be decided as agreed upon between the Company and the architect.

It was observed (February 2007) that the Company, without obtaining the competitive rates through call of tenders, engaged Arch-En Design Centre as architect for designing and preparation of detailed estimate at a fee of 1.87 *per cent* of the cost of work against the ceiling of 1.5 *per cent* and paid Rs.1.24 crore up to January 2007 as professional fees. As a result, the Company incurred an excess expenditure of Rs.24.53 lakh (Rs.1.24 crore x 0.37/1.87) over and above the ceiling (1.5 *per cent*) on architectural fees out of its own sources. The basis on which architect's fees was fixed at 1.87 *per cent* of the cost of work was not available on records and the Company by not inviting competitive bids lost an opportunity of finalising the architect's fees within the limit of 1.5 *per cent* of cost of work.

The matter was reported to the Management and the Government in May 2007; their replies are awaited (October 2007).

4.8 Loss due to delay in completion of work

Failure of the Company in submission of delay analysis report resulted in non-waiver of liquidated damages of Rs.19.49 lakh.

The work of construction of Retail Outlets at Pakbara, Kitchha and Chandausi was awarded (June 2000) to the Company by Mecon (India) Limited at a contract price of Rs.1.96 crore. According to Clause 9 of the letter of award, the work was to be completed within stipulated time (80 days from the date of handing over the site), otherwise the Company was liable to pay liquidated damages at the rate of one *per cent* of the contract price per week of delay or part thereof subject to maximum ceiling of 10 *per cent* of the final contract price.

It was noticed (March 2007) that the construction of the said work was started, after the site was handed over on 3 July 2000, for completion by 21 September 2000. The work was, however, completed after a delay of 344 days (30 August 2001). The Company submitted (May 2001) the final bill for

Rs.2.09 crore to Mecon for payment. Mecon passed (November 2002) the bill for Rs.1.90 crore after deducting liquidated damages of Rs.19.49 lakh. The Company represented (May 2003) for waiver of liquidated damages but the client asked (September 2003) for submission of delay analysis reports in justification of its claim that the delay was not attributable to the Company. The Company did not submit the delay analysis report even after a lapse of four years (April 2007). Thus, due to non-submission of delay analysis report to the client, the Company could not get refund of liquidated damages of Rs.19.49 lakh.

The matter was reported to the Management and the Government in June 2007; their replies are awaited (October 2007).

The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited

4.9 Irregular sanction of equity assistance

The Company suffered loss of Rs.26.24 lakh due to sanction of equity assistance in contravention of the guidelines of the scheme.

The Company introduced (May 1992) Venture Capital Scheme (Scheme) with a view to provide assistance to public limited Companies promoted by individuals or group of individuals for projects with innovative technology, product, market survey. Quantum of assistance under the scheme was limited to Rs.15 lakh in case of individual promoter and up to Rs.30 lakh in case of multiple promoters, subject to 50 *per cent* of promoter's contribution. Loan under the scheme was to be secured by a first charge on fixed assets making *pari pasu* to be created for term loan and also personal guarantee of the promoters. Under the scheme, share subscribed by the Company were to be listed on a stock exchange and could be bought back by the promoters after five years from the date of investment but before 10 years at an agreed price, which should be least of the paid-up value of shares plus interest compounded yearly at the rate of 15 *per cent* per annum from the date of investment *minus* dividends declared by the Company up to the period of such sale.

It was noticed (June 2006) that the Company sanctioned (June 2000) equity assistance of Rs.15 lakh to B. Net Internet Services (Private) Limited, Lucknow for establishment of a comprehensive and interactive portal/website based database of the State. The Company executed (July 2000) an agreement with B-Net Services with a special condition that provisions for buy back of shares would apply in case the Unit earns net profit. Bond of personal guarantee was also executed (July 2000) by the promoters. The Company disbursed Rs.15 lakh in two instalments (July and December 2000) of Rs.7.50 lakh each. The promoters, however, did not issue share certificates to the Company till August 2004. The Company, therefore, issued (August 2004) notice to recall the assistance with interest. The Promoter approached (April 2005) the State Government seeking clearance for winding up of the unit. The State Government directed (August 2005) the Company to put up the matter to its Board of Directors (BODs) for considering the request of promoters for winding up of the unit and writing off of the assistance. The proposal of the promoters for winding up of the assisted unit and writing off the financed equity assistance (Rs.15 lakh) was put up (August 2005) before

the BODs for consideration and approval. The BODs decided (August 2005) to wind up the assisted unit and to write off the assistance.

It was observed (June 2006) that the Company irregularly sanctioned the assistance to the unit even though it was a Private Limited Company (not eligible under the scheme) and not a Public Limited Company. This was not only in contravention of the guidelines of the scheme but also facilitated the promoter to escape from the accountability as no security was taken except personnel guarantee of the promoters. As a result, the Company failed to implement the condition of buy back of shares at an agreed price. Thus, injudicious decision of the Company resulted in loss of Rs.26.24 lakh (Principal: Rs.15 lakh plus interest: Rs.11.24 lakh).

The Management stated (August 2007) that the BODs took the decision for writing off the dues after deliberating upon the proposal of the promoters in details. The reply is not tenable as grant of assistance by way of equity without securing it and inclusion of condition of buy back of shares in case of net profit only, was in contravention of the guidelines of the scheme and not in the interest of the Company.

The matter was reported to the Government in May 2007; the reply is awaited (October 2007).

Power Distribution Companies

4.10 Non-levy of shunt capacitor surcharge

The Company suffered loss of revenue aggregating Rs.2.79 crore due to non-levy of shunt capacitor surcharge against PTW consumers.

Clause I of Rate Schedule LMV-5 effective from 1 December 2004 and applicable to private tube wells/pumping sets (PTW) for irrigation purposes having contracted load up to 25 Brake Horse Power (BHP) provides that new connections shall be released only after installation of shunt capacitors of appropriate rating and all existing pump sets were required to install shunt capacitors. Clause 6 of the rate schedule further provides that in respect of the consumers without static Tri Vector Meters (TVMs), if capacitors of appropriate rating are found missing or in-operational, a surcharge of 10 *per cent* of the amount of the bill shall be levied. In addition the licensee will have the right to take any other suitable action including disconnection of power supply.

During the audit of Electricity Distribution Divisions (EDDs) of two Power Distribution Companies, it was noticed that the following divisions were supplying electricity to PTW consumers without installation of TVMs and shunt capacitors, these divisions neither took any action to ensure installation of shunt capacitors nor levied shunt capacitor surcharge amounting to Rs.2.79 crore on energy charges of Rs.27.94 crore (at the rate of 10 *per cent*) in Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL) and Purvanchal Vidyut Vitran Nigam Limited (PuVVNL) as detailed below:

(Rs. in crore)

| Name of company/ Division | Period | Energy charge levied | SCS* not levied | Remarks |
|------------------------------|-------------------------------|----------------------------|--------------------|--|
| DVVNL | | | | |
| EDD, Kanpur | December 2004 to July 2006 | 7.06 | 0.71 | It was noticed (October 2006) that EDD Kanpur was giving unmetered supply to 6191 PTW consumers (existing and new) having connected load of 38055 KW under rate schedule LMV-5. Despite being pointed out by Audit the division neither issued supplementary bills for shunt capacitor surcharge nor disconnected supply of the consumer so far (October 2007) |
| PuVVNL | | | | |
| EDD I Ghazipur | December 04 to March 07 | 11.23 | 1.12 | It was noticed (June 2006 to September 2006) that these EDDs were giving unmetered supply to 22257 consumers having connected load of 108070.10 BHP under rate schedule LMV-5 On being pointed out by Audit: EDD I Ghazipur raised bills (July 2007) for the period December 2004 to July 2007, but realisation of the same is awaited (October 2007). |
| EDD II Ghazipur | December 04 to December 06 | 7.02 | 0.70 | EDD II Ghazipur neither raised the bills nor disconnected the supply so far (October 2007). |
| EDD I Ballia | December 04 to August 06 | 2.63 | 0.26 | EDD I Ballia neither raised the bills nor disconnected the supply so far (October 2007). |
| Total | | 27.94 | 2.79 | |

The matter was reported to the Management and the Government in April/May 2007; replies are awaited (October 2007).

4.11 Undue benefit to consumers

The Company extended undue benefit to consumers due to non-levy of compounding charges of Rs.26.86 lakh in lieu of initiating criminal proceedings against theft of electricity.

As per Section 152 (1) and (2) of the Electricity Act, 2003, in case of theft of electricity, the concerned consumer is punishable under the Code of Criminal Procedure, 1973. The offender may, however, pay for compounding of offence at the specified rates applicable to various categories** of consumers in lieu of criminal proceedings.

During audit of Electricity Distribution Divisions (EDDs) of two Power Distribution Companies (PuVVNL and DVVNL), it was noticed that during raids conducted by the vigilance/Police Enforcement Squads/ Divisional teams during March 2005 to June 2006, 37 consumers were found involved in theft of electricity. The theft of electricity was resorted to by taking direct supply from Low Tension (LT) lines by using *Katia*. The Divisions neither lodged FIR with the police nor levied compounding charges of Rs.26.86 lakh in lieu of criminal proceedings as detailed below:

| Name of the Company. | Division | Category of consumer | | | Compounding Charges to be levied (Rs. in lakh) | Remarks |
|---|----------------|----------------------|-------------------|----------------|--|--|
| | | Category | Nos. of consumers | Connected load | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Dakshinanchal Vidyut Vitaran Nigam Ltd. | EDD-II Aligarh | Domestic (LMV-1) | 11 | 16 KW | 0.64 | In reply the divisional officer stated (May 2007) that appropriate action (lodging of FIR/ recovery of compounding charges could not be taken due to lack of awareness. On being pointed out by audit the divisional officer stated (July 2007) that all the 31 cases have been handed over to departmental council for filing case with special court. |
| | | Commercial (LMV-2) | 4 | 11 KW | 1.10 | |
| | | PTW (LMV-5) | 8 | 66 BHP | 1.32 | |
| | | Industrial (LMV-6) | 8 | 62 BHP | 12.40 | |

* Shunt capacitor surcharge.

** Light & Fan (Domestic): Rs.4,000/KW, Light and Fan (Commercial): Rs.10,000/KW, Agriculture: Rs.2,000/BHP and Industrial: Rs.20,000/BHP/ KW or part thereof.

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---------------------------------------|---|--|-----------|------------------|--------------|--|
| Purvananchal Vidyut Vitaran Nigam Ltd | Electricity Distribution Division I Ballia | Commercial (LMV-2) Industrial (LMV-6) | 1 2 | 1 KW 21.5 BHP | 0.10 4.30 | On being pointed out by audit the division raised (December 2006) bills for compounding charges amounting Rs.4.40 lakh. Recovery of which is awaited (October 2007). |
| | Electricity Distribution Division II Ghazipur | Industrial (LMV-6) | 3 | 35 BHP | 7.00 | |
| Total | | | 37 | | 26.86 | |

The matter was reported to the Management and the Government in May 2007; the replies are awaited (October 2007).

Purvanchal Vidyut Vitran Nigam Limited

4.12 Short levy of penalty

Under assessment of penalty caused a loss of Rs.21.96 lakh to the Company.

Clause 8.2 (iv) of Uttar Pradesh Electricity Supply Code-2005 (Code) effective from 19 February 2005 provides that in case of theft of energy, Penalty at thrice the rate of tariff applicable to the consumer on the units assessed on the basis of LFHD* formula, excluding the consumption recorded by the meter during the period of theft, shall be billed. Para C (ii) of Annexure 6.3 further provides that in case of direct theft, 'F' shall be one (100 percent)

It was noticed (January 2007) in Electricity Urban Distribution Division-I, Gorakhpur that during the raids conducted (19 February 2005 to 19 June 2006) by Raid Enforcement Squad, Gorakhpur, 102 consumers (load 71.201 KW) of domestic category and 13 consumers (load: 57.076 KW) of commercial category were found using electricity directly from LT lines. According to the above codal provisions, the consumers of domestic and commercial category were required to be assessed for 1,15,346 units (Valued Rs.9.95 lakh) and 1,84,926 Units (valued Rs.22.11 lakh) respectively by taking average of 18 hours supply per day and factor (F) as one (hundred percent). The division however, assessed the consumers incorrectly for 34684 units (Valued Rs.2.58 lakh) and 61642 units (Valued Rs.7.52 lakh) by taking 12 hours as average number of supply hours and factor 0.30 (30 per cent) and 0.50 (50 per cent) in case of domestic and commercial category consumers respectively. Thus, due to considering lessor average supply hours and incorrect factor, the division under assessed the consumers to the extent of Rs.21.96 lakh for theft of electricity.

In reply, the Divisional Officer stated, (August 2007) that at the instance of audit the revised assessed bills for penalties and notices were issued (April 2007) but recovery of Rs.0.85 lakh only could be made so far. (August 2007)

The matter was reported to the Management and the Government in June 2007; their replies are awaited (October 2007).

* L = Load (in KW), F = Factor, H = Average hours of supply during the period, D= days.

Dakshinanchal Vidyut Vitran Nigam Limited

4.13 Non-levy of low power factor surcharge

The Company did not levy low power factor surcharge aggregating Rs.72.29 lakh.

Clause 8 (i) and 9 (iii) of the rate schedule for HV-4 category (Lift Irrigation Works) effective from 1 December 2004, provide that an average power factor of more than 0.85 during any billing period should be maintained by the consumers. In respect of consumers with static Tri Vector Meter, a surcharge of 5 *per cent* on monthly bill (including load factor rebate) is to be levied in case the power factor falls below 0.85 but remain up to 0.80 and 10 *per cent* surcharge is to be levied if the power factor falls below 0.80 in any billing month.

It was noticed (May 2006) in Electricity Distribution Division, Lalitpur (Division) that the power factor of Jakhlone Pump Canal (load 4600 KVA) in the name of Executive Engineer, Lift Irrigation Division, Kanpur ranged between 0.77 and 0.79 during billing months January to July 2005 and November 2005 to April 2006. As such, in terms of provisions of the tariff, low power factor surcharge at 10 *per cent* on billed amount was to be levied. The Division, however, did not levy low power factor surcharge aggregating Rs.72.29 lakh on energy charges (demand charge plus energy charge) amounting to Rs.7.23 crore during the above period.

The Management stated (June 2007) that supplementary bill amounting Rs.72.29 lakh had been issued (May 2007), recovery of the same is awaited (October 2007).

The matter was reported to the Government in April 2007; the reply is awaited (October 2007).

4.14 Loss of revenue

Failure to execute revised agreement specifying the protective load resulted in loss of revenue aggregating Rs.30.26 lakh.

Clause 4.27 of Electricity Supply Code 2005 (Code) read with para 14 of Rate Schedule HV-2, effective from 1 December 2004 stipulates that the licensee may grant Protective Load* in exceptional cases, to be specified in the agreement with consumers, who have opted for 24 hours use of power subject to emergency rostering and getting supply on independent feeder at 11 KV and above emanating from grid sub-station (132 KV and above). An additional charge at the rate of 100 *per cent* of the base demand charges in addition to normal demand charges per month shall be levied on the contracted protective load each month to such consumers.

It was noticed (February 2007) in Electricity Distribution Division, Kasganj, that Sterling Agro Industries (NOVA) Limited, the manufacturer of dairy products, was getting supply for 600 KVA load through 33 KV independent feeder emanating from 132 KV sub-station, Kasganj. The consumer requested (May 2005) the Company for 24 hours uninterrupted power supply as the raw material as well as manufactured dairy products were of highly perishable

* Protective Load means a load not subjected to normal rostering.

nature. Considering the request of the consumer, the Company decided (August 2005) to revise the agreement for providing protective load to the consumer in terms of the above provisions of Electricity Supply Code. It was, however, observed that the Company allowed uninterrupted power supply for 24 hours to the consumer without executing the revised agreement for specific protective load. With the result the bills could not be issued for protective load charges as per provisions of Rate Schedule (HV-2 - item 14). Further, the load of the consumer was enhanced (August 2006) from 600 KVA to 1000 KVA, but the agreement for 1000 KVA executed (August 2006) with the consumer did not include the clause of Protective Load. Consequently, the Company could not raise bills for protective load during the period August 2005 to June 2007. Thus, failure of the Company in execution of the agreement for protective load resulted in loss of revenue to the extent of Rs.30.26 lakh during August 2005 to June 2007.

The Management stated (October 2007) that bill for protective load amounting to Rs.33.66 lakh for the period August 2005 to August 2007 had been issued and consumer has been asked to execute agreement for protective load.

The matter was reported to the Government in April 2007; the reply is awaited (October 2007).

4.15 Short assessment of revenue

The Company suffered loss of revenue aggregating Rs.1.53 crore due to incorrect application of tariff.

Rate Schedule HV-4 of Uttar Pradesh Power Corporation Limited effective from 1 December 2004 and applicable to medium and large pump canals having load of more than 100 BHP (75 KW), provides that the consumers getting supply at 11 KV shall be billed for demand charges at the rate of Rs.180 per KVA per month for the actual maximum demand or 75 per cent of the contracted load, whichever is higher plus energy charges at Rs.3.50 per KVAh.

It was noticed (July 2006) in Electricity Distribution Division, Akbarpur, Kanpur Dehat, that energy to Amarhat Pump Canal having contracted load of 2000 BHP (1667 KVA) was being supplied through 11 KV independent feeder. Consumption of energy by the pump canal was being recorded in the energy meter installed at the outgoing feeder of the canal. Accordingly, the consumer was required to be billed under Rate Schedule HV-4 (demand charges at the rate of Rs.180 per KVA per month plus energy charges at the rate of Rs.3.50 per KVAh). The Division, however, billed the consumer incorrectly for 1395 BHP load per month under rate schedule LMV-8 *i.e.*, at the rate of Rs.500 per BHP per month (applicable to unmetered consumers) for Rs.1.33 crore during the period December 2004 to June 2006 as against Rs.2.86 crore* required to be billed under the rate schedule HV-4. This resulted in short assessment of revenue to the extent of Rs 1.53 crore.

The Management stated (October 2007) that bill amounting to Rs.2.61 crore for the period December 2004 to June 2007 under rate schedule HV-4 had been issued, recovery of which is still awaited (October 2007).

* Energy charge Rs.2.29 crore plus demand charges Rs.36 lakh plus minimum consumption guarantee Rs.21 lakh.

The matter was reported to the Government in April 2007; the reply is awaited (October 2007).

4.16 Irregular load factor rebate

The Company allowed irregular credit of load factor rebate aggregating Rs.70.33 lakh to a heavy power consumer.

Para 10 (ii) of Rate Schedule HV-2 (December 2004), applicable to large and heavy power consumers having contracted load above 75 KW for industrial and/ or processing industries including arc/induction furnaces, provides graded load factor rebate ranging from 7.5 to 15 *per cent* for any excess consumption over the defined KVAh per KVA (of maximum recorded demand) on the energy charges for such excess consumption. Rebate is not admissible to the consumers with arrears. In case the consumer has obtained an order of stay from a Court or any other statutory authority, the amount of load factor rebate for which the consumer is eligible in respect of the amount of the bill shall be calculated and the same shall accrue to the account of the consumer but the actual credit thereof shall not be given to the consumer in his monthly bills until the case relating to the dispute regarding arrear is finally decided by the court or the statutory authority. Further, in case arrears are not paid by the consumers, the clause 11 (i) of the Schedule provides that the licensee has the right to disconnect the supply of the defaulting consumer or to take any other measure permissible by law.

It was noticed (August 2006) in Electricity Distribution Division, Hamirpur, that a consumer (Rim-Jhim Ispat Limited) having contracted load of 8200 KVA for induction furnaces, filed (February 1999) a case before High Court for rebate under Bundelkhand Development Rebate (BDR), the decision on which is pending till date (October 2007). The Court, however, in its interim order allowed (February 1999) the concession of paying 50 *per cent* of the actual consumption of electricity as per prevailing tariff. The consumer, however, failed to honour the Court's order and defaulted in payment of energy bills which resulted in accumulation of arrears to the extent of Rs.8.45 crore at the end of March 2005. Accordingly, in terms of provisions of rate schedule HV-2, the consumer, though eligible for graded load factor rebate (ranging from 7.5 to 15 *per cent*), should not have been given credit with the amount of graded load factor rebate in his monthly energy bills and supply of the defaulting consumers was to be disconnected. It was, however, observed that the Divisional Officer, despite accumulation of arrears and pending decision of the court, irregularly allowed credit of graded load factor rebate aggregating Rs.70.33 lakh in consumer's monthly bills for the period from August 2005 to February 2007 and did not disconnect the supply of the consumer.

The Management stated (June 2007) that bill amounting to Rs.70.33 lakh had been issued in April 2007, recovery of the same is still awaited (October 2007).

The matter was reported to the Government in April 2007; the reply is awaited (October 2007).

4.17 Short levy of power factor improvement surcharge

The Company suffered loss of revenue aggregating Rs.23.22 lakh due to short levy of power factor improvement surcharge against State Tubewells and World Bank Tubewells.

Clause 10 (iii) of the Rate Schedule LMV-8 effective from 1 December 2004 and applicable to State Tubewells/World Bank Tubewells and Pump Canals, provides that in respect of consumers without static Tri-vector Meters (TVMs), if capacitors of appropriate rating are found missing or in-operational, a surcharge of 10 *per cent* on the amount of energy bill shall be levied for power factor improvement.

It was noticed (February 2007) in Electricity Distribution Division (Division), Kasganj, that two consumers of State Tubewells and World Bank Tubewells having connected load of 5125 BHP were being supplied energy without static TVMs and billed under rate schedule LMV-8. Accordingly, in terms of provisions of rate schedule, a surcharge of 10 *per cent* for power factor improvement was leviable on the amount of bills.

Audit observed that the Division had, however, levied the power factor improvement surcharge ranging between 2.95 and 5 *per cent* (instead of 10 *per cent*) on the amount of bills for the period from January 2005 to March 2006 which resulted in short levy of power factor improvement surcharge aggregating Rs.23.22 lakh. Consequently, the Company suffered loss of revenue to that extent, as detailed below:

(Rs. in lakh)

| Sl. No. | Name of the consumer | Total load (in BHP) | Bill amount at the rate of 500/BHP/month (1/05 to 3/06) | Amount of surcharge at the rate of 10 <i>per cent</i> leviable on the bill amount | Amount of surcharge levied on the bills | Short levy of surcharge |
|---------|---|------------------------|---|---|---|-------------------------|
| 1. | Executive Engineer Tubewell Division, Aligarh | 2602.50 | 195.19 | 19.52 | 5.76 | 13.76 |
| 2. | Executive Engineer Tubewell Division, Etah | 2522.50 | 189.19 | 18.92 | 9.46 | 9.46 |
| | Total | 5125.00 | 384.38 | 38.44 | 15.22 | 23.22 |

The Management stated (September 2007) that the Divisional Officers had raised (May 2007) bills for differential amount of surcharge, recovery of the same is awaited (September 2007).

The matter was reported to the Government in May 2007; the reply is awaited (October 2007).

4.18 Short assessment of revenue

The Company suffered loss of revenue aggregating Rs.10.68 lakh due to short assessment of revenue against theft of electricity.

As per Section 135 of the Electricity Act 2003, if a device or method which interferes with accurate or proper registration or metering of electric current or

otherwise results in a manner whereby electricity is stolen or wasted, such consumer shall be punishable with imprisonment or with fine or with both. For assessment of theft of energy, the Uttar Pradesh Electricity Supply Code 2005 (Distribution Code), effective from 18 February 2005 provides that such consumer shall be assessed within a month from the date of inspection at thrice the rate per unit of applicable tariff on the units of energy computed as per LFHD* formulae.

It was noticed (January 2007) that raid party of Electricity Distribution Division II, Mathura conducted raid on the premises of a large and heavy power consumer (load - 129 KVA) and detected (February 2006) theft of energy by an industrial consumer. The Division lodged (February 2006) FIR but failed to correctly assess the energy consumed during theft due to incorrect application of conversion factor for calculation of units in KVAh as well as incorrect adjustment of prior consumption of energy and raised bills for Rs.36.91 lakh in place of Rs.47.59 lakh. This resulted in short assessment of revenue to the extent of Rs.10.68 lakh.

The Management stated (September 2007) that considering correct conversion factor for calculation of KVAh, assessment for Rs.47.75 lakh has been raised (April 2007) and RC has been issued (August 2007); recovery of the same is awaited (October 2007).

The matter was reported to the Government in May 2007; the reply is awaited (October 2007).

4.19 Undue favour to a consumer

Failure of the Company in taking adequate measures to realise the dues resulted in accumulation of arrears of Rs.17.56 lakh towards electricity charges.

Clause 4.66.1 (a) of Uttar Pradesh Electricity Supply Code-2002 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 provisions of Section 5 of Uttar Pradesh Government Electrical Undertaking (Dues Recovery) Act, 1958. Further clause 6.14 of the Code (2005) provides that first instalment of recoverable dues shall not be less than 40 percent of the total amount. In case the amount of instalments exceeds Rs.0.10 lakh, the consumer is required to deposit post-dated cheques of the amount of instalments.

It was noticed (May 2007) in Electricity Distribution Division-I Etawah, that a connection with a contracted load of 71.254 H.P was released (June 1999) in favour of Sweet Plastic Pipe (consumer of LMV-6 "small and medium power"). The consumer defaulted in making payment of monthly energy bills since date of connection (June 1999). The consumer continued to default in making payment of energy bills and dues of energy accumulated to Rs.18.36 lakh (March 2003). No action was taken by the Division to disconnect the supply of electricity to the consumer in view of default in payment, though

* L = Load (in KW), F = Factor, H = Average hours of supply during the period, D= days.

pointed out by Audit (December 2003). Instead of disconnection, the Company in violation of clause 4.66.1 (a) of Distribution Code 2002 extended the facility (May 2003) of payment of dues in four instalments of Rs.4.09 lakh each on payment of Rupees two lakh by the consumer during that month. The consumer, however, did not honour the facility and arrears of energy dues further accumulated to Rs.25.91 lakh (March 2004). Whereupon the Company permanently disconnected (31 March 2004) the supply of energy to the consumer. It was further noticed that on realisation (March 2007) of Rs.2.50 lakh, the Company withdrew (26 May 2007) notices issued under section-5 of Uttar Pradesh Government Electrical Undertaking (Dues Recovery) Act, 1958. Instead, the facility of payment of energy dues in four instalments of Rs.5,85,204.50 each (25 *per cent* of total dues of Rs.23.41 lakh) was again extended (May 2007) in contravention of the provisions of the code 2005.

Thus, the Company failed to take timely action to disconnect the supply in accordance with the provision of the Code and extended undue favour by extending facility of making payment in instalments twice (May 2003 and May 2007).

The Management stated (September 2007) that out of Rs.23.41 lakh, outstanding against the consumer a sum of Rs.5.85 lakh had been realised (July 2007) and Rs.17.56 lakh was pending for realisation (October 2007).

The matter was reported to the Government in June 2007; the reply is awaited (October 2007).

Uttar Pradesh Power Corporation Limited

4.20 Non-investment of CP fund in approved securities

Non-investment of contribution of Provident fund in approved securities resulted in loss of interest amounting to Rs.17.65 lakh.

As per Clause 14 of Contributory Provident Fund Rules 2004 adopted by Uttar Pradesh Power Corporation Limited (UPPCL), all money of the fund were to be invested expeditiously not later than the close of the month of recovery, subject to such further direction that UPPCL may give from time to time. The investment shall be in the securities mentioned or referred to in clause (a) to (d) of section 20 of the Indian Trust Act, 1882 (II of 1882) and in such other securities as the Central Government may from time to time approve in this regard. Ministry of Finance and Company Affairs, Government of India vide notification dated 6 March 2003 asked all non-Government Provident Fund Trusts to invest 25 *per cent* of this fund in Central Government securities, 15 *per cent* in Government securities approved by SEBI, 30 *per cent* in Bonds/Securities of Public Financial institutions including Public Sector Banks and 30 *per cent* in any of these three categories.

It was noticed (May 2007) during audit of Uttar Pradesh Power Corporation Contributory Provident Fund Trust (Trust) that the Trust did not invest the contribution of the subscribers in the prescribed securities. It kept the same in saving bank account at the interest rate of 3.5 *per cent*. The rate of interest on

Kisan Vikas Patra (Central Government Security) during the year 2005 and 2006 was 8 per cent. Thus, non-investment of fund in the approved securities resulted in loss of interest amounting to Rs.17.65 lakh worked out on the differential rate of interest of 4.50 per cent per annum (8 per cent per annum on *Kisan Vikas Patra* minus 3.5 per cent per annum on Saving Bank) during the period March 2005 to March 2007.

The Management stated (August 2007) that the Trust was only registered with the Registrar on 26 May 2006. As the Trust was not duly registered, no investments in its name could be made as per law. The reply is not acceptable as UPPCL should have invested the amount in its own name in Central Government Securities instead of keeping the money in the savings bank account in view of GOI direction (March 2003).

The matter was reported to the Government in June 2007; the reply is awaited (October 2007).

Statutory Corporations

Uttar Pradesh Financial Corporation

4.21 Loss of interest

The Corporation suffered loss of interest income aggregating Rs.54.43 lakh due to advance payment of interest free instalments to IDBI.

The Corporation had an outstanding liability of Rs.55.43 crore (principal: Rs.35.59 crore plus interest: Rs.19.84 crore) as on 31 March 2005 towards refinance dues payable to Industrial Development Bank of India (IDBI). IDBI, however, settled (December 2005) the total outstanding refinance dues for Rs.35.59 crore due to poor financial position of the Corporation. It was noticed that as per terms and conditions of the negotiated settlement, the outstanding amount was payable in 36 monthly instalments of Rs.98.85 lakh each, commencing from 1 February 2006. Further, after the expiry of 12 months from the date of Letter of Intent (23 December 2005) the outstanding settled amount was to carry interest at the rate of 10.25 per cent per annum on reducing balance basis at monthly rests. Further the Corporation made timely payment of first three interest free instalments of Rs.98.85 lakh each and subsequently made part payment of Rs.20 crore in lump sum to IDBI in April 2006 against the outstanding amount. The Corporation, thus, ignoring the interest free period (up to December 2006) made an advance payment (April 2006) of Rs.20 crore and suffered loss of interest income aggregating Rs.54.43 lakh (calculated at the rate of 5.25 per cent per annum payable by the banks on short term fixed deposits) for the interest free period from May to December 2006. This could have been avoided, had it invested the available surplus funds in the Fixed Deposits with scheduled banks instead of making part lump sum advance payment to IDBI during interest free period.

The Government stated (June 2007) that advance payment was made due to heavy cash and bank balances as on 31 March 2006. The reply is not tenable as the Corporation could have availed the interest free period for earning interest by investing the amount paid in advance.

Uttar Pradesh Avas Evam Vikas Parishad
4.22 Undue benefit to allottee

The Parishad extended undue benefit to allottee due to non-recovery of dues amounting to Rs.17.65 lakh and by not dislodging him from the property.

Uttar Pradesh Avas Evam Vikas Parishad (Parishad) framed *Bhukhand तथा Bhawan Ke Panjikanan Evam Pradeshan Sambandhi Viniyam-1979* (as amended to June 1986) (*Viniyam*) under Section 95 sub-section 2 Clause (e) of U.P. Avas Evam Vikas Parishad Adhiniyam 1965 (*Adhiniyam*). Under Rule 17 of *Viniyam*, allotment of plots/houses under the scheme of the Parishad would be made on cash/half cash or instalment basis. Rule 28 (2) of *Viniyam* further stipulates that in case of allotment on installment basis, a lump-sum amount (according to the category of house) is required to be paid alongwith first installment and possession of property would be given after realising the above amount along with first instalment and after entering into an agreement (*Kiraya-Kisht Kray Kirayedari Ka Anubandh*) with the allottee. Clause 2 of the agreement further stipulates that in case of consecutive default in payment of more than three instalments, tenancy shall be deemed to be terminated and purchaser would be dislodged from the property and all outstanding dues would be recovered by way of issuing Recovery Certificates (RCs) through the District Authorities.

Scrutiny of records of the Estate Management Office (Vikas Nagar, Lucknow) revealed that the Parishad allotted (December 1998) a Middle-Income Group (MIG) house costing Rs.6.63 lakh to an allottee. The allotment letter issued to the allottee envisaged payment of Rs.0.67 lakh in lump sum and balance in three stages *viz.* at first stage Rs.1.22 lakh up to 31 December 1998, second stage Rs.1.19 lakh up to 28 February 1999 and third stage Rs.4.17 lakh in 24 quarterly instalments whose first instalment of Rs.0.29 lakh fell due for payment on or before 01 March 1999 along with interest at the rate of 18 *per cent* per annum. The Parishad executed (December 1998) agreement with the allottee after receiving the payment of Rs.0.64 lakh and possession of the house was handed over (December 1998) to the allottee. It was observed that the allottee neither paid any amount thereafter nor did the Parishad dislodge the allottee from the possession of the house as per the provisions of the *Viniyam* up to January 2007. This resulted in accumulation of dues to Rs.17.65 lakh. The Parishad offered (November 2003 and August 2006) settlement of dues under One Time Settlement Scheme, which was not accepted by the allottee.

Thus, the Parishad, in contravention to the *Viniyam* extended undue benefit to the allottee by giving possession of the property without realising initial amount up to first instalment (Rs.1.89 lakh) and by not dislodging the allottee from the property as per provisions of the agreement. No Recovery Certificate for recovery of dues worth Rs.17.65 lakh was issued (October 2007).

The matter was reported to the Management and the Government in May 2007; the replies are awaited (October 2007).

4.23 Avoidable expenditure

The Parishad had to incur an expenditure of Rs.15.54 lakh on the maintenance of a park due to non-handing over the same to local authority.

Section 41 (2) of U.P. Avas Evam Vikas Parishad Adhiniyam 1965 (Adhiniyam), provides that when any open space for the purpose of ventilation or recreation is provided by the Parishad in executing any housing or improvement scheme, it shall be transferred to the local authority concerned on its completion by a notice of the Board's resolution. Scrutiny of the records of the Construction Division-15, Lucknow revealed that the Parishad was engaged in construction and development of Vrindavan Yojna-2, Phase-I at Lucknow which was completed in March 2004. A park called Kalindi Park was developed in the scheme and opened (April 2003) to public. It was further noticed that the Parishad did not initiate any action for transfer of the park to the local authority *i.e.* Nagar Nigam, Lucknow and the park remained with the Parishad (April 2007). Besides, the Parishad incurred (up to January 2007) expenditure of Rs.17.77 lakh on maintenance of the park against the revenue received from it (Rs.2.23 lakh). Thus, non-transfer of the above park by the Parishad to the Nagar Nigam led to an avoidable expenditure of Rs.15.54 lakh on its maintenance.

The Management stated (May 2007) that the park would be transferred automatically with the transfer of Scheme to Nagar Nigam. The reply is not tenable as in the past the Parishad has transferred a number of parks of its various schemes separately to local bodies.

The matter was reported to the Government in May 2007; the reply is awaited (October 2007).

4.24 Loss due to procurement of transformers at higher rates

The Parishad incurred extra expenditure of Rs.28.10 lakh on procurement of transformers without ascertaining reasonability of their rates.

The Parishad observes Uttar Pradesh Power Corporation's (UPPCL) Schedule of Rates and Specification as amended from time to time for procurement of power transformers.

It was noticed that the Parishad procured (July 2005) five power transformers of 5 MVA capacity for installation at 33/11 KV sub-station at Amrapali Yojna, Lucknow (2 nos) and Keshavpuram, Kanpur (3 nos.) by inviting tender as per specification of UPPCL effective during 2005-06. The supplier quoted firm rate of Rs.21 lakh per transformer including all levies and taxes. It was further observed that the UPPCL procured the same type of transformers at Rs.15.38 lakh per transformer (including all taxes and levies) during the same period. Thus, procurement of transformers by the Parishad without ascertaining the rates being paid by UPPCL resulted in extra expenditure of Rs.28.10 lakh.

The Management stated (July 2007) that the Parishad always made efforts to keep the purchase rates at par with the rates of UPPCL effective during the period of procurement but in instant case, rates could not be compared as no

tender was approved by UPPCL during the time of purchase of transformers by the Parishad. The reply is not tenable as UPPCL received supplies of transformers during 2005-06 against orders placed in March 2005.

The matter was reported to the Government in June 2007; the reply is awaited (October 2007).

Uttar Pradesh State Road Transport Corporation

4.25 Transfer of land without obtaining sale consideration

The Corporation suffered loss of ownership and possession of land transferred to Transport Department, Aligarh without receiving the sale consideration amounting to Rs.3.92 crore.

The Corporation for the purpose of construction of a bus stand, Regional and Depot Workshops, Regional Manager's office and residential flats acquired (1987) 24.09 acres land valuing Rs.33.93 lakh at Aligarh. The Transport Commissioner (TC) requested (January 2004) the Corporation for sale of two acres of land available with the Corporation at the rate prescribed by the District Magistrate (DM) for construction of office building of Regional Transport Office, Aligarh. A Committee of the Corporation, constituted by the Managing Director agreed (February 2004) to sell the land at DM Circle rate without obtaining prior approval of its BOD. The Corporation transferred (March 2006) the physical possession of 2.5 acres (9,790.38 sqm) land valuing Rs.3.92 crore (valued at the DM's Circle rate of Rs.4,000 per sqm) to the TC without receiving the sale consideration. The State Government, however, accorded (April 2006) financial sanction for purchase of only 8,000 sqm of land at a price of Rs.3.20 crore, which was subsequently cancelled (November 2006) by the State Government.

The Corporation transferred the land without consideration and took up the matter with TC belatedly (April 2007) for release of payment but the payment has not been received so far (September 2007). Thus, due to transfer of land without consideration, the Corporation suffered loss of Rs.3.92 crore.

The Government stated (September 2007) that loss indicated by Audit was not justified as Corporation is a Government body and the land was transferred on the instructions of the State Government. The reply is not tenable as the Corporation transferred its land without receiving the sale consideration which was not compensated by the Government.

4.26 Avoidable expenditure

The Corporation incurred avoidable expenditure aggregating Rs.1.28 crore due to delay in deposit of Employees Provident Fund Contributions with Regional Provident Fund Commissioner.

As per provisions of the Employee's Provident Fund and Miscellaneous Provisions Act 1952 (Act), an employer is required to deposit with the Regional Provident Fund Commissioner (RPFC), employees' monthly contributions along with employers' shares to the RPFC within 15 days from the date of the close of each month, failing which simple interest as well as damages at the rate of 17 to 37 per cent are to be paid.

Despite a mention in para 4B.2 of the Report of the Comptroller and Auditor General of India, Government of Uttar Pradesh (Commercial) for the year ended 31 March 2001 regarding payment of damages on belated deposit of EPF, no corrective action had been taken by the Management. A scrutiny (July 2006) of records of the Corporation revealed that Varanasi and Faizabad regions of the Corporation did not deposit the employees' contribution and its share pertaining to the period from March 2000 to July 2003 within the prescribed time and utilised the money for its daily operational requirements. Consequently, RPFCL levied (May and June 2006) Rs.1.28 crore (interest Rs.1.22 crore and damages Rs.6.49 lakh) on account of default in payments. RPFCL did not accept the request of the Management for waiver of the damages on the ground of financial constraints and recovered (May and June 2006) the amount of interest and damages by seizing the Bank Accounts of the above regions. The payment could have been avoided had the Corporation paid the EPF contribution within the prescribed time.

The Management stated (June 2007) that the timely payment of EPF was not made due to financial crisis and huge losses incurred by the Corporation. The reply of the Management is not tenable as the payment of EPF was a statutory liability and timely payment of it should have been ensured.

The matter was reported to the Government in May 2007; the reply is awaited (October 2007).

4.27 Avoidable loss due to excess contracted load

Failure of the Corporation to reassess its demand of electricity resulted in extra payment of Rs.20.82 lakh to the electricity company.

The Central Workshop, Kanpur had a contracted load of 300 KVA for its requirement since 1947. According to the Rate Schedule HV-2 of Uttar Pradesh Power Corporation, applicable to large and heavy power consumers, demand charges at 75 per cent of contracted load or the actual demand whichever is higher, is leviable along with charges of actual energy consumed at the rates applicable from time to time. In case the aggregate of demand and energy charges fall below the prescribed minimum charges, the consumer is also liable to pay minimum consumption guarantee charges on contracted load.

It was noticed that the actual demand of the Workshop (December 2001 to February 2007) ranged between 76.68 KVA to 192 KVA (except in October 2006 and December 2006) against the contracted load of 300 KVA. As a result, the Corporation had to pay demand charges of Rs.9.22 lakh for 225 KVA per month (75 per cent of the contracted load of 300 KVA) and Rs.11.60 lakh towards minimum consumption guarantee charges during the above period as its actual energy charges fell below the prescribed minimum charges. Thus the failure of the Corporation to reassess its demand resulted in extra payment of Rs.20.82 lakh (Rs.9.22 lakh plus Rs.11.60 lakh).

The matter was reported to the Management and the Government in June 2007; the replies are awaited (October 2007).

4.28 Excess expenditure**The Corporation incurred excess expenditure of Rs.36.10 lakh in procurement of readymade seats for buses.**

The Corporation has two workshops (Central Workshop and Dr. Ram Manohar Lohia Workshop) at Kanpur for manufacture of the bus body on new and old chassis. It was noticed that the Corporation in 159th meeting of the BODs decided (January 2005) to manufacture 700 set of bus seats. The Corporation, instead of manufacturing all the seats, placed orders (September 2005) for purchase of 431 readymade seats from private parties on tender basis. The average tendered cost of one set of seat was Rs.0.78 lakh. Against 431 sets only 407 sets of seats were supplied by the parties. The remaining 269 sets of seats were manufactured in its own workshops at an average cost of Rs.0.68 lakh per set of seat. It was noticed that cost of seats manufactured by the Corporation was lower than the cost of readymade seats procured from outside. Thus, imprudent decision of the Management to purchase readymade sets of seats from private parties instead of manufacturing the same in its own workshops which had the capacity to manufacture these seats resulted in excess expenditure of Rs.36.10 lakh (worked out on the basis of differential cost of different type of seats).

The matter was reported to the Management and the Government in June 2007; their replies are awaited (October 2007).

4.29 Extra Expenditure on procurement of steel**Procurement of steel at higher rates from open market resulted in extra expenditure of Rs.15.49 lakh.**

The Corporation signed (July 2005 and April 2006) Memorandum of Understanding (MOU) with Steel Authority of India Limited (SAIL) with a view to decide production plan to enable SAIL to make supply of steel (GP Sheet, CR Sheet and H.R. Sheet) to Central Workshop, Kanpur (Workshop) of the Corporation. As per terms and conditions of MOU, supply was to be made as per planning cycle, and in case of inability of SAIL to supply, backlog was to be serviced till the end of the following month at the applicable price.

It was noticed that the Corporation furnished (May 2005) its requirement plan to SAIL. But instead of pursuing the matter with SAIL for supply of steel, the Corporation started purchasing steel from open market and continued (July 2005 to April 2006) to purchase from the open market at rates higher than the rates of SAIL. While making purchases from open market, it was recorded that the material was not available at SAIL depots. The non-availability (of material) certificates from SAIL were, however, not placed on records while making purchases from open market. No records were made available to Audit to show that the matter was pursued with SAIL at any level. Thus, purchasing the material from open market without first exhausting the possibility of procuring the material from SAIL resulted in extra expenditure of Rs.15.49 lakh.

The Management stated (October 2007) that delivery schedules were sent to SAIL but supplies were not received as per demand. The reply is not tenable

as the Corporation should have pursued the matter vigorously with SAIL for supplies as SAIL generally has quantities in its stock which are not lifted by the allottees to whom these are allocated, as is evident from paragraph 2.1.10 wherein UPSIC could not lift the entire quantity of steel allocated to it for supply to SSI units of the State.

The matter was reported to the Government in June 2007; the reply is awaited (October 2007).

Uttar Pradesh Government Employees Welfare Corporation

4.30 Loss due to non-availing cash credit limit

The Corporation did not route its sale proceeds through CC Account and paid interest of Rs.25.54 lakh without availing cash credit facility.

The Corporation obtained (May 1997) a cash credit limit (CC) of Rupees two crore from Allahabad Bank for meeting its working capital requirement by hypothecation of assets and guarantee by the State Government. As per terms of CC, the Bank accounts of all depots/canteens were to be opened in Allahabad Bank and all transactions were to be routed through this account only.

It was noticed that depots/canteens of the Corporation did not deposit sale proceeds (August 2003 to March 2004) in the CC Account. The CC Account could be operated only in March 2004 after intervention of the State Government. The CC Account was again not operated during the period September to November 2005. The Bank charged interest amounting to Rs.25.54 lakh (including penal interest Rs.0.45 lakh) for the period of non-operation of CC Account. As the transactions were not being routed through CC Account, the Account should have been closed. Operation of CC Account without routing its transactions through the account resulted in payment of interest amounting to Rs.25.54 lakh without utilising the CC facility.

The Government stated (September 2007) that sale proceeds could not be deposited in the CC account as depots were situated in all the districts of the State and it would have taken at least 10 days to send the amount of sale proceeds into headquarters account. It further stated that due to paucity of funds at headquarters, the account could not be operated and the Corporation earned more income during the period of non-operation of CC Account. The reply of the Government clearly establishes that there was no need for continuing the operations of the CC Account. So far as transfer of funds from depots/canteens is concerned, instructions should have been issued for transfer of funds electronically into the CC Account (of Allahabad Bank) at headquarters. It was also noticed that there were sufficient funds with the Corporation after utilising the sale proceeds for purchases, yet the CC Account was not operated. Thus, failure of the Corporation to close the CC Account resulted in payment of interest without availing cash credit limit.

General

4.31 Loss making Companies

Introduction

4.31.1 As on 31 March 2007, the State had altogether 88 Government Companies (48 working, 40 non-working) under Section 617 of the

Companies Act, 1956 and four deemed Government Companies under Section 619 B of the Act, *ibid*. The investment of State Government by way of equity capital and loan in these Companies amounted to Rs.18438.89 crore as on 31 March 2007.

As per latest finalised accounts of these PSUs, the accumulated losses of 34 working Companies out of 48 Companies were Rs.10575.40 crore against their paid-up capital of Rs.9823.87 crore. In case of 34 non-working Companies the accumulated losses were Rs.1158.27 crore against their aggregate paid up capital of Rs.338.28 crore. It was noticed (May 2007) that 12 working Companies were having negative net worth as per their latest finalised accounts out of which five Companies had been continuously incurring losses for five consecutive years.

Reasons for losses

4.31.2 The main reasons for losses of these Companies as analysed by Audit were mismanagement, higher establishment cost, lack of working capital, lack of adequate internal control system, paucity of working capital, obsolete machinery and technology and inability of the Companies to diversify their activities in accordance with the changing market conditions. Details of paid-up capital, accumulated losses, net worth, income, expenditure and profit and loss of the five Companies which had incurred losses for five consecutive years are given in **Annexure-34**.

The audit findings in respect of these Companies are discussed in succeeding paragraphs:

UP State Yarn Company Limited

4.31.3 The Company was incorporated in August 1974 with the objective of carrying the business of cotton spinners and doublers, manufacture and sale of yarn and to take over and run the sick textiles mills as a measure of employment relief. The Company incurred losses since inception due to adverse market conditions. The latest finalised accounts of the company for 2005-06 indicated accumulated loss of Rs.117.32 crore against its paid up capital of Rs.53.67 crore. The main reasons for the losses were as under:

- In the absence of modernisation, the Company was operating with old plant and machinery, which resulted in frequent breakdown and higher cost of repairs and maintenance. This affected the quality of the yarn produced, which did not remain competitive. The price of the raw material had increased over the last five years whereas the sale price of the yarn did not increase proportionately.
- The Company floated bonds for Rs.35 crore in February 1999 for modernisation scheme without obtaining formal approval of the Government. The State Government did not approve the modernisation plan and directed the Company to return the amount realised from the bondholders. Out of the amount collected, the Company paid (April 1999 and August 2000) a sum of Rs.8.82 crore to the bank and Rs.22.57 crore to the bondholders as principal and Rs.3.61 as interest. A sum of Rs.35.72 crore (principal Rs.12.43 crore and interest Rs.23.29 crore) was due for payment to the bondholders as on 31 March 2007. Thus, raising of funds by floating bonds without the approval of the State Government

had contributed towards the losses of the Company by way of payment of interest on the bonds.

- The Company had weak internal control system as the personal accounts, sundry debtors, creditors and loan and advances had not been reconciled and confirmed by the parties. The Company could not recover a sum of Rs.12.45 crore from debtors and other parties, which were due for more than 15 years.

The Company was declared a sick Industrial unit and was referred (March 1992) to the Board of Industrial and Financial Reconstruction (BIFR) for rehabilitation package. The State Government converted loan of Rs.19.75 crore and interest thereon of Rs.2.01 crore up to 1998 into equity as rehabilitation package. Further, the State Government sanctioned (March 2004) VRS package of Rs.23.88 crore to employees of three closed mills by way of interest free loan to the Company. The Company had made payment to 99.5 per cent of the employees. The BIFR issued notice (June 2006) for winding up of the Company. The Company made appeal (August 2006) to the Appellate Authority of Industrial and Financial Reconstruction (AAIFR) which issued stay order against the order of winding up. The State Government took a decision (October 2006) to give all the four mills on long term lease and the matter was pending for decision at the level of AAIFR.

The Management stated (June 2007) in reply that the three mills were closed due to adverse market conditions and they were running in losses. The bonds were issued with the consent of the State Government but as per order of the State Government, the amount was refunded to bond holders, which created financial crunch. The reply is not tenable as the state Government agreed in principle to the matter of issue of bonds by the Company. Later on the State government directed the Company to refund the amount collected to the bond holders. Thus, the decision of the Company to issue bonds without formal approval of the State Government was detrimental to the interest of the Company.

Uttar Pradesh State Spinning Company Limited

4.31.4 The Company was incorporated in August 1976 as a wholly owned Government company with the objective of carrying the business of cotton spinners and doublers, production, manufacture and sale of yarn. The latest finalised accounts of the Company for 2005-06 indicated accumulated loss of Rs.124.44 crore against its paid up capital of Rs.93.24 crore which eroded the net worth of the Company. The main reasons for the continuous losses were:

- Due to closure of Akbarpur unit of the Company (June 1990) due to labour unrest, the Company entered into an agreement with U.P. Co-operative Spinning Mills' Federation for sale of plant and machinery and stores and spares for Rs.7.08 crore. The federation paid only Rs.3.75 crore as full and final settlement. The sum of Rs.3.33 crore remained unrecovered so far.
- In the Maunath Bhanjan unit, labour unrest started in February 2004, which badly affected the production-activities and created financial crunch. This unit was also closed in June 2005. The inventory of Rs.0.76 crore held in stock since April 2004 had not been disposed off by the Company after the closure of this Unit.

- The employees and administrative costs ranged from 17.89 to 21.84 *per cent* of sales even after the voluntary retirement of the staff of Raebareli unit and those of headquarters and treatment of part of expenditure as Deferred revenue expenditure (DRE).
- In the absence of effective steps, balances of sundry debtors, loans and advances and other related parties were not confirmed. Consequently, the loans and advances of Rs.1.23 crore and sundry debtors of Rs.3.98 crore (outstanding since June 1990) became doubtful and created paucity of working capital. This led to financial burden of interest ranging between Rs.0.51 crore and Rs.0.85 crore *per annum* during the period of five years up to 2005-06.
- The Company was referred (July 1992) to BIFR which authorised (December 2006) the operating agency, Industrial Finance Corporation of India (IFCI) for change of the Management and to lease out the mills of the Company. The Company filed (January 2007) a case in AAIFR against the order of BIFR. AAIFR has passed stay order in February 2007. The matter was pending for decision.

The Management accepted (October 2007) the Audit observations.

Ghatampur Sugar Mills Limited

4.31.5 The Company was incorporated in May 1986 to carry on the business of sugar mills such as production and sale of sugar, sugar beats, molasses, *etc.* The latest finalised accounts of the company for 2004-05 indicated accumulated loss of Rs.86.26 crore against Rs.48.93 crore in 2001-02 registering an increase of 76.29 *per cent* and complete erosion of its paid up capital of Rs.8.95 crore. The main reasons for the losses were:

- The Company, located in low sugarcane produce area with installed capacity of 1250 TCD, was not financially viable as the cost of transportation of sugarcane was high.
- The operating results showed that the cost of production of the finished sugar ranged from Rs.1,666.31 to Rs.2,762.61 per quintal against the sale realisation between Rs.1,192.63 and Rs.1,424.56 per quintal during the period 2001-02 to 2004-05. The reasons for higher cost of production were attributable to higher employees cost which ranged between 27.49 and 37.93 *per cent* of sales.
- The Government of India fixed the statutory price of sugarcane between Rs.72.78 and Rs.80.25 per quintal during the period 2002-03 to 2006-07 against which the State Government declared the price of Rs.95 to Rs.125 that made the raw material costly, which resulted in increase in operating cost.
- The loan funds of Rs.42.13 crore increased to Rs.78.29 crore during the period of five years up to 2004-05. The Company was availing cash credit facility from banks to meet its working capital needs. The interest and finance charges on loans remained very high and ranged between 34.08 and 61.14 *per cent* of sales during the period 2000-01 to 2004-05.

- Paucity of power was also contributing to higher costs, as the cost of self-generated power was Rs.11.84, Rs.14.70, Rs.14.38 and Rs.15.55 per unit against the price of Rs.9.25, Rs.7.92, Rs.8.39 and Rs.10.49 per unit of power being purchased from the electricity utility company during the period 2001-02, 2002-03, 2003-04 and 2004-05 respectively.

In view of accumulated losses, the Company was referred (August 1995) to BIFR, which recommended (January 1999) for winding up of the Company. The Labour unions filed (January 1999) a writ petition in the High Court against the orders of the BIFR. The High Court upheld the recommendations of BIFR and ordered (January 2002) for the winding up of Company. Also, in the special appeal filed (January 2002) by the labour unions, the High Court ordered (March 2002) to maintain *status quo*. Further developments are awaited.

The Management accepted (October 2007) the Audit observation in its reply.

Nandganj Sihori Sugar Company Ltd.

4.31.6 The Company was incorporated in April 1975 with a view to manufacture, produce, and sell sugar molasses and by-products of the sugar cane. The latest finalised accounts of the Company for 2005-06 showed accumulated loss of Rs.185.86 crore eroding its entire paid up capital of Rs.34.88 crore on that date. The reasons for losses as analysed by Audit were:

- The loan funds increased to Rs.154.94 crore as on 31 March 2006 against Rs.87.27 crore as on 31 March 2001. The interest burden ranged between Rs.9.11 crore and 11.91 crore during the five years up to 2005-06. Further, the Company availed cash credit facility from the banks for working capital requirements and paid interest ranging from Rs.0.43 crore to Rs.1.59 crore during the five years.
- The statutory sugarcane price was fixed by the Government of India (GOI). The State Government, further, added to the price declared by the GOI. Thus, dual pricing of sugar cane made the basic raw material costly.
- The mill of the Company was located in low sugarcane producing area with installed capacity of 1500 TCD. High transportation cost of sugarcane made the operation of the mill unviable. Closure of the mill during cane season due to non-availability of sugarcane ranged between 12.43 and 65.55 *per cent* of the total period of closure during cane season and closure due to technical reason ranged between 16.85 and 34.33 *per cent* during 2001-02 to 2004-05 respectively, resulting in increase in cost of production.
- Although the Company implemented voluntary retirement scheme during 2000-01, the employee's cost ranged between 20.64 and 31.60 *per cent* of sales.

The Company was referred (1995) to BIFR, which directed the Operating Agency (IFCI) to explore the possibility of privatisation of the Company. The matter was pending with the Operating Agency. In the meantime, the State Government decided (June 2007) to privatise/close the Company.

The Company accepted (August 2007) the Audit observation.

Uttar Pradesh State Tourism Development Corporation Limited

4.31.7 The Company was established in 1974 for promoting tourism by developing hotels, transport and tourist places in the state. The latest finalised accounts of the Company for 2003-04 indicated accumulated loss of Rs.13.22 crore against its paid up capital of Rs.15.13 crore. The main reasons for the losses were:

- The Tourist Bungalows/Restaurants of the Company were located in remote areas where inflow of tourists was rare. The employees' cost ranged between 41.94 and 49.28 *per cent* of the income. Further, the administrative expenditure varied between 30.98 and 33.60 *per cent* of income. Thus, the high employees cost and administrative cost were the main reasons for losses.
- The Company closed its 12 units. The expenditure on watch and ward and depreciation on closed units remained un-productive.
- In the absence of effective pursuance, the debtors and advances accumulated to Rs.1.94 crore which, *inter alia*, included debtors and advances pending for recovery since 1983.

The Management accepted (July 2007) the Audit observation and stated that 30 units of Tourism Department being operated by the Company including closed units of the Company were to be privatised as per the orders (June 2004) of the State Government. The proposal had been sent to the State Government for decision. Further developments are awaited (October 2007).

Reasons for losses of Non-working Government Companies

4.31.8 Audit noticed that the accounts of 39 non-working Companies were in arrears ranging from one to 29 years. The liquidation process of these Companies had not been initiated so far. Thus, the establishment expenditure to the tune of Rs.4.09 crore incurred by these Companies during the period of five years up to March 2006 remained unproductive, which led to further increase in losses of these Companies.

The State Government formulated (June 1994) a policy to review the performance of all those enterprises whose annual loss was more than Rs 10 crore and net worth was eroded by 50 *per cent* or more. The Companies were required to prepare corporate plan to clarify a policy, to reduce excessive man power in planned way, liquidate the arrears of accounts, stop the loss making activities and to create a fund from the sale of unutilised assets of these units. It was observed that no concerted efforts were made either to improve the performance of loss making Companies or to consider their closure despite being pointed out every year in the Report of the Comptroller and Auditor General of India, Government of Uttar Pradesh (Commercial).

The matter was reported to the Government in June 2007; the reply is awaited (October 2007).

Recommendations

In view of continuous losses, the State Government should:

- make efforts to improve the performance of these loss making Companies by taking corrective measures such as improvement in operations, rationalisation of manpower, recovery of dues from various parties and diversification of business as per market demand;
- make concerted efforts for closure of non-working Companies by taking up the matter with the GOI, Ministry of Company Affairs to allow such Companies to apply for striking off their names from the register of Companies on the lines of the exit schemes announced by the GOI in the past under Section 560 of the Companies Act, 1956; and
- strengthen internal control mechanisms in these Companies by strengthening their administrative, operational and financial controls through proper supervision and monitoring of their various activities coupled with regular performance appraisal and internal audit.

4.32 Information Technology Support System in Uttar Pradesh Bhumi Sudhar Nigam

Introduction

4.32.1 Uttar Pradesh Bhumi Sudhar Nigam (Company), incorporated as a Government Company in March 1978, was engaged in implementing World Bank funded UP Sodic Land Reclamation Project in 16 districts* (with 24 implementation units) of Uttar Pradesh which aim at poverty alleviation through sustainable sodic lands reclamation and prevention of further increase in sodicity**. The Company initiated computerisation of its major operations in 1997. Financial Accounting Software (FAS), Personnel Information Software (PIS), Management Information Software (MIS), Geographical Information Software (GIS) and Procurement and Information Management Software (PIMS) are in operation since 1999 for financial accounting, personnel management and monitoring and analysis requirements of the physical and financial activities of the project.

The Company maintains a comprehensive database management system using Relational Data Base Management System (RDBMS) Sybase (version 11.0.3.3) as back-end and Power Builder (version 6.0) as front-end in a client server architecture model at the headquarters in Lucknow. It was using SQL Anywhere (version 5.0), a multi-user PC based RDBMS in the districts. All the software packages were developed in-house. Computers were linked at the headquarters and in each Project Manager's units through local area network. The input data of headquarters and of field units were processed through the servers at headquarters where data of field units are uploaded monthly from a compact disc brought physically to the headquarters.

* Allahabad, Aligarh, Etah (3 units), Etawah, Auraiya, Pratapgarh, Fatehpur, Sultanpur (3 units), Mainpuri (2 units), Raibareilly (2 units), Kanpur (2 units), Jaunpur, Unnao, Sandila, Hardoi and Azamgarh.

** The soils pre-dominated by electro-chemical bonding of sodium and clays are called sodic.

The Company spent Rs.2.78 crore on creation of IT assets and Rs 85 lakh annually on a recurring basis for IT staff (Rs 70 lakh), annual maintenance and repairs (Rs 5 lakh) and other overheads (Rs 10 lakh).

Organisational Setup

4.32.2 The Management of the Company was vested in a Board of Directors, comprising of Chairman, a Managing Director, a Joint Managing Director and six other Directors.

Information Technology (IT) wing of the Company was headed by a Senior Manager (Systems), who was assisted by a Data Base Administrator/Deputy Manager (Systems), two Deputy Assistant Managers (Hardware and Software) and five other staff members. The district units were headed by Senior Project Managers. Each unit had one Deputy Manager (Systems) who was responsible for IT functions at unit level. There were 24 Deputy Managers (Systems) in the field.

Scope of Audit

4.32.3 The scope of Audit included an assessment of the controls inbuilt into Financial Accounting Software (FAS) and Personnel Information Software (PIS) used by the Company since April 1999. FAS package is meant to accommodate new schemes; budget heads and ledgers to generate the expenditure statements for claiming reimbursement, monitor financial progress by integrating physical achievements with it, timely preparation of financial statements and thereby enhance credibility of financial information. PIS package was used for maintaining personnel and payroll information of the headquarters and field staff of the Company.

Audit objectives

4.32.4 An information technology audit of the Company was conducted to assess whether:

- adequate documentation and controls exists for efficient and effective use of IT applications, and
- adequate controls in the computer applications exist to ensure that integrity of output data generated is maintained and information thus produced are reliable and complete.

Audit Methodology

4.32.5 The data relating to Financial Accounting System and Personnel Information System made available from April 1999 to February 2007 were analysed using computer assisted auditing tool *viz.* IDEA* for examining the completeness, availability and integrity of the data. Besides examining the above data, the existence and adequacy of general and application IT controls were also assessed.

* Interactive Data Extraction and Analysis.

Audit findings

4.32.6 Audit findings, arising from the review on information technology support systems in Uttar Pradesh Bhumi Sudhar Nigam, were issued to the Management/Government in May 2007. The replies received were discussed (August 2007) in the Audit Review Committee for State Public Enterprises (ARCPSE). The views expressed by the Management/Government in reply and during the meeting have been taken into consideration while communicating the findings.

IT strategy and Change Control Procedures

4.32.7 The system development process needs a systematic and planned approach defining, *inter alia*, the required standards, documentation needs; controls that should be built in and the testing required for ensuring that the system does what it is required to do. Similarly, the Company should devise a formal change control procedures to ensure that the modifications in the programme were authorised, approved and documented. It was noticed in audit that the Company did not document any formal IT strategy setting up the required standards, documentation needs, controls and testing for both the long term (like integrating the whole business activities in a phased manner) and short term business needs.

The Government stated (August 2007) that the Company was planning to develop an appropriate IT strategy as suggested.

Deficiencies in various software

Financial Accounting Software

4.32.8 The Company did not assign code numbers for each item of expenditure/income or asset/liability beyond a level. Codification was only up to two levels and for finer details, the field offices had the option to select these codes according to their convenience. For uniform booking of transactions by each of the units/headquarters, it was necessary to have a unique code fixed for each district, each major, sub-major, minor and sub-minor heads of account to view and correctly bring out the accounting details. This kind of pre-fixed coding also had the added advantage of avoiding unnecessary details to be filled as only a code would be debited and another corresponding code would be credited. These could be decoded at the time of report building.

In annexure 4.1 of the Financial Management Manual, the structure of codification has been given but the IT structure does not bring out details as stipulated. Paragraph 4.1.7.1 (2) of the Manual further provides that yearly Project Appraisal Document (PAD) targets and annual budget data would be entered so that budget analysis and comparison with PAD would be possible for the quarter, year to date and cumulative to date. It was found that the present accounting package did not integrate to bring out data to this stipulated need.

4.32.9 The voucher details file, having 806442 records, is the primary table for posting of Bank, Cash, Journal and Special vouchers. The transactions from this file are merged to a standing master data file called "debit credit" file that has 4307303 records in it. It was noticed that except for a minus

figure of 8555 for the year 2001-02, all other debits and credits were tallying in voucher detail file. When the debit and credit entries posted in voucher detail files tally, the same in the master databank (debit credit file) should also tally. When the figures of debit credit were, however, summarised in the master data file, debit was found more than credits from 1999 to 2006 and credit was found more than debit in 2007. This was indicative of unreliable and unauthentic processing of inputs. The details are given below:

| Year | No. of records | Debit (Rs.) | Credit (Rs.) | Difference (Rs.) |
|------|----------------|-------------|--------------|------------------|
| 1999 | 379107 | 25780171806 | 23831094396 | 1949077410 |
| 2000 | 513072 | 55402520879 | 51535485338 | 3867035542 |
| 2001 | 543451 | 67720113873 | 59989836707 | 7730277166 |
| 2002 | 552032 | 50596055488 | 46034219711 | 4561835777 |
| 2003 | 555964 | 73169398840 | 66993978908 | 6175419933 |
| 2004 | 559621 | 54739927158 | 50344554611 | 4395372547 |
| 2005 | 544612 | 52389593713 | 47104852770 | 5284740944 |
| 2006 | 528041 | 36967331996 | 33529783709 | 3437548286 |
| 2007 | 131085 | 2844694027 | 3106914338 | -262220310 |

The Company was unable to provide any reasons for this non reconciliation of figures at the final processing level whilst the balances were by and large matching at the level of voucher detail file. The Government stated (August 2007) that process controls were provided in the application software through front end tool in the power builder for ensuring complete and accurate process to generate report. The reply is not acceptable as when the debit credit in the source file did not show any discrepancy (except for a discrepancy of Rs. *minus* 8555 in 2001-02), the master data file of debit credit, merging the transactions of the source file, should not have shown such differences. The Management agreed during Audit Review Committee discussions to look into the linkages created in the program that gave the inconsistent output. This was a high risk area as the Company was depending on the FAS package for generation of the financial statements and there being such huge inconsistencies of data in the standing master file data, it was apparent that the system (FAS) was not producing reliable accounting data.

The year-wise debit and credit summarised figures of debit-credit file were also found to be far too excessive compared to the actual project expenditure as sanctioned by the world bank. No reasons were furnished by the Company to explain the position to audit. Further during discussions in Audit Review Committee, no logical explanation could be provided by the management to clear the anomaly.

It was further intimated by the Company that the existence of garbage data in the standing master data tables was on account of test data still lying in the

production environment. This also meant that the data in production environment was unreliable.

4.32.10 The system accepted 297 entries for the future periods 2008-25. In one case, the year taken was 1999-2100 and in yet another case, the year taken was 2P02-2003. The Government stated (August 2007) that the points had been noted and would be rectified.

4.32.11 Out of 29277 bank vouchers, cheque numbers were not mentioned in 9815 cases involving a debit amount of Rs.183801854.60. Similarly, cheque date was not given in 8073 records (debit value: Rs.1384720115.63). In 773 cases of cheque date column, year mentioned was 1900. The Government stated (August 2007) that the problem would be rectified.

Personnel Information Software

4.32.12 The Company did not develop appropriate master database of employees inducted in service on regular basis, on deputation or on contract basis. When the same person was transferred to some other project or from project to the headquarters, basic entries were further made for the same employee. This causes duplication of basic entries in respect of the same employee that were also sometimes incorrectly filled in. This led to duplicity of the same employee in the server's database and led to repetition of all the details of the same employee more than once. The employees should have been allotted unique employee ID with all the details filled in once in order to avoid generation of unnecessary duplicate records.

4.32.13 Due to the deficient controls, the following cases of mismatch were noticed:

- Out of 4186 records, name of father/husband indicated was X, Sri, S, m *etc.* in 684 records. Home district was blank in 560 cases.
- In 5 cases, employee name was "AA0003, AA003, AA0070, AG0001, AG0001" having AA0004, AA0020, AA0114, AG0001, and AG0002 as employee no.
- Out of 64,409 records, it was found that in 1143 records, basic pay was zero but in 485 cases out of these, ADA was filled in from Rs.8 to Rs.196; and in 447 cases HRA was shown from Rs.90 to Rs.1200. The instances of zero basic pay were impractical. The other components of the salary like ADA, HRA, *etc.* were calculated on the basis of Basic Pay. It was not clear as to how definite values of HRA and ADA *etc.* were being computed by the system when the basic pay was shown as zero.

The Government stated (August 2007) that the discrepancies in the PIS system were noted for compliance and company would allot unique employee identification for each employee in future. It was also apparent in the case of PIS as well that the application failed to achieve any objectives as data was unreliable and in the absence of unique identification of employees, no reliable MIS reporting was possible.

The Government accepted (August 2007) the above recommendations to be implemented in subsequent software development process.

Conclusion

Despite expenditure to the tune of Rs 2.78 crore on creation of IT assets and incurring recurring expenditure of Rs 85 lakh on an annual basis, there were deficiencies that were observed in the two applications audited namely FAS and PIS. The data generated by all the two applications was found unreliable. The Company did not adopt a formal system development approach and the applications were developed in an adhoc manner without documentation, testing and users participation. The investment on IT assets and annual recurring expenditure thereon was not gainfully utilised to harness the potential of IT and to meet the objectives of monitoring physical and financial progress of its activities and utilising the information for management decisions.

Recommendations

- The Company should review the functioning of critical and essential IT systems and the data flow to assess the reliability of processing of information by such systems especially the FAS and PIS.
- Company should adopt a formal system development methodology for developing IT applications in future and ensure participation of users and other stakeholders in development of applications.
- For all applications, the Company should undertake a comprehensive acceptance testing of IT applications before moving these to the production environment.
- The application controls should be inbuilt in all IT applications to ensure data integrity and reliability of financial reporting.
- Company should go for sanitisation of all data being maintained by different applications in a time bound program to enhance the reliability of data and MIS reporting.

Follow up action on Audit Reports

4.33 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 2001-02, 2002-03, 2003-04, 2004-05 and 2005-06 were placed in the State Legislature in September 2003, July 2004, July 2005, March 2006 and May 2007 respectively. 179 paras/reviews involving PSUs under 25 Departments featured in the Audit Reports (Commercial) for the years from 2001-02 to 2005-06. No replies in respect of 103 paras/reviews have been received from the Government by 30 September 2007 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 |
|----------------------|--|-----------------------------|---|
| 2001-02 | 38 | 9 | 13 |
| 2002-03 | 42 | 10 | 11 |
| 2003-04 | 30 | 10 | 23 |
| 2004-05 | 31 | 8 | 21 |
| 2005-06 | 38 | 13 | 35 |
| Total | 179 | | 103 |

Department wise analysis is given in **Annexure-35**. 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)

4.34 In the Audit Reports (Commercial) for the years 1996-97 to 2005-06, 367 paragraphs and 49 reviews were included; out of these, 121 paragraphs and 16 reviews had been discussed by COPU up to 30 September 2007. COPU had made recommendations in respect of 91 paragraphs and 20 reviews in the Audit Reports for the years 1978-79 to 2002-03.

The reply of the department/follow up action on the recommendations of COPU are awaited (October 2007).

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

4.35 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-36** and in respect of Statutory corporations the same are given in **Annexure-37**.

Response to inspection reports, draft paragraphs and reviews

4.36 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 2007 pertaining to 71 PSUs disclosed that 15656 paragraphs relating to 4528 inspection reports remained outstanding at the end of September 2007; of these, 2981 inspection reports containing 9821 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 2007 is given in **Annexure-38**.

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 32 draft paragraphs and five draft reviews forwarded to the various departments between April and June 2007, the Government had not replied to 25 draft paragraphs and five draft reviews so far (October 2007), as detailed in **Annexure-39**.

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who failed 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**

**(Birendra Kumar)
Accountant General (Commercial and Receipt Audit),
Uttar Pradesh**

Countersigned

**New Delhi,
The**

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Comptroller and Auditor General
of India**