

CHAPTER-III

3. Transaction Audit Observations

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

Government companies

Uttar Pradesh Alp Sankhyak Vitta Avam Vikas Nigam Limited

3.1 Faulty implementation of term loan scheme

The Company, due to faulty implementation of the scheme and poor recovery of loan from beneficiaries, defaulted in timely repayment of loan to NMDFC resulting in forfeiture of rebate of Rs.55.16 lakh, liability of liquidated damages of Rs.1.13 crore and penal interest of Rs.3.03 crore.

3.1 The Company was engaged in availing of funds from financial institutions for providing financial assistance to the members of minority community of the State. Loans are provided to them for establishing viable economic projects with a view to uplift them socio-economically and educationally. The company obtained loan of Rs.97.41 crore during 1995-96 to 2002-03 from National Minorities Development Financial Corporation (NMDFC) with a view to implement the Term Loan Scheme to Minorities. The general terms and conditions of the Loan Agreement executed in March 1995 for these loans, *inter alia*, provided that (a) Loan would carry interest at the minimum rate of 4.5 per cent per annum with a rebate of 0.5 per cent for timely repayment.

, (b) Compound interest (liquidated damages) on the overdue amount would be charged for the period of delay from the due date of payment to actual date of payment, and (c) Enhanced rate of interest of 6.5 per cent, was to be charged till such time it is actually utilised by disbursing to the targeted beneficiary; ; and in case, fund is utilised within 3 months no enhanced rate was to be charged (d) uniform moratorium period of six months after the expiry of utilisation period of three months was available to the company and any payment beyond the sum period of nine months (three months plus six months) was to attract penal interest at the rate of 12 per cent per annum right from the expiry of the utilisation period of three months.

Responsibility of selection of the beneficiaries and sanction of loan was vested in a district level Committee. The District Minorities Welfare Officer (DMWO) of the State Government was the ex-officio District Manager of the Company. The duties and responsibilities of the District Manager included obtaining loan applications, holding the meeting of the Committee, listing the candidates of sanctioned loan and sending it to headquarters of the Company, conducting pre-disbursement survey of the project of the beneficiaries, conducting post-disbursement physical verification of the project of beneficiaries within 45 days of disbursement of the loan and ensuring that

beneficiaries have taken insurance cover of the assets created out of the disbursed loan.

The Company disbursed term loan of Rs.102.05 crore (including Rs. Rs.97.41 crore from NMDFC and Rs.4.64 crore from own sources) to 26,292 beneficiaries during April 1995 to MMarch 2003. (recovery of principal and interest of only Rs.25.80 crore and Rs.7.64 crore respectively was made). The Company defaulted in timely repayment of loan to NMDFC, as a result rebate of Rs. 55.16 lakh had to be forgone.ing in the forfeiture of rebate of Rs.55.16 lakh on loan amount due of Rs.86.83 crore (including four *per cent* interest) repayable during March 2001 to June 2003. In addition, the Company is also became liable to pay liquidated damages of Rs.1.13 crore and penal interest of Rs.3.03 crore.

The Audit test checked the records of six districts (Barabanki, Gazipur, Jaunpur, Mau, Meerut and Varanasai). In these districts the company disbursed term loan of Rs.11.23 crore to 2931 beneficiaries up to March 2003 and it could recover only Rs.3.24 crore against the recoverable dues of Rs.10 crore. The faulty implementation of the Sscheme was the reason for poor recovery of loan.

The Audit noticed that following were the reasons for poor implementation:

- Premises of 1,384 loanees involving loan amount of Rs.5.13 crore were not physically verified either by the DMWO or by the officers of the Company even after a lapse of seven years.
- Physical verification of 1,547 cases was done after delay of periods ranging between of one year to seven years as against requirement of within 45 days.
- None of the loanees took insurance cover for the assets created out of the loan amount against the requirement of the sScheme.
- 319 loanees involving loan of Rs.1.28 crore did not establish the projects at all and, instead, utilized the loan for personal purposes.
- Rs.65.90 lakh, involving 147 loanees was utilised for the projects other than those for which it was sanctioned.
- The Company did not know the whereabouts of 58 loanees having been given loan of Rs.21.70 lakh.
- In contravention of the Sscheme guidelines, three loanees were sanctioned loan of Rs.1.21 lakh although they were in Government Service.
- As per the provisions of the rules of the Company, used/unused receipt books were to be returned to the Head Office. Head Office of the Company issued 1,136 receipt books (having 50 leaf each) during 1991 to 2002 to the field staff for issuing receipts to beneficiaries against recovery of loan. It was noticed in audit that 51,246 unused leaf (out of 58,419 leaf) of 1,136 receipt books were not returned by field staff to Head Office for vouchsafing. Management never paid any attention to this serious lapse which might lead to embezzlement of cash by the field staff.
- Company recruited ten 10 field officers (two on fixed pay) for monitoring the sanction and recovery of the loan from the beneficiaries (out of which six were posted at headquarters for other works). Posting of eight fixed pay staff (one field officer and others in Aassistant cadre) was also made as Mandal Prabharis in the districts as representative of the Company in

the cCommittee formed for sanction of loan. Even though field officers were recruited specifically for monitoring the recoveries of loans, no action was taken by the Management against them in spite of glaring evidence of dereliction of duty.

Thus, due to Management's inaction in ensuring proper pre-sanction surveys, conducting prescribed checks in the selection of beneficiaries, checking their assets, proper follow-up and timely recovery of the loans, Company had to bear extra expenditure of Rs.4.71 crore due to loss of rebate, liability for liquidated damages and penal interest charges. The Company could not widen coverage of beneficiaries for their socio- economic and educational upliftment due to faulty implementation of the term loan scheme.

The matter was reported to Management and the Government (May 2004); replies are awaited (September 2004).

Uttar Pradesh Avas Evam Vikas Parishad

3.2



Uttar Pradesh Avas Evam Vikas Parishad

Undue benefit to allottees

The Parishad incurred loss of Rs.3.02 crore due to selling of flats at rates lower than the rates derived as per the approved costing policy.

3.2 The State Government decided (January 2000) to provide residences to sitting mMembers of the Legislative Assembly and Legislative Council of the State and entrusted the responsibility of preparing the Scheme (Vidhyak Avas - Self Financing Scheme 2000) to the Uttar Pradesh Avas Evam Vikas Parishad (Parishad). For this purpose, the Parishad acquired (February 2000) 29,773 sq mtr. of land at the Uttar Pradesh Instruments Limited (UPIL) factory campus, Lucknow. The Parishad paid Rs.8.09 crore to the Industrial Development Department of the State Government. In the meantime, the Parishad invited (February 2000) applications for registration of flats from the mMembers of Legislative Assembly and Legislative Council at the estimated costs ranging from between Rs.6.35 lakh to Rs.7.30 lakh per flat. The terms of registration also required that extra amount, if any, would have to be paid after actual costing of the properties. The residential complex consisting of 80 nos. of three bedroom and 22 nos. of two bedroom flats was constructed within the UPIL campus on a plot measuring 9,734 sq mtr. The complex was completed (August 2001) at a cost of Rs.10.94 crore (including overheads, and the cost of land and development thereof) and possession passed on to the allottees.

As per the approved costing policy of the Parishad, the cost of flats was as follows:

(Rs. in lakh)

The Parishad did not recover the extra cost of flats from the allottees as per terms of registration. The Parishad, instead, as per the directives given (January 2002) by the Government fixed the prices of the flats as detailed below:

(Rs. in lakh)

The Parishad, thus, sold the flats at the prices fixed as per the directives of the Government and incurred loss of Rs.3.02 crore (Rs.10.94 crore *minus* Rs.7.92 crore).

In reply (June 2004), the Management besides giving the details of costing and under recovery due to fixation of lower sale rate of flats, stated that the under-charged amount would be compensated from the sale of remaining commercial land. Management's reply is not tenable as the Parishad deviated from its approved costing policy and incurred loss on sale of flats.

The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited

3.23 Loss due to imprudent Fund Management

The Company incurred avoidable expenditure of Rs.83.37 lakh on interest due to resorting to borrowings from financial institutions in advance and in excess of requirement of fund.

3.3 The Company provides financial assistance to medium and large scale industries by raising fund through borrowings mainly from financial institutions (IIBI, SIDBI, IDBI, etc.). The cCompany, which had been facing adverse ways

and means positions, was, therefore, required to borrow fund strictly according to need, with a view to keep the cost of borrowings at minimum level.

In order to meet redemption liabilities of bonds, the Company, made investment of Rs.43 crore in long term fixed and recurring deposits (FDRs/RDs) during 1999-2000 and 2000-01 carrying interest rates varying from 10.23 *per cent* to 11.25 *per cent*. Audit noticed (July 2003) that the Company during the same period had outstanding balance ranging from between Rs.15 crore to Rs.52 crore (against pledge of shares) of borrowings from Financial Institutions (FIs) and also resorted to fresh borrowing of Rs.9 crore from Industrial Investment Bank of India Limited (IIBI) in December 2000 carrying interest rate of 13 *per cent*. Thus, there was no rationale behind investing borrowed fund in fixed/recurring deposits carrying lower rate of interest simultaneously having outstanding balance of borrowing carrying higher rate of interest. The situation had arisen due to resorting to borrowings from FIs much in advance, and in excess, of requirement of fund. This resulted in avoidable expenditure of Rs.83.37 lakh due to difference in interest paid on borrowings and received on fixed/recurring deposits as detailed below:

Name of institution	Monthly investment	Date of investment	Date of maturity	Interest received (Rs. in lakh)	Rate (per cent)	Interest paid (Rs. in lakh)	Rate (per cent)	Loss (Rs. in lakh)
Bank of Maharashtra	Rs.1 crore each for 21 months (R.D.)	26.4.2001	26.1.2003	197.46	10.23	250.25	13	52.79
Dena Bank	Rs.1 crore each for 16 months (R.D.)	14.2.2000	14.6.2001	129.33	11.00	147.33	13	18.00
Vijya Bank	Rs.6 crore for 13 months (fixedFDR)	9.01.2001	9.2.2002	76.69	11.25	89.27	13	12.58
TotalOTAL								83.37

In reply, the Management, *inter alia*, stated (July 2004) that (i) the Board had directed to earmark certain sum of fund every month to meet out redemption liabilities of the bonds and to maintain liquidity of fund,; (ii) the basis and fore most reasons for placing of FDRs/RDs with the bank was to keep minimum balance with current accounts,; (iii) overdraft facility was being availed of to overcome the liquidity for making payment of interest to the bond holders and redemption of bonds on due dates; and (iv) the corporation earned an interest of Rs.3.01 crore (net) which could be possible due to proper and close monitoring of funds. The reply of the mManagement is not tenable because as the Company is aware of time period when the liability towards redemption of bond is to be met was known to the Company and it should have kept matching fund in FDRs/RDs to meet the redemption liability from time to time. Keeping huge some of money in long term FDRs/RDs was against the financial interest of the Company as the funds invested in long term FDRs/RDs were borrowed fund. So far as earning of net interest is concerned, it is stated that interest earned on FDRs/RDs are is not relatable to interest paid on letter of credit/over draft as letter of credit/ over draft is resorted to by the Company intermittently only when there is financial crunch.

Uttar Pradesh Projects Corporation Limited

3.34 Extra expenditure on labour

The Company in execution of DRDA works incurred extra expenditure of Rs.58.39 lakh towards labour cost.

3.4 The Company executes District Rural Development Agency (DRDA) works, such as construction of kharanja/kachcha approach roads, culverts, primary school buildings, installation of hand pumps, etc., for which funds were directly allotted by the DRDA on the condition that the Company would carry out the execution itself and would not engage outside contractors. DRDA sanctions the estimates for work on PWD schedule of rate (SOR) inclusive of built-in contractor's profit margin of ten *per cent* of the cost (total cost consists of labour cost *plus* material cost and the profit margin of ten *per cent* on each component i.e. labour and material costs) and releases advance in two instalments. The payment is subject to quantity actually executed, multiplied by SOR. Accordingly the Company, which itself was a contractor in DRDA's works, was required to retain the contractor's profit margin element of ten *per cent* of the cost to meet its indirect expenses and trade tax while engaging and paying to labourers.

It was noticed in Audit (confining examination and present discussion on labour aspect only) that in four units (viz; Agra, Kanpur, Basti and Etawah), the Company executed 1,253 works costing Rs.35.88 crore during 2001-02 and 2002-03 by engaging labourers from the market. The total cost of Rs.35.88 crore of these four units consisted of Rs.8.31 crore on labour cost *plus* Rs.27.57 crore as material cost. The profit contractor's margin of ten *per cent* on labour cost (excluding contractor's profit margin of ten *per cent* on material cost) worked out to Rs.75.56 lakh. After excluding the contractor's profit margin of ten *per cent* on labour cost of Rs.8.31 crore, the cost on labour comes worked out to Rs.7.56 crore. The Company paid to the labourers Rs.8.14 crore against the cost of labour of Rs.7.56 crore resulting in extra payment of Rs.58.39 lakh which occurred either due to excess engagement of labourers or payment to them at higher rate.

In reply, Management, *inter alia*, stated (July 2004) that SOR value was exclusive of contractor's profit margin for Kanpur, Basti and Etawah units and amount paid on account of labour did not include contractor's profit margin. As regards Agra unit, the payment made to labourers was equivalent to the amount of SOR value excluding contractor's profit margin. The reply of the Management is not tenable as the SOR rates on which the company did the works were inclusive of contractor's profit margin.

3.45 Payment of excess trade tax due to wrong selection of option

The Company paid excess trade tax of Rs.56.30 lakh due to opting compounding scheme of trade tax instead of cheaper option under Section 3F of Uttar Pradesh Trade Tax Act, 1948.

3.5 The Company normally executes works of District Rural Development Authorities (DRDA) without charging any incidence of centage (profit). Uttar Pradesh Trade Tax Act, 1948 (Act) stipulates two options for assessment of trade tax on works contracts. Section 3F of the Act stipulates payment of five *per cent* trade tax on value of work done after deducting the amount representing the profit earned by the contractors to the extent it is relatable to the supply of labour and services. (i) cost of tax paid material, (ii) labour cost, (iii) payments to sub-contractors, (iv) the amount representing charges for obtaining on hire machinery and tools used for execution of works contract, (v) the amount representing cost of consumables used in the execution of works contract, (vi) the amount representing cost of establishment and other similar expenses, (vii) the amount representing the profit earned by the contractor to

the extent it is relatable to the supply of labour and services. Alternatively, Section 7D of the Act provides for compounding tax of one *per cent* on the value of work done, incidence of which was not recoverable from the client.

As DRDA works do not contain element of profit centage, the total value of work done represent cost of tax paid material, labour cost and repair and maintenance cost of machines. These costs were fully deductible from the value of work done for computation of trade tax under Section 3F of the Act. Computation of trade tax under Section 3F was, therefore, beneficial to the Company as compared to the computations under Section 7D of the Act.

Audit noticed observed (August 2003) that three units of the Company (Lucknow, Meerut, and Basti) of the Company executed (1999-03) DRDA works and opted for compounding scheme of trade tax on the value of work of Rs.78.91 crore. The Company filed cases for trade tax assessment under Section 7D of the Act and paid tax accordingly. This resulted in payment of excessive trade tax aggregating Rs.56.30 lakh (Rs.22.61 lakh under Section 3F against Rs.78.91 lakh under Section 7D).

In reply, the Management, *inter alia*, stated (July 2004) that assessment could not be done under Section 3F as DRDA Works were executed mainly in rural areas involving purchases from unregistered suppliers and assessment under Section 3F was a complex process requiring maintenance of various records. Reply is not acceptable as paragraph 179 of Company's own Manual prohibits purchases from unregistered suppliers except under unavoidable circumstances that too after obtaining a certificate from them to the effect that unregistered suppliers would pay the incidence of trade tax or that they were exempt from payment of such taxes. Moreover, on being pointed out by Audit the Board of Directors decided for assessment under Section 3F from the year 2004-05.

Uttar Pradesh Samaj Kalyan Nirman Nigam Limited

L3.56 Loss due to failure in execution of work

The Company's claim of Rs.59.78 lakh was withheld by the client due to poor quality and slow progress of work.

3.6 Concrete lining work in the chainage of 5.50 to 9.30 km in Sirsi Baraundha feeder of Ban Sagar Canal was awarded (May 2001) to the Company by the Superintending Engineer, Ban Sagar Nahar Nirman Mandal-I, Mirzapur, Irrigation Department (client) at a contract price of Rs.2.23 crore. According to the contractual provisions, the work was not to be sublet/subletted to any sub-contractor. The work was to be started from 8 May 2001 and to be completed by 25 June 2002 failing which a penalty at the rate of 10 *per cent* of the contract value was recoverable from the Company.

The Company, contrary to contractual provisions and without obtaining prior approval from the client, subletted the work to S.K. Traders, Lucknow at a cost of Rs.1.98 crore. The agreement entered into (September 2001) with the sub-contractor provided that any deduction (except income tax) made by the client would be recovered as such from the payment due to sub-contractor.

Audit noticed observed (November 2003) that the client issued notices to the Company for poor quality and slow progress of the work. The Company, however, did not issue any notice to the sub-contractor for poor workmanship and delay in execution of work and asked him to abandon the work. The

Company started (April 2002) execution of the work departmentally and achieved physical progress of only 23 *per cent* of work valuing Rs.68.97 lakh by June 2003. The client released only Rs.9.19 lakh. Thus, Rs.59.78 lakh became outstanding against the client. As the work was done only up to 23 *per cent*, the client rescinded (August 2003) the contract and imposed penalty of Rs.22.25 lakh (10 *per cent* of total cost of work) on account of non-completion of the remaining work within the stipulated date. Thus, the client did not pay balance amount of Rs.59.78 lakh and retained it on account of penalty and poor workmanship.

In reply, the Management accepted while admitting the audit observations stated (August 2004) that because of lack of foresightedness on the part of officers of the unit, loss was inevitable. It further stated that the client had not forfeited the amount of FDR (held as security) against the penalty. Management's reply is not tenable as the client has already withheld Rs.59.78 lakh out of the bills of Rs.68.97 lakh submitted to it.

3.67 Irregular investment of fund

The Company suffered a loss of Rs.25 lakh due to investment of fund in term deposit as fixed deposits in City Co-operative Bank, in contravention of the Government order and without finding out the net worth of the Bank made the encashment of deposit doubtful in addition to the loss of interest.

3.7 Directions issued by State Government in May 2000, *inter alia*, stipulate investment of surplus funds in term/fixed deposits with scheduled commercial banks/institutions, which (a) has minimum net worth of Rs.100 crore, (b) meet capital adequacy norms prescribed by Reserve Bank of India (RBI), and (c) has credit rating by any reputed credit rating agency.

It was noticed (September 2003) in Audit that the Company invested Rs.25 lakh in fixed deposits (FDRs) with non-scheduled City Co-operative Bank (CCB) in November 2000 for 46 days (maturity date: 6 January 2001), subsequently extended for another 46 days (maturity date: 21 February 2001) without first ensuring net worth of the Bank as required by State Government order issued in May 2000. On being approached by the Company on due date the date of maturity for payment, CCB could not make payment as its financial position of the CCB was critical and RBI imposed ban on CCB to discharge any liability without prior approval of RBI under Section 35A of the Banking Regulation Act, 1994. The RBI further ordered for liquidation of the CCB owing due to serious irregularities taking place there noticed by it. As a result, the term deposit of Rs.25 lakh of the Company remained uncashed after a lapse of two and a half years from the date of maturity. The chances of its encashment were, therefore, remote as the RBI had ordered for liquidation of the Bank.

Thus, due to investment in the bank without first ensuring its net worth as required in the contravention of the Government order of May 2000 and not finding out the net worth etc. resulted in loss of Rs.25 lakh in of the Bank before taking decision for investment, led the encashment of FDR amounting to Rs.25 lakh being doubtful in addition to the loss of interest.

Management while accepting the audit observation stated (April and August 2004) that there was no clear restriction by the Government in depositing amount in City Co-operative Bank or other Co-operative Banks. The reply is not tenable as the investment in the bank was made (November 2000) after issue of Government directives (May 2000) requiring the Company to invest its surplus

fund only after satisfying the conditions (net worth, capital adequacy norms and credit ratings) mentioned therein.

3.8 Inadmissible payment of trade tax

The Company incurred loss of Rs.10.60 lakh due to payment of inadmissible trade tax to unregistered firm/person.

3.8 Section 3AAA (b) of Uttar Pradesh Trade Tax (UPTT) Act, 1948 provides payment of tax only at the point of sale to consumer. Every sale of goods by a dealer to any person other than a registered dealer shall be deemed to be a sale to the consumer.

It was noticed (October and March 2003) in during the Aaudit of four units (viz. Lucknow-I, Lucknow-II, Sports Authority of India, Lucknow and Kanpur) of the Company that purchase committee of the Company collected quotations for supply of stone grit, coarse sand, Ganga/Ghaghra sand, etc. from the registered and unregistered firm/person and finalised FOR (free on rail) work sites rates *plus* UPTT at the rate of 8 *per cent*. On the basis of the rates finalised by the purchase committee, the Company during the period April 2002 to August 2003 purchased aforesaid materials of the value of Rs.1.33 crore (value on FOR work-site basis) from unregistered firm/supplier and paid Rs.10.60 lakh as UPTT in addition to the FOR value. The unregistered firms/ persons cannot recover tax under the said provision of the Act because such a person cannot deposit the tax with the sales tax authorities. Thus, payment of UPTT amounting to of Rs.10.60 lakh by the Company to such firm/person was not admissible. This resulted in inadmissible payment of UPTT of Rs.10.60 lakh in the four units of the Company,. thereby the Company had to incur a loss of Rs.10.60 lakh.

The matter was reported to the Management and the Government in June 2004; replies are awaited (September 2004).

3.79 Loss due to delay/non- execution of work

The Company incurred a loss of Rs.10.22 lakh as a result of delay/non-execution of work awarded by U.P. Health System Development Project (UPHSDP) besides being debarred from tendering for three years.

3.9 The Company was awarded (August 2001) the work of repair, renovation, extension and construction of combined hospital at Chandauli by the Chief Engineer, UP Health Systems Development Project (client), Lucknow at a cost of Rs.51.09 lakh. The terms of agreement executed (October 2001) with client, *inter alia*, provided that the work should be commenced on 3 October 2001 and completed by 2 July 2002. In case of non-completion of work by the Company, within the scheduled period, liquidated damages at the rate of 20 *per cent* (maximum) of the contract value were leviable.

Audit noticed observed (October 2003) that despite stringent penalty clauses for delayed completion of work, the Company did not properly co-ordinate execution of work with the client,; failed to sent bar chart (up to April 2002) as required by the UPHSDP and delayed start of the work departmentally,. Ultimately, tThe Company belatedly awarded the work (April 2002) to a sub-contractor against the scheduled date of start of work in October 2001. The sub-contractor, however, did not start the work till June 2002. As a result, the client

rescinded (June 2002) the contract and levied a penalty of Rs.10.22 lakh (20 *per cent* of contract value). The client also invoked the bank guarantee worth Rs.8.90 lakh deposited by the Company for performance and additional security and demanded the balance amount of Rs.1.32 lakh against full recovery of the penalty. Besides this, the client debarred the Company from tendering in UPHSDP Projects for three years due to poor performance and rejected the Company's request for referring the matter to an Arbitrator on the ground that the matter had been time barred.

The delayed/non-execution of the work resulted in Company being debarred from tendering for three years thereby tarnishing the image of the Company, besides a loss of Rs.10.22 lakh (Rs.8.90 lakh, already recovered by the client and Rs.1.32 lakh is to be paid by the Company) on the work.

The matter was reported to the Management and the Government in June 2004; replies are awaited (September 2004).

Uttar Pradesh Purva Sainik Kalyan Nigam Limited

Loss due to non-recovery of service tax

The Company incurred loss of Rs.24.39 lakh due to non-incorporation of clause for reimbursement of service tax in agreements with the Food Corporation of India.

3.10 The Finance (No. 2) Act, 1998, issued by Government of India, Ministry of Finance, Revenue Department increased the scope of service tax (leviable at the rate of five *per cent*) by including security agencies also from 16 October 1998. In terms of Section 12B of Central Excise Act 1944, as extended to service matters, incidence of service tax payable by agencies should be presumed to have been passed on to the clients availing the taxable services.

Since 1992-93, the Company has been providing security services to 14 district offices of Food Corporation of India (FCI) located in Uttar Pradesh. The annual agreements (extendable on mutual agreements) executed with district offices of FCI up to October 1998 did not contain any provision for recovery of statutory taxes/ duties.

Audit observed that consequent upon the imposition of service tax on security agencies from 16 October 1998, the Company did not incorporate a clause for reimbursement of service tax in the agreements extended or executed after October 1998. As a result of non-incorporation of suitable clause for reimbursement of service tax from FCI in agreements extended or executed after October 1998 the Company had to pay service tax of Rs.24.39 lakh pertaining to 11 districts for the period from October 1998 to January 2000 from its own sources. The claim of the Company (August 2002) for reimbursement of the service tax paid, was turned down (December 2002) by FCI on the grounds that there was no clause in the agreements with regard to reimbursement which was subsequently written off by the Management (Rs.8.70 lakh in November 2002 and Rs.15.69 lakh in October 2003). Thus, due to non-incorporation of clause for reimbursement of service tax in agreements extended/executed after October 1998, the Company had to incur a loss of Rs.24.39 lakh.

In reply, the Management, *inter alia*, stated (August 2004) that due to interim order of Hon'ble High Court in writ petition, the services of ex-servicemen with FCI could not be terminated and a Misc. writ petition was being filed (by the Company) shortly. Management's reply is not tenable as non-inclusion of a clause in the contracts for reimbursement of statutory levies that may be

imposed by the Government of India/State Government during the currency of the contracts, shows lack of commercial prudence on the part of the Management of the Company.

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited

3.10 Inadmissible payment of overtime allowance to workers

The Company made inadmissible payment of over time allowance amounting to Rs.2.32 crore to workers amounting to Rs.1.74 crore.

3.11 According to the provisions of the Factories Act 1948, the total hours of overtime allowed to workers/staff should not exceed 50 hours in a quarter (a period of three consecutive months). The limit of 50 hours could be relaxed to the maximum of 75 hours in a quarter by the State Government on the grounds of urgent, exceptional and pressing nature of work under Section 64 and 65 of the Act.

The details given below indicate plant-wise men-in-position against the norm of maximum 1.2 man per Mega Watt (MW) vis-à-vis overtime paid to the staff of these projects during the period April 2000 to September 2003:

(In lakh hours/Rupees)

Despite overstaffing^{*2}, as indicated above, the plants paid over time allowance (OTA) for 25.06 lakh hours amounting to Rs.23.45 crore,; out of which OTA to the extent of 2.90 lakh hours amounting to Rs.2.32 crore was paid for overtime allowed beyond 50 hours.

Detailed scrutiny of the records of Parichha Thermal Power Station, Jhansi revealed (March 2004) that General Manager of the unit, in his letter (April 2002) addressed to all the Deputy General Managers of the plant, desired that allowance of overtime time beyond 50 hours in a quarter iwas not proper under the provisions of the Factories Act. He further directed that overtime beyond 50 hours may be allowed only in emergent conditions for which the employee may be compensated by grant of compensatory leave. It was, however, noticed that despite overstaffing and specific instructions of the General Manager, the plant sanctioned overtime for 0.46 lakh hours amounting to Rs.36.321 lakh beyond permissible limit of 50 hours in a quarter. It was further noticed that out of the total strength of 704 employees (Executive category: 110, Non-executive category: 594), 322 employees (non-executive category) were getting OTA which alone was 1.46 man per MW.

Thus, disregard of the provisions of the Factories Act, 1948 by these plants resulted in inadmissible payment of OTA to the tune of Rs.12.7632 crore.

The matter was reported to the Management and the Government in June 2004; replies are awaited (August September 2004).

3.811 Avoidable payment of trade tax

The Company made avoidable payment of trade tax amounting to Rs.86.48 lakh.

3.12 Uttar Pradesh Trade Tax Act, 1948 provides that any purchasing dealer holding a valid recognition certificate under sub-Section (2) of Section 4-B of

* Vide notification No. TIF-2-2383/XI-9 (251)/97-UP Act-15-48 Order 1998 dated November 1998.^{*2} Uttar Pradesh Electricity Regulatory Commission, in its tariff order dated 22 October 2002, mentioned that the Corporation had inherited a distorted organizational structure with surplus manpower in non-executive categories.

the Act can avail the benefit of concessional rate of trade tax on purchase of fuel at the rate of 2.5 *per cent* with effect from 1 December 1998* 8** provided fuel is purchased for use in manufacture of electrical energy. A declaration, however, in Form III-B is to be issued to the selling dealer for claiming concessional rate of trade tax.

It was noticed observed (March 2004) in during Aaudit that though Harduaganj Thermal Power Station was holding a valid recognition certificate under Section 4-B of the Act since September 1995, yet it did not avail of the concessional rate (2.5 *per cent*) of trade tax on purchase of 4,502.43 kilo litre (valuing Rs.4.94 crore) of light diesel oil (LDO) from Indian Oil Corporation (IOC) during May 1999 to December 2000. As a result, trade tax was paid at the rate of 20 *per cent* instead of 2.5 *per cent* resulting in avoidable payment of trade tax to the extent of Rs.86.48 lakh. The matter was taken up (October 2003) by the Company with IOC who informed that sales tax assessment for the period till 2001 had already been completed and as per the provisions of UPTT Act, the matter for refund of sales tax might be taken up by the Company with the sales tax authorities. The Company, however, could not take up the matter of refund of sales tax with sales tax authorities as per the advice of the Company's sales tax Advocate.

In reply, the Management stated (August 2004) that the matter for allowing concessional rate of trade tax was taken up with Finance Wing of IOC, Mathura in the year 1999 which intimated that the same was not applicable on sale of LDO. Management's reply is not tenable as the concessional rate of tax was duly notified by the Government and in case of refusal by the Finance Wing of IOC Mathura, the matter should have been taken up with the higher authorities of IOC/Government. Further, the IOC itself allowed the concessional rate of trade tax from May 2001. After considerable delay, the Management is now (August 2004) they were planning to take legal action against IOC for refund of trade tax paid in excess.

Poorvanchal Vidyut Vitran Nigam Limited

3.912 Loss due to irregular revision of penalty for peak hour violations

The Company suffered loss of Rs.8.3022 crore due to irregular revision of penalty bills for peak hour violation.

3.13 According to State Government notification (April 1984), connections of non-continuous process consumers violating peak hour restrictions were liable for disconnection for a period of 5 days, 10 days, 20 days and permanent disconnection for first, second, third and beyond third violations respectively. Further, a penalty for each violation was also to be charged from the consumer at the rate of Rs.50 per KVA for contracted load up to 100 KVA, Rs.30 per KVA (subject to minimum of Rs.5000) for contracted load above 100 KVA and up to 500 KVA and Rs.20 per KVA (subject to minimum of Rs.15,000) for contracted load above 500 KVA. Besides, Company's order of October 1998 alongwith clarification further emphasised that each violation of peak hour as recorded by Memory Reading Instrument (MRI) would constitute a separate violation. Subsequently, in April 1999, Chief Engineer (Commercial), Uttar Pradesh Power Corporation Limited (Company) issued instructions to treat first MRI report of the consumers as case of single violation for the whole month. Company's tariff HV-2 applicable from 16 September 2001, *inter-alia*, provided

* Vide notification No. TIF-2-2383/XI-9 (251)/97-UP Act-15-48 Order 1998 dated November 1998.

** Vide notification No. TIF-2-2383/XI-9 (251)/97-UP Act-15-48 Order 1998 dated 23 November 1998.

a penalty of Rs.75 per KVA of contracted load for the number of occurrences of default. While notifying the new tariff, the Company specifically clarified that it would supercede all previous orders and instructions on the subject.

3.13.1 In test check of records of Electricity Distribution Division, Fatehpur it was noticed (August 2003) that seven large and heavy power consumers violated peak hour restrictions ranging between 53 nos to 107 nos numbers during May 2002 to October 2002. The Division, however, failed to disconnect the supplies of the consumers and as per provisions of tariff, imposed a penalty aggregating Rs.8.54 crore (worked out on the basis of tariff issued in September 2001) on them. The Division, subsequently (October/November/December 2002), revised the amount of penalty to Rs.32.37 lakh on the basis of Chief Engineer's (Commercial) order of April 1999, referred above, treating first MRI report as case of single violation for the whole month.

As the event of violation occurred after 16 September 2001 (date of implementation of new tariff issued as per orders of Uttar Pradesh Electricity Regulatory Commission), applicability of all the previous orders, issued in this regard, stand annulled. Further, the order issued by Chief Engineer (Commercial) in April 1999 itself was against the above provisions of Government notification (April 1984) as the Chief Engineer was not empowered to relax the same.

Thus, due to non-implementation of tariff effective from 16 September 2001 and irregular revision of penalty bills, the Company suffered loss of Rs.8.22 crore.

3.13.2 A test check of records of Electricity Urban Distribution Division-I, Gorakhpur revealed (November 2003) that Shethi flour Mills, Gorakhpur (HV-2 consumer, having contracted load of 620 KVA) who had not opted for supply during peak hours, violated peak hour restrictions 23 times during the period from 11 July 2002 to 13 August 2002. The Division, while assessing for peak hour violations, charged a penalty of Rs.2.60 lakh only as against the chargeable penalty of Rs.10.70 lakh (calculated on the basis of rate schedule HV-2 of tariff effective from 16 September 2001). This resulted in under charge of penalty for peak hour violations amounting to Rs.8.10 lakh.

The matter was reported to Management and the Government in February June 2004; their replies are awaited (August September 2004).

3.103 Inadmissible load factor rebate to consumers

The Company allowed inadmissible load factor rebate to consumers and suffered loss of Rs.62.33 lakh.

3.14 In terms of para 8(a) of rate schedule HV-2 of tariff issued by UPERC effective from 16 September 2001, load factor rebate is provided on the energy charges for all consumptions in excess of the defined KVAh* per KVA of contracted demand. This rebate was, however, not admissible to the consumers whose actual demand exceeded their contracted load.

Scrutiny of records of Electricity Urban Distribution Division-II/Electricity Distribution Division-II, Gorakhpur revealed that four** consumers had drawn

* Kilo Volt Ampere hour.

** EUDD-II, Gorakhpur: Jalan Con Cost Limited (Rs.32.70 lakh); Ankur Udyog (P) Limited (Rs.12.91 lakh); Govind Mills Limited (Rs.6.33 lakh) and EDD-II, Gorakhpur: Mahabeer Jute Mills (P) Limited (Rs.10.39 lakh).

power in excess of their contracted demand by 5 KVA to 435 KVA during January 2002 to August 2003. Divisions, while charging for the demand in excess of the contracted load, also allowed load factor rebate amounting to Rs.62.33 lakh that was not admissible.

Thus, due to allowance of inadmissible load factor rebate, the Company suffered loss of Rs.62.33 lakh.

The matter was reported to the Management and the Government in February 2004; replies are awaited (August September 2004).

3.114 Undue favour to consumers

Undue favour to consumers resulted in accumulation of arrears aggregating to Rs.51.41 lakh.

3.15 According to Para 19 (ix) of Electricity Supply (Consumers) Regulation, 1984, the divisional officer has the right to withdraw the payment facility by cheque in respect of the consumers whose cheque was dishonoured earlier. The Clause 19(vi) of the Regulation further provides that if a consumer fails to deposit the electricity charges on the due dates, his connection shall be disconnected after expiry of due date and the dues shall be recovered as arrears of land revenue.

Scrutiny of records of Electricity Distribution Division-II, Ballia revealed (September 2003) that even after dishonour of earlier three cheques amounting to Rs.6.52 lakh in June 1999, the Division accepted 11 cheques (subsequently dishonoured) amounting to Rs.27.26 lakh from Kishan Cold Storage, Ballia during August 1999 to August 2000. Similarly, despite dishonour of earlier three cheques amounting to Rs.3.03 lakh in August 2000, it accepted six cheques (subsequently dishonoured) amounting to Rs.9.21 lakh from Manisha Cold Storage, Ballia, in the months of March 2001, /May 2001 and April 2002/, May 2002. The Division also failed to disconnect supply of these consumers immediately after expiry of due dates as required in the said provision. Belated disconnection of Kishan Cold Storage, Ballia, in January 2001 and Manisha Cold Storage, Ballia, in May 2002 resulted in accumulation of dues amounting to Rs.33.22 lakh and Rs.18.19 lakh respectively. Thus, due to failure of the dDivisional oOfficer in withdrawing payment facility through cheque and not disconnecting supply of electricity despite continuous defaults in payment of dues, the arrears mounted to Rs.51.41 lakh.

In reply, the Management stated (July 2004) that after permanent disconnection Recovery Certificate (RC) for the amount of final bill was issued (October 2003) to Kishan Cold Storage in respect of which consumer has lodged a petition in the Civil Court for recovery of equal amount of RC from its partners which was pending in the Court. Regarding Manisha Cold Storage, the Management stated that after permanent disconnection, RC for Rs.20.19 lakh was issued (July 2004) to the consumer against which amount of Rs.2 lakh was deposited by the consumer. Audit observed (August 2004) that no action was taken against delinquent officials of the Company.

3.125 Incorrect application of tariff

Incorrect application of tariff resulted in under charge of revenue amounting to Rs.26.70 lakh.

3.16 As per tariff applicable from 9 August 2000, connections of temporary nature taken for construction purposes including civil works are required to be

billed under rate schedule LMV-9. Rate of charge and minimum charge under this rate schedule (LMV-9) would be rates of charge in the appropriate schedule *plus 25 per cent*.

Test check of records of Electricity Urban Distribution Division, Rambagh, Allahabad revealed that for construction of a bridge over the river Yamuna at Naini, Allahabad, agreements with Hindustan Construction Company Ltd. (contracted load: 500 KVA) and Hyundai Engineering & Construction Company Limited (contracted load: 300 KVA) were executed in November and December 2000 respectively under rate schedule HV-2. As the connections were of temporary nature and required for construction purposes (civil work), the agreements were to be executed under LMV-9 instead of HV-2 and the rates of charge in the appropriate schedule *plus 25 per cent* were to be billed. Due to incorrect execution of agreement, the consumers were under billed by Rs.26.70 lakh (Hindustan Construction Company: Rs.16.62 lakh, Hyundai Engineering: Rs.10.08 lakh) during the period from December 2000 to April 2003, remitsulting in loss to the same extent.

The matter was reported to the Management and the Government in January 2004; replies are awaited (August September 2004).

Dakshinanchal Vidyut Vitran Nigam Limited

U3.136nder billing/Non-billing Irregular reduction of penalty for peak hour violations

The Company suffered loss of Rs.144.3706 crore lakh due to under billing/non-billing irregular reduction of penalty for peak hour violations.

3.17.1 According to State Government notification (April 1984), consumers having non-continuous process and violating peak hour restrictions were liable for disconnection for a period of 5 days, 10 days, 20 days and permanently for first, second, third and beyond third violations respectively. Further, a penalty was also to be charged from the consumers for each violation at the rate of Rs.50 per KVA for contracted load up to 100 KVA, Rs.30 per KVA (subject to minimum of Rs.5,000) for contracted load above 100 KVA and up to 500 KVA and Rs.20 per KVA (subject to minimum of Rs.15,000) for contracted load above 500 KVA. Besides, Company's order of October 1998 alongwith clarification further emphasised that each violation of peak hour as recorded by Memory Reading Instrument (MRI) would constitute a separate violation.

In Electricity Urban Distribution Division-I, Aligarh, seven large and heavy power consumers violated peak hour restrictions ranging between 89 nos to 181 nos during April 2000 to September 2001 and as per provisions of Government notification, the supplies of the consumers were liable to be disconnected permanently. The Division, however, failed to disconnect the supply of the consumers and made an assessment of penalty aggregating to Rs.47.56 lakh (excluding disconnection/reconnection charges) against them. It was noticed (March 2004) in during Aaudit that the Division subsequently (January 2003) reduced the penalty from Rs.47.56 lakh to Rs.3.20 lakh by taking cognizance of Chief Engineer's (Commercial) instructions (April 1999) to treat first MRI report as case of single violation for the whole month. These instructions were against the above provisions of Government notification and the Chief Engineer was not empowered to relax the same. This resulted in loss of Rs.44.36 lakh.

The matter was reported to the mManagement and the Government in June 2004; replies are awaited (August September 2004).

3.147 Non-application of rate for unrestricted supply

The Company suffered loss of Rs.78.85 lakh due to non-application of rate for unrestricted supply on peak hour violation.

3.17.2 As per rate schedule HV-2 of tariffs issued by UPERC applicable to Large and Heavy Power consumers effective from 16 September 2001, and 9 November 2002, consumers who do not opt for supply during peak hours/restricted hours shall be allowed to use the power not more than 15 *per cent* of their contracted demand. In case of use of excess power over 15 *per cent* during restricted hours a penalty of Rs.75 per KVA (effective from 16 September 2001) and Rs.50 per KVA (effective from 9 November 2002) of contracted load for the number of occurrences of default shall be levied. In the month of default, the consumer shall be billed at the rates specified for consumers having unrestricted supply in addition to above penalty under the para *ibid*.

A test check of records of the Electricity Distribution Division, Orai revealed (July 2003) that six large and heavy power consumers who had not opted for supply during peak hours, used excess power over 15 *per cent* of their contracted demand during restricted hours from 16 September 2001 to August 2002. Audit observed that the Ddivision, while levying a penalty for peak hour violation amounting to Rs.3.44 crore, however, did not bill for Rs.84.72 lakh at the rates specified for unrestricted supply. This resulted into under billing of Rs.84.72 lakh.

In reply, the Management stated (February 2004) that the bills were raised (January 2004) to the concerned firms against which an amount of Rs.5.87 lakh assessed against two consumers has been recovered in full. The Company, thus, suffered a loss of Rs.78.85 lakh due to its failure to realise the dues from four other consumers. Realisation of balance amount of the bills, issued to four other consumers, is awaited (September 2004).

Regarding observance of peak hours restrictions, the Uttar Pradesh Power Corporation Limited circulated (September 2002) the timings as notified by the State Government i.e., from 17.00 hours to 21.00 hours during October to February and from 18.00 hours to 22.00 hours during March to September every year.

3.158 Non-billing of penalty for peak hour violations

The Company suffered loss of Rs.46.65 lakh due to non-billing of penalty for peak hour violation.

As per rate schedule HV-2 of tariffs issued by UPERC applicable to Large and Heavy Power consumers effective from 9 November 2002, consumers who do not opt for supply during peak hours/restricted hours shall be allowed to use the power not more than 15 *per cent* of their contracted demand. In case of use of excess power over 15 *per cent* during restricted hours a penalty of Rs.50 per KVA of contracted load for the number of occurrences of default shall be levied. In the month of default, the consumer shall be billed at the rates specified for consumers having unrestricted supply in addition to above penalty. Regarding observance of peak hours restrictions, the Uttar Pradesh Power

Corporation Limited circulated (September 2002) the timings as notified by the State Government i.e., from 17.00 hours to 21.00 hours during October to February and from 18.00 hours to 22.00 hours during March to September every year.

In test check of records of Electricity Distribution Division-II, Aligarh, it was noticed observed (March 2004) that Paliwal Alloys Private Limited, Talanagari, Aligarh violated peak hour restrictions 40 times during 24 November 2002 to 28 February 2003. As per provisions of tariff, the consumer was liable to be billed for violation of peak hour restrictions amounting to Rs.36 lakh as well as difference of tariff rates amounting to Rs.10.65 lakh. The Executive Engineer of the Division, however, did not bill the consumer for peak hour violations on the ground that start of peak hours notified earlier was from 17.00 hours which was extended (December 2000) by UPPCL to 17.30 hours. The contention of Executive Engineer was not correct in view of the fact that the timings for observing peak hours from 17.00 hours was in force at the time of violation as per orders of UPPCL circulated in September 2002. Thus due to non-billing of the consumers for peak hour violations, the company suffered loss of Rs.46.65 lakh.

- The Executive Engineer of the Division, however, did not bill the consumer for peak hour violations on the ground that start of peak hours notified earlier was from 17.00 hours which was extended (December 2000) by UPPCL to 17.30 hours. The contention of Executive Engineer was not correct in view of the fact that the timings for observing peak hours from 17.00 hours was enforce at the time of violation as per orders of UPPCL circulated in September 2002. Thus due to non-billing of the consumers for peak hour violations, the company suffered loss of Rs.46.65 lakh.

The matter was reported to the Management and the Government in May 2004; replies are awaited (August September 2004).

Madhyanchal Vidyut Vitran Nigam Limited

3.169 Non-billing for penalty and differential charges for peak hour violation

The Company suffered loss of Rs.1.24 crore due to non-billing of penalty for peak hour violation.

3.18 As per rate schedule HV-2 {note (c) below para 4} issued by UPERC effective from 9 November 2002, consumers who do not opt for supply during peak hours/restricted hours, shall be allowed to use the power not more than 15 *per cent* of their contracted demand during peak hours. In case, the consumer uses power above 15 *per cent* during restricted hours, a penalty of Rs.50 per KVA of contracted load for number of days of default shall be levied. In the month of default, the consumer shall also be billed at the rates applicable to unrestricted supply category, in addition to above penalty.

ITI Limited, Mankapur (Gonda), a large and Heavy Power consumer of EDD, Gonda having contracted load of 7,000 KVA, opted for use of power under restricted supply category with effect from 01 January 2003 (having lesser tariff as compared to unrestricted supply).

Audit noticed observed (August 2003) that the consumer violated peak hour restrictions 32 times during January to June 2003. But the Division did not charge the penalty for peak hour violations (Rs.1.12 crore) and also did not bill for differential charges under restricted supply category (Rs.0.12 crore) which resulted in the non-billing of Rs.1.24 crore to the consumer during January to June 2003.

In reply, the Division stated that 15 *per cent* of contracted load i.e. 1,050 KVA would be near about 52 Ampere (exactly worked out to 55.11 Ampere) and during peak hours, load beyond 52 Ampere was never reported. Reply was not tenable in view of the fact that load recorded in log sheets of 132 KV sub-station, Mankapur^{1*} and reported to the Division clearly indicated drawal of load beyond 55.11 Ampere during January 2003 to June 2003.

Matter was reported to the Management and the Government in April 2004; replies are awaited (September August 2004).

Paschimanchal Vidyut Vitran Nigam Limited

3.1720 Under assessment for theft of energy

The Company extended undue favour to a consumer amounting to Rs.10 lakh by under assessment for theft of energy.

3.19 The para 6.17.1 of Chapter 6 of Uttar Pradesh Electricity Supply Code-2002 (Distribution Code), effective from 1 July 2002, 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. In case of large and heavy power consumers, such assessment of the units shall be done by taking load as contracted load or 75 *per cent* of the connected load of the consumer found at the time of inspection, whichever is lower. The said Distribution Code further defines the 'Connected Load' as aggregate of the manufacturers rating of all energy consuming devices, in the consumer's premises, which can be simultaneously used.

The premises of J.K.Ice Factory, Hapur, a large and heavy power consumer having contracted load of 111 KVA with three compressors (two compressors of 29.84 KW and one of 54 KW) under Electricity Distribution Division, Hapur, was raided (06 April 2003) by Executive Engineer and his team and the consumer was found indulging in theft of energy by connecting one (29.84 KW) of the three compressors directly from the transformer by-passing the meter.

The Divisional Office was required to indicate in its inspection report the connected load based on all energy consuming devices in the consumers premises found at the time of inspection. Instead the inspection report indicated the connection of three compressors (two of 29.84 KW and one of 54 KW) only in the premises of the consumer. The total load of the three compressors works out to 113.68 KW. Accordingly, as per the said Code the consumer should have been assessed penalty at least on the 75 *per cent* (85.26 KW) of the connected load (113.68 KW) being lower than the contracted load (111 KVA or 94.35 KW). On the basis of the 75 *per cent* of the connected load thus arrived at, the amount of penalty worked out to Rs.17.98 lakh including Electricity Duty and Low Tension (LT) charges.

* From where 11 KV ITI factory independent feeder emanated.¹ From where 11 KV ITI factory independent feeder emanated.

** Where L represents load in KW, F represents factor (0.75), H represents average hour of supply per day and D represents number of days of theft or 180 days whichever is less.* From where 11 KV ITI factory independent feeder emanated.

** Where L represents load in KW, F represents factor (0.75), H represents average hour of supply per day and D represents number of days of theft or 180 days whichever is less.¹ Where L represents load in KW, F represents factor (0.75), H represents average hour of supply per day and D represents number of days of theft or 180 days whichever is less.

Audit noticed observed (March 2004) that the General Manager (Distribution), Meerut, instead of assessing the penalty of Rs.17.98 lakh assessed and billed the consumer incorrectly for Rs.7.98 lakh on the basis of load of 29.84 KW considering one compressor of 40 BHP only. This has resulted in the under assessment of Rs.10 lakh to the consumer.

The Management while accepting the audit observation stated (October 2004) that bill for additional amount was raised; Recovery was awaited as the consumer obtained a stay order against which the company filed an appeal.

Matter was reported to the Government in June 2004; reply is awaited (September 2004).

The matter was reported to the Management and the Government in June 2004; Replies are awaited (September August 2004).

Kanpur Electricity Supply Company Limited

3.1821 Loss due to irregular waiver of penalty for peak hour violations

The Company irregularly waived off penalty of Rs.23.87 lakh and invited litigation suffered a loss of Rs.18.10 lakh due to irregular waiver of penalty.

3.20 Note (d) below para 4 of rate schedule HV-2 of Tariff issued as per orders of Uttar Pradesh Electricity Regulatory Commission applicable to large and heavy consumer effective from 16 September 2001 stipulates that consumers who do not opt for supply during peak hours/restricted hours shall be allowed to use the power not more than 15 *per cent* of their contracted demand. In case of use of excess power over 15 *per cent* during restricted hours a penalty of Rs.75 per KVA of contracted load for the number of occurrences of default shall be levied. In the month of default, the consumer shall be billed at the rates specified for consumers having unrestricted supply in addition to above penalty under the para *ibid*. Further, the tariff order does not contain any provision for waiver of peak hour penalty on any ground by any authority.

Scrutiny of records of Kanpur Electricity Supply Company Limited revealed (August 2003) that nine large and heavy power consumers, who had not opted for supply during peak hours, used power in excess of 15 *per cent* of contracted demand during peak hours from September 2001 to November 2002 on which penalties aggregating to Rs.28.64 lakh were imposed. The Managing Director of the cCompany, however, in contravention of provisions of tariff, reduced/waived off penalties of these consumers to the extent of Rs.23.87 lakh on the ground that the consumer was not aware of the timings of peak hour, violation was marginal, the time shown by clock of consumers' energy meters differ from Indian Standard Time and that penalising the consumers will would not be justified. This resulted in undue favour to these consumers to the extent of Rs.23.87 lakh.

On being pointed out by Audit, the matter was put up to the Board of Directors of the Company in a meeting held on 10 June 2004. The Board discussed the matter in detail and directed that (i) In cases where the clock of energy meters differ from the Indian Standard Time, the consumer should be given the advantage of only that time for which the meter was found slow or fast as the case may be; and (ii) Peak hour penalty cannot to be waived off due to ignorance of peak hour timings or less use of load during restricted hours. The

bBoard further directed to examine cases of each and every consumer and recharge to revise the waived off penalty. In accordance with the directives of the Board, the Company re-examined the cases and issued revised assessment bills (including surcharge) to all the nine consumers aggregating to Rs.29.34 lakh (June/July 2004).

The Management, while intimating the above decision of the Board and consequential issue of bills, stated (September 20034) that out of these consumers, supply of one consumer hasd been disconnected due to failure in payment of recharged revised penalty (Rs.0.93 lakh), one consumer hasd deposited 50 *per cent* of the recharged revised penalty (Rs.0.39 lakh) and seven consumers haved filed writ petition in the Hon'ble High Court against the revised penalty bills aggregating to Rs.28.02 lakh (including surcharge) and has had deposited 25 *per cent* to 50 *per cent* of the amount of revised penalty bills aggregating to Rs.9.92 lakh under the directives of the Court.

Had the bills been raised in accordance with the provisions of tariff, non-recovery of Rs.18.10 lakh (balance amount of penalty after deducting the amount deposited as per the directives of the Court) and litigation with consumers could have been avoided.

The observation made by the Board of Directors in the above cases and revised bills issued by the Company after examining each and every case confirms the contention of Audit and proves undue benefit extended to these consumers. Had the Managing Director of the Company abstained to use the power not vested in him and bills been raised in accordance with the provisions of tariff, Non-recovery of the amount of penalty and litigation with the consumers could have been avoided.

Statutory corporations

Uttar Pradesh Avas Evam Vikas Parishad

3.19 Undue benefit to allottees

The Parishad incurred loss of Rs.3.02 crore due to selling of flats at rates lower than the rates derived as per the approved costing policy.

The State Government decided (January 2000) to provide residences to sitting Members of the Legislative Assembly and Legislative Council of the State and entrusted the responsibility of preparing Vidhyak Avas - Self Financing Scheme 2000 to the Uttar Pradesh Avas Evam Vikas Parishad (Parishad). For this purpose, the Parishad acquired (February 2000) 29,773 sq mtr. of land at the Uttar Pradesh Instruments Limited (UPIL) factory campus, Lucknow. The Parishad paid Rs.8.09 crore to the Industrial Development Department of the State Government. In the meantime, the Parishad invited (February 2000) applications for registration of flats from the Members of Legislative Assembly and Legislative Council at the estimated costs ranging between Rs.6.35 lakh to Rs.7.30 lakh per flat. The terms of registration also required that extra amount, if any, would have to be paid after actual costing of the properties. The residential complex consisting of 80 three bedroom and 22 two bedroom flats was constructed within the UPIL campus on a plot measuring 9,734 sq mtr. The complex was completed (August 2001) at a cost of Rs.10.94 crore (including

overheads, cost of land and development thereof) and possession passed on to the allottees.

As per approved costing policy of the Parishad, the cost of flats was as follows:

(Rs. in lakh)

Type of flat	Cost Per flat	Total Cost of flats
80 three bedroom flat each	10.946	875.68
Four two bedroom flat having plinth area of 88.46 sq. meter	8.890	35.56
18 two bed room flat having plinth area of 101.10 sq. meter	10.160	182.88
Total		1094.12

The Parishad did not recover the extra cost of flats from the allottees as per terms of registration. The Parishad, instead, as per the directives given (January 2002) by the Government fixed the prices of the flats as detailed below:

(Rs. in lakh)

Type of flat	Sale Price Per flat	Total Sale Price of flats
80 three bedroom flat each	7.975	638.00
Four two bedroom flat having plinth area of 88.46 Sq. meter	6.328	25.31
18 two bed room flat having plinth area of 101.10 Sq. meter	7.150	128.70
Total		792.01

The Parishad, thus, sold the flats at the prices fixed as per the directives of the Government and incurred loss of Rs.3.02 crore (Rs.10.94 crore *minus* Rs.7.92 crore).

In reply (June 2004), the Management besides giving the details of costing and under recovery due to fixation of lower sale rate of flats, stated that the under-charged amount would be compensated from the sale of remaining commercial land. Management's reply is not tenable as the Parishad deviated from its approved costing policy and incurred loss on sale of flats.

Uttar Pradesh Financial Corporation

3.22 Loss due to irregular sanction and disbursement of loan

The Corporation's dues of Rs.13.20 crore remained unrecovered due to irregular sanction and disbursement of loan and subsequent failure in periodical inspection and follow up action for recovery.

3.21 According to Section 26 of State Financial Corporation Act 1951, the State Financial Corporations (SFCs) shall is required to finance projects not exceeding Rs.5 crore. Further, according to disbursement manual of the Corporation, where the loan is sanctioned for purchase of plant and machinery and the payment is made directly to supplier on the basis of proforma bill, supplies of such assets by the supplier is should to be ensured. Besides, in order to safeguard the interest of the Corporation, periodical inspection of the financed unit should is to be done.

Audit noticed observed that the Corporation during March 1991 to March 1995 during March 1991 to March 1995 disbursed five loans aggregating Rs.3.17 crore to J.S.P. Oils & Fats Ltd., Shahjahanpur for setting up of its ancilliary units (refinery units) adjacent to its existing unit at Shahjahanpur. The loanee

defaulted in repayment of loan and as a result outstanding amount mounted accumulated to Rs.13.20 crore (principal: Rs.2.26 crore, interest and expenses: Rs.10.94 crore) up to March 2004 as detailed below:

(Rs. in lakh)

In this regard, following deserve mention: The following points were observed in audit:

- Despite the facts that SFC Act, 1951 did not permit SFCs to finance projects exceeding Rs.5 crore, the Corporation partly financed Vanaspati Ghee Plant against the project cost of Rs.8.39 crore by sanctioning an amount of Rs.1.50 crore against which an amount of Rs.1.16 crore was disbursed.
- At the time of sanction of loan of Rs.1.50 crore, the bridging loan of Rs.40.83 lakh was outstanding. This fact was not mentioned considered in the appraisal note for sanction.
- Only 2.774 acres of land was mortgaged against the requirement of 8.13 acres of land as per terms of sanction of loan of Rs.1.50 crore.
- First disbursement of Rs.50.44 lakh out of Rs.1.16 crore was made directly to supplier of plant and machinery against proforma bill. The Corporation, without verifying and ensuring the readiness of consignment of plant and machinerisy again released (June 1995) Rs.45.13 lakh to the supplier who did not supply the plant and machinery. The supplier had supplied old machinery, which came to notice of the Corporation after inspection in May 1996.
- The Corporation lodged (May 1996) an FIR after delay of one year against the supplier but no action could be taken as the inspection of plant and machinerisy was belatedly done in May 1996.
- Periodical inspection of the unit to ensure the presence of assets of the unit was also not done by the Corporation. During inspection (December 2000), it was found that most of the assets were missing and the assets valuing Rs.28.62 lakh only were available.
- The physical possession of the unit was also not taken over by the Corporation.

Thus, due to irregular sanction and disbursement of loan, absence of periodical inspection, delay in inspection of plant and machinerisy and lack of follow up in recovery action, the dues of the Corporation mounted to Rs.13.20 crore (principal Rs.2.26 crore, interest & expenses Rs.10.94 crore) up to March 2004. The chances of recovery of the outstanding amount were remote as assets valuing Rs.28.62 lakh only were available at site and no recovery was effected against recovery certificate (RC) issued in January 2002 against the promoters.

The matter was reported to the Management and the Government in June 2004; replies are awaited (September 2004).

3.203 Irregular investment of funds

The Corporation suffered a loss of Rs.8.37 crore due to investment of fund in term deposit in City Co-operative Bank in contravention of the Government order.

3.22 The State Government's order (May 2000) provided that the State Government Companies/Corporations shall invest its surplus funds in fixed/term deposits in scheduled commercial banks/institutions which have minimum net worth of Rs.100 crore, meet capital adequacy norms of Reserve Bank of India and have credit rating by any reputed credit rating agency.

Further, approval of Board of Directors of the Corporation was necessary for such investments.

The Audit noticed observed (April 2004) that the Corporation invested Rs.8 crore in term deposits with non-scheduled City Co-operative Bank (CCB) during September 2000 to March 2001 with maturity period ranging from three months to seven months at the varying interest rates of 9.5 per cent to 11.5 per cent and the maturity period from March 2001 to September 2001 without first ensuring net worth of the Bank as required by State Government order issued in May 2000. The financial position of the bank, however, deteriorated substantially and hence, the RBI imposed (March 2001) restrictions on CCB to discharge any liability without prior approval of RBI under Section 35A of the Banking Regulation Act, 1994. The RBI further ordered for liquidation of the bank because of serious irregularities being committed by the Bank. As a result, the term deposit of Rs.8 crore of the Corporation remained uncashed after a lapse of three years from the date of maturity. The chances of its encashment were remote, as the RBI had ordered for liquidation of the Bank.

Thus, due to investments in the Bank without first ensuring its net worth as required in the contravention of the Government order of May 2000 resulted in loss of Rs. and not finding out the net worth of the bank before taking decision for investment, the Corporation suffered a loss of Rs.8.37 crore (Principal: Rs.8.00 crore and interest: Rs.0.37 crore) worked out up to the date of maturity.

In reply, the Management stated Chief Manager (F & A) stated (May/November 2004) that the Corporation had been keeping its surplus (fund) with various banks depending upon the rate of interest, their relationship towards subscription in Corporation's SLR (Statutory Liquidity Ratio) bonds and CCB subscribed Rs.3 crore towards Corporation's bonds. The reply is not tenable, not received any specific directives from the State Government and the investment was made as per past practice. The reply is not tenable as the Government's directives of had been issued to all Government Companies/ Corporations in May 2000, were not followed. Further, CCB's investments in the bonds of the Corporation was less than the investment of the Corporation in CCB and would not be available as security because CCB had been ordered for liquidation.

The matter was reported to the Management and the Government in June 2004; replies are awaited (September 2004).

3.214 Loss due to undue favour to loanee in disbursement of loan

The Corporation's dues of Rs.2.21 crore remained unrecovered due to sanction of loan without ensuring sanction and disbursement of working capital by the Bank.

3.23 The Corporation sanctioned (March 1997) a term loan of Rs.95 lakh to Vigo Agro Processor, Kanpur for setting up a unit for Manufacturing of dehydrated vegetables and fruits. The loan was secured by way of equitable mortgage of land and building, plant and machinery, other assets and personal guarantee of the promoters. The Corporation disbursed Rs.93.12 lakh to unit during January 1998 to September 1998.

Audit observed that due to non-sanction and disbursement of required working capital assistance by the bank, the unit could not start its commercial production. The unit defaulted since beginning in repayment of the Corporation's dues, which mounted to Rs.220.73 lakh (principal: Rs.56.91 lakh, interest: Rs.163.70 lakh and expenses: Rs.0.12 lakh) as on February 2002. The Corporation withdrew (February 2002) the recovery certificate issued in November 1999 on the commitment by the loanee for settlement of dues. The

loanee, however, did not honour the commitment. Despite this, the Corporation neither took physical possession nor made periodical inspection of the unit to ensure existence of assets and safeguard the interest of the Corporation. As a result, when the possession of the unit was taken over in February 2002, it was found that plant and machinery and other building material worth Rs.91.31 lakh were missing from the unit; for which an FIR was lodged in February 2002. The remaining assets were sold (October 2002) for Rs.37 lakh.

Audit noticed (January 2003) that at the time of first disbursement of loan of Rs.33.86 lakh in January 1998, the Corporation observed that the required working capital assistance of Rs.25.08 lakh was not yet sanctioned by the bank. Despite this, the Corporation made subsequent disbursements of Rs.26.34 lakh (January 1998), Rs.2.48 lakh (March 1998), Rs.21.40 lakh (May 1998) and Rs.9.04 lakh (September 1998). Due to non-sanction and disbursement of working capital assistance by bank the unit could not start its commercial production. As a result, the unit defaulted since beginning in repayment of the Corporation's dues, which mounted to Rs.109.94 lakh (principal: Rs.93.12 lakh, interest and expenses: Rs.16.82 lakh) up to February 1999. A notice under Section 29 of SFC Act, 1951 was issued in February 1999 for payment of dues by the unit. The promoters, however, did not turn up. Further, the recovery certificate (RC) issued in November 1999 against the promoters was also subsequently withdrawn on their assurance (February 2000) for settlement of dues but the commitment was not honoured by them. Despite this, the Corporation neither took physical possession of the unit nor made periodical inspection of the unit to ensure existence of assets and safeguard the interest of the Corporation. As a result, when the possession of the unit was taken over in February 2002, it was found that plant and machinery and other building material worth Rs.91.31 lakh were missing from the unit; for which an FIR was lodged in February 2002. The remaining assets were sold (October 2002) for Rs.37 lakh.

Thus, disbursement of loan without ensuring sanction and disbursement of required working capital assistance by the bank, subsequent failure in periodical inspection of unit and delay in taking over possession of the unit resulted in unrecovered dues of Rs.2.21 crore. of Rs.220.73 lakh (principal: 56.91 lakh, interest: Rs.163.70 lakh and expenses: Rs.0.12 lakh).

In reply, the Management stated (September 2004) that (i) disbursement made to the party was well within the Corporation's norms and practice, (ii) no pre-condition of sanction of working capital was imposed in the appraisal memorandum, (iii) the unit could not run because of promoters personal problems, as a result heavy over dues accumulated and (iv) inspections of units were made periodically. Reply is not tenable as the Disbursement Manual of the Corporation provides that loanee should have been sanctioned a working capital loan by the bank before the term loan could be disbursed. for sanction, in principle, of working capital limit by the banks and the Manag Management also failed to take immediate possession of the units after defaults in payments.

3.225 Loss due to delay in taking over possession of the unit

The Corporation's dues of Rs.2.06 crore remained unrecovered due to delay in taking over possession of the unit.

3.24 The Corporation sanctioned disbursed (March 1998) an amount of Rs. 1.141 crore (February 1997 and January 1998) a term loan of Rs.150 lakh to

Dyson Chemicals Private Limited, Ghaziabad for setting up of a unit for manufacturing of "H" Acid (commonly known as dye intermediate). An amount of Rs.141.30 lakh was disbursed to unit up to March 1998. The loan was secured by mortgage of leasehold land, plant and machinery, collateral security (House No. KG-65 at Ghaziabad) and personal guarantee of Ddirectors.

Audit noticed observed (February 2004) that the unit defaulted in repayment of dues of Corporation since beginning. The overdues mounted to Rs.42.73 lakh (Principal: Rs.35.78 lakh and Interest: Rs.6.95 lakh) up to May 1999. In July 1999, the dDirectors of the unit sent a letter to Regional Manager of, Ghaziabad region of the Corporation stating that they were unable to run the unit due to marketing constraints of the product on account of liberalisation of import policy. They also requested the Corporation to take over the possession of the unit on "as is where is basis" and to dispose it for liquidation of dues; however, no action was taken by the Corporation in this regard. After one and half years (February 2001) when the dues mounted to Rs.211.28 lakh (Pprincipal: Rs.141.30 lakh and Iinterest: Rs.69.98 lakh) the possession of the unit was taken over (February 2001). Collateral security (House No. KG-65 at Ghaziabad) was also sold (March 2001) for Rs.29 lakh. At the time of taking over possession, it was found that plant and machinery worth Rs.37.55 lakh were missing for which an FIR was lodged (February 2001). The remaining assets of the unit were sold (February 2002) for Rs.67.25 lakh. The recovery certificate was issued (April 2002) for recovery of dues of Rs.205.99 lakh (Pprincipal: Rs.141.30 lakh and Iinterest: Rs.64.69 lakh) but the same was returned (August 2002) by District Magistrate with the remarks that no movable/immovable property existed in the name of borrower.

Thus, failure of the Corporation to monitor the repayment of dues, and delay in taking over possession of the unit, resulted in missing removal of assets (Rs.37.55 lakh) and non-recovery of dues of Rs.2.05.996 lakh crore. The chances of recovery of dues amounting to Rs.2.05.996 lakh crore were remote because all the securities available with the Corporation were sold out and recovery certificate was returned by the District Magistrate, Ghaziabad unexecuted as no movable/immovable property existed in the name of the DDirectors.

In reply, the Management stated (September 2004) that best possible efforts as per norms and practice were made by the Corporation and failure of the unit was, *inter alia*, due to unforeseen market forces at that stage which led to the losses that was beyond the control of the Corporation. Reply is not tenable as the Management failed to take possession of the unit immediately after expiry of the prescribed period of 15 days from the date of receipt of notice by the loanee unit in terms of provisions of Section 29 of SFC Act. Notice was issued to the unit on 9 May 2000 on failure of payment of dues by the loanee.

3.26 Loss due to failure in verification of collateral security

The Corporation's dues amounting to Rs.1.83 crore remained unrecovered due to accepting collateral security not free from encumbrances and delay in taking possession of assisted unit.

3.25 The Corporation disbursed (1997) a term loan of Rs.45.50 lakh to Institute of Information Technology, Lucknow for setting up a computer education centre in a rented premises. Before disbursement of loan, the Corporation was required to obtain adequate security, collateral security and verify same to avoid future implications. The loan was secured by mortgage of

fixed assets created out of the loan and collateral security of a residential-cum-commercial house of promoter valued at Rs.50 lakh. The unit defaulted in repayment of the loan from the beginning. As a result, the dues against the unit mounted to Rs.59.49 lakh (Principal: Rs.45.50 lakh and Interest: Rs.13.99 lakh) at the end of January 1999. The possession of the unit was taken over in May 2000 i.e. after one year of issue of The Corporation issued (February 1999) notice under Section 29 of the State Financial Corporation Act, 1951. for taking over physical possession of the unit but the possession of the unit was taken over after one year in May 2000 for reasons not on records. At the time of taking over possession of the unit, most of the assets valued at Rs.25.72 lakh procured out of the loan were found missing. Further, the Corporation did not take any action for sale of the balance assets taken over by it as its value was negligible due to technological obsolescence. The collateral security of the promoter could not be disposed off as no buyer turned up because the premises were occupied by about 20 tenants about 20 tenants occupied the premises at the time (March 1999) of publication of advertisement.

Audit noticed observed (March 2004) that the ownership title of collateral security (residential-cum-commercial house) was not verified before at the time of sanction and disbursement of the term loan. The collateral security was found belonging to a Hindu Undivided Family (HUF) and was inhabited by several tenants. The promoter got stay orders from the Civil Court against the sale of collateral security on the grounds that the premises belonged to a HUF.

Thus, due to acceptance of collateral security which was not free from encumbrances and delay in taking over possession of the unit, the dues of Rs.1.83 crore (principal: Rs.0.45 crore, interest and expenses: Rs.1.38 crore) up to February 2004 remained unrecovered causing loss to the Corporation. Neither any investigation was made nor any responsibility for non-verification of ownership of collateral security was fixed by the Management.

In reply, the Management, *inter alia*, stated (September 2004) that the promoter got stay order against the sale of collateral security excluding the part of the property belonging to the promoter. It further, stated that scrutiny of the security documents revealed that the security was not an HUF and the Corporation might realise its loan from the property. Reply is not tenable as the Court had already held the security as HUF property and stayed the recovery certificate.

Uttar Pradesh Forest Corporation

3.237 Loss due to collection auction of Tendu leaves on cloudy/rainy seasons seasons at lower rates

The Corporation incurred loss of Rs.41.64 lakh due to non-fixing of floor price based on recommendations of the Divisional Logging Managers besides loss of Rs.1.37 crore due to collection of Tendu leaves on cloudy/rainy seasons in contravention of Corporation's guidelines.

3.27.1 3.26.1 According to State Government order (February 2003), the undisposed stock of Tendu leaves was required to be disposed off through Public Auction by a Committee after fixing its floor price. The Committee was required to fix the floor price on the basis of average sale price of previous years and sale price prevailing in neighboring States (Madhya Pradesh, Chhattisgarh, etc). Further, if necessary the negotiation with bidders could also be made to

arrive at the sale price above the floor price. The Corporation did not fix any floor price for Tendu leaves despite the recommendations by the Divisional Logging Managers (DLMs) of the for the minimum rate of Rs.5 per kg for Mirzapur and Dudhi divisions and Rs.6 per kg for Karvi, Renukoot and Obra divisions.

Scrutiny of records (February 2004) revealed that the Corporation decided (March 2003) to dispose off the stock of 1,39,281 bags (44,56,992 Kg) of Tendu leaves collected in Karvi, Renukoot, Obra, Mirzapur, Dudhi, Allahabad, and Lalitpur divisions of Allahabad Region of the Corporation. Accordingly, a public auction was organised on 26 March 2003 at the Corporation office and 1,39,281 bags were sold as detailed below:

As would be seen from the above table, the stock of Tendu leaves collected in Karvi, Renukoot, Obra, and Mirzapur divisions were sold at lower rates than the rates recommended by the DLMs, resulting in short realisation of Rs.41.64 lakh. Besides this, the rates obtained (Rs.5 and Rs.4.10 per kg) in the auction were also lower than the rates obtained (Rs.7.30 per kg) in the Lalitpur division in auction held during March 2003 and rates finalised in previous auctions (Rs.10 to 14 per kg during February 2002 and Rs.15.76 to Rs.18.27 per kg during December 2002). Thus, the Corporation incurred loss of Rs.41.64 lakh due to not fixing a floor price based on recommendations of DLMs and rates obtained in previous years.

3.27.2 3.26.2 Guidelines issued (February 2001) by the Corporation for collection, transportation and storage of Tendu leaves stipulate that the collection of good quality leaves should be made after thorough checking and no leaves should be collected on any cloudy/rainy day. It further prescribes that the leaves collected and processed at Fud (place of collection of Tendu leaves) should immediately be transported to respective godowns within ten days from the date of collection of leaves at centre. To ensure timely transportation of processed leaves at regular intervals, the respective DLMs were fully authorised to make proper planning and transport arrangements for transportation of processed leaves within specified period of ten days.

Scrutiny of records (February 2004) of DLM, Obra (Allahabad Region) pertaining to collection of Tendu leaves for the season 2002, revealed that the Division collected/produced 10,64,963 kg Tendu leaves on cloudy/rainy days during the season 2002 in contravention of Corporation's guidelines. Consequently, the quality of leaves deteriorated significantly and had to be categorised into B grade and hence, the Division sold the leaves at average rate of Rs.10.43 per kg against average sale rate of Rs.23.76 per kg for Grade A Tendu leaves. Thus, due to non-adherence to the guidelines of the Corporation resulted in a loss of Rs.1.37 crore in sale of 10,64,963 kg leaves.

The matter was reported to the Management and the Government in June 2004; replies are awaited (September 2004).

General

3.248 Delay in finalisation of accounts by State Public Sector Undertakings (PSUs)

Statutory provisions for Introductionfinalisation of accounts

3.248.1 **3.28** Every Government Ccompany is required to prepare Financial Accounts to ensure financial accountability to the Legislature. In terms of Ssections 166, 210, 230, 619 and 619-B of the Companies Act, 1956, the accounts of Government companies for every financial year are required to be finalised within six months from the end of relevant financial year. Further, as per provision of Section 619 A (3) of the Act, *ibid*, the State Government is also required to cause an Annual Report on the working and affairs of each Government company to be prepared within three months of its Annual General Meeting (AGM) and laid before the Legislature together with a copy of the Audit Report and comments there on made by the Comptroller and Auditor General of India (CAG). Similarly in the case of Statutory corporations their accounts are to be prepared, audited and presented to the State Legislature as per provisions of the respective Act. Section 168 and 210 of the Act also stipulate stringent measures like punishment and penalty for non-compliance to any of the provisions relating to finalisation of accounts in time.

Management's/Government responsibility for preparation of annual accounts

3.248.2 Under the provisions of Section 210 (1) read with Section 216 and 218 of the Companies Act, 1956, the Board of Directors of a Company is required to lay in every AGM an audited copy of annual accounts i.e. balance sheet and profit and loss account for the financial year alongwith the Auditor's Report and other specified Annexures. The Administrative Departments concerned are also required to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period.

Procedure for finalisation of annual accounts

3.248.3 The annual accounts prepared by the companies are approved by its Board of Directors and then audited by the Statutory Auditors appointed by the CAG. As per provision of Section 619 (4) of the Companies Act, 1956, the CAG conducts supplementary audit of the accounts of the Ccompanies and such accounts alongwith comments of the CAG are placed before the AGM of the Company for adoption.

Risk involved due to delay in finalisation of accounts

3.248.4 Keeping of annual accounts is of prima-facieutmost importance in order to give a true and fair view of the affairs of the PSUs, arrears in accounts do not permit the Government either to assess the exact financial health or to take any concrete steps towards improving functioning of the PSUs. Besides, delay in finalisation of accounts also open the system to risk of fraud and leakage of public money.

Extent of Arrears

3.24828.15 As on 30 September 2004, out of 93 Government Ccompanies (48 working, 41 Nnon-working and four Ddeemed Government companies) in the State, only two¹*1 working Ccompanies and one² 2** Ddeemed Government

¹ Uttar Pradesh (Paschim) Ganna Beej Evam Vikas Nigam Limited and Uptron Powertronics Limited.

² Almora Magnesite Limited.* Almora Magnesite Limited.

company finalised their accounts for the year 2003-04 within the due date, i.e., 30 September 2004. Accounts of four newly established Government companies (Government) were not due and one working Government company finalised its accounts for the year ended 30 September 2003. Similarly, out of seven Statutory Corporations in the State, none of the seven Statutory Corporations finalised their accounts for the year 2003-04 within the due date i.e. 30 September 2004.

As on 30 September 2004, 823 Government companies (41 Working, 389 Non-Working and three Deemed Government companies) have not finalised their accounts within stipulated period and the accounts are in arrears from one to 29 years; Out of 823 companies, the accounts of 41 working companies were in arrears for one to 15 years, the accounts of 30 non-working companies were in arrears for one to 29 years, the accounts of nine^{33*} non-working companies, which were under liquidation, were in arrears for one to 18 years (the arrears in respect of non-working companies under liquidation has been taken up to the date of their going into liquidation) and. The accounts of three Deemed Government companies were in arrears for one to 25 years (**Annexure-31**). 17 Seventeen working Government companies were selected for analysis of causes of arrears of accounts (**Annexure-27302**).

Objective of the study

3.28.2 *The objective of the study was to examine the reasons for inordinate delay and failure of the companies in finalising their accounts. Besides, it seeks to scrutinise whether the Management of these companies and controlling agencies of the Government took effective steps to control the delay and ensure early finalisation of accounts in arrears.*

Reasons for delay in finalisation of accounts

Reasons for delay in finalisation of accounts

Following were the reasons for delay in finalisation of accounts:

Delay in holding of Annual General Meeting

3.248.6 **3.28.4** The summarised details in connection with finalisation of accounts as on 31 March 2004 in respect of the 17 Companies for the period of five years (up to latest finalised accounts) are given in **Annexure-28313**. A review of **Annexure-32831** would reveal that the time lag between the one AGM and subsequent AGM in respect of these 17 Companies ranged from one month to 44 months.

Delay in approval of Accounts by the Board of Directors

3.248.7 Under Section 215 (3) of the Companies Act, 1956 the balance sheet and profit and loss account are to be approved by the Board of Directors

**1 Uttar Pradesh (Paschim) Ganna Beej Evam Vikas Nigam Limited and Uptron Powertronics Limited. Uttar Pradesh (Paschim) Ganna Beej Evam Vikas Nigam Limited and Uptron Powertronics Limited.

³ Two non-working Government Companies under liquidation finalised their accounts up to the date of liquidation.

² Almora Magnesite Limited.

* Two Non-working Government Companies under liquidation finalised their accounts up to the date of liquidation.³ Two Non-working Government Companies under liquidation finalised their accounts up to the date of liquidation.

(BOD) before they are signed on behalf of the Board and before they are submitted to the Statutory Auditors for their report thereon. Any delay in approval of accounts by the Board causes delay in finalisation of accounts. It is the responsibility of the BOD to get the accounts compiled.

It has been observed that time taken by the BOD of the companies in approval of accounts for first year and consecutive year from two to 54 months (**Annexure-34**). The approval of accounts was delayed mainly because of delay in preparation of accounts due to shortage of qualified staff in these companies.

Delay in certification of accounts by the Statutory Auditor

3.248.8 The Statutory Auditors took one to 59 months period for completion of audit of Companies as per the details given in **Annexure-35**. The reasons for such delay were non-furnishing of requisite information to the Statutory Auditors by the companies. Such delays could have been avoided had the Companies coordinated properly with Statutory Auditors after their appointment and made time bound programme.

Delay in adoption of accounts alongwith comments of the CAG in the AGM of the shareholders

3.248.9 Section 171 of the Companies Act, 1956 provides that AGM of a Company may be called by giving not less than 21 days notice in writing or a shorter notice, if so consented by all the members to vote. Thus, a Government Company could hold its AGM within a maximum period of 30 days of receipt of comments of the CAG.

The Companies failed to hold their AGM within 30 days (**Annexure-36**). The Companies took one to 33 months to hold their AGM. This adversely affected the clearance of arrears of accounts.

Cases in which there was inordinate delay or there were peculiar reasons for delay in finalisation of accounts are discussed given **Annexure-2932**.below:

UP State Food & Essential Commodities Corporation.

The accounts are in arrears from the year 1989-90. The company has prepared provisional accounts for the years 1992-93 and 2000-01 to 2002-03.

- *The basic record/initial accounts were prepared at unit level situated in various districts having no uniformity, because there was no accounting manual in the organisation, which caused delay in finalisation of accounts.*
- *Due to passage of time, either the records were in a very poor condition or lost. For re-writing or preparing accounts from available papers, it was taking more time to reconcile the unit records.*
- *The posts of Chartered Accountants and Company Secretary are lying vacant since long due to which delay took place in finalisation of accounts because, proper directions and control over the accounts were not there.*
- *The limited staff of internal audit cell was posted in various schemes of Government after the year 1982-83, which caused delays in finalisation of accounts.*

UPSIC Potteries Limited

The accounts are in arrears from the year 1991-92.

- *Due to financial crisis and labour problems production in the company is closed from August 1992 and labour and most of the staff working in this company were retrenched in April 1995.*
- *The accounts for the year 1990-91 were approved by the BOD in its 79th meeting held on 18 April 1998, however, the Managing Director was authorised by the BOD to sign the*

Balance Sheet in the 80th meeting of BOD held on 15 July 1998, which resulted in delay in certification of accounts.

UP State Handloom Corporation Limited

The accounts are in arrears from the year 1991-92. The company prepared provisional accounts for the year 2002-03.

- *The units (300 numbers) of the Company are situated within and outside the State. Thus, finalisation of one year accounts, involves preparation of 300 accounts, reconciliation and compilation thereof.*
- *Now a days the Corporation is facing acute economic problems, therefore, officers posted at different projects & sales centre could not attend Headquarters on due dates for finalisation of accounts.*
- *There was no continuity in the Audit of accounts by Statutory Auditors of the Company.*
- *The Statutory Auditors of the Company took five to six months for conducting the audit of one's year accounts.*

UP Small Industries Corporation Limited

The accounts are in arrears from the year 1996-97. The company prepared provisional accounts for the year 2002-2003.

- *Decentralisation of accounts and again division wise centralisation of accounts leads to delay in finalisation of accounts.*
- *Due to accumulation of arrears of accounts, AGM could not be held in time.*

U.P. Scheduled Castes Finance & Development Corporation Limited

The accounts are in arrears from the year 1997-98. The company prepared provisional accounts for the year 2000-01.

- *Non-cooperation of staff posted at units of the company with the Statutory Auditors for finalisation of accounts.*

U.P. Matsya Vikas Nigam Limited

The accounts of the company are in arrears from the year 1997-98. The company prepared provisional accounts up to the year 1997-98.

The company took 11 months for holding the Annual General Meeting after the issue of comments under Section 619 (4) of the Companies Act, 1956 by the Comptroller and Auditor General of India on the accounts for 1995-96. Consequently, compilation and audit of subsequent accounts was delayed.

U.P. Export Corporation Limited

The accounts of the company are in arrears from the year 2000-01.

- *Accounts are in arrears due to shortage of staff on account of implementation of VRS and retrenchment of staff.*
- *The BOD decided to recast the accounts for the year 1999-2000 in their meeting held on 29 July 2003, consequently accounts for the years after 1999-2000 have been delayed.*

Steps taken by Government for clearance of arrears

3.2488.510 The Government exercises its control over the companies through the concerned administrative Department and Finance Department. The Bureau of Public Enterprises (BPE) is the nodal agency, which reviews the working of the companies on behalf of the Finance Department.

In terms of Memorandum and Articles of Association of these Companies, the Government has the power to issue directives in the interest of the company. To fulfill these obligations, the Government was expected to take concrete steps to ensure that the accounts of the Companies were finalised in due time.

Assistance provided by Audit for liquidation of arrears

3.248.11 The list of defaulting companies were being furnished by the Accountant General to the Director General of BPE, and Chief Secretary Finance, Chief Secretary of State Government every three months.

The BPE organised meeting with the Executives/Representatives of the Companies along with representative of the Accountant General on 05 March 2004 under the Chairmanship of Principal Secretary of BPE and prepared a time bound programme to finalise the accounts at the earliest. BPE fixed a time bound programme for finalisation of accounts.

It was observed that before fixing time bound programme, no study was made to ascertain the reason for failure of these Companies to finalise the over due accounts. The target dates were fixed presumably on the basis of assurance from the Management and not on the basis of realistic assessment of reasons of delay or the Managements' ability to achieve these targets. It was seen that as per time bound programme, 20 accounts should have been finalised during the period March 2004 to May 2004, however, but only seven accounts were finalised (**Annexure-37**).

In order to help Companies in overtaking the arrears of accounts, Statutory Auditors were appointed, as a special case, for two or more years by the CAG of India. This advance action had not made any impact on the arrear position and none of the companies had been able to overtake the arrears.

Conclusion

The Government Companies did not adhere to the legal provisions of preparing the accounts timely and there was laxity on the part of the Management of these companies, which resulted in huge accumulation of the arrears of the accounts and consequently the investment made in these Companies remained outside the purview of audit and their accountability could not be ensured.

3.259 Implementation of Voluntary Retirement Scheme in State Public Sector Undertakings

An excess payment of Rs.1.46 crore was made to employees opting Voluntary Retirement Scheme (VRS) in the State PSUs due to not working out emoluments as per the Government orders and allowing VRS to employees not entitled

3.29 With a view to reduce surplus manpower in the Public Sector Undertakings (PSUs), the State Government introduced (June 1993) VRS for those employees of the PSUs who had completed ten years of service or had attained forty years of age. The Government order provided that the Scheme could be implemented by PSUs with the prior approval of the Administrative Department concerned.

The salient features of the Scheme and benefits thereunder that could accrue to VRS optees were as below:

- Amount lying in the contributory Provident Fund of the employees as per provision of CPF rules.
- Leave encashment as per the provisions of the rules of the PSUs/Corporations.
- Amount of gratuity as per Gratuity Act or Scheme implemented in the PSUs/Corporations.
- One or three months pay in lieu of notice period pay of one or three months, as the case may be, as per the service conditions.

- In addition to above, employee opting for VRS was entitled to an ex-gratia amount in the nature of compensation calculated at one and a half months emoluments (Pay and Dearness Allowance) for each year of completed service or emoluments for remaining service at the time of taking retirement under VRS, whichever is less.
- The emoluments in respect of VRS optees were to include only pay and dearness allowance but were not to include the amount of Interim Relief.
- The Scheme was not available to daily fixed wages employees, contract and work charge establishments as well as seasonal employees.

The Scheme was implemented in 13 PSUs^{1*}; out of these, 13, seven PSUs were test checked. Audit noticed (March 2004) that in respect of four PSUs, excess payment of Rs.1.46 crore on account of retirement benefits was made to the employees opting VRS as detailed in the succeeding paragraphsgiven in the table below:

The U.P. Instruments Limited (UPIL), U.P. State Sugar Corporation Limited (UPSSCL) and U.P. Agro Industrial Corporation Limited (UPAICL) introduced VRS during the years 1999-03. The scrutiny of records relating to payments released to the employees who opted for VRS revealed that management while calculating the retirement benefits, irregularly included the amount of interim relief, special allowance and personal pay in working out emoluments in contravention of the scheme.

- The U.P. Export Corporation Limited (UPEC) introduced VRS in November 2000. Eight employees of the Company, who had neither completed 10 years of service nor had attained 40 years of age and seven employees engaged on fixed wages basis were allowed to opt for VRS in contravention of the Scheme.

This resulted in excess payment of Rs.1.46 crore to the employees of these companies as detailed below:

Name of Company	No. of employees who opted for VRS	Year during which VRS opted	Amount paid in excess (Rs. in lakh)	Remarks
(1)	(2)	(3)	(4)	(5)
UPIL	244	1999-2000	68.87	Interim Relief, special allowance and personal pay were included in the emoluments though not admissible.
UPSSCL (in Haradoi and Basti Units)	567	1999-2000	52.84	Interim relief included in emoluments though not admissible.
UPAICL	191	2000-2004	17.56	Two instalments of interim relief were paid though not admissible; out of Rs.17.56 lakh, Rs.15.90 lakh has since been recovered by the Company at the instance of Audit.
UPEC	Eight regular and seven fixed	2000-2001	6.62	Regular employees had not completed 10 years of service.

* UP State Handloom Corporation, U.P. State Textile Corporation, U.P. Pasudhan Udyog Nigam, U.P. Panchayati Raj Vitta Evam Vikash Nigam, Indian Turpentine and Rosin Ccompany Limited, U.P. State Leather Development and Marketing Corporation Limited, U.P. Electronics Corporation Limited, U.P.Export Corporation, U.P. Small Industries Corporation, U.P. State Mineral Development Corporation, U.P. Instruments Limited, U.P. State Sugar Corporation and U.P. Agro Industrial Corporation Limited.¹ UP State Handloom Corporation, U.P. State Textile Corporation, U.P. Pasudhan Udyog Nigam, U.P. Panchayati Raj Vitta Evam Vikash Nigam, Indian Turpentine and Rosin company Limited, U.P. State Leather Development and Marketing Corporation Limited, U.P. Electronics Corporation Limited, U.P.Export Corporation, U.P. Small Industries Corporation, U.P. State Mineral Development Corporation, U.P. Instruments Limited, U.P. State Sugar Corporation and U.P. Agro Industrial Corporation Limited.

	wage employees			
		<i>Total</i>	145.89	

- Management of UPIL stated (June 2004) that the amount of VRS was calculated as per the Government order dated 8 June 1993 and approval of payment was given by the Secretary, Industrial Development and Finance Department. It further stated that if interim relief, special pay, personal pay were not added for payment, the employees would have agitated.
- The Management of UPSSCL stated (June 2004) that the Government sanctioned Rs.300 per month as additional fixed allowance and not as interim relief, hence included in emoluments while calculating the benefits under VRS.
- The Management of UPAICL, while accepting the Audit's contention, stated (August 2004) that an amount of Rs.15.90 lakh was recovered and balance amount (Rs.1.66 lakh) would be recovered from due amount.
- The Management of UPEC stated (August 2004) that payment under VRS was made to the employees of the Company after obtaining permission from Secretary, Small Industries and Export Promotion and Finance Department. It further stated that the amount paid under VRS was less against the amount payable on retrenchment (from 31 August 2001).

Replies of the Management of UPIL and UPSSCL are not tenable as the Government orders dated 15 June 1999 and 28 November 2000 clearly defined that emoluments would include only pay and dearness allowance. Reply of the Management of UPEC is also not tenable as the payment was against the provisions of VRS and permission for relaxation of the conditions of VRS (that is the minimum service of 10 years or 40 years of age and inadmissibility of VRS for fixed wage employees) was not obtained from the Government before making payments.

3.2630 Deficiencies in Internal Audit/Internal Control System of Power Sector Companies

3.30 Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient, effective and adequate manner. A good system of internal control should comprise, *inter alia*, proper allocation of functional responsibilities within the organisation, proper operating and accounting procedures to ensure the accuracy and the reliability of accounting data, efficiency in operations and safeguarding of assets, quality of personnel commensurate with their responsibilities and duties, and review the work of one individual by another whereby possibility of fraud or error in the absence of collusion is minimised.

Erstwhile UPSEB was unbundled (January 2000) by transferring thermal generation function to Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL), hydel generation function to Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL) and transmission and distribution functions to Uttar Pradesh Power Corporation Limited (UPPCL), a Company incorporated (November 1999) under the Companies Act, 1956. The distribution function of UPPCL was further transferred (August 2003) to four distribution companies (Discoms) viz. Dakshinanchal Vidyut Vitaran Nigam Limited (DVVNL), Madhyanchal Vidyut Vitaran Nigam Limited (MVVNL), Poorvanchal Vidyut Vitaran Nigam Limited (PVVNL) and Paschimanchal Vidyut Vitaran Nigam Limited (PaVVNL). Distribution function of Kanpur area was transferred (January 2000) to

subsidiary Company of UPPCL i.e. Kanpur Electric Supply Company Limited (KESCO).

The records of the eight power sector companies pertaining to period 2000-2001 to 2003-04 were checked and information obtained from these companies were scrutinized. Audit noticed the following deficiencies in internal audit/internal control system:

Maintenance of Books of Accounts

3.302630.1 In three Companies (UPPCL, UPJVNL and UPRVUNL), complete records of fixed assets showing full particulars indicating quantitative details, year of purchase, location, identification and depreciation were not maintained. In the absence of such details, realistic physical verification and valuation of assets and liabilities was not possible. In UPPCL, age-wise classification of sundry debtors were was not done.

The Management of UPPCL stated (February 2005) that updating of fixed assets registers for showing full particulars indicating quantitative details, year of purchase, location, identification and depreciation, was in progress.

Details and break up of assets and liabilities of erstwhile UPSEB transferred to UPPCL, UPRVUNL and UPJVNL by Government of U.P on 14 January 2000 were not available and consolidated balances were incorporated in financial statements for the year 1999-2000. Consequently, the opening balances of specific assets and liabilities were not identifiable or verifiable.

Accountal of receipt books and monitoring of revenue realised through receipt books and its deposit in cCompany's account was required, to have an effective control. It was noticed in UPPCL that the control was not proper over issuance of receipt books to the collecting agents and return thereof, as no reconciliation of issue of receipt books and its return was done. In many cases, amount collected by collecting agents had been deposited after lapse of period ranging from one day to eight months. Internal audit of the Company, in January 2004, belatedly noticed the following cases belatedly in January 2004 that in EUDD-II, Meerut the officer in-charge of Revenue (AER) was not adhering the checks prescribed to safeguard revenue. As a result, :

Aamount of Rs.47.28 lakh realised by cashier (Revenue) during May 2000 to January 2001 was not accounted for in the revenue cash book. Thus, the amount of Rs.47.28 lakh retained by the cashier, did not reach the cCompany's account. No action has been taken by the Company so far (August 2004).

Reconciliation of bank balances

3.2630.2 Reconciliation of bank balances with the balances appearing in books of companies at appropriate interval was necessary to exercise effective financial control to check misappropriation, fraud etc. Audit observed following in this regard:

Bank accounts (UPRVUNL) had not been reconciled properly and regularly. Iwhich resulted in following discrepancies:

In Obra Thermal Power Station (TPS) an amount of Rs.91.38 lakh had been shown as debit balance of cash credit account of SBI Obra in the company's books whereas as per certificate of bank, there was a NIL balance. Account had been lying as non-operative since 1982.

In Anpara TPS, a large number of entries had been lying pending for adjustment since 1981 but no reconciliation was done (April 2004)

. In case of Harduaganj TPS, disbursement account in SBI was exhibiting a balance of Rs.1.46 crore whereas in company's books, this has been taken as

Rs.1.12 crore leaving a difference of Rs.34 lakh. The difference existed since 1983.

The Management of UPRVUNL stated (November 2004) that out of Rs.34 lakh, Rs.27 lakh has been reconciled and for the balance amount efforts were being made.

Reconciliation of inter unit transactions

3.26.30.3 Timely reconciliation and clearance of inter unit transactions relating to cash and material was required to ensure complete and accurate accounting on one hand and prevention of misappropriation on the other hand. It was noticed in audit that the system of maintaining Advice of Transfer Debit/Credit (ATD/ ATC) for store and cash was not adequate. The inter office accounts were not being reconciled regularly and on a timely basis. There was a large pendency of inter office accounts. In the absence of acceptance/clearance of inter unit transactions, its genuineness and accuracy could not be established.

The Management of UPRVUNL stated (November 2004) that due to non-availability of details of figures provided by PricewaterhouseCooper (Consultant) in Transfer Scheme, the position of acceptance of advice for transfer debit/credit could not be ascertained and efforts were being made to adjust the old outstanding entries pertaining to erstwhile UPSEB.

Stores Accounting

3.30.23.2630.4 Stores is a vital component of assets and play a major role in smooth running of the company by providing raw material for production as well as spare parts to upkeep plant and machinery at desired level. To have a proper control, quantitative and financial records of stores viz, item wise bin cards, indicating minimum, maximum and re-ordering level relating to procurement of store and regular physical verification of store was must. It was observed from the reports of sStatutory aAuditors on the accounts of UPPCL that records relating to materials and stores were not proper and physical verification of stores and spares was not carried out during the year ended 31 March 2003.. In UPRVUNL, complete details of old/obsolete/non-moving stock were not kept. The stock of stores, spares and raw material were not physically verified by the Management at regular intervals. In UPJVNL, the stock of stores and spares had not been physically verified by the Management during the year (2002-03) and the Company did not have regular procedure for determination of unserviceable and damaged stores. In KESCO, obsolete and dead stock were not determined. Audit observed that:

Following observations had been made in this regard:

- Stores valuing Rs.129.12 crore had been lying (March 2004) in various Projects of UPRVUNL for more than five years but no action had been taken to dispose off the same.
- Weighment bridge of Panki, Parichha and Harduaganj project generally remained out of order. Hence quantity of coal received was calculated on invoice basis in Parichha project whereas on estimated basis in other two projects.

Control over revenues

3.3030.35 According to Electricity Supply (Consumers) Regulations, 1984, payments from consumers could be accepted through cheques drawn on the banks located at the headquarters of the divisional office. The divisional officer has the right to withdraw the payment facility by cheque in respect of the consumers whose cheque was dishonoured earlier. The Regulation further provides that if a consumers fails to deposit the electricity charges on the due

dates, his connection shall be disconnected after expiry of due date and the dues shall be recovered as arrears of land revenue.

It was observed in four^{*1} divisions that cheques amounting to Rs.20.67 lakh received from 24 consumers during the period August 1993 to December 2003 were dishonoured. Divisions, however, did not withdraw facility of payment from these consumers. Further, in two divisions (EDD, Etawah and EDD-I, Rampur) power supply were not disconnected (August 2004) and in other divisions, disconnections were carried out after a lapse of seven months to more than a year. In EDD-II, Ghazipur, supply of electricity was restored in April 2003 without recovering the dues.

Non Realisation of dues, improper monitoring of Recovery Certificates

3.26.530.6 As per Section 24 of Indian Electricity Act 1910^{*2**}, payment of electricity dues is to be made within due date as mentioned in the bill. In case of default, the supply is to be disconnected after seven days and a demand notice under Section 3 of the Uttar Pradesh Electrical Undertaking (Dues Recovery) Act, 1958 (giving 30 days notice) is to be sent. If payment is still not received, a Recovery Certificate (RC) under Section 5 of the said Act is to be sent to District Magistrate to recover dues as land revenue.

In Discoms, there were 30,91,739 number of defaulters at the end of March 2004, with outstanding dues of Rs. 3599.53 crore. Audit observed that only Rs. 75.48 crore could be recovered from 68,093 defaulters only.

against whom demand notice under Section 3 and 5 were sent as detailed below:

Perusal of above table indicates that only 2.10 per cent of the outstanding amount was recovered from 2.20 per cent of the total number of defaulters.

It was further In audit it was observed that Discoms did not maintain correct particulars of the consumers, consequently a number of recovery certificates were returned by District Magistrate due to one or more reasons such as, incorrect address, consumer not traceable and consumer not having any property etc.

Audit Committee

3.26.630 30.7.4 As per the provisions of Section 292A of the Companies Act 1956 (applicable from 13 December 2000) every public company having paid up capital of not less than five crore of rupees shall constitute a cCommittee of the bBoard known as 'Audit Committee' having not less than three dDirectors. The Act further provided that the Audit Committee should have discussions with Auditors periodically about internal control system, the scope of audit indicating the observations of the Auditors and review the half yearly and annual financial statements before submission to the Board and also ensure compliance of internal control systems. All the eight Companies had p paid up capital of more than Rs.5 crore as on 31 March 2004 and were, therefore, required to constitute an Audit Committee.

It was observed that Audit Committee was not formed in PVVNL, PaVVNL and MVVNL as per provisions of Section 292 A of the Companies Act, 1956. The recommendations of the aAudit cCommittee (UPPCL) on the annual accounts of 1999-2000 regarding reconciliation of bank accounts and figures of assets and liabilities, physical verification of stock/fixed assets, etc. were yet to

* EDD, Etawah, EDD-I, Rampur, EDD-II, Rampur and EDD-II, Ghazipur.

** Replaced by Electricity Act, 2003.¹ EDD, Etawah, EDD-I, Rampur, EDD-II, Rampur and EDD-II, Ghazipur.

* Replaced by Electricity Act, 2003.

² Replaced by

be implemented. In UPRVUNL, the Audit Committee did not have any meeting with the Statutory Auditors during the year (2003-04).

Appointment of Company Secretary

3.3030.8.5 As per the provisions of Section 2 (45) and 383A of the Companies Act, 1956 every company having Rs.50 lakh or more as paid-up share capital should have a whole time qualified company secretary. It was observed that in KESCO and Discoms, the post of Company Secretary had been lying vacant since their incorporation (KESCO: July 1999 and Discoms: May 2003).

In UPPCL also, there was no Company Secretary on regular basis. The post of Company secretary was filled in October 2000 by appointment on contract basis, extended from time to time on quarterly basis. Not filling up the post of Company Secretary and appointing the Company Secretary on contract on quarterly basis adversely affects the companies in discharging their functions related to the requirement of the Companies Act, 1956. It was observed in audit that UPPCL incurred an avoidable expenditure of Rs.7.86 crore on account of registration fee on incorporation of Discoms due to registering authorised capital as Rs.500 crore in each of the four Companies instead of Rs.5 crore each, as required in terms of the Government order dated 20 September 2002.

Internal Audit

3.26.73030.79 Internal audit is a part of internal control which is used to detect irregularities, frauds, manipulations and embezzlements etc. and to see whether rules and instructions issued from time to time are being followed or not. UPPCL and Discoms were having own internal audit wing. The other Companies of Power Sector (UPRVUNL, UPJVNL and KESCO) were not having own internal audit system. In these companies internal audit was being done by engaging firms of Chartered Accountants. The Statutory Auditors in their reports for 2002-03 had pointed out that internal audit system, having regard to the size and nature of business needed further strengthening (UPPCL and UPJVNL) and periodicity, overall coverage of operation and system of the Company were not adequate, satisfactory and commensurate with the size of the company (UPRVUNL). UPPCL had not prepared an internal audit manual.

Issuance of Audit Reports and follow up action

3.26.830.10 In PUVNL, no cycle register for showing periodicity of audit was maintained and position of outstanding paragraphs was not being submitted to the Management. It was noticed that audit reports (16 units) were not issued in respect of audit conducted during October 2003 to March 2004 for want of reply to the preliminary observations from the concerned units. In DVVNL, 426^{**} audit reports issued during 1978-79 to 2002-03 were outstanding for want of replies from the units. In PaVVNL, of the 1144¹ audit reports issued during 1978-79 to 2003-04, 1118 reports were outstanding for want of replies/remedial action.

In UPPCL, a para settlement committee was formed in May 1996 to deal with the outstanding paras. The committee was to hold a weekly meeting in this

* Including Audit Reports issued during the period of erstwhile UPSEB and UPPCL pertaining to the Divisions transferred to DVVNL and PaVVNL after unbundling of UPSEB and transfer of distribution function of UPPCL to four distribution companies.

* Including Audit Reports issued during the period of erstwhile UPSEB and UPPCL pertaining to the Divisions transferred to DVVNL and PaVVNL after unbundling of UPSEB and transfer of distribution function of UPPCL to four distribution companies.

regard. It was observed that meetings were not held regularly and only 13 meetings could be held during December 2001 to January 2004 against the required 113 meetings.

Findings of internal audit

3.30.11 A gist of major findings of internal audit is given below:

- Under assessment of revenue due to wrong application of tariff;
- Non-recovery of amount of miscellaneous advances against employees;
- Non-acceptance of advice of transfer debits / credits by the transferee units in respect of transfer of cash/store;
- Non-realisation of dues from consumers after dishonour of cheques; and
- Delay in reconciliation of bank accounts.

3.2731 Follow up action on Audit Reports

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

Audit Reports for the year 1999-2000, 2000-01, 2001-02 and 2002-03 were placed in the State Legislature in May 2001, August 2002, September 2003 and July 2004 respectively. 164 paras/reviews involving 17 departments featured in the Audit Reports (Commercial) for the years from 1999-2000 to 2002-03. No replies in respect of 81 paras/reviews were received up to 30 September 2004 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
1999-2000	45	9	9
2000-01	39	12	9
2001-02	38	8	24
2002-03	42	10	39
Total	164		81

Department wise analysis is given in **Annexure-303**. Power, and Industries and Industrial Development Department were largely responsible for non-submission of reply.

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

3.2731.1 The purpose of placing Comptroller and Auditor General of India's Audit Report each year before the State Legislature could be best served if the COPU examine these reports within a time bound programme and issue recommendations to the departments/PSUs for effecting corrective measures. This would not only ensure timely accountability of the concerned departmental authorities to the Legislature but would also set in motion much needed remedial action on the various points brought out in the Reports.

In the Audit Reports (Commercial) for the years 1993-94 to 2002-03, 391 paras and 52 reviews featured; out of these, 93 paragraphs and four reviews were discussed by the COPU up to 30 September 2004. Recommendations of the COPU in respect of 45 paragraphs and one review featured in the Audit Reports for the years 1993-1994 to 1998-99 have been received. Replies of the departments/follow up action on these recommendations are awaited (September 2004).

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

3.2731.21 With a view to assist and facilitate discussion of the paras of persistent nature by the State 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-31** and in respect of Statutory cCorporations the same are given in **Annexure-32**.

and result thereof are indicated in **Annexures-4034A and B**.

Government companies

The irregularities of inadequate pre-sanction appraisal and poor follow up of dues resulting in loss/non-recovery of Rs.117.64 crore (The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited), non-discontinuance of cheque facility, non-disconnection of supply of electricity after dishonour of cheques, excessive damage of transformers, delay in raising assessment for energy charges, short billing, irregular waiver of minimum consumption guarantee, allowing payment in instalments resulting in loss/accumulation of dues of Rs.510.18 crore (Power sector companies), expenditure in excess of estimates amounting to Rs.1.63 crore (Uttar Pradesh Projects Corporation Limited), improper storage leading to damage of sugar amounting to Rs.2.53 crore (Uttar Pradesh State Sugar Corporation Limited) were noticed in audit and included in the Reports of the Comptroller and Auditor General of India for the years 1997-98 to 2002-03 (Commercial) – Government of Uttar Pradesh. The irregularities were persisting with the Ccompanies. It would reveal from **Annexure-4034A** that action taken by the Ccompanies on the persistent irregularities were inadequate.

Statutory Ccorporations

The irregularities in appraisal of proposal for sanction of loan, observance of pre-disbursement conditions and disbursement of loan on forged documents resulting in accumulation of dues/loss of Rs.50.24 crore (Uttar Pradesh Financial Corporation), avoidable payment of damages on belated deposit of EPF amounting to Rs.0.78 crore (Uttar Pradesh State Road Transport Corporation) were noticed in audit and included in the Reports of the Comptroller and Auditor General of India for the years 1997-98 to 2002-03 (Commercial) – Government of Uttar Pradesh. The irregularities were persisting with the Ccorporations. It would reveal from **Annexure-4034B** that action taken by the Ccorporations on the persistent irregularities were inadequate.

3.2832 Response to Inspection Reports, Draft Paragraphs and Reviews

3.32 Audit observations noticed during audit and not settled on the spot are communicated to the Head of PSUs and concerned departments of State Government through Inspection Reports. The Heads of PSUs are required to furnish replies to the Inspection Reports through respective Heads of departments within a period of six weeks. Inspection Reports issued up to March 2004 pertaining to 67 PSUs disclosed that 13,113 paragraphs relating to 3,495 Inspection reports Reports remained outstanding at the end of September 2004.; Of these, 502 Inspection Reports containing 2,409 paragraphs had not been replied for more than five years. Department-wise break-up of Inspection Reports and Audit Observations outstanding as on 30 September 2004 is given in **Annexure-33538**.

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. It was, however, observed that out of 263036 draft paragraphs and four draft reviews forwarded to the various departments during January 2004 to June 2004, the Government had not replied to 248 draft paragraphs and four draft reviews any draft review and 34 draft paragraphs so far (September 2004), as detailed in **Annexure-33946**.

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 as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment in a time bound schedule, and (c) system of responding to the audit observations is revamped.

**Lucknow,
The
(Commercial and Receipt Audit)-II,**

**(BIRENDRA KUMAR)
Accountant General
Uttar Pradesh**

Countersigned

New Delhi,
The

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General
of India