

## CHAPTER-IV

### 4. Transaction Audit Observations

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

#### Government Companies

#### Uttar Pradesh State Industrial Development Corporation Limited

##### 4.1 Imprudent decision

**The imprudent decision of the Company for going into an appeal against the orders of Hon'ble High Court resulted in blockage of funds of Rs 32.20 crore and consequential loss of interest of Rs 6.54 crore.**

The Company made a bid of Rs 12.91 crore in an auction organised (March 2003) by the District Magistrate (DM), Ghaziabad for sale of surplus land (45 acres) of M/s Swadeshi Polytex Limited (SPL), being sold for liquidating SPL's arrears of labour dues amounting to Rs 17.25 crore. The sale was stayed by Hon'ble High Court (September 2003) against special leave petition filed by M/s Paharpur Cooling Towers Limited (a shareholder of SPL). Meanwhile the Recovery Certificate on the basis of which auction proceedings had been initiated was withdrawn by the Labour Commissioner in April 2005. The auction was again held on 2 May 2005 and the Company's offer of Rs 32.20 crore was accepted. As per terms of auction, the Company was initially required to deposit 25 per cent of the bid amount and balance 75 per cent within 15 days i.e. up to 16 May 2005

It was noticed (January 2008) that the Company deposited 25 per cent of the bid amount on the same day i.e. 2 May 2005 but could deposit balance 75 per cent on 18 May 2005 against stipulated period till 16 May 2005 though the drafts were got prepared on 14 May 2005. The reasons for delay in depositing the drafts with district authorities were not available on records. The sale could not materialise as the auction held on 2 May 2005 was quashed (January 2006) by the Hon'ble High Court on the ground that the sale had been conducted in an arbitrary manner.

Since the auction was set aside, the Court asked the Company to withdraw the auction money. The Company instead of withdrawing the auction money, filed (February 2006) an appeal before the Hon'ble Supreme Court of India against the orders of the High Court. The Supreme Court dismissed (May 2008) the appeal and held that there was no sale and the purchaser acquired no right at all as it defaulted in payment of the balance amount within the stipulated period of 15 days.

Thus, the Management's failure in withdrawing the auction money, even after the High Court's order (January 2006), and going ahead with appeal before Supreme Court, knowing fully well that the irregularity involved in the auction proceeding and delayed deposit of balance 75 per cent of the auction money would render the investment a risky proposition, resulted in loss of interest of Rs 6.54 crore (calculated at 6.25 per cent per annum) sustained as Rs 32.20 crore remained blocked from February 2006 to April 2009. Had the Company prudently

withdrawn the auction money after the High Court's order, loss of interest of Rs 6.54 crore could have been avoided.

The Company should take disciplinary action against the erring officials who were responsible for the delay in depositing the drafts with district authorities. Besides, responsibility should also be fixed against the authority who took the decision to ignore the High Court's order and file an appeal with Supreme Court thereby leading to a loss of interest of Rs 6.54 crore.

The matter was reported to the Management and the Government (June 2009); their replies were awaited (November 2009).

#### **4.2 Loss due to non-surrender of bonds on the dates of maturity**

##### **The Company suffered loss of interest of Rs 2.01 crore due to non-surrender of bonds on the dates of maturity.**

The Company invested (November 1999) a sum of Rs 10 crore in Bonds issued by The Pradeshiya Industrial and Investment Corporation of U.P. Limited (PICUP) and secured against the guarantee of the State Government for payment of principal as well as interest at the rate of 13.85 *per cent* per annum. The bonds were to be redeemed at the end of 5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup> year in the ratio of 40 *per cent*, 40 *per cent* and 20 *per cent* of face value respectively from the deemed date of allotment against the surrender of the bonds certificates. The deemed date of allotment was 1 November 1999 and all the interest on the bonds was to cease on the date of final redemption in all events.

The PICUP paid interest at the rate of 13.85 *per cent* per annum up to 13 August 2002. However, on account of significant reduction in the market rate of interest and deteriorating financial position of the PICUP, the Company acceded (December 2002) to the request of PICUP for reduction of interest rate from 13.85 *per cent* to 11 *per cent* per annum. The PICUP paid interest at the rate of 11 *per cent* up to 13 August 2003 but due to worsening of the financial position, it could not pay interest thereafter and expressed (April 2005) its willingness for One Time Settlement at principal amount. Two hundred twenty three institutional bond holders considering the financial crunch faced by the PICUP had agreed for one time settlement on principal amount only. Meanwhile, the bonds became due for maturity in November 2004 (Rs 4.00 crore), November 2005 (Rs 4.00 crore) and in November 2006 (Rs 2.00 crore). Despite the fact that no interest was payable on these bonds after maturity, the bonds were not surrendered for redemption on the due dates and were held till January 2009. The bonds were finally redeemed on principal only in February 2009.

The Management should have sought redemption of bonds on their due dates of maturity, and deployed the funds in more profitable venture, either for pursuing its business activities, or it could have deposited the same with Banks in the form of fixed deposits. Had the redemption been sought on the due dates and the amount so received been invested in fixed deposit of banks, loss of interest, amounting to Rs 2.01 crore (calculated at then prevailing interest rate of 5.75 and 6.25 *per cent* per annum) for the period November 2004 to January 2009 could have been avoided.

In reply, the Management stated (June 2009) that the bonds issued by PICUP were fully guaranteed by the Government of U.P., therefore consent for redemption of bonds on the basis of principal only was not given. However, on the request of Chief Secretary, the ex-officio Chairman of PICUP, the matter was considered by

the Board of Directors of the Company and accordingly consent for waiver of interest was given.

The reply does not address the audit point that no interest was payable on bonds after maturity and hence the bonds should have been redeemed on maturity.

The Company needs to strengthen internal control system so as to ensure timely action on important matters and also to fix responsibility for the negligence and initiate disciplinary action against the erring officials.

The matter was reported to the Government (June 2009); their replies had not been received (November 2009).

**Uttar Pradesh Scheduled Castes Finance and Development Corporation Limited**

**4.3 Loss to State Exchequer**

**The State exchequer suffered loss of interest of Rs 0.49 crore due to non-availment of auto sweep facility by the Company for investment of surplus funds lying idle in Saving Bank Accounts.**

The Company is engaged in raising finance and providing loans to the people belonging to scheduled caste/tribe for improving their livelihood. Being a financing Company, management of its finances is of utmost importance for the Company and it is obligatory on the part of the Management to ensure that the funds do not remain idle and are kept in accounts yielding the optimum benefits by way of higher interest with convenience of withdrawal, as and when required.

The Company was operating two Saving Bank Accounts, one in Oriental Bank of Commerce (OBC), Lucknow and the other in Punjab National Bank (PNB), Lucknow in which grants and loans received from the Central Government/State Government/other agencies were kept for onward disbursement to the ultimate beneficiaries.

It was noticed (March 2009) in audit that the Company had not availed of auto sweep facility though minimum balance ranging from Rs 1.36 crore to Rs 2.74 crore remained in OBC during November 2006 to November 2008 and Rs 7.18 lakh to Rs 35.80 crore in PNB during April 2006 to November 2008. Due to not availing of auto sweep facility, the State Exchequer suffered loss of interest of Rs 0.49 crore calculated at the rate of 3 *per cent* being the difference between the interest rate applicable to the saving and flexi deposit account.

The Management stated (March 2009) in its reply that the Company was established on a no profit, no loss basis. The fund sanctioned by the Government was made available to the districts through banks, after withdrawing from treasury. The funds are kept in banks for a very short period and interest earned is shown as liability to the Government and not income of Corporation.

The reply did not hold good in view of the fact that an amount of Rs 1.36 crore remained blocked in Saving Bank Account with OBC for more than 25 months (November 2006 to November 2008) and Rs 9.92 crore with PNB for more than 7 months (February 2008 to September 2008). Moreover, the Management had also issued instructions for keeping funds in Flexi Deposit Account as stated in their supplementary reply (July 2009) which confirms the view point of the audit.

The Company needs to evolve an effective fund management system which would ensure investment of surplus fund in the scheme which is most beneficial to the Company.

The matter was reported to the Government (June 2009); their reply had not been received (November 2009).

#### **Uttar Pradesh Samaj Kalyan Nirman Nigam Limited**

#### **4.4 Avoidable expenditure**

#### **The Company incurred an avoidable expenditure of Rs 35.91 lakh due to failure in restricting the expenditure to the extent of grant.**

Under the scheme of Area Intensive and Madarasa Modernisation Programme (Infrastructure Development) Department of Secondary and Higher Education (Minority Cell), Ministry of Human Resource Development, Government of India, sanctioned (March 2005) a lumpsum grant of Rs 50 lakh to the State Government for construction of building for 100 beded Girls Hostel in the Career Convent Girls Inter College, Lucknow. As per the terms and conditions of the grant, the State Government was to ensure the utilisation of released funds expeditiously within the approved limit of Grant. The work of construction of Hostel building was awarded by the Alpsankhyak Kalyan Vibhag (AKV), Government of Uttar Pradesh to Uttar Pradesh Samaj Kalyan Nirman Nigam Limited (Company) in September 2005.

It was noticed (July 2008) that the Company, as against the admissible grant of Rs 50 lakh, prepared estimate for Rs 86.82 lakh and accorded Technical Sanction for the same in August 2006. Resultantly, the work was completed (August 2007) at an expenditure of Rs 85.91 lakh against the sanctioned grant of Rs 50 lakh only. The matter of excess expenditure incurred by the Company was reviewed by AKV in the meeting held in May 2008, and the latter refused to reimburse the excess expenditure stating that this was a serious financial irregularity and the excess expenditure should be borne by the Company from its own resources. However, the Company had not fixed any responsibility against the officials for incurring expenditure in excess of the sanctioned grant.

The Management stated (July 2008) that the expenditure has been met out of the funds of AKV lying with the Company in respect of other projects. The reply did not take into account the fact that the Government of India had directed utilisation of funds only for the approved purpose and within the approved limit of grant. Further, though the Company had utilised the funds of other projects, the Company will have to make this good while implementing the other projects.

Thus, the Company has incurred an avoidable expenditure of Rs. 35.91 lakh due to failure in restricting the expenditure to the extent of grant sanctioned for the purpose.

The Company should evolve an effective budget management system so as to avoid the instances of incurring expenditure on works in excess of funds sanctioned and received thereagainst.

The matter was reported to the Management and the Government (March 2009); their replies had not been received (November 2009).

**Uttar Pradesh Matsya Vikas Nigam Limited**

**4.5 Loss due to waiver of dues**

**The Company suffered a loss of Rs 22.25 lakh due to unjustified waiver of dues of a contractor at the instance of the Government.**

The Company performs the task of management of fish reservoirs. Fishing rights, in respect of such reservoirs, were to be handed over to the highest bidding contractors, through auction. As per terms and conditions of the agreement, dues outstanding if any, were recoverable along with interest at the rate of 2 *per cent* per month in case of default. It was also envisaged that disputes, if any, were to be referred to the arbitrator.

Audit noticed that the fishing rights in respect of Chandrawal and Jaminy reservoirs had been handed over to the contractor for the period October 1998 to June 2001. As on February 2001, an amount of Rs 8.21 lakh was outstanding against the contractor due to non-payment of dues as per terms and conditions of the agreement. The above contract was cancelled and security money of Rs 1.95 lakh was forfeited (April 2001). An arbitrator was also appointed (October 2002) on the request of the contractor but no relief was available to the contractor as per decision of the arbitrator (August 2005). The contractor filed a petition with the Hon'ble District Court against the award of the Arbitrator but Hon'ble Court dismissed the petition (April 2008) and provided for recovery of all the dues from the contractor. Accordingly, the Management issued a final notice (May 2008) to the contractor for making payment of the dues of Rs 22.25 lakh (including interest amounting to Rs 14.04 lakh). However, Government decided (July 2008) that recovery from the contractor was not justified and directed the Company to close the matter.

Thus, due to directions of the State Government for not recovering dues from the contractor, even after favourable decision of the Arbitrator and District Court, the Company suffered a loss of Rs 22.25 lakh.

The Management stated (June 2009) that the waiver of dues of Rs 22.25 lakh pertaining to the Chandrawal and Jaminy reservoirs was made in view of the directions of the Government. The fact, however, remained that due to unjustified directions of the State Government, the company had to forgo a significant amount of dues.

The Management, in their reply, which was endorsed by the Government, had confirmed the facts.

**Uttar Pradesh Rajkiya Nirman Nigam Limited**

**4.6 Extra Expenditure on earth work**

**The Company incurred extra expenditure of Rs 18.31 lakh due to award of earth work at higher rates.**

Joint Purchase Committee (JPC), Kannauj of the Company approved (December 2006) a rate of Rs 20 *per cubic metre (per cum)* for transportation/disposal of excavated earth by means of tractor trolley/tractor excavator within campus but at least 300 meter away from particular work site and Rs 22 *per cum* for labour charges for filling of available earth in trenches under the floor up to plinth at height up to 1.8 meter from proposed ground level including complete compaction/dressing.

It was noticed (April 2008) in Audit of Rajkiya Medical College (Residence), Kannauj unit of the Company that the unit issued nine work orders during the period December 2006 to May 2007 for cartage of available excavated earth within campus including loading, unloading and filling for estimated 72,500 cum each at the rate of Rs 70 *per cum* as against the maximum allowable rate of Rs 42 *per cum* (viz. Rs 20 for cartage of earth and Rs 22 for back filling) as approved by JPC in December 2006. Against the estimated quantity of 72,500 cum, 65,419.83 cum earth was carted and filled in trenches and floors for which the unit paid a total amount of Rs 45.79 lakh to the contractor. Thus, the Company incurred extra expenditure of Rs 18.31 lakh by allowing higher rate for earth work to the extent of Rs 28 *per cum* (Rs 70 *per cum* – Rs 42 *per cum*).

The Management/Government replied (August/September 2009) that the work involved excavation of earth already dumped before 2 to 3 months back, cartage of earth including loading, unloading etc and filling of earth in trenches including dressing, ramming, watering and compacting etc. The rates for these items of works were arrived at Rs 72 *per cum* as per JPC approved rates. The reply is not acceptable because scope of work mentioned in the work orders involved only two activities i.e transportation of excavated earth to the site by tractor trolley and filling of earth in trenches including dressing, ramming, watering and compacting etc. and admissible rates for these works were only Rs 42 *per cum*.

The Management needs to fix responsibility for awarding the work at higher rates on the basis of incorrect analysis of rates and ignoring the lower rates finalised by JPC.

#### **Power Distribution Companies**

##### **Dakshinanchal Vidyut Vitran Nigam Limited**

##### **Madhyanchal Vidyut Vitran Nigam Limited**

##### **Purvanchal Vidyut Vitran Nigam Limited**

#### **4.7 Short recovery of fixed line charges from PTW consumers**

**The Companies short-recovered Rs 44.82 lakh from new PTW consumers due to non-adherence to rates prescribed as per Cost Data Book issued by UPERC.**

According to Chapter 5 of the Cost Data Book (effective from 1 October 2007) issued by Uttar Pradesh Electricity Regulatory Commission (UPERC) and applicable to Private Tubewell (PTW) connections, the fixed line charges of Rs 30,000 per connection was to be realised from the prospective PTW consumers under full deposit scheme. This rate was subsequently revised to Rs 7,000 from 14 May 2008.

It was noticed (May to December 2008) in audit that seven Electricity Distribution Divisions (EDDs) of these companies viz. EDD, Auraiya, EDD-I, Kanpur, EDD-II, Faizabad, EDD-I, Hardoi, EDD, Barabanki, EDD-I, Mau and EDD-Kaushambi charged fixed line charges of Rs 12.18 lakh for releasing 190 PTW connections during October 2007 to 13 May 2008 against recoverable amount of Rs 57 lakh resulting in short-recovery of fixed line charges of Rs 44.82 lakh.

The Companies need to initiate necessary action for recovery of the short levied amount and also fix the responsibility for the lapse against the defaulting personnel, who caused loss of Rs 44.82 lakh to the Companies.

The matter was reported to the Management and the Government (March and June 2009); their replies had not been received (November 2009).

**Madhyanchal Vidyut Vitran Nigam Limited**

**Purvanchal Vidyut Vitran Nigam Limited**

**4.8 Permitting release of BPL connections without obtaining security deposit from PGCIL**

**Two power distribution companies permitted release of connections to BPL consumers under RGGVY without obtaining security deposit of Rs 4.73 crore from PGCIL though subsidy against security deposit was released by REC.**

Para 4.20 of Uttar Pradesh Electricity Supply Code, 2005 provides that a security deposit to cover the estimated power consumption for two months shall be made by all consumers/applicants. Accordingly, the Uttar Pradesh Power Corporation Limited\* (UPPCL) and two power distribution companies (viz. Purvanchal Vidyut Vitran Nigam Limited and Madhanchal Vidyut Vitran Nigam Limited) (DISCOMS) fixed Rs 300 per KW towards security deposit from Domestic Light & Fan consumers.

Under Rajeev Gandhi Gramin Vidyutikaran Yojana (RGGVY), launched (March 2005) by the Government of India for rural electricity infrastructure and house hold electrification, electricity connection to Below Poverty Line (BPL) households were to be provided free of charge in the villages electrified under the Scheme. The cost of the connection was to be financed through 100 per cent capital subsidy by Rural Electrification Corporation (REC) as per norms of Kutir Jyoti Programme (KJP). According to KJP, Rs 1500 per connection was admissible as a capital subsidy to be provided by REC to the agencies implementing the Scheme. This capital subsidy of Rs 1500 included Rs 300 meant for security deposit which was otherwise recoverable from the consumers as per provisions of Electricity Supply Code, 2005.

It was noticed that Power Grid Corporation of India Limited (PGCIL), in terms of quadripartite agreement executed (July 2005) between REC, Government of Uttar Pradesh, PGCIL and DISCOMs, undertook the work of rural electrification including electricity connection to BPL households in eight districts (Sultanpur, Rae Bareli, Sitapur, Azamgarh, Mau, Ballia, Deoria, Kushinagar). The funds were released directly to PGCIL by REC under intimation to DISCOMs to complete the work/project.

The PGCIL had released 1,57,595 electricity connections upto January 2009 to BPL families in these districts falling under the distribution network of DISCOMs. However, the security deposit of Rs 4.73 crore though provided by REC to PGCIL on behalf of these consumers was neither passed on by the PGCIL to DISCOMs nor it was claimed by the DISCOMs.

Thus, permitting release of electricity connection without obtaining security deposits from PGCIL was not only a violation of the codal provisions of

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\* UPPCL is the holding company of power distribution companies.

Electricity Supply Code, 2005, but the dues of the companies also remained unsecured to that extent.

The Management stated (May 2009) that as per clause 7.5 of the Memorandum issued by Ministry of Power in March 2005, electrification of BPL household would be financed with 100 *per cent* capital subsidy as per norms of Kutir Jyoti Programme. Therefore, no cost, including security deposit, was to be collected from the BPL households while giving connection under RGGVY. The reply is correct to the extent that security deposits were not to be collected from the consumers but Government of India through REC had provided subsidy at the rate of Rs 1500 (cost of connection Rs 1200 and security deposit Rs 300) per connection to the executing agency (PGCIL) for giving connection to BPL households. Therefore, the DISCOMs should have obtained Rs 300 per connection, provided by REC, against security deposit from PGCIL on behalf of the consumers.

The DISCOMs should make efforts to recover security deposit against BPL connections released by PGCIL under RGGVY and also ensure that no connection is released under the Scheme without getting security deposit, required in terms of the provisions of Electricity Supply Code, 2005.

The matter was reported to the Government (April 2009); their reply had not been received (November 2009).

#### **Dakshinanchal Vidyut Vitran Nigam Limited**

#### **4.9 Short assessment due to incorrect application of tariff**

#### **The Company suffered revenue loss Rs 7.43 crore on account of incorrect application of tariff.**

Tariff Orders approved by U.P. Electricity Regulatory Commission provide separate rate of charge under Rate Schedule LMV-1 and LMV-2 for consumers getting supply as per rural schedule and others including consumers getting supply through rural feeder but exempted from scheduled rostering. The rate of charge for others was higher than those prescribed for consumers getting supply as per rural schedule. Sub-division, Fatehabad and Shamsabad under Electricity Distribution Division (EDD), Fatehabad, Agra were covered under Taj Trapezium Zone and therefore consumers of these areas were exempted from scheduled rostering and were chargeable at higher rates.

It was noticed in audit (May 2009) that consumers of LMV-1 and LMV-2 under these sub-divisions were billed as per rate of charge of rural schedule instead of higher rate of charge applicable for consumers other than those covered under rural schedule.

As a result, 125800 cases under LMV-1 and 1551 cases under LMV-2 were short assessed by Rs 7.43 crore during January 2007 to June 2009 due to rate differential between the rates applicable to rural schedule and higher rate of charge applicable to others including consumers getting supply through rural feeder but exempted from scheduled rostering.

The Division in interim reply had admitted the fact and stated (May 2009) that input advice had been sent to Computer Billing Service Centre for billing of these consumers under urban schedule from June 2009. The reply is not tenable as correct billing could not be effective up to June 2009.



The Management should take corrective action for recovery of losses caused due to incorrect application of tariff and it also needs to strengthen internal control system to avoid recurrence of such lapses in future.

The matter was reported to the Management and the Government (July 2009); their replies had not been received (November 2009).

#### **4.10 Loss in release of PTW connections**

**The Company suffered a loss of Rs 2.44 crore in release of single PTW connections from 25 KVA transformer without ensuring recoverability of cost of connections incurred in excess of the admissible subsidy.**

Uttar Pradesh Electricity Regulatory Commission (UPERC) approved (October 2007) a Cost Data Book, effective from 1 October 2007, prescribing expenses and other charges to be recovered from the prospective consumers.

Accordingly, for each new Private Tubewell (PTW) connection from 25 KVA transformer, a fixed charge of Rs 22,688 was to be collected. In case the new PTW consumer opted for single connection from 25 KVA transformer, a higher amount of Rs 68,066 per connection (cost of 25 KVA sub-station) was to be recovered towards fixed charges. Besides, variable charges, depending upon the load and length of line were also to be recovered from the PTW consumers.

The State Government sanctioned (December 2007) a subsidy of Rs 55000 for each PTW connection under Samanya Yojana and directed that at least two PTW connection should be given from one 25 KVA transformer and in case any consumer opts for single connection from 25 KVA transformer, the cost of connections over and above the subsidy amount will be charged from the consumer. Subsequently, the State Government issued another order in July 2008, whereby the subsidy amount was increased from Rs 55000 to Rs 68000 per connection but the condition for charging cost of connection, over and above the subsidy amount, from the consumer, in case he desires for single connection from 25 KVA transformer, was withdrawn. The Government orders of July 2008 were, however, silent on the responsibility of bearing the cost of connection, if any, incurred in excess of subsidy amount.

It was noticed (October 2008) in audit of Electricity Distribution Division-I, Agra, that the Division executed agreements, during July 2008 to January 2009, with 554 PTW consumers under Samanya Yojana for release of single connection from 25 KVA transformers. The cost of release of such PTW connections, as per sanctioned estimates was Rs 7.03 crore, which was to be recovered either from the consumers or to be claimed from the Government. The Division, considering the provisions of the said G.O, recovered Rs 0.82 crore from the consumers on account of fixed and variable charges and Rs 3.77 crore by way of subsidy. The balance Rs 2.44 crore incurred in excess of the subsidy and amount realized from the consumers remained unrecouped causing loss to the Company. No efforts have been made by the Company to seek reimbursement of this amount from the Government.

While implementing the Government's revised order, the Management should have insisted on reimbursement/recovery of expenditure incurred over the subsidy amount prior to release of new connections to PTW consumers to avoid loss to the Company.

The matter was reported to the Management and the Government (June 2009); their replies had not been received (November 2009).

#### **4.11 Loss due to omission of a vital clause in the agreement**

**The Company suffered a loss of Rs 21.52 lakh due to omission of a vital clause in the agreement executed with a private party.**

The Company invited (July 2007) a tender for the work of survey and indexing of new consumers, energy accounting and door to door monthly and bi-monthly billing through hand held computers and collection of revenue through cheque etc in Agra Town.

The rates quoted by C.S Software Enterprise Limited (CSSEL), Hyderabad were found lowest. However, the work was awarded (October 2007) to CSSEL and SAI Computers (SAI) in ratio of 60:40 at the lowest rate. Accordingly, the agreements for a period of three years were executed with SAI in November 2007 for Electricity Urban Distribution Division (EUDD)-I, IV and VII and with CSSEL in February 2008 for work related to (EUDD)-II, III, V and VI.

It was noticed (April 2009) in audit that clause no 5.26 (2) (ii) of the bid document stipulated that for defective meter reported by the contractor, payment at the rate of 50 *per cent* of the agreed rate (Rs 5.88 per consumer) applicable for meter reading, bill generation and distribution shall be made to the contractor. This clause, existed in the agreement executed with SAI but was omitted in the agreement with CSSEL. Though, the contractor (CSSEL) had reported during November 2007 to December 2008 that 651326 consumers had defective meters but he was paid at full rate of Rs 5.88 instead of Rs 2.94 per consumer due to omission of clause of 50 *per cent* payment in case of defective meters. As such, an avoidable payment of Rs 19.15 lakh was made to the contractor.

Thus, due to omission of the condition of 50 *per cent* payment in case of defective meters reported by the contractor, the Company had to suffer a loss of Rs 21.52 lakh, including incidence of service tax of Rs 2.37 lakh paid on Rs 19.15 lakh.

The Company needs to take strict action against the personnel, responsible for negligence in the matter, to avoid reoccurrence of such incidences in future.

The matter was reported to the Management and the Government (July 2009); their replies had not been received (November 2009).

#### **Madhyanchal Vidyut Vitran Nigam Limited**

#### **4.12 Undue favour to consumer resulting in loss of revenue**

**The Company extended undue benefit to a consumer by providing uninterrupted power supply without applying for the protective load facility resulting in loss of revenue of Rs 62.16 lakh.**

Clause 4.27 of Uttar Pradesh Electricity Supply Code 2005 provides that the Licensee may grant protective load in exceptional cases to be specified in agreement to those consumers who have opted for twenty four hours' use of power with the following main conditions:

- An additional charge as specified in the latest Rate Schedule (in the Tariff Order) shall be recovered each month through regular billing.

- The consumer availing of facility of protective load shall not be subjected to scheduled power cut imposed from time to time by the State Government or the Licensee.
- Protective load shall be sanctioned only to such consumers who are given supply through independent feeder at 11 KV and above.

According to the provisions of Rate Schedule approved by Uttar Pradesh Electricity Regulatory Commission (UPERC), an additional charge at the rate of 100 *per cent* of base demand charges, fixed per month is leviable on the contracted protected load each month.

It was noticed (December 2008) in audit of Electricity Distribution Division, Barabanki that a consumer (Reliance Industries Limited), having a load of 3600 KVA, was given supply at 33 KV independent feeder during April 2007 to October 2008 and was billed under Rate Schedule HV-2, applicable to large and heavy power consumers. The Division allowed uninterrupted power supply to the consumer without imposing the normal/ scheduled power cut though the latter had neither applied for nor was sanctioned the protective load resulting in loss of revenue of Rs 62.16 lakh to the Company.

Thus, the consumer was unduly benefited by extending uninterrupted power supply during scheduled power cut without getting sanction of protective load.

The Company needs to fix the responsibility for the lapse and take appropriate disciplinary action against the defaulting officials. Company should simultaneously initiate necessary action for recovery of the mandatory additional charge from the consumer against the facility of uninterrupted power supply provided during April 2007 to October 2008.

The Company also needs to develop a built-in system to ensure that facility of uninterrupted power supply is granted only to those consumers who have been sanctioned the protective load facility.

The matter was reported to the Management and the Government (April 2009); their replies had not been received (November 2009).

#### **4.13 Undue benefit to the consumer**

**The consumer was unduly benefited to the extent of Rs 36.68 lakh due to withdrawal of the assessment against theft at the instance of Chief Engineer (CE) resulting in loss to the Company.**

Section 135 of the Electricity Act, 2003 provides that a person/consumer found indulging in theft of energy shall be punished with imprisonment for a term which may extend to three years or with fine or both. On detection of theft of electricity, the licensee or supplier shall immediately disconnect the supply and lodge a FIR in the police station within twenty four hours of disconnection. The assessing officer of the licensee will serve the provisional assessment bill alongwith show cause notice to the consumer for hearing, giving 15 days time and thereafter final assessment will be made. Section 154 of the Act also provides that every offence punishable under section 135 shall stand trial only in the special court constituted by the State Government.

It was noticed (December 2007) in audit of Electricity Urban Distribution Division-I (Division), Bareilly that a team, headed by Executive Engineer (Ex.En) of the Division, conducted raid at the premises of Alliance Builders and

Contractors, Bareilly (7 August 2006) and found that the consumer was indulging in theft of electricity. The supply of the consumer was disconnected on 7 August 2006 but the FIR was not lodged by the Division on the ground that representative of the consumer had assured to deposit all the charges and dues. The ground taken for not lodging the FIR against the consumer was not justified in view of provisions of Section 135 of the Act which provided that FIR had to be lodged within 24 hours of disconnection unless the consumer actually deposited the compounding charges.

The Ex. En. assessed Rs 36.68 lakh, including compounding charges amounting to Rs 10.88 lakh, and issued (7 August 2006) a show cause notice giving 15 days time for hearing. The representative of the consumer, based on whose assurance the FIR was not lodged, submitted a representation on 5 September 2006 and denied to deposit all the charges levied on him. The Ex.En. refusing the representation of the consumer, finally asked (22 September 2006) the consumer to deposit the assessed amount of Rs 36.68 lakh till 7 October 2006, failing which the FIR would be lodged. The consumer still did not deposit the dues. Meanwhile, the Chief Engineer (CE), Bareilly, instead of advising the Ex.En to take legal action against the consumer in accordance with the provisions of Section 135 and 154 of the Act unauthorisedly constituted (28 September 2006) a committee consisting of Ex.En, Electricity Urban Distribution Division-II and Electricity Urban Test Division, Bareilly and directed the Committee to submit the report within a week. This Committee did not submit any report and another Committee constituted by CE (20 April 2007) under his Chairmanship also did not submit any report. However, the CE on the basis of discussion held (April 2007) with the consumer's representative and committee members, withdrew (May 2007) the assessment made against the consumer on the ground that the theft could not be established. This action of the CE was unlawful because as per provisions of Section 154 of the Act, once the assessment is made by the assessing officer, the matter could have been referred only to the special court constituted by the State Government.

Thus, due to failure on the part of the assessing officer in lodging the FIR against the consumer and unauthorised intervention of the CE in the matter resulted in undue benefit to the consumer to the extent of Rs 36.68 lakh.

The Company should take action against the erring officer, responsible for not lodging FIR against the consumer and withdrawal of the assessment and simultaneously initiate legal action against the consumer for theft of energy.

The matter was reported to the Management and the Government (June 2009); their replies had not been received (November 2009).

#### **4.14 Poor implementation and non-achievement of objectives under Dr. Ambedkar Gram Sabha Vikas Yojana in Madhyanchal Vidyut Vitran Nigam Limited**

##### **Introduction**

**4.14.1** The Government of Uttar Pradesh (Government) launched a village development initiative, Dr. Ambedkar Gram Vikas Yojana in January 1991. One of the avowed points was electrification of villages selected under the Scheme. The scheme was implemented during the years 1995-96, 1997-98 and 2002-2003 and was further extended (September 2007) for completion up to December 2007.

The Government further launched in September 2007, the Dr. Ambedkar Gram Sabha Vikas Yojana to be implemented by the Energy Department of the State through power sector companies in five phases starting from January 2008 running through to March 2012. Under the scheme, Gram Sabhas (GS) identified by the District Administration were considered as a unit for development and a GS was to be considered as saturated after

- (i) laying of the distribution lines to the inhabited part of that village and its Dalit enclave/hamlet (wherever it existed),
- (ii) Providing access of electricity to the public places like schools, panchayat bhawans, primary health centres, community centres etc. and
- (iii) Electrification of at least ten percent of the total households in all the revenue villages<sup>⊗</sup> under the Gram Sabha(GS).

The village development initiative was implemented through Uttar Pradesh Power Corporation Limited (UPPCL). The funds received by UPPCL were, in turn, released to the four subsidiary electricity distribution companies (DISCOMs) viz; Madhyanchal Vidyut Vitran Nigam Limited (MVVNL), Purvanchal Vidyut Vitran Nigam Limited Paschimanachal Vidyut Vitran Nigam Limited and Dakshinachal Vidyut Vitran Nigam Limited for field level execution of electrification projects.

An audit to assess the extent of benefits accrued by implementation of the Scheme was conducted during March 2009 to October 2009 in ten Electricity Distribution Divisions (EDDs) out of 34 EDD's of Madhyanchal Vidyut Vitran Nigam Limited (MVVNL). The audit findings emerging from EDD's test checked are discussed below:

#### ***Financial outlay of the scheme***

**4.14.2** The Government released Rs. 167.64 crore during years 2007-08 and 2008-09 for electrification of 1580 Gram Sabhas of MVVNL - Rs. 66.24 crore for 545 GSs under phase-I and Rs. 101.40 crore under phase-II for 1035 GSs for implementation of the scheme. The saturation report submitted (August 2008/ February 2009) to the State Government stated the expenditure of Rs.167.64 crore on electrification of 1580 GSs under phase-I (545 nos.) and phase-II (1035 nos.).

An additional Rs. 120.23 crore was also released (September 2007 to November 2007) to MVVNL for executing incomplete electrification works and repair works in 5231 villages selected under the earlier scheme of 1991. Against this allocation, Rs. 94.26 crore was reported as expenditure till January 2008.

#### ***Non achievement of targets in beneficiary villages***

**4.14.3** Audit noticed inconsistencies in planning and implementation of the scheme resulting in the intended benefits not accruing to the targeted communities/ villages.

#### ***Preparation of estimates of electrification of villages without site survey***

**4.14.4** UPPCL directed (June 2007) that new and incomplete/leftover electrification work to be executed under the scheme should be surveyed by an officer other than that of the division and the cost estimates should be prepared on the basis of field survey.

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<sup>⊗</sup> Revenue village is a area defined by the Revenue Authorities for the purpose of collection of Land Revenue. One Gram Sabha may consist of one or more Revenue villages.

Audit observed that in none of the cases, survey was done and all the estimates prepared by the ten EDDs<sup>1</sup> were based on unscientific methodology. The electrification works estimates of villages/majras were to be prepared as per Model Cost estimates and Construction Manual issued by Rural Electrification and Secondary System Planning Organisation (RESPO) of the UPPCL. Preparation of estimates without survey of proposed work resulted in significant variations between the estimated and actual value of work ranging between 9 per cent to an astronomical 494 per cent (**Annexure-19**).

Audit observed:

- EDD, Rahimnagar, Lucknow consumed 869 Pre stressed Cement Concrete poles, 567 stays, 328 earthing poles and 845 concreting against normal consumption of 294, 93, 93 and 93 respectively required for construction of 25.295 km LT line. This resulted in excess consumption of line material valuing Rs.16.75 lakh.
- EDD-I and EDD-II Hardoi consumed 917 supports (PCC poles and other material) against norms of 581 supports required for construction of 48.31 km HT/LT line resulting in excess consumption of line material of Rs. 13.63 lakh.
- EDD-I, Lakhimpur had shown the line material (ACSR weasel, AAAC, ABC single and three phase) valuing Rs. 8.34 lakh as issued and consumed for electrification of three villages (Saidhari, Ghosiyana and Maidana). This was not supported by documentary evidence as the measurement recorded (August 2008 to March 2009) in the Measurement Books exhibited consumption of only Rs. 2.12 lakh.

#### ***Incorrect reporting to the Government***

- The Government released Rs. 6.24 crore to UPPCL during 2007-08 for electrification of 25 GSs by EDD, Bahraich under Phase-I. UPPCL reported (August 2008) to the Government as having utilised the entire amount on electrification of said GSs whereas Audit could verify expenditure incurred on the work as only Rs. 3.93 crore. Thus, by incorrectly reporting completion of the work, Rs. 2.31 crore of Government funds were unauthorisedly retained by the Company.
- Rs. 30.86 crore released by the Government for electrification of 225 GSs by four EDDs<sup>2</sup> were also reported (August 2008/February 2009) as utilised. This was misleading as only Rs. 8.86 crore was actually spent on electrification of 120 GSs. Thus, Government funds of Rs. 22 crore were unauthorisedly retained by the Company by incorrectly reporting physical and financial progress of the work.

#### ***Incomplete electric distribution network***

**4.14.5** UPPCL introduced (2001) High Voltage Distribution System (HVDS) in rural areas which provided facility of service connection to the consumers through installation of small transformers (10/16KVA) along-with distribution boxes on the HT line. Cost Data Book issued by UPPCL provided that service connections, by cable, can be given up to a maximum distance of 40 meters, hence transformers and distribution boxes were required to be installed at every 80 meters of the line.

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<sup>1</sup> EDD-I and II, Bareilly, EDD-I and II, Sitapur,,EDD-I and II, Hardoi, EDD-I, Lakhimpur, EDD-I, Unnao, EDD, Bahraich and EDD, Rahimnagar, Lucknow.

<sup>2</sup> EDD-I and II Hardoi, EDD-I and II Sitapur.

Audit noticed that 39.70 km. of HT line was constructed in 96 villages/majaras by EDD-I Unnao, Bahraich and Rahimnagar, Lucknow under phase I and II at a cost of Rs. 8.73 crore. For this length, against requirement of 1753 transformers, only 438 transformers were installed. Audit concludes that this short installation of transformers deprived the inhabitants of these villages access to their optimum load of electricity, even after incurrence of an expenditure of Rs. 8.73 crore (**Annexure-20**). It is also apprehended that due to short installation of transformers the health of the entire system would be shortened due to overloading.

***Non-fulfillment of objective of the scheme***

**4.14.6** Audit analysed the number of actual new connections released after construction of these distribution lines. The facts emerging are placed below.

Sl. No.	Name of the Division	Number of villages electrified	Number of villages in which connection was released	Number of villages in which no connection was released	Number of villages in which 10 per cent target was not achieved
1.	EDD-I & II, Bareilly	170	91	79	40
2.	EDD-I & II, Hardoi	139	105	34	26
3.	EDD-I, Lakhimpur	56	28	28	26
4.	EDD-I, Unnao	61	13	48	13
5.	EDD, Bahraich	86	31	55	25
	<b>Total</b>	<b>512</b>	<b>268</b>	<b>244</b>	<b>130</b>

The main objective of the scheme was to provide service connections to at least 10 *per cent* of the house holds of each village electrified. The objective lay completely frustrated. Out of 512 villages/majaras electrified by seven EDDs (no data available for EDD I and II Sitapur and EDD Rahimnagar) during 2007-08 and 2008-09, surprisingly no connection was provided in 244 villages/majaras (48% of the villages). Further, in 130 villages/majaras (26% of the total villages and 49% of the villages where connections were released) although the connections were provided yet were below the minimum target of 10 *per cent* of house holds. This is indicative of the failure of achievement of the objective of the initiative. Audit concludes that Rs.81.47 crore of total investment of Rs.167.64 crore failed to achieve any intended social benefits and precious public resources were not efficiently and effectively used.

The matter was reported to the Management and the Government (August 2009); their replies had not been received (November 2009).

Audit recommends that the Management may plan for initiatives with due diligence and aim to work in tandem with the planned initiatives to deliver the intended benefits.

**Purvanchal Vidyut Vitran Nigam Limited**

**4.15 Non-levy of demand charges/ penalty for excess demand**

**The Company suffered loss of Rs 1.16 crore due to non-levy of demand charges and penalty as per rules for demand drawn in excess of the contracted demand.**

Para 8 (ii) and para 7 (ii) of general provisions of Rate Schedule, issued by Uttar Pradesh Power Corporation Limited (UPPCL), effective from 13 August 2007 and 27 April 2008 respectively, provided for penalty leviable on the consumer for drawal of demand in excess of the contracted demand. It stipulated that if the

maximum demand in any month of a consumer, having Tri-Vector Meter/Time of Day Meter (TVM/TOD)\*/demand recording meters, does not exceed the contracted demand beyond 10 *per cent*, then such excess demand shall be levied at normal rate, as charge for exceeding contracted demand, apart from the demand charge recovery, as per the maximum demand recorded by the meter. However, if the demand exceeds the contracted demand by more than 10 *per cent*, then such excess demand shall be levied at twice the normal rate, apart from the demand charge on the maximum demand indicated by the meter.

It was noticed (February 2009) in audit of Electricity Distribution Division-I, Mirzapur, that the actual recorded demand of Jai Prakash Associates Limited, Mirzapur, having contracted load of 5000 KVA, and billed under rate schedule HV-2, regularly exceeded the contracted demand, beyond 10 *per cent* during the period March 2008 to December 2008 and February 2009, ranging between 5846 KVA to 10369 KVA.

The Superintending Engineer (SE) had directed (August 2008) that the consumer should be charged for the demand drawn beyond the contracted demand of 5000 KVA.

The Division, despite the instructions of the SE, levied the demand charges as per contracted demand of 5000 KVA, instead of actual recorded demand and also did not levy penalty for excess drawal of demand by the consumer leading to loss of Rs 1.16 crore for the period March 2008 to December 2008 and February 2009 to the Company.

On being pointed out by Audit, the Division raised (June 2009) a bill for Rs 81.88 lakh against the consumer, recovery of which, however, was awaited (July 2009). The Company should initiate disciplinary action against the defaulting officer, responsible for incorrect billing and also non-compliance to instruction of SE. The internal control system of the Company also needs to be strengthened so as to avoid reoccurrence of such lapses in future.

The matter was reported to the Management and the Government (June 2009); their replies had not been received (November 2009).

#### **4.16 Loss of interest due to non-transfer of money to Company's Headquarters Account**

##### **Non-transfer of entire balance in Capital Receipt Account (Current Account) to Headquarters resulted in loss of interest of Rs 23.02 lakh.**

According to the directions issued (October 2005) by the U.P. Power Corporation Limited (UPPCL), also applicable to Purvanchal Vidyut Vitran Nigam Limited (Company), all money received by the unit level Divisional offices on account of system loading charges, security, service connections and deposit works etc, should be remitted to the Headquarters of the Company twice in a month.

It was noticed (December 2008) in audit that Electricity Distribution Division, Kaushambi was operating a bank account (Current Account) named as Capital Receipt Account where the money received on account of system loading charges and deposit work etc. were being deposited. Though, money deposited in this bank account was remitted to Headquarters of the Company twice a month during the

\* TVM = Trivector Meter can measure active power, reactive power and apparent power i.e. KW, KVA and KVarh.  
TOD = Time of Day Meter records demand, time and energy usage.



period January 2008 to November 2008, yet the whole amount was not remitted and a heavy balance ranging between Rs 2.79 crore and Rs 3.34 crore was left in the bank account.

It was further noticed that the Company had been borrowing funds from Rural Electrification Corporation to meet out its short term requirement of funds. Had the Divisional officer ensured transfer of entire funds to the Headquarters account of the Company, the borrowings could have been reduced to the extent of Rs 2.79 crore (the minimum balance which remained unremitted in the bank account during January 2008 to November 2008). This resulted in avoidable payment of interest of Rs 23.02 lakh calculated at the rate of nine *per cent per annum* being charged by REC on the borrowings of the Company.

In reply, the Management submitted (October 2009) only the factual position of funds received, funds remitted and balance left in the bank during January 2008 to November 2008 whereas audit had commented upon the total amount lying unremitted in the bank (including amount for the earlier period) as shown in the bank statement for the said period.

The Company needs to streamline the system by formulating comprehensive guidelines regarding holding of certain amount of cash balance and remitting of excess cash to headquarters within a specific time. The internal control mechanism should also be strengthened so as to avoid recurrence of such lapses.

The matter was reported to the Government (April 2009); their reply had not been received (November 2009).

#### **4.17 Short-billing due to incorrect application of Rate Schedule**

**The consumers were short-billed due to billing under rate schedule LMV-4 (A) instead of applicable rate schedule HV-2/HV-1 resulting in loss of Rs 11.83 lakh to the Company.**

Clause 5 of the general provisions of the tariff order, approved by U.P. Electricity Regulatory Commission (UPERC), effective from 13 August 2007, provides that all the consumers, above 75 KW load (excluding LMV-1 consumers) and getting supply at 11 KV or higher voltage, shall be billed under HV-2 rate schedule with effect from November 2007 i.e cut off date after allowing three months period from the date of application of rate schedule. The subsequent tariff order (effective from 27 April 2008), approved by UPERC, incorporated a separate rate schedule HV-1 for non-industrial bulk load consumers, having load above 75 KW and getting supply at 11 KV and above.

It was noticed (January 2009) in audit of Electricity Distribution Division-II, Varanasi that two consumers (i) Diesel Locomotive Works (DLW), Administrative Building (load: 1500 KW), and (ii) Indian Vegetable Research Institute (load: 212.5 KW) getting supply at 33 KV and 11 KV respectively were billed under rate schedule LMV-4 (A) instead of the applicable rate schedule HV-2 for the period from 13 August 2007 to 26 April 2008 and thereafter HV-1 from 27 April 2008 to April 2009. This resulted, in short-billing of Rs 11.83 lakh to these consumers during November 2007 (cut off date) to April 2009.

The Chief Engineer stated (June 2009) that Time of Day (TOD) meter had been installed (May 2009) at the premises of both the consumers for billing under HV-2 and assessment would be made and recovery be done based on the three months' electricity consumption. The fact remains that the TOD has been installed after 17

months from the cut off date (November 2007). Moreover, the assessment has still not been done by the Division.

The Company should have fixed the responsibility against the personnel responsible for delayed installations of TOD meter as well as incorrect application of Rate Schedule.

Thus, due to incorrect application of rate schedule, the consumers were short-billed by Rs 11.83 lakh during said period.

The matter was reported to the Management and the Government (April 2009); their replies had not been received (November 2009).

## **Statutory Corporations**

### **Uttar Pradesh Financial Corporation**

#### **4.18 Loss due to non-deduction of Income Tax at source on Bonds**

##### **The Corporation's failure to deduct and deposit the TDS payable on interest paid/credited to Bond holders resulted in a loss of Rs 4.13 crore.**

The Corporation had raised funds from time to time by way of issuance of Bonds to meet their fund requirements. As per terms and conditions of Bonds, half yearly interest was payable and income tax, as per applicable rates, was to be deducted at source (TDS). As per provisions contained in Section 194 A (1) of Income Tax Act 1961 the person responsible for paying any interest on securities shall at the time of credit such interest to the account of payee or at the time of payment thereof, whichever is earlier, deduct income tax from the amount of interest payable. The provisions of Section 201 (IA) further provide that if the person, responsible for paying the interest, does not deduct the tax or after deducting fails to pay the tax as required under this Act, he shall be liable to pay interest at the rate of 12 *per cent* on the amount of such tax, from the date on which such tax was deductible, to the date on which such tax is actually paid.

It was noticed (September 2008) in audit that the Corporation while paying or according credit of, interest to bondholders for the years 2002-03 and 2003-04, failed to deduct tax at source amounting to Rs 2.92 crore from the interest paid/credited for the said period in respect of bonds issued by the Corporation. The Income Tax Department after issuing a demand notice in May 2007 recovered Rs. 2.92 crore on account of tax and Rs. 1.21 crore on account of interest for default in deduction at source and deposit of tax with Income Tax Department. The payment of tax and interest thereon from own source could have been avoided had the Corporation deducted tax at source at the time of payment of or crediting interest to bondholders and deposited the same with the Income Tax Department.

The Management admitted (October 2009) that in the year 2002-03, TDS was not deducted from Gramin and Cooperative bank on the pretext that those Cooperative banks were covered under exemption under Section 80 P of Income Tax Act by considering Corporation as Government. Management further stated that provision for unpaid interest involved mere book entry, hence it was felt that there was no need to deduct any TDS on mere provision of unpaid interest.

The Management's contention that TDS was not deducted at the time of creation of provision for interest, is not tenable because section 194A(1) of the Income Tax Act clearly provides that income tax should be deducted from the provision

towards interest payable on security or from the actual payment of interest, whichever is earlier.

The Corporation needs to fix the responsibility against the officials responsible for payment of interest to bond holders without deduction of TDS to avoid recurrence of such lapses in future.

The matter was reported to the Government (June 2009); their reply had not been received (November 2009).

#### **4.19 Loss due to cancellation of the plot**

**The Corporation suffered a loss of Rs 52.10 lakh due to its failure in construction of building within the stipulated period besides loss of interest of Rs 66.98 lakh on blockade of funds.**

The Corporation purchased (June 1995) a plot measuring 1995 square meter for Rs 79.80 lakh (premium cost) from New Okhla Industrial Development Authority (NOIDA) for construction of its office building. The lease deed was executed on 3 February 1997 and possession of plot was taken on 22 February 1997.

According to the terms and conditions of the lease deed, the Corporation was required to construct the building and put the same in operation within two years from the date of possession or extended periods, if any. Failure in construction of the building within the stipulated or extended period, plot was liable to be cancelled by the NOIDA.

The Corporation engaged (December 1996) an Architect (Space Design & Associates) for construction of the building. The estimated cost of the project was assessed by the architect as Rs 4.20 crore which was subsequently revised to Rs 5.30 crore by the Architect with corresponding increase in their fee, etc., which was not agreed to by the Corporation. Meanwhile, encroachment on the plot was noticed (May 2002), which could be got vacated only in May 2004. No further progress was noticed in the matter thereafter. The NOIDA after issuing (July 2006) a show cause notice to the Corporation, cancelled the plot in October 2006 due to non-construction of the building.

The Corporation, after depositing the time extension fee of Rs 31.12 lakh and restoration charges for Rs 18.67 lakh in December 2007 got the plot restored with the condition that the construction of building would be completed within one year, failing which allotment of plot would be cancelled. The Corporation, *due to financial crunch* again failed to construct the building on the said plot within the extended period. NOIDA, therefore, finally cancelled the allotment of plot in February 2009 and refunded Rs 78.90 lakh after deducting Rs 0.90 lakh from the cost of land deposited by the Corporation.

It was observed in audit that the decision (1995) to acquire the plot was taken by the Corporation without proper assessment of the cost of the project and means of finance for meeting the said cost. The corporation, got the plot restored again in December 2007 without addressing to the above issues, which indicated Corporation's failure in properly planning for the finance needed towards the cost of the intended project.

Thus, failure of the Management to properly plan for the financial resources before acquisition of the land, led to cancellation of the plot and loss of Rs 52.10 lakh on account of time extension fees and restoration charges paid to NOIDA

including Rs 2.31 lakh paid as architect fee. The Corporation also incurred loss of interest of Rs 66.98 lakh, calculated at the rate of 6.25 *per cent per annum*, on Rs 79.80 lakh, which remained blocked upto January 2009.

The Management stated (October 2008) that due to various circumstances like dispute with the architect and encroachment on the plot, the building could not be constructed. The reasons for non-construction of building as given by the Corporation were secondary. The main reason for not taking up the project was non-availability of required funds, which ultimately led to final cancellation of the allotment of plot by NOIDA and consequential losses to the Corporation.

The Corporation needs to properly plan and assess the requirement and resources of funds in advance before taking up the projects involving huge costs.

The matter was reported to the Government (July 2009); their reply had not been received (November 2009).

#### **4.20 Loss due to payment of interest at higher rate on fixed deposits**

##### **The Corporation suffered a loss of Rs 22.55 lakh due to allowing interest on FDs at higher rates violating the directive of Board of Directors.**

The Corporation accepts deposit from public under Section 8 (i) of the State Financial Corporations Act, 1951. Accordingly, the Board of Directors (BOD) of the Corporation in their meeting held on 8 November 2002, decided to invite deposits from public at an interest rate of one *per cent* above the rate of State Bank of India (SBI). The rates of interest on deposits were to be revised in tandem with the rates being offered by SBI.

It was noticed (September 2008) in audit that the Corporation accepted fixed deposits (FDs) of Rs. 3.58 crore from the public for a period of 36 to 60 months during May 2003 to February 2004. These FDs carried interest at the rate of nine *per cent per annum* whereas SBI had offered 6.25 *per cent per annum* on its FDs during the corresponding period.

The Corporation paid interest amounting to Rs 1.16 crore upto September 2008 on the fixed deposits of Rs 3.58 crore accepted during May 2003 to February 2004 at the rate of nine *per cent per annum*. The Corporation, in terms of the directives of BOD, should not have accepted the FDs at the annual interest rate exceeding 7.25 *per cent* (*viz.* one *per cent* above the rate of SBI).

Thus, due to Management's failure in not fixing the interest rate in tandem with those offered by the SBI, the Corporation had to suffer a loss of Rs 22.55 lakh on account of payment of interest at higher rate by 1.75 *per cent per annum* (9 *per cent* – 7.25 *per cent*) on FDs.

The Management stated (October 2009) that while accepting the FDs at higher rates, it was not felt practical to link the interest rates with SBI at every stage. The Management, however, admitted that neither the BOD was informed nor its approval was obtained for the said deviation and orders had been issued for fixing responsibility for this lapse. The fact remained that loss suffered by the Corporation, due to non-compliance of directives of BOD remains unrecovered.

The matter was reported to the Government (July 2009); their replies had not been received (November 2009).

**Uttar Pradesh Avas Evam Vikas Parishad**

**4.21 Unwarranted additional expenditure on construction of Trunk Sewer line**

**The Parishad was burdened with an additional expenditure of Rs 57.96 lakh due to unwarranted change in location of Sewerage Treatment Plant (STP).**

Uttar Pradesh Avas Evam Vikas Parishad decided (March 2006) for the construction of Trunk Sewer Line (TSL) in its Majhola Housing Scheme, Part-4, Phase-II, Moradabad at a cost of Rs 84.52 lakh. Part of the work of construction of TSL was awarded (July 2006) to M/s Krishna Construction Company, Meerut for Rs 42.62 lakh through two contract bonds. As per approved plan a Sewerage Treatment Plant (STP) was also proposed to be constructed in Sector 7B of the scheme alongwith sewer lines.

Subsequently, during September 2006, location of the STP was changed from Sector 7B to Sector 9A of the scheme and accordingly design of the Trunk Sewer Line was also revised. Due to change in the location of the STP, estimated cost of the work was increased (May 2007) from Rs 84.52 lakh to Rs 142.48 lakh attributing an additional expenditure of Rs 57.96 lakh. The remaining work was further awarded (July 2007) to the same contractor for Rs 93.49 lakh in addition to the work for Rs 42.62 lakh earlier awarded to him. The additional work, though, valued more than two hundred *per cent* of the earlier work, Management awarded remaining work to the same contractor instead of retendering and deprived the Parishad of obtaining competitive rates. The Parishad incurred an expenditure of Rs 96.62 lakh on execution of the said work till March 2008.

It was noticed (June 2008) in audit that no justification for change in the location of STP was recorded in the Project Report while proposing such change and cost benefit analysis for incurring additional expenditure of Rs 57.96 lakh was also not done. This is indicative of the fact that decision to change the location of STP was an arbitrary decision which resulted in unwarranted additional expenditure of Rs 57.96 lakh.

In interim reply, the unit stated (September 2008) that the location of the STP was changed from Sector 7B to Sector 9A as the STP was located in the middle of the scheme which might affect the saleability of the properties and Sewer Lines of another proposed scheme (Majhola Housing Scheme Part 4 Phase II extension) would be connected to the STP with least length and the disposal of the sewage would be done in the river which was near to the changed location of STP.

The reply of the Management is not acceptable as the STP at new location will also come in the middle of the scheme after implementation of the extension plan of the scheme. Further, before changing the location of the STP, the Parishad had not carried out a cost benefit analysis so as to ensure the cost effectiveness of the new location of STP. The justification, therefore, given by the Management for shifting of STP to new location is an after thought.

The Management should evolve an internal control mechanism to ensure that any change in the scheme should take place only after ascertainment of its technical viability and financial implication.

The matter was reported to the Management and the Government (July 2009); their replies had not been received (November 2009).

**Uttar Pradesh Jal Nigam****4.22 Undue favour to contractor**

**The Company extended undue favour to the contractor by releasing the payment in excess of the value of work executed, resulting in non-recovery of Rs 14.98 lakh.**

The Government of Uttar Pradesh sanctioned (March 2006) the work for construction of ornamental gates on both sides of Nishatganj Bridge on river Gomti at Lucknow and nominated U.P. Jal Nigam (Nigam) as executing agency for the work. The Nigam awarded (July 2006) this work to M/s AN EM Engineers (contractor) at a cost of Rs 690 lakh on lump sum contract basis. As per conditions, the contractor was required to provide security deposit to the extent of 10 *per cent* of the contract value in the form of bank guarantee for a sum equivalent to 5 *per cent* of the value of contract. Remaining 5 *per cent* of the security deposit was to be deducted from the running bills of the contractor. Further, 20 *per cent* of the contract value was to be provided to the contractor as mobilisation advance.

It was noticed (June 2008) in audit of unit 13 (Construction & Design Services) of the Nigam that a bank guarantee for Rs 34.50 lakh on account of security deposit was obtained from the contractor in September 2006 which was validated upto 1 September 2009. One more bank guarantee for Rs.138 lakh (valid upto March 2007) was also obtained (September 2006) against mobilisation advance of Rs.138 lakh released during September to November 2006. In the meantime a Public Interest Litigation (PIL) was filed in the Hon'ble High Court on the ground that the construction work was taken up without determining the necessary modalities and safety measures. The Hon'ble Court passed (11 December 2006) an interim order and directed that the construction of gate could be done only after obtaining the Report of the Expert Committee. The work was, therefore, abandoned in December 2006 but by that time work valuing Rs 154.22 lakh had already been executed by the contractor.

The Nigam, ignoring the court's order to stop the work, released further payment of Rs 69 lakh on 16 December 2006. This indicated an undue favour to the contractor, resulting in excess payment of Rs.52.78 lakh. On being pointed out by the Audit, the Company recovered a sum of Rs 3.30 lakh from the pending bills of the contractor in respect of other work and also encashed the bank guarantee of Rs 34.50 lakh furnished by the contractor. The recovery of balance amount of Rs 14.98 lakh is not possible because the Company has tapped all the available resources.

Thus, undue favour to the contractor in releasing the payment even after court's order to stop the work resulted in non-recovery of Rs 14.98 lakh.

The Company should have taken action against the person responsible for release of payment even after the court's order, to avoid occurrence of such incidence in future.

The Management admitted (May 2009) that a sum of Rs 14.98 lakh only is outstanding against the contractor and stated that a claim petition shall be filed shortly for recovery of dues.

The matter was reported to the Government (March 2009); their replies had not been received (November 2009).

**General**

**4.23 Opportunity to recover money ignored**

**Twenty six PSUs did not seize the opportunity to recover their money after audit observations were issued on the issue. As a result, recovery of money amounting to Rs 431.52 crore remains doubtful.**

A review of unsettled paragraphs from Inspection Reports (IRs) pertaining to periods up to 2003-04 showed that there were 321 paragraphs, in respect of 26 Public Sector Undertakings (PSUs), involving recovery of Rs. 431.52 crore. As per the extant instructions, the PSUs were required to take remedial action within one month after receipt of IRs from Audit. However, no effective action has been taken to take the matters to their logical end i.e to recover money from the concerned parties. As a result, these PSUs have lost the opportunity to recover their money, which could have augmented their finances.

PSU wise details of paras and recovery amount are given below. The list of individual paras is given in **Annexure-21**.

Sl. No.	PSU Name	No. of paras	Amount for recovery (Rs. crore)
1.	Madhyanchal Vidyut Vitran Nigam Limited	54	15.81
2.	Purvanchal Vidyut Vitran Nigam Limited	40	22.29
3.	Dakshinanchal Vidyut Vitran Nigam Limited	34	48.60
4.	Paschimanchal Vidyut Vitran Nigam Limited	55	24.46
5.	Uttar Pradesh Power Corporation Limited	01	10.07
6.	Uttar Pradesh State Handloom Corporation Limited	01	3.40
7.	The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited	02	0.71
8.	Uttar Pradesh State Spinning Company Limited	01	0.03
9.	Uttar Pradesh State Sugar Corporation Limited	07	5.85
10.	Uptron India Limited	01	0.09
11.	Uttar Pradesh Forest Corporation	06	1.07
12.	Uttar Pradesh State Employees Welfare Corporation	05	3.01
13.	Uttar Pradesh Export Corporation Limited	03	0.99
14.	Uttar Pradesh State Leather Development and Marketing Corporation Limited	02	0.34
15.	Uttar Pradesh Panchayati Raj Vitta Evam Vikas Nigam Limited	01	0.55
16.	Uttar Pradesh (Poorva) Ganna Beej Evam Vikas Nigam Limited	03	0.08
17.	Uttar Pradesh State Bridge Corporation Limited	19	5.81

Sl. No.	PSU Name	No. of paras	Amount for recovery (Rs. crore)
18.	Uttar Pradesh (Rohelkhand-Tarai) Ganna Beej Evam Vikas Nigam Limited	03	24.26
19.	Uttar Pradesh Purva Sainik Kalyan Nigam Limited	01	0.07
20.	Uplease Financial Services Limited	03	0.69
21.	Uttar Pradesh Avas Evam Vikas Parishad	19	127.87
22.	Uttar Pradesh Financial Corporation	23	44.43
23.	Uttar Pradesh State Warehousing Corporation	01	2.13
24.	Uttar Pradesh Rajkiya Nirman Nigam Limited	19	14.44
25.	Uttar Pradesh Small Industries Corporation Limited	10	2.94
26.	Uttar Pradesh Alpsankhyak Vittyva Evam Vikas Nigam Limited	07	71.53
	<b>Total</b>	<b>321</b>	<b>431.52</b>

The paragraphs mainly pertain to inaction on part of management towards recovery from staff/firms/clients.

Above cases point out the failure of respective PSU authorities to safeguard their financial interests. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU Management periodically, did not yield the desired results in these cases.

The PSUs should initiate immediate steps to recover the money and complete the exercise in a time bound manner.

The matter was reported to the Management and the Government (August 2009); their replies are awaited (November 2009).

#### **4.24 Lack of remedial action on audit observations**

**Forty one PSUs did not either take remedial action or pursue the matters to their logical end in respect of 1572 IR paras, resulting in forgoing the opportunity to improve their functioning.**

A review of unsettled paragraphs from Inspection Reports (IRs) pertaining to periods up to 2003-04 showed that there were 1572 paragraphs in respect of 41 PSUs, which pointed out deficiencies in the functioning of these PSUs. As per the extant instructions, the PSUs were required to take remedial action within one month of receipt of IRs from Audit. However, no effective action was taken to take the matters to their logical end i.e. to take remedial action to address these deficiencies. As a result, these PSUs have so far lost the opportunity to improve their functioning in this regard.

PSU wise details of paras are given below. The list of individual paras is given in **Annexure-22**.



Sl. No.	PSU Name	No. of Paras
1.	Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited	19
2.	Madhyanchal Vidyut Vitran Nigam Limited	24
3.	Purvanchal Vidyut Vitran Nigam Limited	22
4.	Dakshinanchal Vidyut Vitran Nigam Limited	34
5.	Paschimanchal Vidyut Vitran Nigam Limited	75
6.	Uttar Pradesh Power Corporation Limited	126
7.	Uttar Pradesh State Agro Industrial Corporation Limited	10
8.	Uttar Pradesh Poultry and Livestock Specialities Limited	02
9.	Uttar Pradesh Projects Corporation Limited	01
10.	Uttar Pradesh State Industrial Development Corporation Limited	09
11.	Uttar Pradesh (Poorva) Ganna Beej Evam Vikas Nigam Limited	04
12.	Uttar Pradesh Picchara Varg Vitta Evam Vikas Nigam Limited	01
13.	The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited	06
14.	Uttar Pradesh State Spinning Company Limited	03
15.	Uttar Pradesh State Handloom Corporation Limited	13
16.	Uttar Pradesh State Yarn Company Limited	01
17.	Uttar Pradesh State Sugar Corporation Limited	55
18.	Shreeron India Limited	03
19.	Uptron Powertronics Limited	04
20.	Uptron India Limited	15
21.	Uttar Pradesh Development Systems Corporation Limited	03
22.	Uttar Pradesh Forest Corporation	124
23.	Uttar Pradesh Food and Essential Commodities Corporation Limited	02
24.	Uttar Pradesh State Employees Welfare Corporation	59
25.	Uttar Pradesh Samaj Kalyan Nirman Nigam Limited	01
26.	Uttar Pradesh Scheduled Castes Finance and Development Corporation Limited	02
27.	Uttar Pradesh Export Corporation Limited	09
28.	Uttar Pradesh State Leather Development and Marketing Corporation Limited	05
29.	Uttar Pradesh Panchayati Raj Vitta Evam Vikas Nigam Limited	01
30.	The Indian Turpentine and Rosin Company Limited	02
31.	Uplease Financial Services Limited	07
32.	Uttar Pradesh (Rohelkhand-Tarai) Ganna Beej Evam Vikas Nigam Limited	02
33.	Uttar Pradesh State Bridge Corporation Limited	101
34.	Uttar Pradesh Rajkiya Nirman Nigam Limited	164
35.	Uttar Pradesh Alpsankhyak Vittyva Evam Vikas Nigam Limited	16
36.	Uttar Pradesh Small Industries Corporation Limited	59
37.	Uttar Pradesh Avas Evam Vikas Parishad	115
38.	Uttar Pradesh Financial Corporation	04
39.	Uttar Pradesh State Road Transport Corporation	23
40.	Uttar Pradesh State Warehousing Corporation	02
41.	Uttar Pradesh Jal Nigam	444
	<b>Total</b>	<b>1572</b>

The paragraphs mainly pertain to blockade of funds, expenditure over and above the funds received from client, irregular sanction of loan, wrong selection of site and embezzlement of fund by staff, etc.

Above cases point out the failure of respective PSU authorities to address the specific deficiencies and ensure accountability of their staff. Audit observations and their repeated follow up by Audit, including bringing the pendency to the

notice of the Administrative/Finance Department and PSU management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to take remedial action on these paras and complete the exercise in a time bound manner.

The matter was reported to the Management and the Government (August 2009); their replies are awaited (November 2009).

#### **Follow up action on Audit Reports**

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

Audit Reports for the year 2003-04, 2004-05, 2005-06, 2006-07 and 2007-08 were placed in the State Legislature in July 2005, March 2006, May 2007, February 2008 and February 2009 respectively. 167 paras/reviews involving PSUs under 25 Departments featured in the Audit Reports (Commercial) for the years from 2003-04 to 2007-08. No replies in respect of 120 paras/reviews have been received from the Government by 30 September 2009 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
2003-04	30	10	21
2004-05	31	10	14
2005-06	38	13	31
2006-07	35	8	31
2007-08	33	8	23
<b>Total</b>	<b>167</b>		<b>120</b>

Department wise analysis is given in **Annexure-23**. The Power Department was largely responsible for non-submission of replies.

#### **Compliance with the Reports of Committee on Public Undertakings (COPU)**

**4.26** In the Audit Reports (Commercial) for the years 1998-99 to 2007-08, 321 paragraphs and 47 reviews were included; out of these, 130 paragraphs and 20 reviews had been discussed by COPU up to 30 September 2009. COPU had made recommendations in respect of 91 paragraphs and 20 reviews in the Audit Reports for the years 1978-79 to 2002-03.

The reply of the departments/follow up action on the recommendations of COPU were awaited (November 2009).

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

**4.27** With a view to assist and facilitate discussions of the irregularities of persistent nature by the COPU, an exercise has been carried out to verify the extent of corrective action taken by the concerned auditee organisation. The results thereof in respect of Government Companies are given in **Annexure-24** and in respect of Statutory corporations the same are given in **Annexure-25**.

#### **Response to inspection reports, draft paragraphs and reviews**

**4.28** Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned administrative departments of the State Government through inspection reports. The heads of PSUs are required

to furnish replies to the inspection reports through the respective heads of departments within a period of six weeks. Inspection reports issued up to March 2009 pertaining to 68 PSUs disclosed that 17429 paragraphs relating to 4973 inspection reports remained outstanding at the end of September 2009; of these, 2683 inspection reports containing 8223 paragraphs had not been replied to for more than five years. Department-wise break-up of inspection reports and audit observations outstanding at the end of 30 September 2009 are given in **Annexure-26**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary, Finance and the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Out of 25 draft paragraphs and three draft reviews forwarded to the various departments between March and September 2009, the Government had not replied to 23 draft paragraphs and all three draft reviews so far (November 2009), as detailed in **Annexure-27**.

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

**Lucknow  
The**

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

**Countersigned**

**New Delhi  
The**

**(VINOD RAI)  
Comptroller and Auditor General of India**