

## OVERVIEW

### 1. Overview of Government companies and Statutory corporations

*Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2010, the State of Uttar Pradesh had 83 working PSUs (76 companies and 7 Statutory corporations) and 43 non-working PSUs (all companies), which employed 0.78 lakh employees. The working PSUs registered a turnover of ₹ 35,541.61 crore for 2009-10 as per their latest finalised accounts. This turnover was equal to 9.94 per cent of the State GDP indicating a moderate role played by the State PSUs in the economy. However, the working PSUs incurred overall loss of ₹ 3,919.77 crore in 2009-10 and had accumulated losses of ₹ 17,889.43 crore.*

#### **Investments in PSUs**

*As on 31 March 2010, the investment (Capital and long term loans) in 126 PSUs was ₹ 62,997.81 crore. It grew by over 137.05 per cent from ₹ 26,576.17 crore in 2004-05 mainly because of increase in investment in power sector. Power Sector accounted for 90.04 per cent of the total investment in 2009-10. The Government contributed ₹ 8,111.91 crore towards equity and grants/subsidies during 2009-10.*

#### **Performance of PSUs**

*During the year 2009-10, out of 83 working PSUs, 33 PSUs earned profit of ₹ 1,081.60 crore and 21 PSUs incurred loss of ₹ 5,001.37 crore. Two working PSUs, which were incorporated during 2006-07 had not submitted their first accounts whereas 27 companies remained at no profit no loss. The major contributors to profit were Uttar Pradesh Avam Vikas Parishad (₹ 424.13 crore), Uttar Pradesh Rajkiya Nirman Nigam Limited (₹ 195.64 crore), Uttar Pradesh State Industrial Development Corporation Limited (₹ 97.01 crore), Uttar Pradesh Forest Corporation (₹ 101.59 crore), Uttar Pradesh Jal Nigam (₹ 66.54 crore), Uttar Pradesh State Warehousing Corporation (₹ 39.82 crore) and Uttar Pradesh State Road Transport Corporation (₹ 10.67 crore).*

*The heavy losses were incurred by seven power sector companies (total ₹ 4738.53 crore), Uttar Pradesh Financial Corporation (₹ 115.01 crore) and Uttar Pradesh State Sugar Corporation Limited (₹ 43.87 crore).*

*The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years Audit Reports of CAG shows that the state PSUs losses of ₹ 1,807.02 crore and infructuous investments of ₹ 30.11 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.*

#### **Quality of accounts**

*The quality of accounts of PSUs needs improvement. Of the 65 accounts of working companies finalised during October 2009 to September 2010, qualified certificates were issued for 53 accounts, adverse certificates for four accounts, disclaimer for one account and unqualified certificates for seven accounts. There were eight instances of non-compliance with Accounting Standards. Of the seven accounts finalised during October 2009 to September 2010 by the six statutory corporations, we conducted audit of seven accounts and issued qualified certificate for four accounts. The audit of rest of three corporations was under finalisation.*

#### **Arrears in accounts and winding up**

*Fifty two working PSUs had arrears of 182 accounts as of September 2010. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 43 non-working companies. As no purpose may be served by keeping these PSUs in existence, Government needs to expedite closing down of the non working PSUs.*

## 2. Performance reviews relating to Government Companies

Performance reviews relating to Uttar Pradesh State Agro Industrial Corporation Limited, Power Generating Undertakings in Uttar Pradesh and Information Technology Support System of Revenue Billing in Lucknow Electricity Supply Administration, Lucknow, were conducted. Executive summary of our audit findings is given below:

### *Uttar Pradesh State Agro Industrial Corporation Limited*

*The Uttar Pradesh State Agro Industrial Corporation Limited, Lucknow was established in March 1967 as a Government Private Company (subsequently converted into Deemed Public Company in May 1975) with the objective to aid, assist, promote or establish, develop and execute agro-industries, projects or enterprises or programme to manufacture or production of such equipments or goods that will promote or advance agro industrial development of Uttar Pradesh. The objectives were modified in February 2000 to include manufacturing and trading of implements/inputs used in agriculture, horticulture, rural industries and other programmes to increase productivity, promote employment and income generation in rural areas, any other activity or business that increase turnover or improves financial position or assigned to it by Government or other agencies.*

*The Company's activities were mainly confined to sale of tractors, procurement of agriculture implements on Government demands or its authorities, installation of hand pumps, distribution of fertilizers, pesticides, seeds etc. to farmers, procurement of wheat and paddy on behalf of State Government under the Scheme of Minimum Support Price (MSP) of Central Government, procurement of gypsum on behalf of State Government for supply to Agriculture Department, production and sale of agriculture implements and cattle feed.*

#### **Procurement and installation of hand pumps**

*The Company, for installation of hand pumps, received supplies of 745 lots of GI pipes (24.33 lakh metre) which were having weight lesser by 521 MT (valued at ` 2.40 crore) than the standard weight of 7615.16 MT. It failed to cancel*

*supplies of 60 lots (2.20 lakh metre) of GI pipes valued at ` 3.26 crore as per the terms and conditions of orders, where variation in weight exceeded the permissible allowance. It accepted supplies of 257 lots of GI pipes valued at ` 13.74 crore without its weighment. The Company had weak control mechanism regarding scrutiny of tenders as it placed order for supplies of GI pipes valued at ` 3.98 crore on a firm which had quoted two rates from two places. It incurred extra expenditure of ` 39.70 lakh due to use of more length of PVC pipes in installation of hand pumps without any basis. The Company inflated cost of installation of hand pumps to the extent of ` 5.73 crore by adding extra amount towards cost of materials.*

#### **Procurement of fertilizers and seeds**

*Fertilizers business was continuously in loss during five years ending 2009-10 and aggregated to ` 3.87 crore as the Company could not recover its administrative and finance cost. Reasons of loss were failure to induce farmers for purchasing from Company's outlets, lesser allocation of fertilizers to the Company for sale, margin of sale of fertilizers remaining almost unchanged for last ten years etc. The Company purchased 864.90 quintals of hybrid paddy seeds belatedly without ascertaining its marketability in kharif season 2009 resulting in failure to sell 681.31 quintals seeds and expiry of its germination life and loss of ` 1.28 crore.*

#### **Procurement of wheat and paddy under MSP**

*The State Government authorised the Company for procurement of wheat and paddy for state and central pool. The Company failed to streamline varying practice of raising claims of incidental charges receivable on procurement of wheat and its admittance by RFCs. It did not claim incidentals charges of ` 2.16*

crore whereas the RFCs did not admit the claims of ₹ 0.98 crore of the Company on procurement of wheat during 2005-10.

#### **Manpower Planning**

The Company had acute shortage of Executives in key post and other staff which adversely affected internal control, sales promotion, manufacturing and trading of the Company.

#### **Internal Control System**

Internal Control of the Company was weak as audit wing was non-functional and there was acute shortage of staff on key posts. The Company failed to stop encashment of cheques issued by it before one week of the actual supply as per the terms and conditions of the orders.

#### **Conclusion and recommendations**

The performance of the Company was found to be dismal in regard to procurement and installation of hand pump assemblies. Prescribed procedures for procurement of materials were not adhered to resulting in sub-standard purchase of GI pipes, estimates for the installation of hand pumps were prepared with inflated cost and PVC pipes were used in excess of PVC pipes for casing purpose were used in excess of requirement. Inquirement. Hybrid

paddy seeds were procured belatedly resulting in major quantity remaining unsold beyond its germination period and resulted in loss to the Company. Claims of incidental charges against procurement of wheat were not being raised uniformly in the Company and as per the Government orders resulting in non-receipt of total incidental charges. Due to diversion of loan funds received for procurement of wheat, the Company incurred extra burden of interest. There was acute shortage of staff and absence of incumbents for key posts which adversely affected the functioning of the Company. The available funds were not judiciously utilised. The internal control system was deficient in procurement of gypsum and internal audit was not functional.

The Company should adhere to prescribed procedures of procurement to ensure quality of materials, prepare estimate of installation of hand pumps as per norms. It should utilise funds judiciously and arrange funds from Government and other financial institutions for its working capital requirement and streamline internal control system to ensure compliance of procedures, rules, regulation & financial propriety.

### **Power Generating Undertakings in Uttar Pradesh**

Power is an essential requirement for all facets of life and has been recognised as a basic requirement. In Uttar Pradesh, the generation of thermal power is managed by the Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) and of hydro power by Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL). UPRVUNL has eight thermal generation stations and UPJVNL has 12 hydro generation stations with installed capacity of 4082 MW and 526.10 MW respectively. Keeping in view the power availability situation in the State, it was considered desirable to undertake performance audit review of the power generation activities during 2005-10. Important audit observations are discussed below.

#### **Capacity Addition**

Against the envisaged capacity addition of 6515 MW to meet the energy generation requirement in the State

during 2005-10, the actual addition was 2728 MW. Though 1420 MW of capacity was planned to be added by UPRVUNL during the five years ending March 2010, the actual addition was only 480 MW leaving a deficit of 940 MW. The State was not in position to meet the demand as the power generated as well as power purchased fell short to the extent of 7871 MUs to 13672 MUs during 2005-10.

#### **Project Management**

The six units taken up for implementation during the review period were not completed within scheduled time. The slippage in time schedule was due to delay in release of advance to BHEL, delay in splitting and awarding of Balance of Plant (BOP) contract and delay in finalising plot plan/ main power house etc. In two units, time overrun varied from 21 to 27 months in commercial operation of projects, which led to additional expenditure of interest

during construction (IDC) of ` 46.44 crore. UPRVUNL failed to recover liquidated damages of ` 132.45 crore from BHEL being the penalty for the delay in commissioning of the projects. UPRVUNL incurred excess expenditure of ` 64.49 crore due to non-awarding of BOP work to BHEL.

#### **Contract Management**

During 2005-10, contracts valuing ` 7263 crore were executed with BHEL on single quotation basis which defeated the purpose of getting work done at competitive rate. UPRVUNL extended undue favour to a contractor in award of work of switchyard, resulting in avoidable expenditure of ` one crore.

#### **Operational Performance**

Performance of the existing generation stations depends on efficient use of material, manpower and capacity of the plants so as to generate maximum energy possible without affecting the long term operations of the plants. Audit scrutiny of operational performance revealed the following:

#### **Procurement of coal**

In absence of any agreement with the coal companies during 2005-10, UPRVUNL failed to procure allotted quantity of coal since short receipt of coal was about 10.89 per cent.

UPRVUNL suffered loss of ` 53.85 crore on account of excess transit loss of coal as compared to norms fixed by MERC/HERC. The Company also made an avoidable payment of ` 16.57 crore as demurrage charges to railways due to delay in unloading of coal wagons by the private contractors and incurred additional expenditure of ` 83.40 crore on procurement of 2.40 lakh MT imported coal due to mixing of imported coal with domestic coal in an arbitrary manner.

#### **Consumption of coal**

The consumption of coal in Orba and Parichha TPSs was higher than the norms fixed by UPERC during the review period which resulted in excess consumption of coal of 63.06 lakh MT valued at ` 1082.51 crore.

#### **Deployment of Manpower**

UPRVUNL had 9327 employees as on 31 March 2010. The deployment of manpower was not rational as the manpower deployed at thermal power

stations was in excess of the norms fixed by CEA which resulted in extra expenditure of ` 694.11 crore during 2005-10. In UPJVNL, the deployment of manpower was within the norms fixed by CEA.

#### **Plant Load Factor**

The PLF of all the TPSs of UPRVUNL was lower than the national average except PLF of Anpara TPS. The estimated shortfall in generation as compared to national average PLF worked out to 28608.87 MUs resulting in loss of contribution amounting to ` 1271.17 crore.

#### **Outages**

The forced outages remained more than the norm of 10 per cent fixed by CEA in all the five years ending 31 March 2010 which would otherwise have entailed availability of plant for additional 79291 operational hours with consequent generation of 12296 MUs valued at ` 2308.42 crore.

#### **Auxiliary Consumption**

The actual auxiliary consumption of Anpara, Orba and Parichha TPSs was more than the norms fixed by UPERC during the period under review resulting in lesser availability of power by 1673.01 MUs valued at ` 269.32 crore.

#### **Repairs and maintenance**

UPRVUNL incurred avoidable expenditure of ` 33.94 crore due to non-carrying out of capital overhauling of unit-4 of Anapara 'B' TPS on due date and also suffered generation loss of 1194 MUs valued at ` 208.16 crore.

#### **Renovation & Modernisation**

The contract agreement executed for R&M of Orba 'B' TPS with BHEL was faulty since supply of material was not linked with shutdown schedule of each units which resulted in blockade of funds of ` 580.82 crore.

#### **Financial Management**

Dependence of UPRVUNL on borrowed funds increased from ` 3115.29 crore in 2005-06 to ` 5516.15 crore in 2009-10 which resulted in interest burden of ` 1750 crore.

#### **Claims and Dues**

Due to deletion of penalty clause of PPA, the UPRVUNL could not claim late payment surcharge from UPPCL and suffered loss of ` 2928.80 crore during



2005-10 and receivables (dues) from UPPCL increased from ₹ 2028.62 crore (March 2005) to ₹ 4089.94 crore (March 2010).

#### **Environmental Issues**

To reduce SPM level, UPRVUNL had procured material valuing ₹ 209.68 crore for installation of ESPs but it could not be installed so far. Further, on line monitoring system to record SPM level was not installed/ operative in any TPSs of UPRVUNL.

#### **Conclusion and Recommendations**

Construction activities taken up by UPRVUNL and UPJVNL for new thermal and hydro power projects were far behind the scheduled timeframe. The

performance of UPRVUNL and UPJVNL was not up to the desired level due to lower operational efficiency and short fall in generation with reference to targets fixed by CEA/ UPERC. UPRVUNL failed to control outages and excess auxiliary consumption in both old and new units. Failure to follow the prescribed preventive maintenance schedule and inefficient fuel management marred the performance of UPRVUNL. The review contains six recommendations which include effective planning and monitoring, ensuring consumption of coal within the prescribed norms, minimise forced outages and auxiliary consumption etc.

### **Information Technology Support System of Revenue Billing in Lucknow Electricity Supply Administration**

The Government of Uttar Pradesh (GoUP) trifurcated (January 2000) the activities of the erstwhile Uttar Pradesh State Electricity Board into three Government Companies. While it assigned the function of power generation to two Government Companies viz., thermal power generation to Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) and hydro-electric power generation to Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL), it assigned transmission and distribution functions to Uttar Pradesh Power Corporation Limited (UPPCL). The GoUP reallocated the functions of UPPCL and assigned (12 August 2003) the distribution function to four newly formed subsidiary distribution Companies (Discoms) of UPPCL viz. Purvanchal Vidyut Vitaran Nigam Limited, Varanasi, Pashchimanchal Vidyut Vitaran Nigam Limited, Meerut, Madhyanchal Vidyut Vitaran Nigam Limited, Lucknow and Dakshinanchal Vidyut Vitaran Nigam Limited, Agra. The present review covers the Lucknow Electricity Supply Administration (LESA) which is one of the four zones under of the Madhyanchal Vidyut Vitaran Nigam Limited (Company) and is responsible for supply and maintenance of electrical energy for its 6.30 lakh consumers in the urban area of the Lucknow. The Company signed a MOU on 8 August 2006 with e-Suvidha by which the handing over the complete billing system of LESA including 27 Billing Centres (front end) was given to them for maintenance of front end and back end.

#### **Lack of documented IT Policy**

Though the Company has adopted the online billing system since 2000, it did not formulate and document a formal IT policy and a long/medium term IT strategy, incorporating the time frame, key performance indicators, cost benefit analysis for developing its own software, integration of various systems and safety measures for data. The hand held billing agencies transfer billed data through CD, pen drive or through e-mail for uploading in the central server. The system of uploading of billed data is not safe as data is exposed.

#### **System design deficiency**

System was not designed in the billing software to take care of provisions of billings in case meter ceases to records consumption and was deficient in case of billing on the basis of units consumed where meter is operative resulting in short assessment of ₹ 3.47 crore. The software designed and used did not automatically provide alert in the cases where the power factor was below the specified factor of 0.75.

The software designed by the outsourced agencies include an irregular application control wherein the billing of 800 units only is done even in case the consumption of any consumer exceeds 800 units per kW in a month which led to short billing of energy charges of ₹ 4.16 crore and electricity duty of ₹ 10.83 lakh.

#### **Mapping of business rules**

There were discrepancies in mapping of various provisions of tariff. Interest on

security deposit was not credited/ allowed in 354754 bills resulting in accumulated liability of ` 1.03 crore. The special tariff for air conditioning loads was not applied in 65676 bills resulting in short assessment of ` 3.98 crore. The divisions did not neither issued notice to the consumers to get access to their meter and also did not nor levy penalty of ` 41.09 lakh.

#### **Input controls**

Input controls were deficient as various types of billing were not done as per the provisions of tariff orders resulting in short assessment of energy charges of ` 6.40 crore and electricity duty of ` 0.59 crore in case of life line consumers, short assessment/recovery of energy charges of ` 6.58 crore and electricity duty of ` 0.33 crore in respect of other than life line consumers and short assessment of energy charges of ` 5.16 lakh in case of non-domestic consumers. The consumers were classified as connected through rural feeder instead of categorizing under urban schedule which resulted in short assessment of energy charges and electricity duty of ` 24.39 lakh.

#### **Validation checks**

Validation checks were either not there or deficient as 2.56 per cent of operative consumers had duplicate connection numbers and 4.60 per cent of operative consumers had same meter number. The databank of On-line Billing (OLB) contained unrealistic data and/ or incomplete details in 21.53 per cent of the cases.

#### **Compliance of terms and conditions of agreements**

In term of the agreement with the e-Suvidha, the latter e-Suvidha was responsible for maintaining the OLB system and up-gradation/migration to the billing application with new hardware. The upgradation work was delayed by e-suvidha and could not be executed up to February 2010. The system faced problems due to utilisation of 99 per cent of storage up to November 2007. The OLB system was deleting the logs created by the system to make space in the server. There was no system to obtain the rates of the sister units which lapsed opportunity to compare its rate with the rate quoted in other units of UPPCL resulted in award of work at higher rate and excess payment of ` 49.96 lakh to outsourced billing agencies. Payment of ` 69.55 lakh to the billing agencies on account of meter reading of defective meter was made despite the fact that the

bills of these consumers were generated by the OLB system at the provisional/ assessed units. The Company paid to billing agency for 4764394 bills of healthy category consumers against 4498385 actual bills and 1037288 bills of defective category consumers against 913204 actual bills resulting in excess payment of ` 23.11 lakh to the billing agencies.

#### **Monitoring Mechanism**

Monitoring of OLB system was inadequate and ineffective because the Company has not recruited any IT expert nor has it /formulatedformed a committee for monitoring the online billing system. It did not develop a system for periodical inspection of infrastructure of the outsourced agencies. The prescribed MIS reports could not be generated due to inadequacy of the OLB system and the OLB division or the billing divisions did not have access to the databank as the level of authority for access to the databank has not been prescribed by the competent authority. The GIS mapping work, intended to ensure efficient and effective monitoring, was done by the agencies and a payment of ` 75.01 lakh was made on this account but but the mapping could not be used due to nonas there was -integrationno integration between billing databank and GIS mapping data bank. Thus, non-utilisation of the system rendered.

#### **Lack of disaster recovery and business continuity plan**

The Company did not have a disaster recovery and business continuity plan outlining the action to be taken immediately after a disaster and to ensure that the data processing operation could be acquired immediately. The Revenue Billing System implemented in LESA being mission critical, adequate disaster recovery and business continuity plan needs to be developed and adopted on priority basis.

#### **Conclusion and Recommendations**

The Company did not formulate and document a formal IT Policy and a long/medium term IT strategy and the system of uploading of billed data is not safe as transfer of data was being made through CD, pen drive or through e-mail. On-line billing software was not designed to take care of various provisions of billings and contained irregular application control. Input control was deficient as various types of billing were not done as per the provisions of tariff.

*Validation checks were either not there or deficient. Monitoring of OLB system was inadequate and ineffective. It did not have a disaster recovery and business continuity plan. The GIS mapping work, intended for effective monitoring could not be used due to lack of integration of data.*

*The Company should formulate and document an IT policy, formulate IT security policy and business continuity plan to prevent changes/ modifications in*

*database without authorisation, ensure compliance of tariff provisions issued by UPERC and its application in the billing software/database used by outsource billing agencies, ensure linkage of GIS software with the billing data bank to have finer details of the network and connected consumers, formulate disaster recovery plan for immediate operation of data processing at the time of disaster and GIS mapping should be periodically updated.*

### **3. Transaction audit observations**

Our transaction audit observations included in this Report highlight deficiencies in the management of Public Sector Undertakings involving significant financial implications. The irregularities pointed out are broadly of the following nature:

There were four cases of avoidable loss/expenditure amounting to ` 71.63 crore on account of:

- avoidable payment of interest;
- extra expenditure on architects' fee;
- extra expenditure on construction work; and
- extra expenditure on procurement of material.

*(Paragraphs 3.2, 3.5, 3.6 and 3.10)*

There were three cases of loss of revenue of ` 12.76 crore on account of:

- short levy of restoration fee and effect charges;
- inadmissible voltage rebate allowed to consumer; and
- short realisation of connection charges.

*(Paragraphs 3.1, 3.7 and 3.9)*

There were four cases of financial mis-management causing loss of ` 123.38 crore on account of:

- extra payment of corporate tax;
- imprudent management of funds;
- irregular investment in Kisan Vikas Patra; and
- imprudent management of funds for deposit work.

*(Paragraphs 3.3, 3.11, 3.12 and 3.13)*

There was one case of wasteful expenditure of ` 1.05 crore on account of:

- wasteful expenditure on GIS mapping.

*(Paragraph 3.8)*

Gist of some of the important paragraphs is given below:

- **Uttar Pradesh State Industrial Development Corporation Limited** short levied restoration fee and effect charges of ` 4.37 crore on an allottee.

*(Paragraph 3.1)*

- **Uttar Pradesh Projects Corporation Limited** paid avoidable corporate tax of ` 8.01 crore due to treating interest on unutilised/idle funds received from the Government for deposit works, as its own income.

*(Paragraph 3.3)*

- **Kanpur Electricity Supply Company Limited** incurred expenditure of ` 1.05 crore on GIS survey, mapping and software which could not be utilised due to errors in individual consumer indexing.

*(Paragraph 3.8)*

- **Uttar Pradesh Power Corporation Limited and Electricity Distribution Companies** suffered loss of ` 8.07 crore due to short levy of fixed charges on service connections.

*(Paragraph 3.9)*

- **Uttar Pradesh Jal Nigam** suffered loss of interest of ` 84.64 lakh on investment in Kisan Vikas Patra though not eligible to invest therein.

*(Paragraph 3.12)*

- **Uttar Pradesh Jal Nigam, Uttar Pradesh State Bridge Corporation Limited and Uttar Pradesh Police Avas Nigam Limited** did not utilise facility of auto sweep for keeping its unutilised funds resulting in loss of interest of ` 5.11 crore.

*(Paragraph 3.13)*