CHAPTER-III

3. 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

U.P. Projects Corporation Limited

3.1 Unintended benefit to the Architects

The Company extended unintended benefit of ₹ 61.57 lakh to architects on payment of Service Tax on architects fees.

U.P. Projects Corporation Limited (UPPCL) executes works of the State Government on deposit basis i.e. actual cost *plus* centage at prescribed rate thereon and has adopted the procedure followed by Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN) for the same. The State Government issued (February 1997) orders which provides for centage at the rate of 12.5 *per cent* which includes 1.5 *per cent* towards architect's fee. As the UPPCL does not have a separate architect wing, it appoints external architects for preparation of drawing/design and estimates in respect of the works being executed by the UPPCL. As per section 68 of Chapter V of the Finance Act, 1994 (Act) regarding Service Tax, every person providing taxable service to any person shall pay Service Tax at the rate specified in section 66 of the Act. Architect Services were made taxable under Service Tax from 16 October 1998.

As per the Government Order of February 1997, the admissible portion of architect's fee was to be kept within the prescribed limit of 1.5 *per cent* of the cost of project. We noticed that the UPPCL paid architect fee at the rate of 1.5 *per cent* and additionally Service Tax thereon; whereas, other construction agencies[*] of the State Government restricted the payment of architect fees up to 1.5 *per cent* (inclusive of Service Tax) of the project cost. Thus, the Company by doing so, passed on unintended benefit of ₹ 61.57 lakh[⊕] in respect of works executed by the UPPCL. As the element of Service Tax was not included and sanctioned in the estimates, the UPPCL could not get it reimbursed from State Government's Departments.

The Management stated (August 2012) that Service Tax on Architect Services was not there in February 1997 and was later imposed since 16 October 1998; hence, the payment of Service Tax on Architect Services was made. The reply further stated that the payment to architects was now restricted to 1.5 *per cent* (inclusive of the Service Tax) of the project cost.

We are not convinced with the reply as the UPPCL prior to making payment for architect services, should have checked with UPRNN (whose procedure has been adopted by UPPCL) which restricts payment of architect's fees to 1.5 *per cent* including Service Tax. By not doing so the UPPCL passed unintended benefit to the architects.

The matter was reported to the Government (June 2012); the reply has not been received (February 2013).

[*] Uttar Pradesh Rajkiya Nirman Nigam Limited and Construction & Design Services, Uttar Pradesh Jal Nigam.
[⊕] This represents figures in respect of 16 units audited.

3.2 Unjustifiable cost of installation of Astroturf for hockey

The UPPCL showed undue favour to a firm and awarded the work for supply of Astroturf at higher rate.

The Government of Uttar Pradesh awarded the work of reconstruction of Astroturf hockey field at Guru Govind Singh Sports College (GGSSC), Lucknow to the UPPCL. The UPPCL split work into five different work items[♣], prepared an estimate for ₹ 2.42 crore, for which administrative approval was accorded by the State Government. The UPPCL collected quotations from three firms and awarded (April 2011) all five items of work to Snap Sports India (SSI)[♦], for ₹ 2.18 crore. The work scheduled to be completed by 25 December 2011 was completed in April 2012.

In our scrutiny we noticed the following points:

- Central Vigilance Commission (CVC) guidelines (February 2011) provide that in case of purchase of plant/equipments of complex nature where the procuring organisation may not possess full knowledge of the various technical solutions available in the market, it would be prudent to invite expression of interest and finalise specifications based on technical specifications/presentations with the experienced manufacturer/supplier in a transparent manner. Though the Company had no prior experience/domain knowledge regarding the installation of Astroturf, it did not go in for the well established procedure[♥] and the laid down CVC guidelines for open tendering for high value contracts. The Company awarded all five items of work to a single firm on the basis of Purchase Committee[♠] Report (PCR), obtaining quotations from three firms. Open tendering would have ensured the best specifications and competitive rates.
- No rate analysis or market survey documentation was on record to justify the estimated cost of work. The item-wise cost break-ups did not tally with the cost abstract. Consequently, the genuineness of the item-wise cost of work could not be ascertained in audit.
- The work of supply of 6,400 m^2 imported Astroturf was awarded (2 April 2011) to SSI for ₹ 1.70 crore, at the rate of ₹ 2,650/m^2. We found that the Astroturf was actually purchased by SSI at ₹ 1,018/m^2. Interestingly, the Company was aware of the actual purchase rate on 12 June 2011 as it had sought duty exemption from Customs for the actual purchase rate and had also granted time extension on 25 June 2011. Since the firm had not made the supply and completed the installation within time, the Company should have negotiated with the firm to reduce the price of supply or cancel the contract. However, the Company granted the extension of time without attempting to get the price reduced to a realistic level.
- As per specifications displayed on the website of the manufacturer-ACT Global, the International Hockey Federation (FIH) approved turf *NFH-12* has pile weight of 1,780 gms/m^2 and secondary backing of

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♣ (a) Dismantling of existing Astroturf and stacking in site store, (b) Supply of 20 mm thick bituminous layer at site, (c) Leveling of sub base by 20mm thick bituminous layer complete work, (d) Supply of Xtreme Astroturf NFH-12 approved by International Hockey Federation (FIH) at site and (e) Laying of Astroturf with emulsion coat including carriage of bundles in local site, laboratory testing charges etc. and required labour & T&P.

♦ Also called Snap Sports, operating from three offices-two in Lucknow and one in Delhi

♥ As per para 360 of Financial Hand Book (FHB) vol VI

♠ consisting of (1) Project Manager (2) Assistant Project Manager (3) Junior Engineer and (4) Accountant.

1,000 gms/m^2, but, the supply order issued to SSI for the same brand of turf *NFH-12*, inexplicably under-specified the pile weight as 1,250 gms/m^2 and that of secondary backing as 1,080 gms/m^2.

- There was no testing done to ensure that the turf was installed properly as Field Test Report purported to be by FIH, dated 6 February 2012, submitted by the contractor to the Company, was not genuine as confirmed by Head of Sports, FIH to us vide letter dated 30 July 2012.
- The installation was not up to the standard which was evident from the facts that the Committee constituted* for checking the field observed (January 2012) that the Astroturf fixed was not as per international standards. Further, the Principal, GGSSC had also complained (February 2012) regarding the poor quality of Astroturf and lack of logo of manufacturer on the Astroturf.
- There was no provision of Performance Bank Guarantee from the SSI to ensure that the seven year warranty clause could be enforced.

Thus, on account of award of work without tenders, at higher rates without analysis of market trends, and on account of paying for 'testing' without any credible output, the Company showed undue favour to the firm.

The Management stated (September 2012) that the order for execution of the work was awarded after market survey by the Purchase Committee and the work was awarded to the firm offering the lowest rate. The fact remains that the Company did not go in for open tendering as laid down in Financial Hand Book (FHB) and Central Vigilance Commission guidelines. The Management, however, did not intimate reason as to why negotiation to reduce the rate of Astroturf, with the supplier prior to allowing the time extension, was not done despite knowing that the supplier had purchased Astroturf at much lower rate.

The matter was reported to the Government (July 2012); the reply has not been received (February 2013).

Uttar Pradesh Jal Nigam and U. P. Projects Corporation Limited

3.3 Avoidable expenditure on procurement of cement

The Nigam/UPPCL incurred avoidable expenditure of Rupees two crore due to non-execution of Rate Contracts for procurement of Cement.

The Construction and Design Services, Uttar Pradesh Jal Nigam (Nigam) and U.P. Projects Corporation Limited (UPPCL) are apex construction agencies of the Government of Uttar Pradesh along with other agencies viz. Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN) and Uttar Pradesh State Bridge Corporation Limited (UPSBCL). In order to ensure quality in execution of the projects, procurement of vital inputs such as cement is of utmost importance. Both the Companies *viz.* UPRNN and UPSBCL had been entering into Rate Contract with the manufacturers for procurement of cement.

We observed that there was no system in the Nigam and UPPCL to procure the cement on the basis of Rate Contracts. As a result, the rates of procurement of cement varied from Unit to Unit and were on higher side when compared with the procurement rates of cement of UPRNN and UPSBCL during the same period.

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* Consisting of Shri Sayed Ali, Olympian Hockey Player; Shri Mukul Shah, International Hockey Player; and Shri Rashid Aziz, Trainer, Hockey, Sports Authority of India.

We found that two units of the Nigam♣, during the period from June 2009 to February 2012, procured 2,42,122 bags of cement (PPC) at the rates ranging between ₹ 244 per bag and ₹ 334 per bag on the basis of Purchase Committee Report (PCR) from local suppliers; whereas, during the same period UPRNN procured cement at the contracted rate ranging between ₹ 167 per bag and ₹ 277 per bag.

Similarly it was observed that three units of UPPCL♦, during the period from June 2010 to December 2011, procured 2,52,322 bags of cement (PPC) at the rates ranging between ₹ 231 per bag and ₹ 295 per bag on the basis of PCR from local suppliers; whereas, during the same period UPRNN procured cement at the contracted rate ranging between ₹ 171 per bag and ₹ 270 per bag and UPSBCL procured cement at the contracted rate ranging between ₹ 170 per bag and ₹ 240 per bag. By entering into similar Rate Contracts, the extra expenditure of Rupees two crore♥ incurred by the Nigam and UPPCL on procurement of Cement could have been avoided.

The UPPCL Management stated (September 2012) that Company mainly handles small projects situated mainly in rural areas and payment was made after supply of cement, and there was no provision of storage. Also rates are fixed by producers every week, hence purchase for three months at a single rate was impractical as the supplier would create hurdles in supply and Company would also have to pay at higher rate. The Management's reply is an afterthought and not acceptable. Further, the Company did not make any endeavour to procure cement on Rate Contract either on its own or adopting the Rate Contract of UPSBCL.

We recommend that all the Companies/Corporations engaged in civil construction should co-ordinate and evolve a system of procuring material directly from manufacturers through a Rate Contract/Joint Rate Contract so as to gain benefit of most economic prices.

The matter was reported to the Nigam and Government (July 2012); their reply has not been received (February 2013).

Uttar Pradesh Power Corporation Limited

3.4 Recurring loss due to finalisation of bid at higher rate for power purchase

Introduction

3.4.1 Prayagraj Power Generation Company Limited (PPGCL) was incorporated on 12 February 2007 as Special Purpose Vehicle (SPV) for setting up Thermal Power Station (TPS) at Bara (3x660MW) in district Allahabad. Feedback Ventures Limited was appointed as consultant to evaluate the bids and to perform task relating to finalisation of bidding process. The Consultant had computed the expected tariff of ₹ 2.60 to ₹ 2.70 per Kwh on levelised basis which was apprised to Energy Task Force (ETF) in its meeting held on 5 May 2008.

The U.P. Power Corporation Limited (UPPCL) on behalf of procurers (DISCOMs[*]) invited (June 2007) bids through its authorised representatives (PPGCL) for private sector participation to finance, develop, construct,

♣ Kanpur Unit and Hardoi Unit

♦ Unit-13 Lucknow, Unit-14 Lucknow, Unit-17 Lucknow

♥ Uttar Pradesh Jal Nigam (₹ 1.43 crore compared with UPRNN); UPPCL (₹ 0.57 crore compared with UPSBCL). Comparison was made keeping in view the magnitude of the projects executed.

[*] DVVNL, MVVNL, PuVVNL, PVVNL & KESCO Limited

commission, own, operate and maintain at Bara TPS and supply of power to DISCOMs for a period of 25 years. The bidding documents comprised (i) Request For Qualification (RFQ) containing technical and financial criteria and (ii) Request For Proposal (RFP) which were to be issued to those bidders who qualify the technical and financial criteria.

The tariff was to be quoted in prescribed format comprising of Escalable capacity charge, Non-escalable capacity charge** and Heat rate (kcal/Kwh); Levelised Tariff was to be worked out on these basis. The bidder offering the lowest Levelised Tariff was to be selected as successful bidder.

Clause 2.7.1.3 of RFP provided that in case the bidder made a wrong statement, misrepresented facts or made a misleading statement in its bid in any manner-whatsoever, the bid was liable to be rejected by the Procurer/Authorised Representative.

Finalisation of bid

3.4.2 The events occurred are enumerated below:

- The bids were invited (June 2007) by UPPCL for Bara Power Project. Four♣ bids were received and all were found responsive; hence financial bids were opened (11 April 2008). As financial bids were found on higher side, best reduced prices were called for in May 2008.
- Four bidders submitted best reduced prices for the project. The rates quoted by lowest (L_1) i.e. Reliance Power Limited (RPL) were not found feasible, hence on recommendations of Bid Evaluation Committee (BEC) and Energy Task Force (ETF), GoUP decided (July 2008) to annul the bid and decided (August 2008) to invite fresh bid.
- Second fresh bids were invited in August 2008 for the project. Three♦ bids were received. The rates obtained were again found on higher side. The best reduced prices, therefore, were called in February 2009.
- Three bidders submitted best reduced price for Bara. The lowest rate of ₹ 3.020 per unit quoted by JaiPrakash Associates Limited (JAL) was finalised and letter of intents (LOI) was issued in March 2009.

A comparative position of L_1 and L_2 rates obtained against 1st bid and 2nd bid is depicted as under:

Bid/Date	Name of Bidder	Quoted levelised tariff per unit		Station Heat Rate (SHR) Quoted Initially/ best reduced
		Initial	Best Reduced	
1st bid/June 2007	LANCO	2.888(L_1)	2.651(L_2)	2394/2394
	Reliance Power Limited (RPL)	2.940(L_2)	2.640(L_1)	1805/05
2nd bid/August 2008	LANCO	3.091(L_1)	3.091(L_2)	2350/2350
	JAL	3.366(L_2)	3.020(L_1)	2350/2350

Audit findings

3.4.3 We examined the documents *viz.* preparation of Request for Qualification, Request for Proposal, Comparative rates, Tender Evaluation Reports and Power Purchase Agreements along with evaluation/ recommendations of the Bid Evaluation Committee and Energy Task Force and found lacunae in formation of Committees viz. BEC and ETF and award of higher rates for purchase of power as discussed in succeeding paragraphs.

** The capacity charges formed part of the tariff comprising of escalable and non-escalable (fixed) capacity charges. The escalable capacity charges were to be escalated at the annual escalation rate notified by the CERC and non-escalable capacity charges were fixed during the period of contract.

♣ LANCO, RPL,JSPL and NTPC.

♦ LANCO, RPL and JAL.

Role of Committees

3.4.4 As a matter of principle, in case any decision is to be taken by the Government after two-tier vetting at lower level; the composition of both tier system should, fundamentally, be different with different Chair-persons in order to ensure independent and objective evaluation at all levels.

The bids were to be finalised by the Government on the basis of evaluation of Bids Evaluation Committee (BEC)[♥]and recommendations of Energy Task Force (ETF)[♠]. We noticed that, in both BEC and ETF, most of the members were common[♣] and the Chair-person was the same officer holding charge of the Chief Secretary and IIDC of the State. Under such situation, fair and objective evaluation of the recommendations of BEC, by the ETF was not possible and ETF merely agreed with the BEC without examining the alternative available to the procurers during the evaluation of Best rate after the first bid.

Award of higher rates for power purchase

3.4.5 We noticed that against the first bid invited in June 2007, the rate (₹ 2.888 per Kwh) quoted by LANCO was lowest (L_1) but this was evaluated by the Consultant as higher by 5 to 10 *per cent* than the expected tariff (₹ 2.60 to ₹ 2.70 per Kwh). The best reduced price, therefore, were invited in May 2008. The best reduced rate (₹ 2.64 per Kwh) quoted by RPL was not accepted as this was not found feasible by ETF due to following:

- The quoted SHR of 5 Kcal/KWH against earlier quoted SHR of 1805 Kcal/Kwh was not practically viable.
- Based on the tariff analysis using Central Electricity Regulatory Commission (CERC) norms on quoted tariff of RPL, the bidder recovers its entire fixed cost in the initial 15 years of the contract period and after 18/19 years; the project will start incurring operational cash losses. Therefore, it carried risk of abandonment of the plant by the bidder.

The Consultant, therefore, appraised BEC following three options available as per terms of RFP:

- Invite " Best Reduced Financial Bid";
- Annul the bid process; or
- Take any such measure as may be deemed fit in the sole consideration of the procurer/authorised representative.

As first option had already been exercised, the ETF, on the basis of second option recommended by the BEC, decided (July 2008) to annul the bid. The ETF, however, did not discuss the course of action available under third option. It may be mentioned that L_2 rates offered by LANCO which were higher by only 1.10 paise per unit than L_1 and the bid was otherwise feasible on the following grounds:

- LANCO bid was responsive, fulfilling all qualifying criteria.
- Bid was unconditional.

♥ Composition of BEC : Infrastructure and Industrial Development Commissioner (IIDC),Chairman, Chairman UPPCL, Principal Secretary(Energy), Principal Secretary(Finance), Managing Director UPPCL, Representative of Central Electricity Authority, Director(Transmission), Director(Finance) UPPCL, Advisor UPRVUNL. Since July 2008 the Chief Secretary (CS), GOUP held both positions of CS and IIDC.

♠ Composition of ETF : Infrastructure and Industrial Development Commissioner (Chairman), Principal Secretary(Finance), Principal Secretary(Energy), Principal Secretary(Irrigation), Principal Secretary(Planning), Principal Secretary(Environment), Principal Secretary (Nyaya), Chairman UPPCL, Managing Director UPRVUNL, Managing Director UPPCL.

♣ Five out of nine members of BEC (including chair person) were also members of ETF.

- The tariff stream quoted by LANCO (₹ 2.651 per Kwh) was within the estimation (₹ 2.60 to ₹ 2.70 per Kwh) made by the Consultant.
- The tariff stream quoted by LANCO was found more appropriately comparable with the projects executed with coal linkage provided by the State utility in other States of the country.
- The rate difference between L_1 (RPL) and L_2 (LANCO) was only 1.10 paise per Kwh.

Thus, the BEC and ETF ignored the option of sole consideration of procurer to consider the available best alternative of selecting the responsive and financially feasible bid of LANCO. The annulling of the process and the subsequent rebid in August 2008 led to a massive hike in the levelised Tariff offered (₹ 0.369/Kwh) as compared to the available best alternative just one month earlier i.e., in July 2008. This will lead to a loss to the extent of ₹ 10,831.82 crore♠ (**Annexure-15**) in 25 years of the period of contract of the Project which has already been handed over to JAL in March 2009.

The Management stated (September 2012) that Ministry of Power (MOP) does not provide any range for SHR value. Accordingly, RFP did not contain any clause that a bid can be rejected on the ground of any quoted value of the SHR. Therefore, bid of RPL could not be assumed as non-responsive to culminate into cancellation on this ground.

We do not agree with the reply of the Management because in compliance of the provisions of RFP, the bidder (RPL) had furnished an undertaking as prescribed in Annexure-6 of RFP that they had neither made any statement nor provided any information in the bid which to the best of their knowledge was materially inaccurate or misleading. Such undertaking was factually incorrect because 05 SHR quoted by the bidder was misleading and unworkable in view of prevailing SHR of the Power industry. Under such circumstances the bid of the RPL was liable to be rejected and bid submitted by LANCO being within the expected and workable tariff should have been finalised.

The matter was reported to the Government (August 2012); the reply has not been received (February 2013).

3.5 Irregular expenditure on publishing 'White Paper' books

The Company made payment of ₹ 29 lakh by bearing expenses of White Paper books without exercising the checks and balances for ensuring the genuineness of invoices.

The Uttar Pradesh Power Corporation Limited (Company), which is registered as a Public Limited Company under the Companies Act, 1956, is engaged in co-ordination of its subsidiary companies carrying generation, transmission and distribution of electrical energy in the State.

The State Government released (18 July 2009) a 'White Paper' relating to development, future targets and projects in the Energy sector for wide propagation. The Company, after obtaining *ex-post facto* approval of the Board of Directors, made payment (September 2009) of ₹ 29 lakh to three suppliers against four invoices indicating as printing of White Paper Books as detailed in the table below:

♠ Methodology adopted in calculation of Loss :
(Year wise Units to be purchased in contract period from JAL* per unit rate to be paid to JAL) *less* (Year wise Units to be purchased in contract period from LANCO* per unit rate to be paid to LANCO)
Units to be purchased= Contracted Capacity in MW(as per LOI) x KW x Hours x Days in Year.

Particulars	Description of work of Printing of White Paper Books	Quantity (Number)	Rate (₹)	Amount (₹)
Uttar Pradesh Sahkari Sangh Limited (UPSSL)	Inner papers in two colours on 90 GSM and Covers in four colours on 250 GSM Art Paper	1,50,500	4.32 (VAT extra)	679417
	Inner papers in two colours on 190 GSM and Covers in four colours on 300 GSM Art Paper	1,20,500	8.79 (VAT extra)	1106858
Prakash Packagers	Printing of White Paper Books- 8 inner pages and cover in four colours	3,00,000	2.18 (incl VAT)	654000
Solar Print Process (P) Limited (SPPL)	Printing of White Papers- Inner pages in two colours and Cover in four colours	1,50,000	2.95 (VAT extra)	460200
Total		7,21,000		2900475

We noticed various irregularities in placement of orders and payments made to suppliers which are discussed below:

- The description of work did not specify the number of pages of the White Paper Books printed by UPSSL and SPPL due to which genuineness of rates awarded could not be ensured in audit.
- The UPSSL sent 1,50,500 White Paper books vide their delivery challan No.401 dated 18 July 2009 and 1,20,500 books vide challan No.404 dated 22 July 2009. These delivery challans were not signed by any of official of the Energy Department acknowledging receipt of goods.
- Prakash Packagers did not submit any delivery challan in support of their bills; as such, we were not able to ensure as to whether the White Paper books were actually delivered. Further, delivery challan and bills of SPPL were not made available to us.
- The Energy Department also did not furnish any detail of quotation/tender called for, comparative chart of the participating parties, specimen of the White Paper books.
- The delivery challans furnished by UPSSL and bills of all suppliers did not contain name of authority and their work order number and date and actual supply and its proper accountal in the store ledgers were also not ensured at any level of the Energy Department.

Thus, the Company made payment of ₹ 29 lakh to the suppliers without exercising checks and balances for ensuring genuineness of payments.

The Management stated (November 2011) that the whole process was completed by the Energy Department. Since the Secretary (Energy) was holding charge of CMD, no documents were received and bills for payment were received from CMD office.

We do not agree with the reply due to following:

- Quotations invited and orders placed to suppliers for the aforesaid work were not made available to Audit. The bills/challans submitted by the suppliers did also not contain reference of supply orders number/date and name of authority.
- There were no orders of the Government to the Company for making payments. The reply also indicates that the Secretary of the Administrative Department, simultaneously holding charge of Chairman and Managing Director of the Company, ordered for making irregular payments.

The matter was reported to the Government in June 2012; their reply has not been received (February 2013).

Dakshinanchal Vidyut Vitran Nigam Limited

3.6 Irregularities in finalisation of Distribution Franchisee Agreement

Introduction

3.6.1 The Electricity Act, 2003, under 7th proviso to Section 14, opens new avenues for bringing in private participation in the distribution sector; which states that, in a case where a distribution licensee proposes to undertake distribution of electricity for a specified area within his area of supply through another person, that person shall not be required to obtain any separate license from the concerned State Commission and such distribution licensee shall be responsible for distribution of electricity in his area of supply.

The UPPCL, in an endeavourer to improve operational and commercial efficiency of the distribution system and quality of service to its consumers, sought (July 2008) approval from the State Government to bring in management expertise through public-private participation in distribution of electricity. For this purpose, the Government directed (December 2008) Uttar Pradesh Power Corporation Limited (UPPCL) to appoint a Consultant for preparation of Request for Proposal (RFP) and advisory work to finalise engagement of Distribution Franchisee (DF); and conveyed (January 2009) decision for implementing Input Based Distribution Franchisee System (IBDFS) in urban areas of the State.

In accordance with the decision of the Government, UPPCL appointed (January 2009) Feedback Ventures Private Limited as Consultant. The Consultant prepared RFP which was duly approved by Energy Task Force (ETF[*]). The RFP was issued (31January/1 February 2009) to prospective bidders and bids opened on 25 February 2009. Among three technically qualified bidders, Torrent Power Limited (TPL), being highest bidder, was appointed as DF for Agra city under Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL) for a period of 20 years. Letter of Intent was issued on 26 February 2009 which was agreed to by the DF. Agreement was entered into with the DF in May 2009.

There was a delay in completion of the pre-takeover formalities and satisfaction of conditions precedent to the DFA. After completion of these formalities, a Revised/Supplementary agreement was entered into with the DF in March 2010 and the Distribution network of Agra city was handed over to the DF on 1 April 2010.

Objective of IBDFS

3.6.2 It was set out in RFP that the DF shall be responsible for all the activities relating to distribution of power towards fulfillment of UPPCL's obligations under the Electricity Act, 2003 and the distribution license subject to the terms and conditions as stipulated from time to time by UPPCL, Government of India, Government of Uttar Pradesh and Uttar Pradesh Electricity Regulatory Commission (UPERC). The performance improvement indicators were as below:

- To minimise aggregate Distribution and Commercial Losses;
- To bring improvement in metering, billing and revenue collection;
- To minimise current assets on account of arrears; and
- To enhance customers satisfaction level by improving quality of service.

[*] Comprising of Secretaries of Energy Department, Infrastructure and Industrial Development Department, Finance Department, Law, Environment , Irrigation, Planning and Chairman & Managing Director of UPPCL and UPRVUNL.

Request for proposal and tender specifications

3.6.3 The Consultant, based on the data of the Commercial Statement (CS-3/4) for the year 2008-09 (up to December 2008), took 29.39 *per cent* T&D losses and 82.34 *per cent* collection efficiency for the base year (2008-09) and fixed the following main parameters:

- To supply 1902.38 MU Input Energy with zero increase for the period of 20 years.
- To reduce the current T&D losses of 29.39 *per cent* up to the level of 14 *per cent* within first five years and up to 11 *per cent* by the end of 20 years.
- To increase the current collection efficiency level of 82.34 *per cent* up to 90 *per cent* within five years and continue for 20 years.
- The project cost♦ of the DF was considered to be financed 70 *per cent* through debts and 30 *per cent* through equity. Accordingly expenses supposed to be incurred by DF included, interest on working capital and capital investment, depreciation, provision for bad debts and return on equity etc.

On the above data and parameters, the Consultant prepared projection for 20 years by computing the Indicative Reserve Input Rates (BST) and Expected Input Energy Rate (EIER) as below:

(₹ per unit)

Particulars	Computations made by Consultant for	
	First year	20th year
Revenue billed per unit of Sold Energy	2.82	3.03
Revenue billed per unit of Input Energy	2.12	2.70
Expenses of DF for distribution of energy	0.21	0.32
Indicative Reserve Input Rate (BST) for the first year	1.91	2.38
Levelised Rate of Indicative BST of 20 years	2.12	
Levelised Rate of Revenue billed per unit of Input Energy of 20 years	2.45	
Expected Input Energy Rate (EIER)	2.10	

The RFP alongwith tender specifications were issued on 31 January/1 February 2009 to the bidders which provided that the Minimum Reserve Price (MRP) shall be intimated to the bidders in a pre-bid meeting. Details of pre-bid meeting were not provided to Audit. The ETF, however, approved (6 February 2009) the above Indicative Reserve Input Rates (BST). The UPPCL also intimated (10 February 2009) to bidders the EIER of ₹ 2.10 per unit for first year and ₹ 2.45 per unit as Levelised Rate for 20th year. The bidders were required to quote their rates on the basis of these EIER.

Evaluation of bid

3.6.4 Among three technically qualified bidders, the TPL had quoted highest rate of ₹ 1.52 per unit for the first year and Levelised Rate at ₹ 1.95 per unit. After negotiation, the first year's rate was enhanced to ₹ 1.54 per unit and, accordingly the Levelised Rate worked out to ₹ 1.96 per unit. The ETF had reservations on the revised rates of TPL as these were lower than the desired Levelised Rate of ₹ 2.45 per unit and Bulk Tariff of ₹ 2.69 per unit due to which the DVVNL will have to incur always financial losses.

At the time of bid evaluation (24 February 2009), the Consultant in their Report had, however, considered EIER as ₹ 1.74 per unit based on the data of 2008-09 (December 2008). Out of this rate, the consultant had deducted ₹ 0.47♥ per unit on account of expenditures likely to be incurred based on

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♦ Working capital ₹ 39.94 crore to ₹ 128.48 crore and capital investment of ₹ 200 crore during 20 years period of contract

♥ Electricity Duty ₹ 0.09; Employee, Administration and O&M expenses: ₹ 0.21 and Arrears & Miscellaneous Charges on account of delayed payment surcharge and meter rental: ₹ 0.17.

discussion with DVVNL officials and arrived at the net revenue recovery rate of Agra city at ₹ 1.27 per unit. The quoted rate of ₹ 1.54 per unit was compared with the net revenue realisation rate of ₹ 1.27 per unit and justified the negotiated rate of ₹ 1.54 per unit to award to the TPL. This was approved by ETF in their meeting of 25 February 2009.

Audit findings

3.6.5 We examined (October 2011 to March 2012) the Request for Proposal and its supported data computations prepared by the Consultant, Distribution Franchise Agreement and its Supplementary Agreement, Billing Records for the period from 1April 2010 to February 2012. Our findings are discussed in succeeding paragraphs.

Finalisation of Input Energy Rate based on unrealistic data

3.6.6 The set of data intimated in RFP projection made by the Consultant, data considered at the time of tender evaluation and data later on reported by the Chief Engineer of DVVNL have been shown in the table given below:

Sl. No	Particulars	Data intimated in RFP For Base year 2008-09 (up to December 2008)	Projection made by Consultant in January 2009 for the first year of the contract	Data for 2008-09 (up to December 2008) considered at the time of finalization (24/25 February 2009) of the Tender		Data reported by CE of DVVNL in November 2009 for the year 2008-09	
				All category of consumers	Taking Non-Government consumers only	As per CS-3/4*	Corrected data
1	2	3	4	5	6	7	8
1.	Input Energy (MU)	1270.02	1902.38	1409.160	1368.511	1829.648	1829.648
2.	Energy sold (MU)	911.1	1431.05	1009.418	968.769	1317.395	1009.000
3.	Revenue billed for sold units (₹ in crore)	256.85	403.21		269.90	384.05	413.83
4.	Revenue realised against billed (₹ in crore)	211.49	345.67		238.24		331.66**
5.	T&D Losses (*Per cent*)	28.22	24.78	28.37	29.21	28.00	44.85
6.	Collection efficiency (*Per cent*)	82.34	85.73		88.27		77.24
7.	Revenue billed per unit sold energy	2.82	2.82		2.79		4.10
8.	Revenue billed per unit of Input Energy	2.02	2.12		1.97		2.26
9.	Revenue realised per unit sold	2.32	2.42		2.46		3.17
10.	Revenue realised per unit of Input Energy	1.67	1.82		1.74		1.75

As can be seen from the above, the current performance level (T&D losses: 28.22 *per cent* and collection efficiency: 82.34 *per cent*) of the Company were intimated in RFP as shown in column-3. The Consultant also had projected the indicative BST for 20 years by taking T&D losses of 29.39 *per cent* and collection efficiency of 82.34 *per cent* as shown in column-4. All these set of data were altogether not considered while finalsing the tender. Another set of data was redesigned to justify the Input Energy Rate of ₹ 1.54 per unit quoted by TPL by comparing with ₹ 1.74 per unit which was not correct on account of the following:

- The data in support of ₹ 1.74 per unit of revenue realised per unit of Input Energy was related to only Non-Government consumers; whereas, the Government consumers in the city were being billed and realised either directly by the DVVNL or through adjustments at the

* Commercial Statements

** Including Electricity Duty of ₹ 12.00 crore.

Government level. Hence, excluding this set of consumers was illogical, as revenue is also realised from them.

- As could be seen from the data given in the table above, the Chief Engineer of DVVNL had intimated (November 2009) that energy sold was 1317.395 MU as per CS-3/4 records of the Company which was corrected to 1009 MU. The energy sold up to December 2008 was also 1009.418 MU on the basis of which the rate of ₹ 1.54 per unit was finalised in February 2009. Taking the same figure for the whole year (2008-09) after correction is again a clear indication that the figures were adjusted to justify the awarded rate.
- The computations made by the Consultant were based on the parameters of reduction of T&D losses up to 14 *per cent* in first five years and 90 *per cent* collection efficiency. The bidders were required to quote their rates accordingly and in case of failure in achieving these targets, they themselves were supposed to bear on. The indicative rates derived on the basis of the computations of the Consultant were also approved by the ETF. While finalising the rates of TPL, bringing in concept of AT&C losses, which includes unrealized amount of revenue billed also, was contrary to the indicative rates approved by ETF itself and impacted on the EIER by reducing it to extent of ₹ 0.23* per unit at their own redesigned data.

Thus, consideration of data for only Non-Government consumers and bringing in concept of AT&C losses instead of T&D losses by the Consultant and DVVNL happened after opening the financial bid. Therefore, finalising the rate based on changed data was, *ab initio,* not correct and construed to extending undue favour to TPL.

We noticed that the Indicative Reserve Input Rate (BST) for the first year was ₹ 1.91** per unit against which ETF approved actual levelised rate for 20 years at ₹ 2.12 per unit. At this BST, the DVVNL would maintain the level of revenue which it was obtaining from sale of energy to consumers through own operation. Acceptance of bid below these BST would clearly cause additional losses to DVVNL; therefore, acceptance of rates below these rates was not prudent decision. We compared the rates of ₹ 1.54 per unit to ₹ 2.23 per unit awarded to TPL with the Indicative Reserve Input Rate (BST) of ₹.1.91 per unit to ₹ 2.38 per unit for 20 years period of contract as computed by the Consultant and found that the DVVNL has already incurred additional loss of ₹ 156.50 crore up to March 2012, this will go up to ₹ 636.39 crore (**Annexure-16**) on termination of the contract period.

The Management stated (September 2012) that very basis of expectation of first year Reserve price of ₹ 1.91 per unit and ₹ 2.12 per unit for 20th year was misconceived. It was also stated that as no bidder was willing to increase the input rate to the level worked out by the Consultant due to which the bid of TPL was accepted. We do not agree with the reply as, if the data/figures contained in RFP and computation of Reserve price worked out by the Consultant were false and misconceived, the whole process of bidding should have been scrapped by the Management and process for inviting fresh Tender based on corrected data should have been initiated. Furthermore, the Management had itself reported T&D losses of 25.65 *per cent* in accounts of

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* (Revenue billed for sold units/Input Energy minus Revenue realized against billed amount/Input Energy) i.e. ₹ 269.90 crore/1368.511 MU minus ₹ 238.24/1368.511 MU= ₹ 0.23

** (Average Input Energy per unit of revenue billed amount: ₹ 2.12 per unit *minus* Expenses expected to be incurred by DF: ₹ 0.21 per unit = ₹ 1.91 per unit).

the 2008-09 on 23 August 2012 and also reported to UPERC for finalization of the tariff for the subsequent years which confirms that parameters set by the consultant on the basis of CS-3/4 of the Company were very near to accuracy.

Non-absorption of Employees' cost

3.6.7 The RFP clause No. 3.3.4 provided that DVVNL shall permit deputation of its employees to the Distribution Franchisee subject to the condition that their employment terms and conditions shall be DVVNL's/ UPPCL's terms and conditions of deputation as attached at Annexure 6 to the DF Agreement. Article 12.1 of the DF Agreement provided that DVVNL will make list of such employees who wish to be on deputation. Thereafter, the DF shall have freedom to choose from the list of willing employees. The DF will have a right to accept/reject without assigning any reason thereof. We observed that the EIER of ₹ 1.91 to ₹ 2.38 per unit for 20 years computed by the Consultant was arrived at after deducting expenses of ₹ 0.21 per unit to ₹ 0.32 per unit allowed to DF during the span of 20 years included Employees cost (₹ 0.08 to ₹ 0.17 per unit) to the extent of ₹ 703.95 crore. The employees of DVVNL were, however, not absorbed by the TPL. Therefore, the DVVNL continues to bear their burden from its own sources. While finalising the rates, the DVVNL did not account for this aspect which has already placed financial burden to the extent of ₹ 31.99 crore up to March 2012, this will go up to ₹ 703.95 crore on completion of the contract period. Hence, this expense of ₹ 0.21 per unit to ₹ 0.32 per unit allowed to the DF was too high and needed a downward revision by ₹ 0.08 to ₹ 0.17 per unit on account of non-absorption of employees cost. We have been unable to quantify the amount in absence of the information on actual Employee cost of the DF. However, it is clear that this aspect was totally ignored in the calculations, leading to an undue favour to the DF and consequent recurring loss to DVVNL in addition to the burden of ₹ 703.95 crore as mentioned above.

The Management stated (September 2012) that the staff who was working in Agra city was transferred to other field units where they were required. We feel that the Management should have made efforts to accommodate its employee with the TPL so as to reduce the establishment burden, as the BST of ₹ 1.91 per unit to ₹ 2.38 per unit was arrived at by reducing establishment expenses to the extent of ₹ 703.95 crore in 20 years of the contract period. If employees could not be accommodated, the BST should have been negotiated upward.

Loss due to unjustified changes in ATR

3.6.8 Article-2.1.3.4 of the Agreement provided for determination of Average Tariff Rate (ATR) for the base year (2008-09) for the purpose of billing under Article-7. Accordingly, the joint team of the officers of DVVNL and the DF worked out (October 2009) ATR for base year at ₹ 4.10 per unit.

With the mutual consent of TPL and DVVNL, the ETF took following decisions in the meeting held in December 2009:

- After keeping in view the element of data error, the base year ATR was mutually agreed at ₹ 3.98 per unit. The distribution work was to be handed over to the DF on this basis.
- Further increase in ATR of ongoing years, benefit of increase in ATR shall be passed on to DVVNL in the Tariff Index Ratio (TIR[♦]).

[♦] TIR= Present ATR/Base Year ATR

- The increase in ATR of 2009-10 shall be computed in reference to the collection efficiency and will be added in the Input Energy Rates of each of 20 years to pass on to DVVNL.

Accordingly, the Supplementary Agreement between DF and DVVNL incorporated (in the clauses of the original agreement) these decisions as under:

- Article-2.1.3.4 provided that if the base year ATR is computed above ₹ 3.98 per unit, the amount of ₹ 3.98 per unit will remain unchanged but if the computed base year ATR is less than ₹ 3.98 per unit, the same shall be taken as ATR for the base year.
- Article-7.1.1 pertaining to monthly invoicing (billing) provided that ATR of billing month will be multiplied by TIR to arrive at the Effective Input Rate for that particular month.
- Further, in reference to the decision of the ETF, ATR for 2010-11 based on the Tariff approved by UPERC was to be considered for passing on benefit of Tariff revision, as it was not revised in the year 2009-10.

We noticed that the above decisions were incorrectly applied in the billing as discussed below:

- The ATR for the year 2009-10 was worked out to ₹ 4.73 per unit. This ATR was proportionally reduced to ₹ 4.59[♣] per unit. This reduced ATR of ₹ 4.59 per unit had incorrectly been treated as base year ATR with effect from 15 April 2010, instead of ₹ 3.98 per unit violating Article 2.1.3.4 of the Supplementary Agreement.
- Taking higher amount of ATR of base year in the billing impacted that the TIR[∞] would work out at lower side always leading to recurring losses for the whole period of contract to DVVNL.
- Tariff revision was pending with UPERC during the year 2009-10. The revised Tariff was made applicable with effect from 15 April 2010 by UPERC. Therefore, increase in ATR during 2010-11 i.e., ₹ 4.85 per unit should have been considered for computing increase in Input Energy Rate. We noticed that DVVNL had wrongly agreed to the increase of ₹ 0.26 per unit instead of ₹ 0.51 per unit as shown in the following table below:

Particulars	As per RFP clause	In (₹)	As per Supplementary Agreement	In (₹)
Increase in ATR	4.85-3.98	0.87	4.73-4.10[♦]	0.63
Less; T&D Losses (*Per cent*)	28.22	0.25	44.85	0.28
Increase in ATR after T&D Losses	--	0.62	--	0.35
Collection efficiency (*Per cent*)	82.34	--	74.77	--
Increase in ATR after efficiency	--	0.51	--	0.26

We noticed that:

- DVVNL had reported changed figures[♥] of T&D losses of 44.85 *per cent* and collection efficiency of 74.77 *per cent* rather than figures of 28.22 *per cent* and 82.34 *per cent* originally given in the RFP. We noticed that 28.22 and 82.34 *per cent* are in conformity with the actual

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[♣] (4.73 x 3.98/4.10)=4.59.

[∞] (4.85/4.59=1.06) and (4.85/3.98=1.22)

[♦] ₹ 4.73 per unit is the ATR of 2009-10 and ₹ 4.10 per unit is the ATR of 2008-09 before considering data error; After applying data error, these have been taken respectively as ₹ 4.59 per unit and ₹ 3.98 per unit.

[♥] On 4 November 2009.

T&D losses reported to UPERC and in the statement of accounts of the DVVNL and UPPCL.

They are also consistent with the figures reported to us during our audits. Hence the figures of 44.85 *per cent* of T&D losses and 74.77 *per cent* collection efficiency have no base and logic.

Adoption of these illogical and unsupported figures has impacted adversely on the calculated increase in ATR and led to losses.

- The Supplementary Agreement was signed in March 2010 and work handed over w.e.f. 1 April 2010. Hence adoption of ₹ 4.73 per unit was incorrect as it pertained to the year 2009-10 during which Tariff was not revised. The revised Tariff approved by UPERC was effective from 15 April 2010, therefore, ATR of ₹ 4.85 per unit for the year 2010-11 should have been taken into account for computation of increase in Tariff rate.

Thus, by accepting incorrect change of ATR of base year from ₹ 3.98 per unit to ₹ 4.59 per unit and by allowing increase in ATR by ₹ 0.26 per unit instead of ₹ 0.51 per unit; the DVVNL has incurred revenue loss of ₹ 232.63 crore up to March 2012; this would go up to ₹ 3,681.90 crore (**Annexure-17**) in next 18 years.

The Management stated (September 2012) that change in Base year ATR was affected in conformity to the Provision of Article 2.1.3.4 of the Supplementary Agreement. This was also provided in the Article 2.1.34 that since the tariff for financial year 2009-10 was to be revised and after revision, the base year tariff will be worked out on new rates and new base year tariff will be fixed for the entire contract period after adjusting the same in the ratio of ₹ 3.98 to revised tariff. We do not agree with the reply as the Article 2.1.3.4 of the Supplementary Agreement clearly stipulated that "if the Base year average tariff after the audit is computed above ₹ 3.98 per unit, the amount of ₹ 3.98 per unit will remain same and if the computed base year tariff is less than ₹ 3.98 per unit, the same shall be taken as Base year tariff". Further, computation of BST by the Consultant and actual rates awarded to TPL were fundamentally based on the ATR of ₹ 3.98 per unit. Any upward revision of base year ATR had impact that the billing will be done at lower rates for the whole period of the contract which is detrimental to the financial interest of the Company.

Performance evaluation of the DF

3.6.9 We evaluated the performance of the DF in terms of the objective envisaged in IBDFS and found that the objectives have not been fulfilled as discussed below:

Non-reduction in AT&C losses as envisaged

3.6.10 The Article-5.8 of the agreement provided that the DF shall achieve a level of 15 *per cent* AT&C♣ losses (Computed on the formulae♥) within seven years from the effective date. If the DF fails to achieve this based on year end AT&C losses at the end of seventh year, a penalty equivalent to 10 *per cent* of the revenue lost due to non-achievement of the target shall be recoverable from the DF.

♣ Aggregate of technical loss, commercial losses and shortage due to non-realisation of total billed amount.

♥ Total Energy Input less Energy Realised /Total Energy Input x 100. Where, Energy realised is the sale of energy x collection efficiency.

We noticed that due to the above condition, the DF would be able to incur any level of AT&C losses by paying penalty of merely 10 *per cent*. This condition is contrary to the interest of the DVVNL and the same is substantiated by the fact that the DF incurred AT&C losses of 61.44 *per cent* in 2010-11 as against the level of 58.77 *per cent* before operation by the DF.

We further observed that before handing over the distribution network, the T&D losses was considered at 44.85 *per cent* which itself is 58.93 *per cent* higher than 28.22 *per cent* in RFP. After operation of DF, the T&D loss as shown by DF to have been increased to 53.87 *per cent* in 2010-11 and 50.37 *per cent* in 2011-12 (up to October 2011) which is 90.89 *per cent* and 78.49 *per cent* more than 28.22 *per cent* in RFP. The figures of T&D losses contained in RFP were consistent with the figures reported to UPERC and Audit. This indicates that objective of reducing T&D losses was not achieved by the DF.

The Management stated (September 2012) that since the period of seven years has not elapsed, this issue should not be raised at present. We do not agree with the reply as the achievement of reduction in losses by the end of seventh year must be projected by reducing the losses every year which is the very purpose of appointing the DF.

Role of Consultant

3.6.11 The professional ethics call for that a Consultant should put forth fair view which is in the best interest of the Employer. Their Report should be independent based on the data and information authenticated by the Employer. It is irrespective whether the Employer takes decision based on the Report of the Consultant or overlooking any aspect.

We critically examined the reporting steps and its consonance with the objectives of IBDFS and found lacunae as discussed below:

- Computations were made by the Consultant to indicate Indicative Reserve Input Energy Rate (BST) of ₹ 1.91 per unit for the first year and ₹ 2.38 per unit for the 20th year. These rates were arrived at after deducting distribution expenses including Employees cost. The Employee cost taken was of DVVNL. No separate computation was made for Employee cost as envisaged by TPL without deputation of DVVNL staff to TPL. Since ultimately TPL did not opt for deputation of DVVNL staff, the non-computation of actual TPL employee cost has led to undue benefit to TPL as discussed in paragraph 3.6.7.

- The BST was computed assuming that T&D losses would be reduced to 11 *per cent* by the end of 20th year with the improved collection efficiency. By the end of the 20th year when the performance indicators would be achieved as envisaged in the projections reported by the Consultant, whether DVVNL would be able to recover purchase cost of energy or not have not been made clear in the Report.

- The bidders had quoted their rates based on the data and rates reported in RFP and tender specifications. While finalising the bids, fresh data were designed and taken into account to justify the rates quoted by TPL. The Consultant had neither analysed the pros and cons of the evaluation based on fresh data nor advised for cancellation of the bids and go for fresh bidding based on fresh data.

- The technical bids were opened on 24 February 2009 and financial bids on 25 February 2009 and approved by ETF on 25 February 2009. Three bidders had participated. We are of the opinion that one day was insufficient to complete the analysis of such depth and complexity. Hence, short time taken raises questions on the quality of evaluation made, the diligence exercised by the consultant. The flaws in the report of consultant have led to losses as have been pointed out in the paragraphs 3.6.5 to 3.6.8 *supra*.

Thus, it is evident that due to irregularities in the bid evaluation process and in the supplementary agreement as well as deviation from ETF's recommendations has already caused losses to the extent of ₹ 421.12 crore up to March 2012, which will lead to further losses of ₹ 4601.12 crore in the remaining 18 years* of the contract besides non-fulfillment of the objective of reduction of AT&C losses.

The matter was reported to the Government (August 2012); the reply has not been received (February 2013).

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited

3.7 Avoidable expenditure on procurement of materials

Ill-conceived planning for renovation and modernisation of Unit-8 of Obra Thermal Power Plant resulted in avoidable expenditure on procurement of materials valued at ₹ 31.88 crore.

Under the National Action Plan on Climate Change, the Ministry of Power, Government of India had initiated National Mission on Enhanced Energy Efficiency and entrusted to a Working Group with the task of examination of the various aspects relating to the energy efficiency enhancement of existing thermal power plants. One of the recommendations of the Working Group was to consider retirement in the XI plan (2007-12), of the old small sized plants having very low level of operating efficiencies.

Accordingly, the Central Electricity Authority (CEA) initiated an exercise for identification of units to be retired during the XI plan and; in line with the recommendation of the Working Group, set criteria that all non- reheat units of rating of 100 MW or less should be retired in a phased manner in over a period of next 10 years. There was a condition that such units which were performing well after major Renovation & Modernization (R&M) activities may continue to operate for 10 years from the date of R&M.

In conformity with the above criteria, the CEA issued (August 2009) directives to the State Government/U.P Rajya Vidyut Utpadan Nigam Limited (Company) to close Unit-7 and 8 (each of 100 MW) of Obra Thermal Power Station in 2011-12 and sought comments/observations on this issue by 7 September 2009. In response, the Company intimated (22 September 2009) to CEA that Unit-7 and 8 were installed in the year 1973 and 1975 respectively. Although these units were non-reheat type and had outlived their useful life; but in view of power crisis in the State it was essential to carryout need based R&M on these units so that they might be able to generate electricity at 60 *per cent* Plant Load Factor for another five years or more.

Since need based R&M had been taken up on these units for which Letter of Intent (LOI) had been placed (May 2009) on Bharat Heavy Electrical Limited

* Which is a recurring per day loss of ₹ 0.72 crore in next 18 years.

(BHEL), it was not possible at that stage to consider these units for retirement during XI Plan.

The Company had, however, already placed (May 2009) orders on BHEL for carrying out the R&M works of both units (Unit 7&8) at an estimated cost of ₹ 130 crore with stipulation to complete the work in 23 months and 31 months respectively from the effective date of 4 December 2009. BHEL started supply of materials from October 2009 and material valuing ₹ 32.54 crore had been supplied for Unit 8 upto November 2012.

We noticed that:

- the Company placed orders for carrying out the R&M works in May 2009.
- it shut down the plant of Unit-7 for R&M work in July 2010 but failed to outline the schedule of shut down of plants of Unit-8 for its R&M.
- the Company could not satisfy the CEA and Central Pollution Control Board (CPCB) for the essentiality of carrying the R&M work for Unit-8.
- the techno-economic study of Unit-8 by a Consultant appointed by the State Government was in process even as late as May 2010. This indicates that the decision for placing orders for carrying R&M work in May 2009 was not based on any techno economic study.
- the Company closed the Unit-8 in June 2011 after the CPCB directed♠ (24 February 2011) that since work relating to Unit-7 had been started, the R&M of Unit-7 with ESP be completed but Unit-8 should be phased out with immediate effect.

Thus, the taking up R&M of Unit-8 without conducting a techno economic study and planning resulted in avoidable expenditure on procurement of materials valued at ₹ 31.88 crore. This could have been avoided by cancelling the order of BHEL in August/September 2009, when CEA had intimated to phase out the unit.

The Management stated (September 2012) that the CEA was informed about the essentiality of carrying out the need based R&M of Unit- 7 & 8. CEA did not give any comment in this regard. Similarly, CPCB was also emphasized regarding need to carry out the R&M of Unit- 7 & 8. However, on the directives of CPCB, the Unit-8 was closed in June 2011. Further, in respect of utilisation of procured materials, correspondence with various TPSs was being made. It was further stated (September 2012) that these materials would be utilised in two units of 110 MW in Parichha and Panki TPSs.

We do not agree with the reply because when the CEA had intimated (August 2009) for phasing out the unit, the Management should have ascertained technical feasibility of R&M of Unit-8. It had, however, belatedly taken up with BHEL in February 2010 for cancellation of the orders and by that time BHEL had already started the supply of material. Moreover, out of material valuing ₹ 32.54 crore procured till November 2012, the material valuing ₹ 66.35 lakh could only be utilised in the other plants. Thus, planning for R&M without proper techno feasibility study and further the lackadaisical approach of the Management in cancellation of the LOI to BHEL in respect of Unit-8, caused unnecessarily procurement of materials worth of ₹ 31.88 crore.

The matter was reported to the Government (June 2012); the reply has not been received (February 2013).

♠ In compliance with Section-5 of Environment (Protection) Act, 1986,

3.8 Delay in entering agreements for sale of fly ash

Delay of the Company in enforcing a conditions of the contract in terms of revised guidelines of Government of India for fixing of sale price of fly ash resulted in loss of ₹ 2.04 crore.

In accordance with the Notification of Ministry of Environment & Forest (MoEF), Government of India (GOI) dated 14 September 1999, utilization of Dry Fly Ash for the purpose of manufacturing ash based products such as cement, bricks, panel, etc. by the end user, free of cost, was permitted by supplying Dry Fly Ash produced by the Power Stations. The said clause of the Notification was valid/ applicable for a period of ten years upto 13 September 2009 and thereafter the Power Stations were free to sell Dry Fly Ash on commercial basis.

In compliance of these instructions, Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (Company) entered into 10 contracts for lifting fly ash generated from all the five Thermal Power Stations (TPS) between September 2006 and August 2008. The contracts provided that any change in GOI guidelines regarding cost of fly ash shall be binding on both the parties.

The MoEF circulated draft Notifications on 3 April 2007 and 6 November 2008 for modification of Notification of 1999 and invited suggestions/ objections. These Draft Notifications envisaged disposing of the ash through competitive bids to the best advantage of the owners i.e. Thermal Power Companies. In November 2009, MoEF revised the earlier guidelines for providing fly ash free of cost. The Para 2 (1) of the revised guidelines *inter alia* provided that TPSs will be free to sell the fly ash.

It was noticed that:

- in case of Panki TPS[♠] and Paricha TPS[∞], the Company revised (October 2010 and November 2010 respectively) the earlier contracts after delay of 11 and 12 months respectively. This delay in revising the agreements deprived the Company of the opportunity to earn revenue of ₹ 0.74 crore[⊕] during the period April 2010 to October 2010.
- In case of Obra 'B' and Anpara TPS the Company did not enforce the provisions of the condition of the contract that any change in GOI guidelines will be binding and kept disposing fly ash free of cost. In addition to above, in violation of MoEF guidelines of November 2009, the Company has given a further approval (March 2010) to JaiPrakash Associates Limited (JAL) for lifting, free of cost, fly ash generated from Obra 'A' TPS, even though the Company is earning revenue by selling fly ash in other TPS. By doing so the Company lost the opportunity to earn revenue of ₹ 1.30 crore[⇒] during the period April 2010 to September 2012.

Due to the inaction of the Management to revise contracts in time and also to fix the sale price of the fly ash with respect to Obra and Anpara TPS, the Company lost the opportunity to generate revenue upto ₹ 2.04 crore[⊗]. The loss in respect of Obra and Anpara will continue till the period the conditions of the contract are revised.

♠ At the rate of ₹ 28 per MT in favour of ACC Limited

∞ Units 1 & 2 at the rate of ₹ 51 per MT in favour of Prism Cement Limited and units 3 & 4 at the rate of ₹ 75 per MT in favour of Diamond Cements Limited.

⊕ Calculated at the rate of ₹ 28 per MT (being the lowest rate for sale among all TPSs on July 2011) on free of cost lifting of 52,794 MT from Panki TPS and 2,11,430 MT from Parichha TPS for the delay of 6 and 7 months respectively.

⇒ Calculated at the rate of ₹ 28 per MT (being the lowest rate for sale among all TPSs on July 2011) on free of cost lifting of 4,01,379 MT fly ash from Obra TPS, 61,174 MT from Anpara TPS.

⊗ ₹ 0.74 crore plus ₹ 1.30 crore after allowing time of 5 months for revising the contracts after issue of revised guidelines

The matter was reported to the Company/Government in February 2013; their reply is awaited (February 2013).

Purvanchal Vidyut Vitran Nigam Limited

3.9 Non-realisation of revenue due to inaction in effecting scheduled rostering

In the absence of written option of consumer for protective load, the Division did not effect the scheduled rostering on its electric supply. As a result the consumer continued to draw energy during the scheduled rostering period and protective load charges amounting to ₹ 1.13 crore could not be realised.

As per Para 12 of Rate Schedule (effective from 27 April 2008), consumers getting supply on independent feeders at 11 kV and above voltage, emanating from sub-station, may opt for facility of protective load and avail supply during the period of scheduled rostering♣ imposed by the Licensee, except under emergency rostering♦. An additional charge at the rate of 100 *per cent* of base demand charges♥ fixed per month shall be levied on the contracted protective load each month.

Banaras Hindu University (BHU), a consumer of Electricity Urban Distribution Division-IV (Division) of Purvanchal Vidyut Vitran Nigam Limited, Varanasi (Company) had a contracted load of 10MVA on 11 KV rostering free supply. Once the provisions of the protective load became effective in April 2008, the Division requested (May 2008) the consumer for entering into agreement for protective load. The consumer did not enter into agreement for protective load for the period from April 2008 to 23 March 2009. It, however, requested for switching it supply from 33/11 KV to 132 KV sub-station and entered into an agreement on 24 March 2009. The supply of the consumer was connected from 132 KV sub-station from 27 May 2009. The Division raised (January 2010) the first bill of ₹ 1.83 crore against the protective load charges for the period of May 2008 to January 2010. The consumer paid protective load charges only from 27 May 2009 (date of connection from 132 Kv Sub-station) and requested the Division not to levy charges for protective load for the period prior to this date on the pretext that they could not utilise the said uninterrupted supply due to overloading.

We noticed (March 2011) that, despite the absence of written option of consumer for protective load, scheduled rostering was not effected on the consumer and as a result, consumer continued to draw energy for 24 hours during the scheduled rostering period∞ and the protective load charges amounting to ₹ 1.13 crore for the period from 27 April 2008 to 26 May 2009 could not be realised from the consumer.

The Management stated (December 2012) that rigorous efforts were made for executing the Protective Load agreement with the consumer for the period from April 2008 to May 2009, but the consumer did not execute the agreement so far.

♣ Load shedding carried out as per declared schedule of electricity supply hours imposed from time to time by the State government or the Licensee.

♦ Load shedding carried out by disconnecting at short notice for safety of personnel and equipment.

♥ Demand Charges for a billing period means a charge levied on the consumer based on maximum demand recorded or 75 *per cent* of contracted load, whichever is higher. Base Rate (to be read in reference to HV 2 Tariff) defines the basic Demand and Energy Charges based on which Time of Day (TOD) rates are applied.

∞ 17 hour supply for city per day.

We do not agree because instead of waiting for execution of protective load agreement, consumer should not have been given uninterrupted supply and put on routine rostering like all other consumers.

The matter was reported to the Government (June 2012); the reply has not been received (February 2013).

3.10 Non-recovery of cost of metering system

The Company suffered loss of ₹ 1.02 crore due to conversion of LT metering of the consumers in to HT metering from its own sources without recovering its cost from the consumers

Clause 5.3 (c) of the Uttar Pradesh Electricity Supply Code-2005 (Code) provides that for Low Tension (LT) loads, Miniature Circuit Breaker (MCB) and for High Tension (HT)/Extra High Tension (EHT) loads, Circuit Breaker (CB) of appropriate rating and specification, as approved by the licensee, shall be installed at the cost of consumer along with the meter. Further, Director (Finance) of Uttar Pradesh Power Corporation Limited had also clarified (July 2010) that the cost of meters to be installed at the premises of the consumers was to be recovered from the consumers.

We noticed (February 2011) that Mirzapur Circle of the Company sanctioned four packages under Business Plan for the year 2010-11 for change of LT metering of stone crusher consumers in Sonbhadra district to HT metering system. The work was got executed by the Electricity Test Division, Mirzapur during July to December 2010 by utilizing Company's own fund under Business Plan although the cost of conversion of consumer's metering system from LT to HT side was recoverable from respective consumer in terms of provision of the Code.

The Management stated (December 2012) that the work was carried out under Business Plan to prevent theft of electricity and to minimise the Aggregate Technical and Commercial (AT&C) losses. The reply is not acceptable in view of the following:

- Para 3.3 (b) of the Supply Code states that if the licensee so requires, may convert the existing services at their cost without benefit of higher voltage tariff to the consumer. To avail the benefit of higher voltage tariff, consumer shall bear the cost of conversion of existing services. Thus, work of conversion of metering system should have been executed only after deposit of cost by the respective consumers with the Company.
- Line loss position of the Division which ranged between 18 *per cent* to 32 *per cent* before the conversion was 14 *per cent* to 34 *per cent* after the conversion. Thus, there was no significant improvement in this regard also.
- As per the code and the clarification by UPPCL, these consumers were also benefited as they were not required to pay additional 15 *per cent* of amount of bill for LT metering after conversion from LT metering to HT metering.

Thus, due to execution of work of conversion of metering system from its own sources instead of realizing the cost of conversion from respective consumer, the Company suffered a loss of ₹ 1.02[♦] crore.

[♦] Cost of materials: ₹ 79.06 lakh and cost of installation: ₹ 23.27 lakh.

The matter was reported to the Government (April 2012); the reply has not been received (February 2013).

Paschimanchal Vidyut Vitran Nigam Limited and Dakshinanchal Vidyut Vitran Nigam Limited

3.11 Store management

Introduction

3.11.1 Paschimanchal Vidyut Vitran Nigam Limited, Meerut (PVVNL) and Dakshinanchal Vidyut Vitran Nigam Limited, Agra (DVVNL) were incorporated in May 2003 with the objective of distribution of electricity in 35[♣] districts of Uttar Pradesh. These Companies[♦] are working under the functional control of Uttar Pradesh Power Corporation Limited (UPPCL) and administrative control of Energy Department. The Management is vested with a Board of Directors comprising Chairman, Managing Director (MD) and two other Directors appointed by the State Government. The day-to-day operations are carried out by the MD with the assistance of Chief Engineers, Superintending Engineers and Executive Engineers.

The Companies classify their procurement of materials into centralised and decentralised purchases. Procurement of centralised material in the Companies is looked after by the Superintending Engineer, Material Management (SE, MM) and Superintending Engineer, Electricity Stores Circle (SE, ESC) under the supervision of Chief Engineer, Material Management (CE, MM). Procurement function starts with the assessment of requirement by the Material Management (MM) on the basis of past consumption and targets of works. The ESC and Electricity Works Circle assess requirements for execution of works. After administrative approval of the Board of Directors[♥] tenders for purchase of required material are invited by SE, (MM). According to the value of purchases, approval of the shortlisted tenders is accorded either by Corporate Stores Purchase Committee (CSPC) of UPPCL or CSPC of the Company or the Managing Director Purchase Committee (MDPC) of the Company or the Director (Technical) Committee on the recommendation of CE, (MM).

As per delegation of powers, purchases with value of ₹ 10 crore and above are approved by CSPC of UPPCL, purchases with a value of ₹ one crore to ₹ 10 crore by the CSPC/MDPC of the Companies and purchases valuing ₹ 10 lakh each to ₹ one crore are approved by the Director (Technical) committee. After approval of the competent authority, orders are placed on the eligible firms. Despatch Instructions (DI) are issued after the inspection of material by the nominated officers of the respective Companies. Materials are received in the Electricity Store Divisions (ESDs) of the Companies which also make payments for the material purchased after deduction of penalties for late supplies, if any. ESDs are also responsible for storage and handling of materials.

During the period 2007-08 to 2011-12 these Companies finalised 200 tenders valued ₹ 1,638.83 crore on purchase of transformers, meters, cables and conductors, poles and vacuum circuit breakers. We examined 107 tenders valued ₹ 893.12 crore at CE (MM), ESDs and Electricity Workshop Division

♣ PVVNL-14 Districts, DVVNL-21 Districts
♦ PVVNL and DVVNL
♥ Prior to January 2008 it was by Managing Director

of PVVNL♠, Meerut and DVVNL∞, Agra relating to store items procured centrally for the period from 2007-08 to 2011-12 and our findings are given in the succeeding paragraphs:

Planning

Assessment of requirement

3.11.2 The Companies have neither prepared any Manual for material management nor prescribed any procedure to assess reasonable requirement of material to be procured. The assessment of requirement of material was not being done keeping in view the available stock and magnitude of utilisation. The assessments were rather being done in piece-meal leading to frequent tendering. Resultantly, the materials were procured at higher rates causing extra expenditure.

In DVVNL, tenders were finalised within very short span of two to five months for procurement of the same material. We noticed that the subsequent tenders floated for the same item were finalised at the rates higher by 3.36 to 9.99 *per cent* as compared to the rates of the previous tenders. This resulted in extra expenditure of ₹ 2.15 crore (**Annexure-18**) on account of procurement of materials at higher rates as discussed below:

- In purchase of four different items♣ the Company invited fresh tenders within four months of the previous tender and made agreements with the suppliers for fresh supplies at rates higher by 3.36 to 4.81 *per cent.* This resulted in extra expenditure of ₹ 44.27 lakh.

The Management of DVVNL stated (April 2012) that the subsequent tenders were invited to meet the target of Business Plan and VIP works.

The reply is not acceptable as the above purchases were not made for some specific scheme, but were meant for routine works like System Improvement. The works to be executed under Business Plan and the requirement of material for carrying out such works were already known to the Management. Thus, floating of two tenders for the same item in a short span of time substantiates the fact that the Management failed to make the assessment of the actual requirement of materials.

- In purchase of transformers (63 KVA and 10 MVA capacity) with variable price under price variation clause, where with the lapse of time the price payable to the suppliers is based on the price variation formula given in the tender document and the applicable rates being published monthly by the IEEMA♥; the Company resorted to fresh tendering within two months and made fresh agreements with the suppliers. We noticed that the new rates were higher by 3.43 to 9.99 *per cent* as compared to the updated price as on the base date of new tender, resulting in extra expenditure of ₹ 1.71 crore♠.

The Management stated (April 2012) that the purchases were made as per directions of the then Energy Minister. The reply, however, does not justify incurring extra expenditure.

♠ ESD at Meerut, Moradabad, Ghaziabad and Saharanpur and one Workshop Division at Meerut

∞ SE, Store Circle, Store Divisions of Agra, Aligarh, Jhansi, and Kanpur, Workshop Division Agra and two Construction Divisions at Agra.

♣ 3.15 mm/10SWG G.I.Wire, 4mm/8SWG G.I.Wire,5mm/6SWG G.I.Wire, 11KV V type Steel Cross Arms

♥ Indian Electricals and Electronics Manufacturers Association

♠ 1200 Transformers of 63 KVA and 50 Transformers of 10 MVA were procured at the rate higher by ₹ 7500 and ₹ 162249 per Transformer respectively in subsequent tender.

Procurement

Absence of system of comparing rates of materials

3.11.3 To ensure reasonableness of prices quoted by bidders, comparison of rates should be done with rates of similar items finalised by CSPC in respect of other Companies as well as their own executed orders and prevailing market rates. For this, a data bank of finalised rates in respect of each item should be maintained for reference at the time of finalisation of tender. We noticed that the Companies did not evolve a system of preparing a databank by obtaining rates of materials procured in previous years by the Companies themselves and other DISCOMs. The absence of such systems resulted in finalisation of rates of material on higher side and resulted in extra expenditure of ₹ 2.58 crore as detailed in **Annexure-19**.

Avoidable expenditure in procurement of Vacuum Circuit Breakers (VCBs)

3.11.4 DVVNL invited tender (November 2010) for procurement of Incoming V.C.Bs, Outgoing V.C.Bs and Bus Couplers. The price bids were opened on 17 January 2011. The lowest FOR (D) prices quoted by the firms were as under:

Name of Firms	Incoming V.C.B. (100 nos.) (₹)	Outgoing V.C.B. (350 nos.) (₹)	Bus Coupler (10 nos.) (₹)
Areva T&D India Limited (ATDIL)	**(L_1)**250113.15	230312.10	209948.51
Electroteknica	270014.40	**(L_1)**182259.72	156383.34
Bharat Heavy Electricals Limited (BHEL)	301440.66	196260.20	**(L_1)**155095.56

Sources: Tender file of DVVNL

It would be seen that ATDIL was the lowest for Incoming VCB, Electroteknica for Outgoing VCB and BHEL for Bus Coupler. DVVNL made agreement with Electroteknica for supply of Incoming VCBs and Outgoing VCBs at their quoted rates, and Bus Couplers at the rate of ₹ 1.55 lakh per coupler after negotiation based on the rates quoted by BHEL. We noticed that DVVNL did not negotiate with Electroteknica, being second lowest, to reduce their price of incoming VCB up to the level offered by ATDIL, i.e., ₹ 2.50 lakh per VCB. This resulted in procurement of incoming V.C.Bs (100 Nos.) at the rate higher ₹ 19,901 per V.C.B. resulting in extra expenditure of ₹ 19.90 lakh[♣] in procurement of the VCBs.

The Management stated (April 2012) that the Incoming and Outgoing VCBs could be used in combination of 1: 3 of the same make on technical ground. Comparison of price was made on that ground and on that basis rate of Electroteknica was lowest.

We do not agree as the tender was invited for individual component rates. Moreover, no efforts were made to negotiate and bring down to the level of L_1 (ATDIL) as done in the case of Bus Coupler. This is worth mentioning here that, in another case[∞], Electroteknica was L_2 and had accepted to supply of Incoming VCBs at the rate of L_1 bidder (Easun, Chennai), but in the instant case, no attempt was made to reduce the price.

Extra expenditure due to discriminate Purchase Policy

3.11.5 Prior to June 2009, DVVNL had been evaluating tenders floated for procurement of material on the basis of FOR price which included packing,

[♣] ₹ 2,70,014.40 *less* ₹ 2,50,113.15X 100 = ₹ 19,90,125

[∞] vide quotation No. 682/2011

forwarding and all taxes and duties. This policy was, however, not adopted for purchase of transformers after June 2009. These were evaluated on the basis of ex-works price and packing and forwarding charges but taxes and duties were excluded. Resultantly, landed cost of transformers so purchased by DVVNL was more than the lowest FOR price quoted by the tenderers against the same tenders in 2009-10. Due to this, the Company had to incur extra expenditure of ₹ 6.44 crore on purchase of 9,368[⊕] transformers of various capacities in 11 cases.

The Management stated (April 2012) that evaluation of tenders for purchase of transformers was done as per orders (20 June 2009) of UPPCL.

The Management, however, failed to furnish justification for evaluation of tenders for purchase of other items on FOR basis and purchase of transformers alone on Ex-work price basis.

Loss due to improper price variation clause

3.11.6 Clause 2.18 of 'General Requirements of Specification' read with clause 1.5.3.1 of 'Instructions to Tenderers' specifies that in procurement of transformers, conductors and cables, where the ex-works price is variable, price variation admissible to the suppliers will be based on the price variation (PV) formula and circulars issued by the IEEMA[⇒] or CACMAI[♦] with reference to the base date mentioned in the supply orders. As per practice, the prices and indices as published by IEEMA/CACMAI are taken one month prior to the date of delivery in case of Transformer and 15 days in case of cables and conductors. The date of delivery is the date on which the material is notified as ready for inspection/despatch or the contracted delivery date (including any agreed extension), whichever is earlier.

DVVNL floated (2007-08) five tenders for procurement of cables and conductors. Agreements provided that for the purpose of calculating price variation, the ruling cost of EC grade Aluminium Wire Rod as prevailing on the date of offer for inspection within contracted delivery schedule shall be taken into consideration. Accordingly, the prices of cables and ACSR Conductors were updated by considering the prices prevailing on the date of offers for inspection and payments were made.

We noticed that the prevailing practice of taking into consideration the prices and indices as published by IEEMA/CACMAI 15 days prior to the date of offer for inspection was ignored in the agreements for supply of these conductors and cables. Therefore, the Company made an additional payment of ₹ 1.57 crore[♥].

The Management stated (April 2012) that both the practices were prevalent in the Company, price variation was charged from the date of offer for inspection as well as 15 days prior to date of offer of inspection of material. Uniform practice has now been adopted to charge the price variation 15 days advance prior date of inspection.

⊕ 25 Nos. of 10 MVA (₹ 0.89 crore), 58 Nos. of 5 MVA (₹ 1.30 crore), 835 Nos. of 250 KVA(₹ 1.71 crore), 450 Nos. of 100 KVA(₹ 0.47 crore), 1200 Nos. of 63 KVA(₹ 0.95 crore) and 6800 Nos. of 10 KVA (₹ 1.12 crore)Transformers.

⇒ Indian Electrical & Electronics Manufacturers' Association

♦ Cable and Conductors Manufacturers Association of India

♥ In Aerial Bunch Conductor ₹ 54.34 lakh, in ACSR Dog Conductor ₹ 11.26 lakh, in ACSR Weasal Conductor ₹ 70 lakh and in ACSR Racoon Conductor ₹ 21.08 lakh.

The fact, however, remains that due to adopting different method from the prevailing practice, the Company had to incur avoidable extra expenditure.

Loss due to allowing higher package rates of repairs

3.11.7 As per the changed (March 2002) procedure of repair of transformers, only core and tank are given to repairers after dismantling the damaged transformers and taking out HV and LV coils (insulated aluminium and copper coils). Repairers are required to install new HV/LV coils of the same weight and turns as retrieved from damaged transformers on dismantling.

CSPC of UPPCL recommended (December 2005) package rates of repair of transformers of different capacity vide Tender Specification No. 05/2003 and 06/2003 for Aluminium and Copper wound transformers respectively on the basis of rates of base date of November 2003. The package rate[⊕] for insulated aluminium coils was ₹ 229.33 per kg and for insulated copper coils ₹ 321.88 per kg. The package rates of repair were being applied in the Distribution Companies in subsequent years up to 2010-11 with price variation as per the defined formula.

During five years up to 2010-11, 1,43,836 damaged transformers (78,618 in PVVNL[∞] and 65,218 in DVVNL[⊗]) of 25 KVA to 1000 KVA capacities were got repaired through outside repairers. The Companies did not prepare any cost analysis for HV/LV coils and adopted the rates without referring prevailing market rates of HV/LV coils as on the base date (November 2003). Market rates of HV/LV coils, as on the base date worked out to ₹ 111.20 per kg[♣] and ₹ 154.69 per kg[⊗] for aluminium and copper coils respectively. The basis of verifying the prevailing rates was available with the Companies in the form of invoices which also formed our basis of working out market rates. Thus, the Companies allowed rates higher by ₹ 118.13 per kg and ₹ 167.19 per kg for aluminium and copper coils respectively, resulting in extra expenditure of ₹ 91.75 crore (PVVNL: ₹ 48.40 crore[**] and DVVNL: ₹ 43.35 crore) as per calculation made in **Annexure-20** on repair of 1,43,836 transformers.

The Management of DVVNL stated (April 2012) that cost of Aluminium and Copper Coil for repair of transformers cannot be compared with the market rates of base of Aluminium and Copper Rods. These coils are prepared after wrapping of insulation on them and as per size and shape of core Leg of the Transformers.

We do not agree in view of the fact that market rate has been worked out by adding quoted cost of Aluminium and Copper rods as on the base date and conversion cost of making insulated Aluminium and Copper wire has been added to the basic cost.

[⊕] It has been worked out dividing package rate of HV/LV leg coils by average weight of HV/LV leg coils actually used in the repairing of transformers of 25 kVA (₹ 5355/23.35 kg) and 400 kVA (₹ 71017/220.63 kg) being lowest..

[∞] (Store divisions at Ghaziabad, Saharanpur & Moradabad).

[⊗] (Store divisions at Agra, Aligarh, Kanpur & Jhansi).

[♣] Market rate of Aluminium HV/LV leg coil has been worked out by adding quoted costs of Aluminium rods (₹ 92.50 per kg.) by other supplier/repairer as on November 2003, processing cost of ₹ 8.70 per kg and ₹ 10 per kg for transportation expenses. The amount of excise duty and sales tax has not been taken to arrive at such market rate as the company finalised the package rates excluding above taxes.

[⊗] Market rate of Copper HV/LV leg coil has been worked out by adding quoted costs of Copper rods (₹ 118.50 per kg.) as on November 2003, processing cost of ₹ 26.19 per kg and ₹ 10 per kg for transportation expenses. The amount of excise duty and sales tax has not been taken to arrive at such market rate as the company finalised the package rates excluding above taxes.

[**] The package rates of DVVNL were considered for PVVNL also as detailed information were not made available to audit.

Inventory Management

Inventory Upkeep

3.11.8 Upkeep of inventory is an important task of the Management. We noticed instances of lack of inventory upkeep which resulted in financial losses as discussed below:

Damage of transformers within guarantee period

3.11.9 As per clause 30, Form B of General Conditions of Contract, the suppliers were required to guarantee the performance of distribution Transformers for 18/12 months from the date of supply/ commissioning (later changed to 42/36 months by the companies respectively, for transformers with 3-star rating). In the event of failure within guarantee period, the supplier shall carry out repairs free of charge or replace the damaged transformer. In case the repair work/ replacement of transformer is not effected within three months from date of intimation, the consignee is to ensure deduction of amount equal to the price of new transformer from pending bill/ security of the firm. In case of failure, suitable penal action will be taken which may also include blacklisting of firm for a certain period.

We noticed that 133 transformers of various capacities were damaged within the guarantee period, which were lying either in the Store of the PVVNL or with the firms. We further observed that 74 out of 133 transformers worth ₹ 41.37 lakh remained at stores unlifted by the firms even after lapse of 3 months whereas 42 transformers worth ₹ 46.23 lakh were not returned by the firms even after passage of due time period and 17 transformers were lifted after a delay in intimation by the Company ranging from 41 to 246 days. Thus, 133 nos. of transformers remained unrepaired either with the company and/or with the supplier due to lackadaisical approach of the Management in this regard. In addition, delay in intimation by the Company to the supplier also affected the guarantee period.

Frequent transfer of materials

3.11.10 Once the material is ready at the suppliers premises, inspection is done by the Company. Despatch Inspection is issued by the Company to the supplier to deliver the material at the respective ESC according to requirement. We noticed that large quantities of material were frequently transferred from one ESC to another and also from one ESD to another. Transfer of material in such large quantities indicated that either the despatch instructions were not being issued as per actual requirement or requirements were incorrectly assessed by the ESCs. As a result, materials received in one ESC had to be re-transported to another to meet the requirement of that ESC. This resulted in avoidable expenditure of ₹ 5.05 crore during 2007-08 to 2011-12 (PVVNL[*]: ₹ 0.95 crore and DVVNL: ₹ 4.10 crore).

The Management of Companies stated (April 2012) that the work was executed in the Companies' interest due to urgent requirement of store materials. The reply is general in nature and does not justify the issue of incorrect despatch instructions not based on actual requirement of the ESCs. We feel that such practice should be eliminated to reduce the expenditure on avoidable transportation.

[*] ESD Ghaziabad, Moradabad, Saharanpur and Meerut

Delayed issue of electronic meters

3.11.11 Electricity Store Centre (ESC), Farrukhabad received (March 2005) 500 Secure- make Electronic meters which were issued after six years in October 2011 to the Test Division. On examination by Test Division, it was found that 25 *per cent* of the meters were showing 'No Display' and remaining, on installation at consumers premises were showing 'Error' in display of date and time due to corrupt software. The ESD, Kanpur requested Secure Meters Limited (Supplier) for replacement of these all 500 electronic meters in March 2012 i.e., after a lapse of more than six years. We noticed that test and issue of these meters was not ensured within the guarantee period of supply orders; and the fault could be detected only after a lapse of six years, when the guarantee period had lapsed.

Thus, delayed testing and issue of these meters on the part of the Management resulted in the defect remaining undetected and rendered the entire expenditure of ₹ 31.87 lakh[**] as wasteful.

Internal control

3.11.12 In PVVNL, we noticed that there was no proper internal control in the stores which led to misappropriation and wrong accounting of stores.

- **Physical Verification**: While instances of excess/shortage of stock were found in physical verification, no action has been taken, rendering the physical verification to being a paper exercise.
- **Safety Measures**: There was neither proper firefighting system at the stores nor were the stocks insured. This led to loss of material due to occurrence of fire incidences at stores.
- **Inter stores Reconciliation**: Advice Transfer Debit (ATD) remained unadjusted, material issued in emergency under 08B[♣] were not regularized for a long period.
- **Thefts/Misappropriations:** There was no proper arrangement for the security of the stocks at the Stores which led to cases of theft and misappropriation.

Accounting of material

3.11.13 As per existing accounting procedure in respect of receipt and issue of material, stock records[♠] are required to be maintained and compiled monthly at Junior Engineer level, six monthly at Sub-Divisional Officer level and yearly at Division level.

We noticed that these stock records were neither maintained nor reconciled at Sub-Divisional Level and Division Level for a long time. The figures shown in stock records for different months did not tally with the figures of stock shown in MIS indicating that there was no system of checking of figures shown in stock records and MIS.

The Management of DVVNL stated (April 2012) that due to acute shortage of staff, the stock records were incomplete and efforts were being made to update the stock records.

** ₹ 6375X 500.

♣ A proforma under which materials are issued under emergency basis without any estimate and necessary formalities are completed after some time.

♠ 1S and 2S at Junior Engineer level, 3S and 4S at Sub-divisional level, 5S and 6S at Divisional level. These documents are related to receipt and issue of material.

Non-maintenance of proper stock accounts on the pretext of shortage of staff cannot be justified, as it only opens up the possibility of misappropriation in the system.

Inventory Level

3.11.14 The Companies have not fixed any minimum, maximum and ordering/reordering levels even for major items like transformers, conductors, cables, meters, VCBs and Poles to ensure uniform flow of material of required quantity at appropriate time with minimum storage cost.

The matter was reported to the Government (July 2012); the reply has not been received (February 2013).

Uttar Pradesh Jal Nigam

3.12 Systemic deficiencies in retrieval and disposal of surplus earth leading to losses

Due to the systemic deficiencies the Nigam incurred an avoidable expenditure of ₹ 7.84 crore and lost opportunity to earn sale proceeds to the extent of ₹ 3.22 crore.

The Uttar Pradesh Jal Nigam (Nigam) was assigned by the Central and State Governments the work of execution of sewerage systems under the centrally sponsored schemes *viz.* Jawahar Lal Nehru National Urban Renewal Mission (JnNURM), Ganga Action Plan Phase-II (GAP-II), National Ganga River Basin Authority (NGRBA).

In execution of sewerage system, earth is excavated for making trenches for laying sewer pipes of different and large diameters underground at various depths. After the process of laying of sewer pipes and backfilling is completed, voluminous surplus earth remains for disposal.

The surplus earth, after used in land filling, being a saleable commodity, can be sold on the spot after deposit of due royalty. The sale of this surplus earth on spot serves a two fold purpose as it eliminates the need for incurring disposal costs and also could earn revenue. Even if given free of cost after deposit of due royalty, it will eliminate the cost of disposal from the total work estimate.

We test checked eight sewerage works executed during July 2008 to March 2012 by four Divisions[*] of the Nigam under JnNURM, GAP-II, NGRBA and found systemic deficiencies in computation and disposal of surplus earth leading to losses as discussed below:

Systemic deficiency in computation of surplus earth

3.12.1 The Management did not have system of computing the surplus earth scientifically/mathematically based on the volume of the underground inputs *viz.,* sewer pipes, specials, beddings and manholes. Instead, it used to ascertain the surplus earth without any formula/basis for its calculation or calculating detailed measurements and included in the DPRs of the respective sewerage works. We worked out the surplus earth on scientific/mathematically correct basis[**] and compared with the quantity of surplus earth provided in the contracts and we found large variations.

[*] Project Manager-IV, Gomti Pollution Control Unit, Lucknow; Ganga Pollution Control Unit, Allahabad; Ganga Pollution Control Unit, Varanasi; Ganga Pollution Control Unit, Kanpur;

[**] Formula: Volume of earth for cylindrical pipes:$\pi r^2 l$ where π=22/7, r is outer radius of pipe, l is length of pipe; volume of earth for circular manholes; :πr^2hxno. of manholes, where h is the depth of manhole; volume for bedding; as actually provided in the contracts

In the case of three works, separate provision for disposal of earth was made in the contract, whereas, no such provisions were included in case of five works. The computation of surplus earth as awarded in the contract for its disposal and computation made by us on the basis of scientific calculation by arriving at the volume of inputs *viz.,* the pipes, specials, beddings and manholes etc. detailed in **Annexure-21** are summarised in the table below:

Sl. No.	No. of works	Quantity of surplus earth for disposal (cum)		(Short)/ Excess surplus earth provided in contracts (cum)	Disposal cost (₹)			Expected sale proceeds of surplus earth at the rate♣ Col(4) x Rate
		Provided in contracts	Worked out by Audit		Provided in the contract	Worked out by Audit at AV♦ (5) x AV	Total	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	2♥	55086	234800	(179714)	11013505	--	11013505	15144600
2	1♠	287598	188566	99032	53108019	--	53108019	12162507
3	5∞	NA	76269	(76269)	NA	14271455	14271455	4919351
Total	**8**	**342684**	**499635**	**(255983) 99032**	**64121524**	**14271455**	**78392979**	**32226458**

We noticed that the incorrect computation and provision of surplus earth in the contracts led to financial losses as discussed below:

- Based on scientific formula, the quantity of surplus earth worked out by us comes to 2,34,800 cum in case of two works, whereas, the Management made provision of surplus earth of only 55,086 cum in the contracts. Thus, there were short provisions of 1,79,714 cum of surplus earth for disposal in the contracts, as quantity of surplus earth cannot be scientifically less than 2,34,800 cum. Further, if provisions of 55,086 cum surplus earth in the contracts are considered correct, then, the BOQ of laying of pipes as provided in the DPRs/contracts becomes scientifically incorrect, as the actually used pipes would be lower length/size than that mentioned in DPR/contracts and would affect the project adversely. Hence it is the provision of surplus earth that was incorrect.
- In the contract of one work*, provision for disposal of 2,87,598 cum of surplus earth was made, whereas, based on the systematic calculations made by us, the quantity of surplus earth cannot exceed 1,88,566 cum. Thus, this excess provision for disposal of 99,032 cum surplus earth has led to extra payment to the extent of ₹ 1.83 crore worked out at the rate of ₹ 184.66 per cum being disposal cost inbuilt in the composite rate awarded for laying of sewer pipes.
- In contracts for five works, quantity for disposal of surplus earth had not been separately mentioned, rather, the same had been merged with the bill of quantity i.e. excavation and disposal of surplus of earth. While we have worked out generation of 76,269 cum surplus earth, there was no way to verify the correctness of the quantity of surplus earth excavated and disposed.

Systemic deficiencies in disposal of surplus earth

3.12.2 The contracts for the works provided for disposal of displaced surplus earth within 8 km distance at the instructions of the Engineer-in-charge (EIC). We noticed that all the four Divisions did not maintain records of instructions

♣ At the lowest rate of ₹ 64.50 per cum provided for up to 1.5 m depth in DPR of Sewerage work in Trans Varuna, Varanasi for excavation of earth

♦ At the rate of ₹ 187.12 per cum being average rate of disposal of 3,42,684 cum surplus earth for ₹ 6.41 crore provided in three contracts where disposal of surplus earth was provided separately.

♥ Sewerage works in District III- Part II Lucknow, Inner Old area Part-I Kanpur

♠ Trans Varuna Sewerage Varanasi

∞ Relieving Trunk sewer Varanasi, Sewerage works in District A, E, B & E and D in Allahabad.

* Trans Varuna Sewerage, Varanasi.

of the EIC, if any, issued to the contractors. The Measurement Books also did not indicate distance and places where surplus earth was actually disposed off/thrown away by the contractors. This proves that the Management is not aware of the place and quantity of disposal of surplus earth which is a saleable commodity attracting payment of royalty to the Government.

The Management failed to make efforts to realise and conceptualize the sale of surplus earth on the spot. Due to this systemic deficiency, the Management, incurred an avoidable expenditure of ₹ 7.84 crore on disposal of 4,18,953[♣] cum surplus earth and simultaneously, lost the opportunity to earn sale proceeds to the extent of ₹ 3.22 crore in disposal of 4,99,635[♦] cum.

We recommend that the Management should compute the quantity of surplus earth on scientific formula for volume of inputs and issue orders to incorporate the reduction in cost of work by sale of the surplus earth on the spot to avoid incurring disposal cost and reduce the project cost. The Management should incorporate these corrective measures in the execution of the sewerage works by the Project Implementation Unit, Ghaziabad.

The matter was reported to the Nigam and Government (June 2012); their reply has not been received (February 2013).

3.13 Avoidable expenditure on construction of sewer lines

Construction of sewer lines in the flood prone river bank without taking adequate preventive control measures resulted in damage of sewer line and avoidable expenditure of ₹ 2.36 crore on restoration of damaged sewer line.

The Ganga Pollution Control Unit, Allahabad (Division) of the Nigam executed three projects[♥] of construction of sewerage system on the bank of Ganga river during June 2007 to March 2009 at the cost of ₹ 3.91 crore for carrying sewage from Amitabh Bachchan Culvert to the Salori Sewage Treatment Plant (STP) as detailed below:

(₹ in crore)

Sl No.	Name of projects	Sanctioned by GOI/U.P. Government		Actual expendi -ture	Date of completion	Percentage of Physical progress (March 2011)
		Date	Amount			
1.	Carrying waste water flow of Salori nala from Amitabh Bachchan Culvert to Salori Nala under GAP-II	June 2007	1.11	1.16	March 2008	100
2.	Laying of sewer line from **Gayatri Nagar to Sadiyabad village** for carrying sewage from Amitabh Bachhan culvert to 29 mld STP under State sector programme	January 2009	1.45	1.61	March 2009	100 (Damaged in flood in September 2009)
3.	Laying of sewer line to catch pit of ring bundh from Amitabh Bachchan culvert to 29 mld STP under State Sector program	June 2009	1.25	1.14	January 2010	100 (work started in September 2009)
	Total		**3.81**	**3.91**		

The Additional Secretary, Ministry of Environment and Forest, Government of India inspected (December 2008) the area of Salori and instantly directed the Commissioner, Allahabad to take effective steps to restrain erosion of bank of the Ganga river to protect the sewerage system including STP, Salori. In compliance, the Commissioner directed (December 2008) the Irrigation Department to take initiatives in this regard. An estimate for ₹ 36.62 crore for controlling the flood in the Ganga river was submitted in September 2009.

♣ 3,42,684 cum provided in the contract for three works and 76,269 cum as worked out by Audit for five works
♦ Worked out by Audit for all the eight works
♥ First sewer line from Amitabh Bachchan Culvert to Gayatri Nagar-900 meter into Salori Nala.
Second sewer line from Gayatri Nagar to Sadiyabad village-1100 meter into Salori Nala
Third sewer line from Sadia bad village to catch pit of STP-1100 meter into salori Nala

We noticed the following;

- The Management of the Nigam was well aware that the river bank area, where above three sewer lines were proposed, was flood prone and this problem was also discussed in the DPRs of the projects. The works were taken up in haste without waiting for creation of flood control mechanism in the area as envisaged in the directions of the Administrative Authorities of the Central and State Government.
- The second sewer line project was sanctioned in January 2009 for ₹ 1.45 crore, when the need for flood control measures to restrain erosion of river bank[*] in order to protect the sewerage system was well known. The work was completed in March 2009 at the actual cost of ₹ 1.61 crore. This sewer line from Gayatri Nagar to Sadiabad village was subsequently damaged in flood in September 2009.
- Without restoring the second sewer line damaged in flood, the Division started, after the rainy season[**], the construction of third sewer line from Salori Nala to catch pit of ring of Bund which was reported as completed (by January 2010) at the cost of ₹ 1.14 crore. Since this needed to be connected to the first two parts in order to be operational and the second part was damaged, the entire expenditure was rendered futile.

It was further noticed that the Nigam had incurred an expenditure of ₹ 2.36 crore on restoration of these sewer lines which could have been avoided if the Nigam had taken effective measures to restrain erosion of the bank of Ganga river for sewage system protection.

The Management stated (September 2012) that due to sudden change in river course; 800 meter sewer line was washed away in September 2010 during floods of river Ganges. Since the STP was constructed on the reclaimed land of flood plain of river Ganges due to scarcity of land, interconnecting sewer of STP to Salori Nala was bound to be laid in the flood plain of the river.

The fact, however, remains that despite knowing that the area was flood prone and no flood control measures were in place, the Management in undue haste took up the work in a routine manner without taking essential preventive measures keeping in view the site conditions. Further, the sewer line was damaged in September 2009 as per Nigam's records and not in September 2010 as indicated in the reply.

The matter was reported to the Government (June 2012); the reply has not been received (February 2013).

Uttar Pradesh State Warehousing Corporation

3.14 Failure in correct estimation of Advance tax resulted in loss

The Corporation failed to estimate accurately the amount of Advance Tax as well as filed return of income after due date resulting in loss of ₹ 3.01 crore.

As per the provisions of Section 139(1) of Income Tax Act 1961 (Act), every assessee whose Accounts are required to be audited under any law has to file return of income before 30 September. Section 208 of the Act provides that every assessee is required to pay Advance tax, if the amount of tax payable is more than ₹ 5000 (limit raised to ₹ 10,000 with effect from 1 April 2009).

[*] Ganga
[**] After September 2009.

Further, Section 210 of the Act provides that every person who is liable to pay Advance Tax under section (u/s) 208 shall of his own accord pay on or before each of due dates specified in Section 211[♣] of the Act.

In case of failure of assessee in compliance of the aforesaid provisions, the Act provides u/s 234 that simple interest at the rate of one *per cent* is payable for every month:

- from 1 October to the date of filing of return, on amount of tax on total income as reduced by Advance Tax and Tax Deducted/Collected at Source (Section 234A).
- from 1 April to the date of determination of total income, on the amount by which the Advance Tax paid falls short of the Assessed Tax (Section 234B).
- if the assessee fails to pay instalments of Advance Tax as required u/s 211 of the Act, on the amount so deferred (Section 234C).

We noticed (February 2012) that the Uttar Pradesh State Warehousing Corporation (Corporation) had not devised any system of ascertaining accurately its income for estimating the liability on account of Advance Tax. This led to short assessment and deposit of Advance Tax to the extent of ₹ 17.26 crore. The Corporation also filed Income Tax Returns belatedly for the Financial Years 2006-07, 2008-09 and 2009-10. As a consequence, the Corporation paid interest of ₹ 3.83 crore (u/s 234A: ₹ 1.29 crore; section 234B: ₹ 1.66 crore and u/s 234C: ₹ 0.88 crore). This resulted in avoidable payment by the Corporation to the extent of ₹ 3.83 crore and consequential loss of ₹ 3.01 crore (₹ 3.83 crore less ₹ 0.82 crore[♠]).

The Management stated (July 2012) that due to increase in business, delay in getting the TDS certificates and shortage of staff, the estimation of income could not be done and due to delay in finalisation of accounts, the return of income was filed late. In respect of Financial year 2009-10, the Management stated that there was abnormal increase in the income of the Corporation due to realisation of revenue after March 2010, revision of storage rates by FCI and realisation of revenue of previous years as arrears etc. The total income could be ascertained only after finalisation of accounts for the year.

We do not agree with the reply as the constraints cited by the Management are of regular and foreseeable nature. Further, the reply for the Financial Year 2009-10 is also not acceptable, as the return of income tax can be filed with Statement of Accounts and the Corporation had the option to file the Return in time and revise it u/s 139(5) of the Act on realisation of arrear income. The income u/s 234 B could be reasonably assessed on monthly/quarterly basis by obtaining turnover from the field offices and payment of interest u/s 234A and 234C would have automatically been avoided.

We recommend that the Corporation should devise internal control system for proper assessment of income and expenditure on monthly/quarterly basis so as to estimate correctly the Advance Tax to be deposited to avoid payment of interest.

[♣] Due Dates	Advance Tax Payable
On or before June 15 of the previous year	Not less than 15 *per cent* of Advance Tax payable
On or before September 15 of the previous year	Not less than 45 *per cent* of Advance Tax payable
On or before December 15 of the previous year	Not less than 75 *per cent* of Advance Tax payable
On or before March 15 of the previous year	Not less than 100 *per cent* of Advance Tax payable

[♠] Interest earned on unpaid amount of the Advance Tax, calculated at the rate of 6 *per cent* per annum, 2006-07 (₹ 6.69 lakh), 2008-09 (₹ 12.95 lakh), 2009-10 (₹ 62.23 lakh) = ₹ 81.87 lakh i.e. ₹ 0.82 crore

The matter was reported to the Government (June 2012); the reply has not been received (February 2013).

General

3.15 Follow up action on Audit Reports

3.15.1 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 years 2006-07 to 2010-11 were placed in the State Legislature in February 2008, February 2009, February 2010, August 2011 and May 2012 respectively. Out of 129 Paragraphs/Performance Audit involving PSUs under 22 Departments featured in the Audit Reports (Commercial) for the years from 2006-07 to 2010-11, no replies in respect of 91 Paragraphs/Performance Audit have been received from the Government by 30 September 2012 as indicated below:

Year of Audit Report	Total Paragraphs/ Performance Audit in Audit Report	No. of departments involved	No. of paragraphs/ Performance Audit for which replies were not received
2006-07	37	13	26
2007-08	33	9	16
2008-09	27	22	22
2009-10	16	7	12
2010-11	16*	7	15
Total	**129**		**91**

Department wise analysis is given in **Annexure-22.** The Power Department was largely responsible for non-submission of replies.

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

3.15.2 In the Audit Reports (Commercial) for the years 1999-2000 to 2010-11, 346 paragraphs and 49 Performance Audit were included. Out of these, 122 paragraphs and 21 Performance Audit had been discussed by COPU up to 30 September 2012. COPU had made recommendations in respect of 113 paragraphs and 20 Performance Audit of the Audit Reports for the years 1978-79 to 2006-07**.**

As per the working rules of the COPU, the concerned departments are required to submit Action Taken Notes (ATNs) to COPU on their recommendations within three months. The ATNs are, however, furnished by the departments to us, only at the time of discussion of ATNs by COPU.

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

3.15.3 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 audited entity. The results thereof in respect of Government Companies are given in **Annexure-23** and in respect of Statutory corporations are given in **Annexure-24.**

Response to Inspection Reports, Draft Paragraphs and Performance Audit

3.15.4 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned administrative

* Includes standalone Performance Audit Report on Sale of Sugar Mills of Uttar Pradesh State Sugar Corporation Limited.

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 2012 pertaining to 54 PSUs disclosed that 11,842 Paragraphs relating to 3,091 Inspection Reports remained outstanding at the end of September 2012. Department-wise break-up of Inspection Reports and audit observations outstanding at the end of 30 September 2012 are given in **Annexure-25**.

Similarly, Draft Paragraphs and Performance Audit 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 14 Draft Paragraphs and two Performance Audit Reports forwarded to the various departments between April and September 2012, the Government had not replied to any draft paragraphs/performance audit reports so far (February 2013), as detailed in **Annexure-26**.

We recommend that the Government should ensure that (a) procedure exists for action against the officials who failed to send replies to inspection reports/draft paragraphs/Performance Audit and Action Taken Notes on 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 **(SMITA S. CHAUDHRI)**
The **Accountant General (Economic and Revenue Sector Audit),**
Uttar Pradesh

Countersigned

New Delhi **(VINOD RAI)**
The **Comptroller and Auditor General of India**