

OVERVIEW

1. Overview of State Public Sector Undertakings

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The Accounts of Government companies are audited by Statutory Auditors appointed by CAG. These Accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2012, the State of Uttar Pradesh had 85 working PSUs (78 companies and seven Statutory corporations) and 43 non-working PSUs (all companies), which employed 0.79 lakh employees. The working PSUs registered a turnover of ₹42,987.46 crore for 2011-12 as per their latest finalised Accounts. This turnover was equal to 6.25 per cent of the State GDP indicating a moderate role played by the State PSUs in the economy. However, the working PSUs incurred overall Loss of ₹6,489.58 crore in 2011-12 and had Accumulated losses of ₹27,742.12 crore.

Investments in PSUs

As on 31 March 2012, the Investment (Capital and Long Term Loans) in 128 PSUs was ₹97,867.69 crore. It grew by over 238.05 per cent from ₹28,950.50 crore in 2006-07 to ₹97,867.69 crore in 2011-12 mainly because of increase in Investment in Power Sector which accounted for 93.38 per cent of the total Investment in 2011-12. The Government contributed ₹7,446.16 crore towards Equity, Loans and Grants/Subsidies during 2011-12.

Performance of PSUs

The losses incurred by working PSUs increased from ₹499.50 crore in 2006-07 to ₹6,489.58 crore in 2011-12. During the year 2011-12, out of 85 working PSUs, 32 PSUs earned Profit of ₹1,201.57 crore and 23 PSUs incurred Loss of ₹7,691.15 crore. Five working PSUs had not submitted their first Accounts whereas 25 companies maintained their Accounts on “No Profit No Loss” basis. The major contributors to Profit were Uttar Pradesh Avam Vikas Parishad (₹358.80 crore), Uttar Pradesh Rajkiya Nirman Nigam Limited (₹225.46 crore), Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (₹126.38 crore) and Uttar Pradesh Forest Corporation (₹125.17 crore). The heavy

losses were incurred by four Power Sector companies (total ₹6,849.96 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years Audit Reports of CAG shows that the state PSUs losses of ₹16,879.05 crore and infructuous Investments of ₹132.80 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of Accounts

The quality of Accounts of PSUs needs improvement. Of the 60 Accounts of 50 working companies finalised during October 2011 to September 2012, qualified certificates were issued for 47 Accounts, adverse certificates for three Accounts, disclaimer for one account and unqualified certificates for nine Accounts. There were 109 instances of non-compliance with Accounting Standards. Of the six Accounts finalised by the six Statutory corporations during October 2011 to September 2012, we conducted audit of three Accounts and issued qualified certificate for two Accounts and adverse certificate was issued in one Accounts. The audit of rest of three corporations was under finalisation (September 2012).

Arrears in Accounts

Out of the 85 working PSUs, only four PSUs finalised their Accounts for the year 2011-12 while 81 PSUs had arrear of 234 Accounts as of September 2012 with extent of arrear ranging from one to 16 years. The arrear needs to be cleared in a time bound manner by setting targets for PSUs. Out of 43 non-working PSUs (all companies), 12 have gone into liquidation process and the remaining 31 had arrear of Accounts for one to 37 years. Government needs to expedite closing down of the non-working PSUs.

2. Performance Audit relating to State Public Sector Undertakings

Performance Audit relating to working of Uttar Pradesh Power Transmission Corporation Limited and Uttar Pradesh State Industrial Development Corporation Limited were conducted. Executive summary of our audit findings is given below:

2.1 Uttar Pradesh Power Transmission Corporation Limited

Introduction

Transmission of electricity and Grid operation in Uttar Pradesh are managed by Uttar Pradesh Power Transmission Corporation Limited (Company) and State Load Dispatch Centre. As on 31 March 2007, the Company had a transmission network of 21,619 Circuit Kilometer (Ckm) and 276 Extra High Tension Sub-stations (SSs) which rose to 25,064.90 Ckm lines and 357 SSs with installed capacity of 53,338 Mega Volt Ampere (MVA), by 31 March 2012. The quantity of energy transmitted increased from 51,472.14 MUs in 2007-08 to 70,029.47 MUs in 2011-12.

Planning and Development

The Company prepared the Annual Plan for capacity addition and augmentation. The capacity addition of SSs and lines did not meet the targets, as only 81 SSs and 3,445.90 Ckm lines were constructed during the period of five years against the planned addition of 222 SSs and laying of 12,877 Ckm of lines. The shortfall was due to delay in completion of the projects.

Project management

The Company could not complete its projects as per schedule due to time overrun ranging between one month and 216 months resulting into cost overrun of ₹105.02 crore during the period 2007-12. The time overruns were attributable to delay in land acquisition, getting approval from railways and in getting forest clearance etc.

The Company failed to assess load requirement and constructed two SSs of under capacity. Subsequently, capacity of SSs, was increased by incurring extra expenditure of ₹13.75 crore.

Procurement

The Company incurred extra expenditure of ₹4.73 crore due to failure to enforce vital clause of contract in two cases. Further, due to wrong calculation of equated price for counter offer the Company incurred extra expenditure of ₹17.12 crore.

Implementation of projects

Construction of SSs as well as lines was generally awarded on turnkey basis

through open tenders. The Company incurred extra expenditure of ₹158.78 crore due to inclusion of supply of transformer in turnkey contract in contravention of Best Practices in Transmission System as notified by Ministry of Power, Government of India, award of contracts at higher rates, splitting of tender in two packages and non-standardisation of tower design.

The Company did not recover supervision charges of ₹63.66 crore in two cases.

Performance of the transmission system

The overall transmission capacity of the Company (excluding 30 per cent towards redundancy) was in excess of the requirement for every year except 2007-08. The Company failed to ensure maximum and minimum voltages as per norms. Out of 255 feeders in four Zones, 68 feeders were loaded above 366 ampere. Out of 67 SSs of 220KV (49 single bus bar SSs and 18 double bus bar SSs), Bus Bar Protection Panel was provided at 18 SSs out of which only three were in working condition.

Adequacy of Sub-stations

The Company exceeded the permissible maximum capacity of transformers in five numbers of 220 KV and one numbers of 132 KV SSs. The Company was having four numbers 220 KV SSs and 48 numbers 132 KV SSs with single transformer against the norms of at least two transformers.

Grid Management

Out of 357 SSs and nine generators, only 93 SSs (26.05 per cent) and nine generators were provided Remote Terminal Units. Further, the Company received 122 (A type), 107 (B type) and 21 (C type) messages from Northern Regional load Dispatch Centre for violation of Grid norm during August 2010 to March 2012. Violations of the Grid discipline led to levy of penalty of ₹9.10 crore by CERC.

Financial Management

The Company incurred losses in all the five years and accumulated losses increased from ₹991.08 crore to ₹1,183.82 crore during the period of

Performance Audit. Further, the debt equity ratio increased from 1.11:1 to 1.23:1.

Tariff Fixation

The Annual Revenue Requirement (ARRs) were filed by the Company with delay ranging between 117 and 482 days during the period of Performance Audit except 2008-09.

Material Management

Despite decision of the Board of Directors, the Company did not dispose off 51 damaged and uneconomical transformers lying since 2001. The closing stock of the Company increased from ₹290.17 crore in 2007-08 to ₹606.51 crore in 2011-12. The closing stock was equal to 13 months to 21 months of the consumption.

Conclusion and Recommendations

The Company failed to achieve its planned capacity addition registering huge shortfall, completed the projects with time and cost overruns, failed to synchronise construction of evacuation system with generation plan and managed evacuation of power through existing transmission system, constructed SSs and lines without proper load requirement resulting in under

utilisation, constructed SSs with single transformers which was contrary to the provisions of Manual of Transmission Planning Criteria. The voltage management system did not correspond to the norms prescribed in Grid Code and Grid Discipline was not followed and the Company did not have adequate safety measures and the infrastructure for disaster management.

We made six recommendations to ensure implementation of annual plan for capacity addition and timely completion of projects as planned, plan for evacuation system to synchronise with that of the generation system, ensure adherence to the standards/norms fixed in MTPC/Best Practices in Transmission Systems for effective functioning and maintenance of transmission network, ensure adequate disaster management and install recommended system to protect the lines and SSs, and maintain SLDC as per Grid Code and ensure that all generators and SSs are connected to SLDC through RTUs on real time basis for safety and security of the Grid. The frequency levels should be adhered to avoid Grid indiscipline.

2.2 Uttar Pradesh State Industrial Development Corporation Limited

Introduction

The Uttar Pradesh State Industrial Development Corporation Limited (Company) was incorporated in March 1961 as a wholly owned Government Company under the Companies Act, 1956 for development of industrial infrastructure and to promote industrial development in the State for which it was nodal agency.

Acquisition of land

The target of acquisition of land was not achieved due to delays at the level of District Authorities and Government. The failure of the Company to develop the available land not only led to blockade of fund in subsequent acquisition of land but also resulted in avoidable expenditure in the shape of Sollacium.

Physical possession of 1,200.483 acre land acquired in 1993 and 2,584.292 acre land acquired during April 1999 to April 2005 in Buland Shahar have not been obtained so far resulting in blockade of ₹297.29 crore.

The Company acquired 48,551.088 acre land against which the conveyance deed has been executed only for 27,745.588 acre land.

Development of infrastructure on acquired land

The Company executed 248 contracts for development out of which, 201 contracts were executed against short term tender notices without any justification and 33 contracts valuing ₹63.37 crore very short term tender notices although there was no provision in the Manual for issue of very short term tender notice.

Scrutiny of 40 contracts revealed that tenders were finalised by lower level staff and CE and MD did not sign the tender documents and comparative statements. The MD accorded approval separately on note sheets. The Company finalised 130 contracts by dividing the work in groups without any justification. The Company awarded 107 contracts to the same contractors against which 48 contracts remained incomplete up to March 2012 which defeated purpose of grouping.

The CE made payment of ₹25.51 crore to 19 contractors against 39 contracts although the bills of executed works were not available out of which ₹ 5.64 crore has not been recovered. The inadmissible payment resulted in loss of interest of ₹5.40 crore.

The penalty of only ₹ 1.07 lakh was recovered against recoverable penalty of ₹2.65 crore in 21 contracts.

Ten contracts remained incomplete despite lapse of four to six years leading to blockade of ₹21.17 crore and delaying the infrastructure development.

The payment of ₹3.03 crore was made for supply of material in nine contracts by the Company against the direction (June 2007) of MD. The physical verification revealed that the material of ₹2.21 crore was short at Chakeri-II and Mandhana sites.

Management of Industrial Area

The utilisation of allotted plots ranged between 48.77 per cent and 54.27 per cent during five years up to 2011-12. The Company suffered loss of additional revenue of ₹11.30 crore due to transfer of vacant plots.

In 212 cases, the plots were transferred without executing the lease deed leading to loss of stamp duty of ₹5.40 crore and in 303 cases stamp duty of ₹ 18.81 crore could not be recovered due to non-execution of lease deed.

The reserve price of five group housing plots was fixed in contravention of the rules which resulted in loss of ₹ 110.10 crore.

The allotment of eight Group Housing and 34 commercial plots was done against the prescribed system which resulted in loss of additional revenue of ₹152.29 crore at market rate which works out to ₹24.50 crore at the circle rate.

Internal control system

The monthly/quarterly accounts are not prepared due to which it could not ascertain its income due to which it paid penal interest of ₹ 5.45 crore to Income Tax department. Lack of annual inspection of subordinate offices and non follow up of Internal Auditors report makes the internal control system weak and resulted in fraudulent payment of ₹2.12 crore.

Conclusion and recommendations

The Company failed to achieve the targets of land acquisition and development, made excess payment towards land acquisition charges and compensation, blockade of funds with the District Authorities due to delay in acquisition of land, non-compliance of tendering process. Due to fixation of lower rates of reserve price and non-revision of premium rates led to deprival of earning additional revenue. The internal control system was deficient.

We made six recommendations for achievement of targets for its development, to follow the prescribed tendering process, to follow the rate fixation and revision policy.

3. Transaction Audit Observations

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

There were 10 cases of avoidable Loss/Expenditure amounting to ₹ 16,015.34 crore.

(Paragraphs 3.1, 3.3 to 3.7 and 3.11 to 3.14)

There were three cases of non-recovery of dues amounting to ₹ 4.19 crore.

(Paragraphs 3.8 to 3.10)

Gist of some of the important paragraphs is given below:

- **U.P. Project Corporation Limited** showed undue favour to a firm and awarded the work for supply of Astroturf at higher rate.

(Paragraph 3.2)

- **Uttar Pradesh Power Corporation Limited** will incur recurring loss of ₹ 10,831.82 crore due to finalisation of bid at higher rate for power purchase.

(Paragraph 3.4)

- **Dakshinanchal Vidyut Vitran Nigam Limited** committed irregularities in the bid evaluation process and in the supplementary agreement as well as deviation from ETF's recommendations. This has already caused losses to the extent of ₹ 421.12 crore up to March 2012, and will lead to further losses of ₹ 4,601.12 crore in the remaining 18 years of the contract.

(Paragraph 3.6)

- **Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited** made ill-conceived planning for renovation and modernisation of Unit-8 of Obra Thermal Power Plant resulting in avoidable expenditure on procurement of materials valued at ₹ 31.88 crore.

(Paragraph 3.7)

- **Uttar Pradesh Jal Nigam** made systemic deficiencies in retrieval and disposal of surplus earth which led to avoidable expenditure of ₹ 7.84 crore and the Nigam also lost opportunity to earn sale proceeds to the extent of ₹ 3.22 crore

(Paragraph 3.12)

- **Uttar Pradesh Warehousing Corporation** failed to estimate accurately the amount of Advance Tax and also delayed the filing of return of income which led to loss of ₹ 3.01 crore.

(Paragraph 3.14)