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

Purvanchal Vidyut Vitran Nigam Limited

3.1 Undue favour to consumer

The Company failed to levy minimum charges as per provisions of the tariff orders resulting in undue favour to a Pumped Canal Consumer

The Purvanchal Vidyut Vitran Nigam Limited (Company) is engaged in the distribution of electricity through its divisions spread over in 21 districts of the eastern Uttar Pradesh. The divisions are responsible for raising of the bills to consumers for sale of electricity as per the applicable rate schedule approved by the Uttar Pradesh Electricity Regulatory Commission (UPERC) and collect revenue from them.

As per clause 3 of rate schedule HV-4 which is applicable to medium and large pumped canal consumers having load of more than 100 BHP (75 KW), the electricity bills were to be raised as per rate of charge[1] subject to minimum charges prescribed in rate schedule approved by the UPERC from time to time. Thus, if the billable demand charge and energy charge for any month was lower than the minimum charges; the consumer was to be charged as per prescribed minimum charge. The rate schedule HV-4 effective for the period April 2010 to September 2012 and October 2012 to May 2013 prescribed the minimum charges at the rate of ₹ 500/KVA per month.

We noticed (August 2014) that the demand and energy charges billed to Narayanpur Pump Canal (sanctioned load of 16000 KVA) by Electricity Distribution Division, Chunar in the months of April 2012, December 2012 and April 2013 were lower as compared to the prescribed minimum charges as detailed in table 3.1.

Table 3.1

Month	Demand & Energy charges billed (₹)	Rate of minimum charge per KVA (₹)	Minimum charges to be billed (₹)	Short Billing (₹)
1	2	3	4	5(4-2)
April 2012	4083666	500	8000000	3916334
December 2012	5653760	500	8000000	2346240
April 2013	6322822	500	8000000	1677178
Total	**16060248**		**24000000**	**7939752**

Source: Information provided by Electricity Distribution Division, Chunar

[1]Demand charges and energy charges.

The consumer should have been billed at prescribed minimum charges in terms of provisions of the rate Schedule which was not done. Thus, failure to adhere to prescribed minimum charges led to undue favour to the consumer of ₹ 79.40 lakh.

The Management accepted (May 2015) the audit observation and stated that the supplementary bill for differential amount had been raised to consumer in March 2015. However, the bill has not been acknowledged by the consumer and payment is still pending (November 2015).

The matter was reported to Government in May 2015; the reply is still awaited (November 2015).

3.2 Loss of revenue due to non-assessment of consumers

The Company suffered loss of revenue of ₹ 1.21 crore due to non-assessment of consumers whose meters were running slow

Clause 5.6 of the U. P. Electricity Supply Code, 2005 (supply code) governing replacement of defective meters and reassessment of consumers provides that the Licensee shall have the right to test any meter if there is a reasonable doubt about the accuracy of the meter. Testing of the meter will be done at the consumer premises and if the meter is found slow by the licensee and the consumer agrees to the report, the meter shall be replaced with a new meter within 15 days and bills of previous three months prior to the month in which the dispute has arisen shall be adjusted in the subsequent bills as per the test results.

If the consumer disputes the results of testing, or testing at consumer's premises is difficult, the defective meter shall be replaced by a new meter by the Licensee, and, the defective meter after sealing in presence of consumer, shall be tested at licensee's lab/independent lab, as agreed by consumer. The decision on the basis of reports of the test lab shall be final and binding on the Licensee as well as the consumer.

We noticed (October 2014) that Electricity Test Division (ETD), Varanasi of the Company replaced 18 meters of HV-2 consumers of Electricity Distribution Division-I (EDD), Chandauli during October 2013 to December 2013. However, ETD did not carry out testing of such replaced meters either at the premises of the consumers or at its lab so as to enable EDD to assess the energy consumed by consumers in case the old meters were not recording the correct consumption of energy.

On an analysis done by audit, it was noticed that the average consumption recorded by the new meters in subsequent three months was higher by 10 to 255 *per cent* than that recorded by the old meters in previous three months. The ETD and EDD, however, failed to take notice of this fact and did not assess energy consumption of these consumers as required under the provisions of supply code.

Thus, due to failure on the part of ETD as well as EDD, the Company suffered loss of revenue of ₹ 1.21 crore[2].

The matter was reported to Management and Government in June 2015; the reply is still awaited (November 2015).

3.3 Loss of revenue due to non-sanction of protective load

The Company suffered revenue loss of ₹ 93.52 lakh due to non-sanction of protective load on unsustainable grounds

Clause 10 of the general provisions of tariff orders approved by the Uttar Pradesh Electricity Regulatory Commission (UPERC) from time to time provided that consumers getting supply on independent feeder at 11 KV & above voltage, emanating from sub-station, may opt for facility of protective load and avail supply during the period of schedule rostering imposed by the licensee. An additional charge at the rate of 100 *per cent* of base demand charges fixed per month shall be levied on the contracted protected load each month. During the period of rostering, the load shall not exceed the sanctioned protective load, otherwise consumer shall be liable to pay twice the prescribed charges for such excess load.

We noticed (March 2015) that a consumer having contracted load of 3000 KVA and billed by the Electricity Distribution Division I, Allahabad (division) of Company was getting rostering free supply through 33 KV independent feeder. The division advised (June 2012) consumer to get sanctioned protective load within 15 days otherwise scheduled rostering would be applied. The consumer applied in June 2012 for sanction of protective load of 1000 KVA. In the meantime, at the request of consumer, Company bifurcated (September 2012) load of the consumer into two separate connections with contracted load 2000 KVA and 1000 KVA each. Due to such bifurcation of load, the division returned (April 2013) the application of consumer for sanction of protective load with remarks to apply for sanction of protective load by both the consumers separately.

The consumers again applied (June 2013) for sanction of protective load of 800 KVA and 500 KVA against contracted load of 2000 KVA and 1000 KVA respectively. The Company did not sanction (August 2013) protective load stating that protective load would be sanctioned equivalent to contracted load though there was no such provision in the rule. The Company, however, did not restrict the supply and continued to provide rostering free supply for a period of two years and nine months. The refusal of sanction of protective load by the Company and continuing the supply during schedule rostering without protective load led to loss of revenue of ₹ 93.52 lakh[3] during the period July 2012 to March 2015.

[2] 2048778 (Unit short charged) x ₹ 5.90 (applicable rate of energy charge)

[3] (1000 KVA x ₹ 220 x 4 months)= ₹ 880000 +(1000 KVA x ₹ 240 x 8 months)= ₹ 192000 +(1300 KVA x ₹ 240 x 21 months) = ₹ 6552000

The Management stated (August 2015) that there was no need to sanction the protective load to consumer because, as per Infrastructure and Industrial Investment Policy 2012, the Company will make effort to provide 24 hours supply to consumers. The reply is not acceptable because in terms of the provisions of the supply code/tariff orders, Company should have sanctioned protective load to the consumer as per his requirement.

The matter was reported to Government in June 2015; the reply is still awaited (November 2015).

Dakshinanchal Vidyut Vitran Nigam Limited

3.4 Loss of revenue due to incorrect application of tariff

The Company billed private tube well consumers falling under rate schedule LMV-5 as per rural schedule in place of urban schedule resulting in loss of revenue of ₹ 14.43 crore

The Dakshinanchal Vidyut Vitran Nigam Limited (Company) is engaged in the distribution of electricity through its divisions spread over in 21 districts of the southern Uttar Pradesh. The divisions are responsible for raising of bills to consumers for sale of electricity as per the applicable rate schedule approved by the UPERC and collect revenue from them.

Clause A (ii) and B of rate schedule LMV-5 of the tariff orders approved by UPERC and applicable to private tube well (PTW) consumers from April 2010, October 2012 and June 2013 provided separate rates of charges for consumers getting supply as per rural schedule and urban schedule. The supply hours under rural schedule were fixed at ten hours per day as per order issued by the Chief Engineer (Energy System) of Uttar Pradesh Power Transmission Corporation Limited. Therefore, the consumers getting supply up to ten hours were to be billed as per the rate applicable for rural schedule and the consumers getting supply beyond ten hours were to be billed as per urban schedule.

We noticed (September 2014) that the consumers of Electricity Distribution Division (division), Kannauj were supplied energy beyond the limit of ten hours per day during the period March 2012 to March 2015 but were billed by the division as per the rate applicable for rural schedule instead of urban schedule.

Thus, due to billing of the consumers in contravention to the provisions of rate schedule LMV-5, the Company suffered loss of revenue of ₹ 14.43 crore[4].

Matter was reported to Management and Government in May 2015; the reply is still awaited (November 2015).

[4] 1223305 BHP x (₹ 130 - ₹ 75)= ₹ 67281775 + 18555811 BHP x (₹140 - ₹100)= ₹ 74232440 + ₹ 2754025 (Regularity surcharge)

3.5 Loss due to adjustment on account of inadmissible interest

The Company suffered loss of ₹ 43.48 lakh due to allowing adjustment to the consumer on account of inadmissible interest

Clause 6.5 (b) of the U. P. Electricity Supply Code, 2005 (Supply Code) provides that if a consumer disputes the accuracy of any bill, he may make the payment under protest and file a complaint with the competent authority. A revised bill shall be issued within seven days with a payment period of seven days if the complaint is found to be correct by the competent authority. In case the amount deposited under protest is found short, the balance shall be deposited by revised date without late payment surcharge and in case it is found in excess the same shall be adjusted in the subsequent bills. Further, Clause 6.4 (c) of Supply Code provides that no interest shall be paid on the unadjusted balance amount lying with the licensee.

We noticed (September 2014) that due to change in the tariff order (10 November 2004) effective from November 2004, Electricity Urban Distribution Division, Farrukhabad (division) of the Company belatedly shifted (May 2006) billing of a Consumer[5] having connected load of 1800 KW under rate schedule LMV-4 (A) (carrying higher rate of charge) to rate schedule LMV-1 (b) (carrying lower rate of charge). However, it did not revise previous bills for the period December 2004 to March 2006. The consumer requested (July 2006) for revision of previous bills and demanded interest on the excess amount already paid by him. The Division allowed (August 2013) adjustment of ₹ 33.90 lakh[6] on account of excess amount and ₹ 43.48 lakh[7] as interest thereon.

The adjustment of ₹ 43.48 lakh allowed in the consumer's bill for the month of August 2013 on account of interest was in contravention to the provisions of Supply Code, 2005 which resulted in loss of ₹ 43.48 lakh to the Company.

The Management stated (May 2015) that due to billing for incorrect amount and thereafter delayed adjustment of excess paid amount, interest was allowed to the consumer. The reply is not tenable because clause 6.5 (b) of supply code does not provide for payment of interest on excess paid amount.

The matter was reported to Government in June 2015; the reply is still awaited (November 2015).

3.6 Loss due to non-revision of Cost Data Book

The Company could not recover the differential amount of ₹ 2.16 crore from 969 PTW consumers due to non-revision of Cost Data Book

As per clause 4.6 of Uttar Pradesh Electricity Supply Code 2005 (Supply Code), the divisions of Distribution Companies (DISCOMs) are required to prepare

[5] Garrison Engineer Farrukhabad.
[6] being the rate difference of LMV-4 (A) and LMV-1 (b)
[7] calculated at the rate of 1.5 *per cent* per month on the excess paid amount of ₹ 33.90 lakh for the period from12 July 2006 to August 2013

estimate (containing security deposit, charges for laying the service line, distribution mains, if required, & material and system loading charges etc.) for providing new connections to the consumers, on the basis of rates prescribed in Cost Data Book (CDB) approved by the U.P. Electricity Regulatory Commission (UPERC). The clause also stipulated that the CDB should be revised by the licensee with the approval of UPERC once in two years. The U. P. Power Corporation Limited (UPPCL), on behalf of the Licensees (DISCOMs) has so far issued two CDBs first in October 2007 and second in April 2010.

The CDB issued in April 2010 was due for revision in April 2012 but it has not been revised so far. Due to non-revision, the CDB issued in April 2010 was still applicable and the divisions were charging the cost of material from the consumers during 2012-13 to 2014-15 on the basis of rates applicable for the period up to March 2012.

We noticed that three divisions[8] of the Company released Private Tube Well (PTW) connections to 969 consumers during 2012-13 to 2014-15 and charged ₹ 69497 per consumer as per the cost of 25 KVA sub-station prescribed in CDB whereas cost to the Company was ₹ 83441[9] , ₹ 91540[9] and ₹ 94420[9] for the year 2012-13, 2013-14 and 2014-15 respectively. However, due to non-revision of CDB, the divisions could not charge the actual cost of material from the consumers. As a result, the Company suffered loss of ₹ 2.16 crore[10] being the differential amount which could not be recovered from 969 PTW consumers due to non-revision of Cost Data Book.

The Management accepted (September 2015) the audit observation and stated that due to non revision of cost data book since 2010, the new connection charges were charged as per the cost data book of 2010. The reply is not acceptable as cost data book was to get revised by the management from April 2012 with the approval of UPERC but the management could not get it revised.

The matter was reported to the Government in June 2015; the reply is still awaited (November 2015).

Paschimanchal Vidyut Vitran Nigam Limited

3.7 Loss of revenue due to non-raising of bills to the consumers

The Company did not raise bills to the consumers resulting in deprival of revenue of ₹ 10.31 crore besides loss of an opportunity to reduce interest burden by ₹ 60.87 lakh

The Paschimanchal Vidyut Vitran Nigam Limited (Company) is engaged in the distribution of electricity through its divisions spread over in 11 districts of the western Uttar Pradesh. The divisions are responsible for raising of bills to

[8] EDD-I, Agra: 62, 139 and 103 connections, EDD-II, Agra: 20, 60 and 79 connections and EDD-III, Fatehabad, Agra: 140, 181 and 185 connections in 2012-13, 2013-14 and 2014-15 respectively.
[9] Cost of 25 KVA sub-station as per Cost Schedule of the respective years issued by the UPPCL.
[10] In 2012-13: 222 connections x ₹ 14944= ₹ 3317568, in 2013-14: 380 connections x ₹ 23043= ₹ 8756340 and in 2014-15: 367 connections x ₹ 25923 = ₹ 9513741

consumers for sale of electricity as per the applicable rate schedule approved by the UPERC and collect revenue from them.

Electricity Urban Distribution Division-I (division), Meerut of the Company did not raise bills to the consumers of LMV-3 and LMV-7 category for the period April 2014 to February 2015 without any reason on record.

Clause 6.1 of the U.P. Electricity Supply Code, 2005 (Supply Code) read with Annexure 3.1 provides monthly billing of the consumers falling under rate schedule LMV-3 (applicable to Public Lamps) and LMV-7 (applicable to Public Water Works) as per applicable rate of charge.

We noticed (March 2015) that the division was having 22 un-metered connections under LMV-3 with sanctioned load of 1319 KW and 47 metered connections under LMV-7 with sanctioned load of 1966 BHP. Despite the provision of monthly billing, the division did not raise bills of ₹ 5.02 crore and ₹ 5.29 crore to the consumers of LMV-3 and LMV-7 respectively for the period from April 2014 to February 2015 without any reasons on record.

As a result, the Company was deprived of revenue of ₹ 10.31 crore, besides, it also lost an opportunity to reduce the interest burden by ₹ 60.87 lakh[11] incurred on the short term working capital loans taken for purchase of power.

The Management stated (October 2015) that due to non verification of bills on monthly basis by the consumers, monthly bills were not issued and the surcharge was not being verified by the consumers so, it would not be appropriate to calculate loss of interest. The reply is not acceptable because, as per provision of the supply code, the bills to consumers should have been raised on monthly basis and not raising of bills in time deprived the Company from levy of late payment surcharge admissible as per rate schedule.

The matter was reported to Government in June 2015; the reply is still awaited (November 2015).

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited

3.8 Loss of interest due to deficient agreement

The Company did not incorporate penalty clause for default in payment by contractor in the agreement and suffered loss of interest of ₹ 2.62 crore

The Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (Company) was incorporated on 25 August 1980 for construction and operation of thermal power stations (TPSs) in the state of Uttar Pradesh. The Company entered into a facilities and services agreement with an independent power producer (IPP) on 12 November 2006 to provide rights to IPP for use of "infrastructure

[11] worked out at lowest interest rate of 12 *per cent* per annum payable on short term working capital loan

facilities and support services"[12] of the Company to run its 2X500 MW Anpara 'C' Thermal Power Project (TPP).

Rule 204 (xii) (a) and (xvi) of General Financial Rules, 2005 provides that, in contracts/agreements where Government property is entrusted to a contractor for use on payment of hire charges, specific provisions for recovery of hire charges regularly and recovery of liquidated damages for defaults in payment on the part of the contractor should be incorporated in the agreements.

Clause 14.1.1 of the agreement provided that for the rights made available, IPP would pay an annual sum of ₹ six crore to the Company in advance by January 1 of every year from the commissioning of the first unit of the TPP. The annual sum was enhanced (April 2010) to ₹ 7.20 crore due to enhancement of the capacity of the TPP from 2X500 MW to 2X600 MW. Further, the annual sum was to be escalated with reference to the Indian Wholesale Price Index from the date of commissioning of unit (10 December 2011) onwards.

We noticed (September 2014) that the Company, violating the provisions of General Financial Rules, did not incorporate any penalty clause in this agreement for defaults by IPP in making payment of annual sum on the due dates though penalty clause was invariably included in other agreements executed by the Company.

We further noticed that the IPP made the payments of annual sum with a delay ranging between 30 and 369 days during 2011 to 2015. The Company demanded interest amounting to ₹ 1.11 crore (calculated at the rate of 12 *per cent* per annum) for the defaults made in 2013 and 2014 only and which was refused by IPP in absence of any penalty clause in the agreement. The amount of interest for total defaults by IPP during the period 2011 to 2015, however, worked out to ₹ 2.62 crore (calculated at the rate of 12 *per cent* per annum) but it could not be recovered from IPP due to absence of penalty clause in the agreement.

Thus, failure of the Company to incorporate penalty clause in the agreement led to loss of interest of ₹ 2.62 crore during the period 2011 to 2015 to the Company.

The Management stated (May 2015) that the matter for inclusion of the penalty clause in agreement for default in payment would be put before the management committee to be constituted as per terms of the agreement. The fact remains that in absence of penalty clause in the agreement, the Company could not charge the interest for default in payment by IPP.

The matter was reported to Government in May 2015; the reply is still awaited (November 2015).

[12] MGR System, Railway Siding, Auxiliary Steam for Start up and operating period, Raw Water Intake Channel, User Ash Facilities and User Switchyard Facilities.

Uttar Pradesh State Industrial Development Corporation Limited

3.9 Loss due to non-recovery of premium

The Company extended undue favour to the lessee and suffered loss of ₹ 50.75 lakh due to recovery of premium in violation of its own policy

Uttar Pradesh State Industrial Development Corporation Limited (Company) develops industrial area and allots industrial plots on lease basis to entrepreneurs for setting up of industries. As per the existing policy of the Company, if at the time of physical possession, difference in actual area and the area mentioned in the allotment letter is found up to 20 *per cent* on upper side, rate of premium to be realized in respect of excess found area shall be the rate prevalent on the date of original allotment. Further, if such difference is more than 20 *per cent* on upper side, the rate of premium applicable on the date of communication of excess found area to the lessee shall be charged for the whole excess area. The Company amended (June 2012) the existing policy, as per which, if excess area is found more than 20 *per cent*, the premium for excess area up to 20 *per cent* was to be charged as per the rate applicable on the date of allotment and for remaining excess area at current rate.

We noticed that a lessee having a possession of plot no C-19 with actual area of 7663.25 sqm against the allotted[13] area of 5053.25 sqm, transferred (21 November 2006) the above plot to a firm. For regularisation of the above plot, the Company demanded ₹ 42.06 lakh for the plot area measuring 2610 sqm found in excess of the area (5053.25 sqm) mentioned in the allotment letter. The excess area of 2610 sqm was found to be a service road and adjacent to the National Highway (NH). However, it was encroached by the lessee and transferred to the other firm. We further noticed that the lessee did not deposit the amount and filed a writ petition (2009) in Hon'ble High Court. Meanwhile, the Company raised (January 2013) demand of ₹ 52.90 lakh towards regularization of encroached land as per its revised policy. The Hon'ble High Court in its judgment (October 2013) directed the Company to consider and decide the representation of the lessee after affording an opportunity of hearing to the lessee within a period of three month from the date of receipt of order.

The matter was put-up (December 2013) before the Board of Directors (BOD) quoting the decision of Hon'ble High Court in respect of a case of Manisha Mandir v/s State of Uttar Pradesh to charge price of additional land as applicable on the date of application plus 15 *per cent* simple interest. On the above analogy, BOD decided to allot extra encroached land at the rate of ₹ 11.70 per sqm, prevailing at the time of original allotment along with simple interest at the rate of 15 *per cent* per annum. Accordingly, the Company finally settled (August 2014) the above case of additional area of 2610 sqm

[13] Allotted tthrough lease deed executed on 19 November 1977 in the Industrial Area, Sarojini Nagar, Lucknow

land for ₹ 2.15 lakh against the recoverable amount of ₹ 52.90 lakh. We found that complete facts of the cases were not put up before the BOD. In case of Manisha Mandir, the Court had observed that it was an orphanage for abandoned girls and additional land was a 1.5 meter wide strip of land (eight *per cent* of the original allotted area) adjacent to the plot and not being of any other use, therefore it should have been allotted ab-initio to original lessee.

In the instant case the additional land was service road which was encroached by the lessee and amounted to 51.65 *per cent* of the original allotted area. However, the above vital facts about both the cases being unparallel were not apprised to the BOD. By suppression of the facts of the case, BOD was put in a situation to decide the case in favour of lessee without recovery of requisite amount of premium of ₹ 50.75 lakh (₹ 52.90 lakh minus ₹ 2.15 lakh).

The Management and Government stated (July and August 2015) that keeping in view the order passed by Hon'ble Court dated 24 October 2013, the BOD taking sympathetic view towards the heir (wife) of deceased allottee, decided to allot the 2610 Sq Mtr land area at the rate of ₹ 11.70 per sqm prevailing at the time of original allotment (1977).

Reply is not acceptable as the order of Hon'ble High court did not direct to allot the encroached land at the old rates. Further, the BOD which decided the case in favour of the lessee was misled as full facts of the case were never brought to the notice of the BOD.

Statutory corporations

Uttar Pradesh Jal Nigam

3.10 Extra payment of VAT to the contractor

Nigam made extra payment of ₹ 93.10 lakh to the contractor on account of VAT despite having notice that awarded rates already included VAT

Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL) awarded (October 2010) the work of construction of four[14] 33/11 KV sub-stations along with associated 33 KV & 11 KV lines at Firozabad district at a cost of ₹ 5.86 crore and three[15] 33/11 KV sub-stations along with associated 33 KV & 11 KV lines at Banda district at a cost of ₹ 7.20 crore to the Nigam on turn-key basis.

For execution of aforesaid works, Construction and Design Services Wing of Uttar Pradesh Jal Nigam, Lucknow (Nigam) executed agreements for supply of materials and erection with a contractor[16] on 8 December 2010 for Firozabad[17] and on 25 April 2011 for Banda[18].

Clause 16 (i) of the agreement in respect of Firozabad and clause 8.2 and 8.6 of the agreement in respect of Banda provided that the prices mentioned in the

[14] Three sub-station of 1X5 MVA capacity and one sub-station of 2X5 MVA capacity
[15] All sub-stations of 1X5 MVA capacity
[16] Saket Nirman, Lucknow presently Trie-Viz Infracon Pvt. Ltd., Lucknow.
[17] Four SSs and associated lines ₹ 5.64 crore
[18] Three SSs and associated lines ₹ 6.85 crore

price schedule are inclusive of all taxes and duties viz. Excise duty, Sales Tax/Trade Tax, service tax etc. and no extra payment was to be made there against.

We noticed (August 2014) that the Nigam against total claim of ₹ 12.27 crore made payment of ₹ 11.27 crore[19] to the contractor during February 2013 to October 2013 and withhold VAT amount of ₹ one crore being already included in awarded rates. Subsequently, Nigam released (February 2013 to December 2014) ₹ 93.10 lakh against aforesaid withheld amount of VAT on the basis of undertaking furnished by the contractor that in case DVVNL refused to pay this amount they would refund the same to the Nigam.

Thus, payment of VAT to the contractor in addition to the awarded rates despite being aware of the fact that awarded rates already included element of VAT led to extra payment of ₹ 93.10 lakh to contractor and loss to the Nigam.

The matter was reported to Management and Government in May 2015; the reply is still awaited (November 2015).

U.P. Avas Evam Vikas Parishad, Lucknow

3.11 Loss due to imprudent decision for sale of property

The Parishad suffered loss of revenue of ₹ 2.62 crore on auction of a group housing plot based on reserved price fixed as per pre-revised rate despite having notice of revised rate before the auction date

The Uttar Pradesh Avas Evam Vikas Parishad (Parishad) was established in April 1966 with the main objective of providing houses/plots at affordable prices to address the housing need of different sections of the society. The Parishad undertakes activities related to acquisition of land, development of land, construction of properties and allotment/sale of properties to achieve its objective.

Parishad has been selling out group housing plot (GHP) to private builders through auction. As per directions issued (2004) by the Housing Commissioner, reserve price of GHP put for auction is fixed equal to 1.5 times of the prevalent rates of residential plots of the Parishad plus 12 *per cent* freehold charges and 10 *per cent* corner charges in case of corner plot. The expected sale price of GHP put for auction is directly related to the reserve price as the sale can either be made at the price equal to or above the reserve price.

We noticed (August 2014) that the Parishad revised the rates of residential plots on 12 March 2013 from ₹ 10000 sqm to ₹ 13000 per sqm under Awadh Vihar Yojna, Lucknow (AVYL) which were effective from 1 April 2013. The Parishad despite having notice of upward revision of rates, issued an auction notice (20 March 2013) scheduling auction of GHP at sector 7 D of AVYL on 30 March 2013 at a price based on reserve price of ₹ 18480 per sqm worked

[19] Firozabad: ₹ 5.69 crore and Banda: ₹ 5.58 crore

out by 1.5 times of basic price of ₹ 10000 applicable to residential plots plus 12 *per cent* free hold charges and 10 *per cent* corner charges.

As a matter of financial prudence, the auction of above GHP could have been made in the period when the revised reserve price was applicable in order to fetch higher value. Instead of deferring the auction by 12 days, the Parishad, auctioned the GHP measuring 7870 sqm at AVYL to a builder at the rate of ₹ 20700 per sqm which was much below the reserve price of ₹ 24024 per sqm worked out by taking 1.5 times of revised basic price of ₹ 13000 plus 12 *per cent* free hold charges and 10 *per cent* corner charges.

As a result, Parishad failed to fetch the higher value of GHP and suffered loss of revenue of ₹ 2.62 crore (₹ 24024 – ₹ 20700 x 7,870 sqm).

The Government stated (June 2015) that sale of GHP was made to achieve the target of sale of GHP fixed for the financial year 2012-13 and there is no loss as the auction was made at price higher than the reserve price. Reply is not acceptable as the auction of GHP should have been deferred in view of revision of rate which was effective just after two days of auction.

3.12 Loss on sale of property

The Parishad suffered loss of ₹ 3.12 crore on auction of a group housing plot due to incorrect fixation of reserve price

Parishad has been selling out GHP to private builders through auction. As per directions issued (2004) by the Housing Commissioner, reserve price of GHP put for auction is fixed equal to 1.5 times of the prevalent rates of residential plots of the Parishad plus 12 *per cent* freehold charges and 10 *per cent* corner charges in case of corner plot. Parishad also ordered (March 2006) that if the Parishad auctioned nearby land at a rate above/below of the aforesaid reserve price, the auctioned rate of already sold land would be taken in account for fixation of reserve price. The expected sale price of GHP put for auction is directly related to the reserve price as the sale can either be made at the price equal to or above the reserve price.

We noticed that the Parishad auctioned (28 February 2013) a GHP no.3/GH-06 measuring 9280.66 sqm at Sector 3 of Avadh Vihar Yojna, Lucknow at the rate of ₹ 31600 per sqm. Despite having notice of the aforesaid auctioned rate, the Parishad fixed (March 2013) reserve price of an adjacent corner GHP No. 3/GH-05 measuring 10,060 sqm at ₹ 18480 per sqm worked out by 1.5 times of residential rates of ₹ 10000 plus 12 *per cent* free hold charges and 10 *per cent* corner charges and auctioned (30 March 2013) the same at the rate of ₹ 28500 per sqm. The reserve price of plot (No. 3/GH-05) to be auctioned based on auctioned rate of adjacent plot worked out to be ₹ 31600 per sqm against ₹ 18480 per sqm fixed by the Parishad.

Thus, due to incorrect fixation of reserve price of plot (No.3/GH-05) at ₹ 18480 per sqm in place of ₹ 31600 per sqm, Parishad accepted bid for above plot at ₹ 28500 per sqm and suffered loss of revenue of ₹ 3.12 crore {(₹ 31600 - ₹ 28500) x 10,060 sqm}.

The Management and Government stated (July 2015) that provision for auction of nearby plot as stated in para 16.1 of costing guidelines was in case of commercial plots and not for GHP. Reply is not correct as order issued by the Housing Commissioner in March 2006 clearly provided that the reserve price for GHP would be fixed taking into consideration provision of para 16.1 of costing guidelines.

Lucknow
The 25 JANUARY 2016

(VINITA MISHRA)
Accountant General
(Economic and Revenue Sector Audit),
Uttar Pradesh

Countersigned

New Delhi
The 27 JAN 2016

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India