OVERVIEW

1. Functioning of State Public Sector Undertakings

Audit of Government companies is governed by Section 139 and 143 of the Companies Act, 2013. The Accounts of Government companies are audited by Statutory Auditors appointed by Comptroller and Auditor General of India. These Accounts are also subject to supplementary audit conducted by Comptroller and Auditor General of India. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2015, the State of Uttar Pradesh had 65 working PSUs (58 Government companies and seven Statutory corporations) and 39 non-working PSUs (all Government companies). The working PSUs registered a turnover of ₹ 85138.42 crore and incurred overall aggregate loss of ₹ 16782.71 crore as per their latest finalised accounts.

(Paragraphs 1.1 and 1.2)

Investments in PSUs

As on 31 March 2015, the investment (Capital and Long Term Loans) in 104 PSUs was ₹ 171247.04 crore. It grew by 206.54 *per cent* from ₹ 82911.80 crore in 2010-11 to ₹ 171247.04 crore in 2014-15 mainly because of increase in investment in Power Sector, which accounted for 96 *per cent* of the total investment in 2014-15. The Government contributed ₹ 15581.01 crore towards equity, loans and grants/subsidies to PSUs during 2014-15.

(Paragraphs 1.6, 1.7 and 1.8)

Arrears in Accounts and winding up of Non-working PSUs

Out of 65 working PSUs, only four PSUs finalised the accounts for the year 2014-15 while 61 PSUs had 249 accounts in arrears as of September 2015 with the extent of arrears ranging from one year to 19 years. Out of 39 non-working PSUs, 13 PSUs were in the process of liquidation and the remaining 26 PSUs had arrears of 403 accounts for one to 32 years.

(Paragraphs 1.10 and 1.12)

Performance of PSUs

As per the latest finalised accounts, out of 65 working PSUs, 30 PSUs earned profit of ₹ 1661.53 crore and 26 PSUs incurred loss of ₹ 18444.24 crore. Six working PSUs had not submitted their first accounts whereas three PSUs prepared their accounts on a "no profit no loss" basis. The major contributors to profit were Uttar Pradesh Avas Evam Vikas Parishad (₹ 495.11 crore), Uttar Pradesh Power Transmission Corporation Limited (₹ 321.39 crore), Uttar Pradesh Rajkiya Nirman Nigam Limited (₹ 232.49 crore) and Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (₹ 218.08 crore). The heavy losses were incurred by Dakshinanchal Vidyut Vitran Nigam Limited (₹ 5521 crore), Purvanchal Vidyut Vitran Nigam Limited (₹ 4094.62 crore), Madhyanchal Vidyut Vitran Nigam Limited (₹ 3262.77 crore) and Paschimanchal Vidyut Vitran Nigam Limited (₹ 3171.51 crore).

(Paragraph 1.16)

Quality of Accounts

The quality of accounts of PSUs needs improvement. Of the 38 accounts finalised by 37 working companies during October 2014 to September 2015, the Statutory Auditors have given qualified certificates for 36 accounts, adverse certificates for one accounts and disclaimer for one account. There were 144 instances of non-compliance with Accounting Standards in 28 accounts. Five accounts of five Statutory corporations were finalised during October 2014 to September 2015. Of these, three accounts where Comptroller and Auditor General of India is sole auditor, qualified certificates were issued for two accounts and adverse certificate for one account. For remaining two accounts, Statutory Auditors had given qualified certificates. There were 12 instances of non-compliance with Accounting Standards in five accounts.

(Paragraphs 1.21 and 1.22)

Follow up action on Audit Reports

All the Administrative Departments were required to submit replies/explanatory notes to paragraphs/performance audits included in the Audit Reports of the CAG of India within a period of two to three months of their presentation to the Legislature. Out of 74 paragraphs and 10 performance audits pertaining to the Audit Reports (Commercial/PSUs) for the years 2009-10 to 2013-14, explanatory notes to 39 paragraphs and four performance audits in respect of 11 departments, which were commented upon, were awaited (September 2015).

(Paragraph 1.24)

2. Performance Audit relating to Government companies and Statutory corporation

Government companies

2.1 Performance Audit on the Working of Harduaganj Thermal Power Station of Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited

Introduction

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. As on 31 March 2015, the Company has been operating 10 TPSs including the Harduaganj Thermal Power Station (HTPS) with aggregate installed capacity of 4938 Mega Watt (MW).

The HTPS consisted of four units (5, 7, 8 and 9) with installed capacity of 670 MW as of March 2015. Unit 1, 2, 3, 4 and 6 of HTPS were finally closed during February 2007 to November 2010 on completion of their life span. Out of four existing units, three units (5, 8 and 9) were operating and unit 7 was under renovation and modernisation (R&M).

The important audit findings relating to Performance Audit of HTPS are detailed below:

Poor performance of the thermal power station

- In unit 5, against the norm of plant load factor (PLF) of 51 to 60 *per cent* prescribed by Uttar Pradesh Electricity Regularity Commission (UPERC), the actual PLF ranged between 17.83 *per cent* and 42.26 *per cent* during 2010-11 to 2014-15 and plant availability was 86, 41 and 64 *per cent* during 2011-12, 2013-14 and 2014-15 respectively against the UPERC norms of 58 to 65 *per cent.* The main reason for low PLF and low plant availability of unit 5 was old age of the plant, which caused frequent tripping and various technical problems.

- In unit 8 and 9, against the norms of PLF of 85 *per cent,* the actual PLF ranged between 45.18 *per cent* and 84.35 *per cent* during 2011-12 to 2014-15 and plant availability in unit 8 was 65 and 63 *per cent* in 2011-12 and 2012-13 respectively against the UPERC norms of 85 *per cent*. The main reason for low performance of unit 8 and 9 attributed to acceptance of units which had failed in trial run causing frequent tripping and various technical problems.

The low PLF and low plant availability of the units 5, 8 and 9 resulted in loss of generation of 2128 MUs valuing ₹ 951.47 crore during 2010-11 to 2014-15.

(Paragraphs 2.1.8 and 2.1.9)

Delay in construction of new plants and Renovation & Modernisation works

- UPERC (Terms and conditions of Generation Tariff) Regulation 2009 provides for an incentive return on equity at the rate of 0.5 *per cent* of equity invested as a part of tariff, if the unit is commissioned within the scheduled period. As both the units (8 and 9) were not commissioned within the scheduled period, the Company lost an opportunity to earn incentive of ₹ 4.44 crore per year, which amounted to ₹ 111 crore for the period of 25 years being the life of the units.

(Paragraph 2.1.13)

- The original cost of ₹ 1900 crore relating to establishment of unit 8 and 9 was revised (September 2013) to ₹ 3168.36 crore leading to increase in cost by ₹ 1268.36 crore, mainly due to cost overrun of ₹ 568.84 crore, inclusion of new items of ₹ 486.52 crore and award of contract for Boiler Turbine Generator to Bharat Heavy Electrical Limited at higher price by ₹ 142 crore.

(Paragraph 2.1.14)

- The generator stator, generator rotor and turbine bearing of unit 8 were damaged (June 2012/March 2012) within warranty period due to maloperation of the plant by HTPS staff resulting in avoidable expenditure of ₹ 31.40 crore on repair/replacement of the same.

(Paragraph 2.1.15)

- The problems of Boiler Tube Leakage in units 8 and 9 persisted since inception, February 2012 and October 2013 respectively due to inferior quality of tubes supplied by BHEL. The Company had to bear expenditure of ₹ 1.94 crore on replacement of boiler tubes in March 2015, besides potential loss of generation of 250 MUs during March 2013 to March 2015.

(Paragraph 2.1.16)

- The Renovation & Modernisation of the unit 7 awarded in March 2009, could not be completed even after lapse of a period of more than six years and incurring an expenditure ₹ 298.23 crore (88 *per cent*) as of March 2015 due to delay in supply of material and delayed award of work to sub-contractors by BHEL. Resultantly, the Company suffered loss of generation 2837 MUs during October 2011 to June 2015, besides non-recovery of fixed cost charges of ₹ 570.25 crore.

(Paragraphs 2.1.20 and 2.1.22)

Operation and maintenance

- The oil and coal consumption in unit 5 were above the norms fixed by UPERC during 2010-11 to 2014-15, which resulted in excess consumption of oil and coal valuing ₹ 33.37 crore and ₹ 72.88 crore respectively.

(Paragraph 2.1.24)

- The oil and coal consumption in unit 8 and 9 were above the norms fixed by UPERC during 2011-12 to 2014-15, which resulted in excess consumption of oil and coal valuing ₹ 163.94 crore and ₹ 345.25 crore respectively.

(Paragraphs 2.1.25 and 2.1.26)

Environmental Issues

- The Company failed to take effective measures to control air and noise pollution. Resultantly, the suspended particulate matters in unit 5 was exorbitantly high ranging from 3492 mg/ NM^3 to 11041 mg/ NM^3 against the norm of 100 mg/ NM^3 during 2010-11 to 2013-14 and noise pollution in HTPS stood at 51.2 dB to 102.7 dB against the norms of 75 dB during 2010-11 to 2014-15.

(Paragraph 2.1.31)

2.2 Performance Audit on Construction of bridges by Uttar Pradesh State Bridge Corporation Limited

Introduction

The Uttar Pradesh State Bridge Corporation Limited (Company) was incorporated on 18 October 1972 with the main objective of construction of all types of bridges. The Company is working under the administrative control of the Public Works Department, Government of Uttar Pradesh (GoUP). Construction of bridges is assigned by the GoUP to the Company on deposit work basis, on which, it earns centage at the rate of 12.5 *per cent*. The pattern of working in the Company is broadly known as “Departmental Construction System” where the works are executed through its own men and machinery. As on March 2015, the Company had manpower of 5211 employees.

The important audit findings are detailed below:

Financial management

- The Company was required to plan its activities and construction of bridges in such a manner that the available funds are utilised optimally to make the units financially viable with adequate turnover in units. However, the Company did not plan its activities for execution of the work to the extent of funds available in order to make the units financially viable with adequate turnover. As a result, funds of ₹ 360 crore to ₹ 688 crore remained idle during 2009-10 to 2014-15 and 43 to 64 *per cent* of total number of units of the Company were not financially viable due to inadequate turnover.

(**Paragraphs 2.2.9 to 2.2.11**)

- As required by the provisions of the Manual, the Company had circulated (July 2009 and February 2010) the cost ceiling for labour and power, oil and lubricant (POL) for keeping a check on the cost of these items.

However, the comparison of the actual expenditure with the updated cost ceiling (updated with annual increase of 10 *per cent*) revealed that the Company incurred expenses on labour at the rate of ₹ 3379 to ₹ 1.80 lakh per cum of concreting against the ceiling cost of ₹ 3110 to ₹ 4500 per cum in 72 bridges, out of 88 sampled bridges.

Similarly, it incurred expenses on power, oil and lubricant (POL) at the rate of ₹ 435 to ₹ 3.75 lakh per cum of concreting against the ceiling cost of ₹ 354 to ₹ 600 per cum in 70 bridges, out of 88 sampled bridges. This resulted in avoidable financial burden of ₹ 129.63 crore to the Exchequer. It revealed that the bridges were constructed at a much higher cost than the norms established by the Company.

(**Paragraph 2.2.13**)

Execution of works

- Out of 740 bridges, the Company completed 509 bridges during 2009-10 to 2014-15 and 231 bridges were under construction at the end of March 2015. Out of 175 bridges (completed: 141 and under construction: 34), there was delay of up to two years in 15 *per cent* bridges, two years to five years in seven *per cent* bridges and more than five years in two *per cent* bridges.

In 88 test checked bridges in eight zones, the Company had completed 67 bridges and 21 bridges were under construction as of March 2015. Out of this, there was delay in 38 bridges (completed: 28 and under construction: 10). The delay was up to two years in 25 *per cent* bridges, two years to five years in 16 *per cent* bridges and more than five years in two *per cent* bridges. The main reasons for time overrun were attributed to delay in finalisation of site, delay in issue of drawings and working drawings, delay in completion of its portion by railways, delay in shifting of electricity lines and non-transfer of land by Ministry of Defence.

(Paragraphs 2.2.14 and 2.2.15)

- In 53 bridges (60 *per cent*) out of 88 test checked bridges in eight zones there was cost overrun of ₹ 438.09 crore (ranged between 0.48 *per cent* and 325.74 *per cent*).The main reasons for cost overrun were non-provisioning in the estimate for anticipated price escalation during the period of construction of bridge as directed by HLTC as well as delayed completion of bridges.

(Paragraph 2.2.16)

- As per Manual of the Company, ownership and operational charges and shuttering charges should have been charged to the cost of work on actual basis, which were ₹ 97.46 crore and ₹ 114.60 crore respectively, whereas the Company charged the expenditure of ₹ 196.09 crore and ₹ 147.63 crore respectively to the cost of bridges during 2009-10 to 2014-15 on normative rates fixed by the Company for different types of machines. Resultantly, the Company incurred excess expenditure of ₹ 131.66 crore which led to overburdening of exchequer to the extent of ₹ 148.12 crore including centage of ₹16.46 crore.

(Paragraphs 2.2.18 and 2.2.19)

- As per order of GoUP, drawing and design expenses should be met out of centage. The expenses of ₹ 17.62 crore incurred on drawing and design was irregularly booked in cost of work instead of meeting it out from the centage of the Company. In addition, the Company irregularly charged centage of ₹ 2.21 crore thereon also. This led to loss of ₹ 19.83 crore to the State Exchequer.

(Paragraph 2.2.20)

2.3 Follow up Audit of Performance Audit on Power Generating Undertakings in Uttar Pradesh

Introduction

In Uttar Pradesh, generation of thermal power is carried out by Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) and generation of hydro power is carried out by Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL). A Performance Audit on Power Generating Undertakings in Uttar Pradesh covering the period from April 2005 to March 2010, featured in the Report of the Comptroller and Auditor General of India No.4 Commercial for the year ended 31 March 2010, Government of Uttar Pradesh (GoUP).

The Performance Audit has not been discussed by Committee on Public Undertakings (COPU) so far (November 2015). The Performance Audit contained six recommendations which were acceded to, by UPRVUNL/UPJVNL. The follow up Audit of aforesaid performance audit was conducted to ascertain the progress in implementation of recommendations.

The cases of non-compliance to recommendations by generating companies as noticed in follow up audit are detailed below:

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited

- In previous performance audit, it was commented that the construction activities of new thermal projects viz. Parichha Extension and Obra 'C' were far behind the scheduled timeframe which led to time and cost overrun. Therefore, it was recommended that plan for new projects should be adequate and necessary clearances should be obtained before taking up construction so as to avoid time and cost overrun.

The follow up audit revealed that new projects viz. Panki (1X660 MW) and Obra 'C (2X660 MW) of UPRVUNL could not be started for want of permission for use of water (applied in February 2013 for Panki project)/

clearances from MoEF (applied in September 2012 and January 2014 for Obra and Panki projects respectively) due to non-fixation of any time frame to obtain necessary approval and clearances from concerned authorities by UPRVUNL.

(Paragraph 2.3.7)

UPRVUNL did not formulate any concrete plan to get the project executed within a specified timeframe. Resultantly, units of Parichha Extension Project were completed with a delay of 24 to 28 months and Anpara 'D' Project could not be completed even after lapse of a period of more than four years, resulting in cost overrun of ₹ 2522.25 crore.

(Paragraph 2.3.8)

- In previous performance audit, it was commented that due to poor planning of R&M work of unit 6 of Obra 'A' TPS and non- completion of R&M work of Anpara 'A' TPS within scheduled time, UPRVUNL had to suffer generation loss of 714.13 MUs (₹ 101.83 crore) and 681.57 MUs (₹ 88.57 crore) respectively. Therefore, it was recommended that renovation and modernisation programs should be taken as per schedule to optimise generation.

The follow up audit revealed that the R&M of six units of three thermal power stations (TPSs) of UPRVUNL was not taken up as per schedule, in absence of any strategic plan, the units went into forced outages resulting in generation loss of 1407.78 MUs valuing ₹ 436.46 crore during 2010-11 to 2014-15.

(Paragraph 2.3.10)

- In previous performance audit, it was commented that loss of coal in transit ranged between 0.16 *per cent* and 2.95 *per* cent in Parichha, Harduaganj and Obra TPSs against the norm of 0.8 *per cent.* There was delay in unloading of coal rakes resulting in avoidable payment of demurrage charges of ₹16.57 crore. Similarly, coal consumption in Obra and Parichha TPSs remained higher than the norms fixed by UPERC. Therefore, it was recommended that UPRVUNL should take up measures to check loss of coal in transit, reduce delay in unloading rakes and consumption of coal.

The follow up audit revealed that TPSs of UPRVUNL could not take up effective control-measures to restrict the loss of coal in transit (LCT), unloading time within the limit fixed by Railway and consumption of coal (CC) within the norms fixed by UPERC. Resultantly, LCT and CC were more than norms in TPSs, besides, payment of demurrage charges of ₹ 64.82 crore made to Railway during 2010-11 to 2014-15.

(Paragraphs 2.3.11 to 2.3.14)

- In previous performance audit, it was commented that Plant Load Factor (PLF) of TPSs of UPRVUNL was low due to low plant availability, excessive forced outages, low capacity utilisation and major shut downs & delays in repairs and maintenance. Therefore, it was recommended that UPRVUNL should endeavour to increase plant load factor by minimising forced outages, increasing capacity utilisation and reducing time in repair and maintenance.

The follow up audit revealed that TPSs of UPRVUNL could not achieve the normative PLF of 56 to 85 *per cent* fixed by UPERC and it ranged between 19.5 *per cent* and 80 *per cent* during 2010-11 to 2014-15 due to non-reduction of the forced outages and time taken in repair and maintenance and low capacity utilisation.

(Paragraph 2.3.20)

- In previous performance audit, it was commented that auxiliary consumption of TPSs of UPRVUNL viz. Anpara, Obra and Parichha ranged from 7.61 to 19.15 *per cent* which was higher than UPERC norms of 7 to 12 *per cent*. Therefore, it was recommended that UPRVUNL should take measures to control auxiliary consumption.

The follow up audit revealed that auxiliary consumption of TPSs ranged between 7.42 *per cent* and 21.71 *per cent* against the UPERC norms of 5.25 *per cent* to 11.30 *per cent* during the follow up audit period. Thus, reduction in auxiliary consumption, as compared to UPERC norms could not be achieved.

(Paragraph 2.3.22)

- In previous performance audit, it was commented that the dues against Uttar Pradesh Power Corporation Limited (UPPCL) had accumulated to ₹ 4089.94 crore as of 31 March 2010. Therefore, it was recommended that UPRVUNL should make efforts for timely realisation of dues from UPPCL to improve liquidity.

The follow up audit revealed that no plan had been framed by the Company in consultation with UPPCL for realisation of dues in a time bound manner and dues of ₹ 5135.06 crore remained outstanding against UPPCL as of March 2015.

(Paragraphs 2.3.23 and 2.3.24)

Uttar Pradesh Jal Vidyut Nigam Limited

- In previous performance audit, it was commented that construction activities of new Sheetla hydro project by UPJVUNL were far behind the scheduled timeframe which led to time and cost overrun. Therefore, it was recommended that UPJVNL should plan for new projects adequately before taking up construction so as to avoid time and cost overrun.

The follow up audit revealed that UPJVNL did not formulate any concrete plan to get the project executed within a timeframe. Resultantly, Khara project conceptualised in January 2010 could not be completed within the scheduled date of May 2015 which had to be revised to March 2017.

(Paragraph 2.3.26)

- As per accepted recommendation, UPJVNL was required to carry out the renovation and modernisation programs as per schedule to optimise generation.

The follow up audit revealed that R&M of Hydo Power Stations (HPSs) of UPJVNL was not taken up as per schedule. Eight units of HPSs due for R&M during 1997 to April 2006, were taken up during 2010-11 to 2014-15 for R&M after an inordinate delay of five years to 17 years. Out of this, R&M of three units was completed during June 2013 to April 2014 and five units taken up during April 2011 to February 2014 were still under progress.

(Paragraph 2.3.27)

- As per accepted recommendation, UPJVNL was required to take measures to control auxiliary consumption.

The follow up audit revealed that the auxiliary consumption of smaller HPSs (5 MW or less) remained higher than the norms and it ranged from 0.80 *per cent* to 5.88 *per cent* against the norms of 0.70 *per cent* to 1.00 *per cent* during 2010-11 to 2014-15 except in Nirgagini, Chitora and Salwa and Upper Ganga Canal (Nirgagini, Chitora and Salwa) HPSs, where it was below the norms in 2013-14 and stood at 0.18 *per cent* to 0.41 *per cent.*

(Paragraph 2.3.28)

- In previous performance audit, it was commented that the dues against UPPCL had accumulated to ₹ 212.24 crore as of 31 March 2010. Therefore, it was recommended that UPJVNL should make efforts for timely realisation of dues from UPPCL to improve liquidity.

The follow up audit revealed that no plan had been framed by the Company in consultation with UPPCL for realisation of dues in a time bound manner and dues of ₹ 331.57 crore remained outstanding against UPPCL as of March 2015.

(Paragraph 2.3.29)

2.4 Long Paragraph on Financial health of DISCOMs in compliance with Financial Restructuring Plan

Introduction

Ministry of Power (MoP),Government of India (GoI), keeping in view the deteriorating financial health of State Distribution Companies (DISCOMs), formulated (October 2012) a scheme for financial restructuring (scheme) of the DISCOMs. The scheme was valid up to July 2013 and was available for all participating State DISCOMs having accumulated losses and facing difficulty in financing operational losses.

The primary objective of the scheme was to enable the respective State Governments and the DISCOMs to carve out a strategy in the form of Financial Restructuring Plan (FRP) for the financial turnaround of the DISCOMs and ensuring their long term viability.

Uttar Pradesh Power Corporation Limited (UPPCL) prepared an FRP based on consolidated figures of short term liabilities (short term loans and power purchase liabilities) available in its books of accounts. As of March 2012, the accumulated losses and the short term liabilities of the DISCOMs were ₹ 33600 crore and ₹ 31680.56 crore respectively.

Salient features of the scheme for financial restructuring

- 50 *per cent* of the short term Liabilities (STLs) as on 31 March 2012 was to be taken over by State Government in the form of bonds and balance 50 *per cent* of the amount of STLs was to be restructured by Banks/Financial

Institutions (FIs) and serviced by DISCOMs.

- An incentive by way of capital reimbursement support of 25 *per cent* of principal repayment of bonds by the State Government was available subject to compliance with the mandatory conditions envisaged in the scheme.
- Under the scheme, an incentive for liquidity support to the DISCOMs was available equivalent to the value of reduction in aggregate technical and commercial losses for three years i.e. 2012-13, 2013-14 and 2014-15 beyond three *per cent* against the benchmark year of 2010-11.

The important audit findings on the preparation and implementation of FRP in compliance with the provisions of the scheme are detailed below:

Deficiencies in preparation of FRP

The prime object of the scheme was to reduce the financial burden of the DISCOMs by implementation of FRP. The scheme provided that the eligible amount of short term liabilities (STLs) for restructuring was to be ascertained by adding short term loans (STLn), working capital loans, power purchase liabilities (PPL) of more than 60 days and deducting the arrears of subsidy and electricity dues which were recoverable from the GoUP/Government Departments, as of 31 March 2012.

After ascertainment of the eligible amount of STLs under FRP, the DISCOMs were required to take fresh loans from Banks/FIs. Further, 50 *per cent* of the total STLs ascertained under FRP was to be taken over by the GoUP.

- Review of the FRP implemented by the DISCOMs revealed that the GoUP did not release the arrears of the subsidy of ₹ 10445.29 crore and electricity dues of ₹ 1131.26 crore as of 31 March 2012 to the DISCOMs. While ascertaining the eligible amount of STLs under FRP, these arrears were not deducted.

Thus, non-compliance of above provisions of the scheme resulted in over ascertainment of STLs. As a result, there was drawl of larger amount of short term loan of ₹ 9182.46 crore from Banks/FIs. As 50 *per cent* of this amount would be finally taken over by GoUP, the DISCOMs were overburdened to the extent of ₹ 4591.23 crore with liability of interest of ₹ 843.64 crore payable thereon during the years 2013-14 and 2014-15. Further, non-compliance of the provision also defeated the prime object of the scheme which was to decrease the debt burden of the DISCOMs.

(Paragraph 2.4.8)

Impact of implementation of FRP

- The financial health of DISCOMs further deteriorated due to non-preparation of FRP as per the provisions of the scheme of MoP, GoI as the accumulated losses of the DISCOMs amounting to ₹ 33600 crore as of 31 March 2012 increased to ₹ 60101.98 crore as of 31 March 2014. The reasons for increase in accumulated losses were mainly attributed to non-receipt of claimed amount of subsidy as per the mandatory conditions of the scheme and burden of interest accruing on excess drawl of loans.

(Paragraph 2.4.23)

Compliance of mandatory conditions

For successful implementation of the scheme, attainment of expected outcomes and availing of the capital reimbursement support from Central Government, GoUP and UPPCL/DISCOMs were to comply with certain mandatory conditions.

Non-compliance of mandatory conditions as detailed below led to ineligibility of State Government for capital reimbursement support of ₹ 3952.59 crore from GoI:

(Paragraph 2.4.18)

- The DISCOMs finalised the annual accounts for the year 2010-11 and 2011-12 with a delay of two to three months in February to March 2013 and March to May 2013 respectively, which also led to delay in filing of True-up petitions for the above period.

(Paragraph 2.4.13 and 2.4.14)

- As per scheme, prepaid meters for all Government consumers as of 31 March 2012 were to be installed by 31 March 2013. However, not a single prepaid meter was installed against 49,528 Government consumers.

(Paragraph 2.4.16)

- As per scheme, road map for involvement of private sector in state distribution sector through franchisee arrangements or any other mode of private participation was to be prepared within a year and submitted to Central Electricity Authority (CEA) for approval but no road map was finalised and submitted to CEA, as of March 2015.

(Paragraph 2.4.18)

Reduction of AT&C losses and ACS-ARR gap

- Despite reduction in Aggregate technical & commercial losses (AT&C) in 2012-13 (KESCO) and in 2013-14 (all DISCOMs) against the AT&C of benchmark year 2010-11, non-reduction in the gap between average cost of supply (ACS) and average revenue realised (ARR) during above period by the DISCOMs led to the deprival of incentive for liquidity support of ₹ 1377.76 crore.

(Paragraph 2.4.21)

Monitoring mechanism

The monitoring mechanism for monitoring of the performance and achievement under the FRP was found to be ineffective due to non-enactment of State Electricity Distribution Responsibility Bill and non-appointment of third party by CEA/PFC for annual verification of achievements of FRP/random verification of outstanding revenue subsidy.

(Paragraph 2.4.22)

2.5 Long Paragraph on Information Technology Support System of Revenue Billing in Kanpur Electricity Supply Company Limited, Kanpur

Introduction

Kanpur Electricity Supply Company Limited (KESCO) was incorporated (January 2000) with the main objective of distribution of electricity to consumers of urban area of Kanpur City District. KESCO had 700 HT consumers and 5.02 lakh LT consumers as on 30 September 2014. Billing of LT consumers is done through four outsourced agencies under supervisory control of Computer Billing Service Centre (CBSC) headed by an Executive Engineer and billing of HT consumers is done manually by bulk billing section at the company headquarters.

(**Paragraph 2.5.1**)

The important audit findings on information technology support system of revenue billing of LT consumers in KESCO are detailed below:

Information Technology (IT) strategy and IT plan

- As per best practice, there should be a steering committee for overall direction of IT, formulation of IT policy/plan and a long term/medium term IT strategy.

Though the KESCO has adopted the online billing system since 2007, it neither constituted a steering committee nor documented a formal IT policy/plan and a long term/medium term IT strategy for carrying out billing activities of LT consumers independently.

(**Paragraph 2.5.8**)

- As per best practice, every change/modification in application software consequent upon change in business rules, legislation and upgradation of application system should have been documented and approved by top management.

The changes/modifications made in application software in consonance with change in business rules were neither documented nor tested by taking fair representation of entire population resulting in short assessment of revenue of ₹ 35.41 lakh, short levy of fixed charge of ₹ 2.66 crore and excess levy of fixed and energy charge of ₹ 3.27 lakh.

(**Paragraphs 2.5.14 to 2.5.16**)

- As per best practice, appropriate input control and data validation should have been ensured for creation of correct, complete and reliable database.

Input controls and validation checks were either not there or deficient as meter number in 460 cases, service connection number in 2,729 cases and security deposit in 88320 live LT consumers were found either zero or blank. Meters having same number had been installed with 29.48 *per cent* live consumers.

(**Paragraphs 2.5.10 and 2.5.17**)

- Monitoring by CBSC was deficient because it was not headed/manned by an IT expert. CBSC failed to ensure generation of bills as per provisions of tariff orders and applicable business rules and to get 100 *per cen*t operative billable consumers billed through billing agencies.

(**Paragraph 2.5.11**)

- As per best practice, business continuity and disaster recovery plan and associated controls should be in place so that the organisation can go ahead in an interruption or disaster.

KESCO did not have a disaster recovery and business continuity plan outlining the action to be taken in the event of disaster. The backup of the database was maintained in the premises of CBSC only rather than maintaining backup of entire database in an off-site fire-safe location.

(**Paragraph 2.5.12**)

Mapping of business rules

- As per best practice, business rules being abstraction of policies and practices of a business should be mapped into software. There were discrepancies in mapping of various business rules which resulted in release of connections without obtaining security deposit of ₹ 16.54 crore from consumers.

(**Paragraph 2.5.22**)

Billing application system

The billing application system was deficient as KESCO failed to provide User Requirement Specifications to system developer which resulted in billing of urban consumers under rural schedule and absence of system alerts.

(Paragraphs 2.5.19, 2.5.20 and 2.5.21)

Statutory corporation

2.6 Long Paragraph on Implementation of urban water supply schemes under UIG - a sub-mission of JNNURM by Uttar Pradesh Jal Nigam

Introduction

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched by the Government of India (GoI) to encourage reforms and fast track planned development of identified cities. Urban Infrastructure and Governance (UIG) is a sub-mission of JNNURM, which inter-alia included creation/augmentation of water supply infrastructure.

The Government of Uttar Pradesh (GoUP) engaged Uttar Pradesh Jal Nigam (Nigam) as the executing agency for execution of the 11 water supply projects sanctioned under UIG in Kanpur, Lucknow, Varanasi, Meerut, Allahabad and Agra.

(Paragraph 2.6.1)

The mission city-wise important audit findings are detailed below:

Kanpur

- There was delay of more than four years in completion of the projects leading to cost overrun of ₹ 133.48 crore. The main reasons for delay were delay in award of work, delay in handing over the sites by the Urban Local Body (ULB), delay in obtaining clearances from the concerned authorities and slow execution of work by the contractors.

(Paragraph 2.6.7)

- Excavation of trenches of size outside diameter of pipe plus 0.60 m instead of outside diameter of pipe plus 0.30 m in case of Polyvinyl Chloride (PVC) / Asbestos Cement (AC) pipes and 0.40 m in case of Ductile Iron (DI) pipes as provided in the Manual led to avoidable expenditure of ₹ 41.92 crore.

(Paragraph 2.6.9)

Lucknow

- Use of DI pipes for laying of clear water feeder mains instead of Pre-stressed Concrete (PSC) pipes which was more economical led to avoidable expenditure of ₹ 18.89 crore.

(Paragraph 2.6.14)

Varanasi

- Raw water rising main, water treatment plant and clear water feeder mains constructed during 2012-13 to 2014-15 at a cost of ₹ 36.44 crore remained unutilised as the work of intake well (primary work) could not be started till date (March 2015) due to non-availability of site by the ULB/GoUP.

(Paragraph 2.6.18)

Meerut

- Water treatment plant and clear water feeder mains constructed during 2011-12 to 2014-15 at a cost of ₹ 67.74 crore remained unutilised as the work of canal lining (primary work) could not be started till date (March 2015) due to non-deposit of the cost of canal lining with the Irrigation Department as suitable provision for the same was not made in the DPR.

(Paragraph 2.6.24)

Allahabad

- There was delay of more than three years in completion of the project leading to cost overrun of ₹ 52.71 lakh. The main reasons for delay were delay in award of work and delay in obtaining clearances from the concerned authorities.

(Paragraph 2.6.28)

Agra

- There was delay of more than four years in completion of the project leading to cost overrun of ₹ 11.88 crore. The main reasons for delay were delay in award of work, delay in handing over the sites by the ULB and delay in obtaining clearances from the concerned authorities.

(Paragraph 2.6.30)

3. Transaction Audit Observations

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

- There were seven cases of undue favour to consumers/contractor amounting to ₹ 11.02 crore.

(Paragraphs 3.1, 3.5, 3.8, 3.9, 3.10, 3.11 and 3.12)

- There were five cases of violation of Statutory obligations amounting to ₹ 18.35 crore.

(Paragraphs 3.2, 3.3, 3.4, 3.6 and 3.7)

Gist of some important paragraphs is given below:

- **Purvanchal Vidyut Vitran Nigam Limited (PuVVNL)** suffered loss of revenue of ₹ 1.21 crore due to non-assessment of consumers whose meters were running slow.

(Paragraph 3.2)

- **PuVVNL** suffered revenue loss of ₹ 93.52 lakh due to non-sanction of protective load despite provision of Supply Code.

(Paragraph 3.3)

- **Dakshinanchal Vidyut Vitran Nigam Limited** suffered loss of ₹ 43.48 lakh due to allowing adjustment to the consumer on account of inadmissible interest.

(Paragraph 3.5)

- **Uttar Pradesh State Industrial Development Corporation Limited** extended undue favour to the lessee and suffered loss of ₹ 50.75 lakh due to recovery of premium in violation of its own policy.

(Paragraph 3.9)

- **Uttar Pradesh Jal Nigam** made extra payment of ₹ 93.10 lakh to the contractor on account of Value Added Tax (VAT) despite having notice of the fact that awarded rates were inclusive of VAT.

(Paragraph 3.10)

- **U.P. Avas Evam Vikas Parishad** suffered loss of ₹ 3.12 crore on auction of a group housing plot due to incorrect fixation of reserved price.

(Paragraph 3.12)