

## CHAPTER-2

### 2.1 Performance Audit on Rajiv Gandhi Grameen Vidyutikaran Yojana (now subsumed in Deen Dayal Upadhyaya Gram Jyoti Yojana)

#### Introduction

#### Background

2.1.1 Ministry of Power (MoP), Government of India (GoI) launched (March 2005) the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) under the Tenth Five Year Plan (X FYP 2002-07) with the objective of electrifying all villages<sup>1</sup> and all rural households (RHHs) with access of electricity and electricity connections to below poverty line (BPL) families free of cost.

GoI twice extended (February 2008/September 2013) the scope of RGGVY under Eleventh Five Year Plan (XI FYP 2007-12) and Twelfth Five Year Plan (XII FYP 2012-17) to increase coverage to habitations having population above 300 and 100 respectively.

GoI launched (December 2014) the Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) subsuming the targets laid down under the erstwhile RGGVY as a separate rural electrification sub-component by carrying forward the approved outlay for the RGGVY to the DDUGJY with two additional objectives, *viz.*, separation of agriculture and non-agriculture feeders, and strengthening and augmentation of sub-transmission and distribution infrastructure in rural areas, including metering at distribution transformers, and at feeders and consumers' end. The Performance Audit covers the formulation, approval and the implementation of the XI and XII FYP of RGGVY (Scheme) during 2012-13 to 2016-17 in the State of Uttar Pradesh (GoUP). Thus, throughout this report, the term "Scheme" refer to RGGVY XI and XII FYP. As per 2011 Census data, 1,21,20,231 households (36.81 *per cent*) out of total 3,29,24,216 households in Uttar Pradesh had access to electricity. As against this, access to electricity has increased (March 2017) to 2,33,43,305 households.

During the Performance Audit, 19 districts<sup>2</sup> (25 *per cent* of the total 75 districts) were test checked. These 19 districts were having sanctioned cost of ₹ 3,026.74 crore (25.87 *per cent* of total sanctioned cost of ₹ 11,697.83 crore) under XI and XII FYP.

There are total 32 audit observations reflecting deficiencies in project planning, project management, fund management and monitoring as well as control mechanism. These deficiencies may occur in other districts which were not covered in test audit. The management of respective DISCOMs, therefore, may like to internally examine works of all the other districts covered under the Scheme with a view to ensuring that these are being carried out as per the guidelines of the Scheme.

The revamped and renamed Scheme DDUGJY was not covered as there was no release of funds by the GoI after the launch of the DDUGJY in December

<sup>1</sup> A village is considered electrified if basic infrastructure such as transformers and lines are provided in the inhabited locality, electricity is provided in public places like schools, panchayat offices, community/Government health centres/dispensaries *etc.*, and at least 10 *per cent* of households of village are electrified.

<sup>2</sup> Lucknow, Sultanpur, Faizabad, Ambedkar Nagar, Barabanki, Ghazipur, Mau, Ballia, Roberts Ganj, Basti, Meerut, Shamli, Bulandshahr, Saharanpur, Agra, Mathura, Hathras, Etawah and Aligarh.

2014 till March 2017 except a release of ₹ 18.74 crore for Varanasi. This work has not been audited.

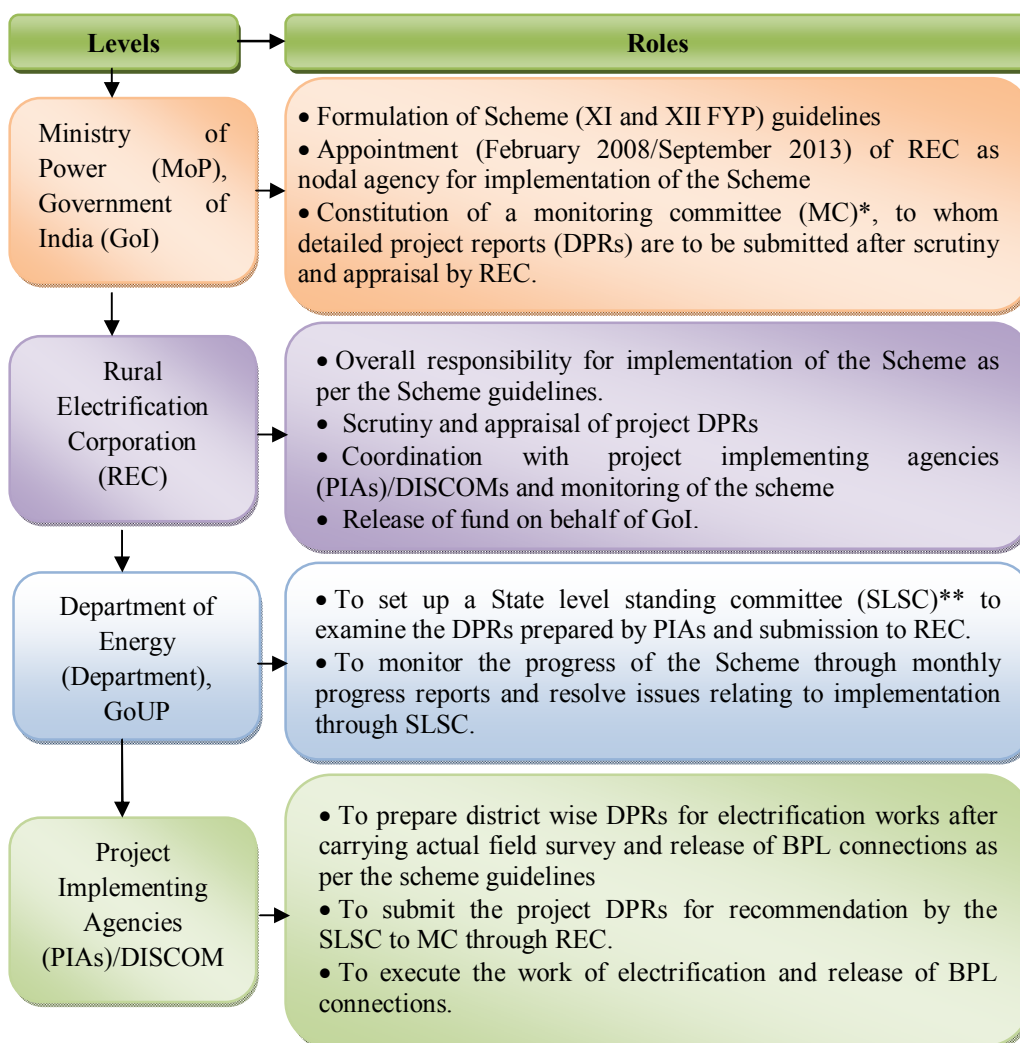
### **Funding pattern**

**2.1.2** Under the Scheme, GoI contributed 90 *per cent* of the cost as capital subsidy through the Rural Electrification Corporation (REC) Limited, with 10 *per cent* to be contributed by the State by way of loans from the REC at 11 to 13 *per cent* interest. GoI also provided capital subsidy to DISCOMs through REC for releasing free connections to below poverty line (BPL) consumers.

### **Role of various entities**

**2.1.3** Roles of various entities in the Scheme formulation, approval and implementation have been shown in the chart 2.1.1.

**Chart 2.1.1: The roles of various entities in the Scheme**



\* MC comprises Secretary, MoP as chairman, representatives of Department of Expenditure, Planning Commission, Panchayati Raj, Rural Development and New and Renewable Energy of GoI.

\*\* SLSC is headed by the Chief Secretary and consists of Secretaries of Energy, Rural Development, Finance, Panchayati Raj, Forest, Revenue and a representative of REC and any other member nominated by GoUP.

### **Scheme implementation**

**2.1.4** The Scheme provided for development of a rural electricity distribution backbone (REDB) with installation of at least one 33/11 KV sub-station of adequate capacity in blocks where these did not exist. Likewise, village electrification infrastructure (VEI) was to be established with a distribution transformer of appropriate capacity in 1,72,682 villages/habitations in 822 Blocks of the State.

A tripartite agreement was entered into (July 2005) between the REC (on behalf of GoI), GoUP and the DISCOMs for implementation of the Scheme. In Uttar Pradesh, the Scheme was implemented by four DISCOMs viz., Madhyanchal Vidyut Vitran Nigam Limited (MVVNL), Lucknow, Purvanchal Vidyut Vitran Nigam Limited (PuVVNL), Varanasi, Paschimanchal Vidyut Vitran Nigam Limited (PVVNL), Meerut and Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL), Agra, which are subsidiaries of the Uttar Pradesh Power Corporation Limited (UPPCL).

Three tier (levels) of control were defined to ensure the quality of work. The first tier of quality control (QC) of projects was to be ensured by the DISCOMs, which were to engage third party inspection agency (TPIA) for undertaking quality control checks. REC and MoP were responsible for the second and third tiers of QC respectively.

As per Scheme guidelines, projects were to be implemented on turnkey basis. However, the agencies were allowed to execute the projects departmentally in exceptional cases, with adequate justification, with the approval of the MC. DISCOMs awarded works to contractors, selected through open tenders, for supply of materials and execution of work on turnkey basis. Chief Engineer/Superintending Engineers (CE/SE, RGGVY wing) of DISCOMs were overall responsible for implementation of the Scheme as per the provisions of the Scheme. The Superintending Engineers (SE), Distribution Circles of the DISCOMs were designated as the Chief Executive Officers (CEO), responsible for getting the work executed in the areas within their jurisdiction in accordance with the provisions of the agreement.

### **Organisational set up**

**2.1.5** The managements of DISCOMs are vested with individual Board of Directors comprising a Chairman, a Managing Director (MD) and four other Directors appointed by GoUP. The day-to-day operations are carried out by the MDs, who are Chief Executives of the DISCOMs, assisted by Chief Engineers, Superintending Engineers and Executive Engineers posted at the DISCOM Headquarters and in the field.

### **Audit Objective**

**2.1.6** The Performance Audit was conducted to assess whether the DISCOMS/GoUP implemented the scheme in an economical, efficient and effective manner in all stages of project implementation viz., planning, execution, financial controls, monitoring and supervision etc.

### **Audit Criteria**

**2.1.7 Audit criteria were sourced from the:**

- RGGVY/DDUGJY office memoranda and guidelines issued by GoI;

- National Rural Electrification and State Rural Electrification Policies;
- The Electricity Act, 2003;
- General Financial Rules 2005/Financial Hand Book and CVC guidelines;
- Instructions issued by GoI/REC/GoUP and Tripartite agreement executed between the REC, the GoUP and the DISCOMs;
- Laid down procedures and policies of REC for preparation DPRs;
- Agenda notes and minutes of the meetings of Board of Directors (BoDs) of DISCOMs; and
- Records of Co-ordination committee<sup>3</sup> meetings with respect to rural electrification works.

### **Scope and Methodology of Audit**

**2.1.8** Audit methodology included collection of available data and analysis thereof with the help of data analytical tools (MS Excel and IDEA), examination of DISCOMs records, issue of audit observations/queries, on-site inspection, beneficiary survey, and Entry and Exit conferences.

The Performance Audit report was issued to the DISCOMs and the State Government in August 2017 for their comments. Replies of the DISCOMs were received in September 2017/March 2018, which have been duly considered while finalising the Performance Audit Report. The Entry and Exit conferences were not attended by any representative of State Government. Further, reply of the Government was also awaited (September 2018) despite reminders issued in November 2017 and March 2018.

### **Physical and Financial progress of the Scheme**

**2.1.9** REC sanctioned ₹ 11,697.84 crore for 86 projects in 75 districts during 2012-17. Out of 75 districts, 11 districts were covered under the XI FYP, 53 districts under the XII FYP and 11 districts under both the plans. Physical and Financial progress of the Scheme (DISCOM-wise) as on 31 March 2017 under both XI and XII FYP is depicted in table 2.1.1.

**Table 2.1.1: Physical and Financial Progress in XI and XII FYP**

| Five Year Plan   | DISCOM | No of Projects / Districts | Physical Progress                 |                                      |                                  | Financial Progress (₹ in crore) |                 |                         |                               |                 |
|------------------|--------|----------------------------|-----------------------------------|--------------------------------------|----------------------------------|---------------------------------|-----------------|-------------------------|-------------------------------|-----------------|
|                  |        |                            | No of villages/habitations in DPR | No of villages/habitations completed | Percentage of completed villages | Sanctioned cost                 | Claim lodged    | Claim received from REC | Balance amount to be received | Expenditure     |
| XI FYP (2007-12) | DVVNL  | 03                         | 1,808                             | 1,618                                | 89.49                            | 242.96                          | 177.04          | 111.61                  | 65.43                         | 112.16          |
|                  | PuVVNL | 07                         | 8,825                             | 9,398                                | 106.49                           | 1,341.21                        | 736.82          | 654.38                  | 82.44                         | 537.45          |
|                  | PVVNL  | 03                         | 1,055                             | 745                                  | 70.62                            | 452.02                          | 260.85          | 184.58                  | 76.27                         | 126.42          |
|                  | MVVNL  | 09                         | 20,343                            | 13,576                               | 66.74                            | 2,378.83                        | 1,824.82        | 1,236.66                | 588.16                        | 1,219.80        |
| <b>Total</b>     |        | <b>22</b>                  | <b>32,031</b>                     | <b>25,337</b>                        | <b>79.10</b>                     | <b>4,415.02</b>                 | <b>2,999.53</b> | <b>2,187.23</b>         | <b>812.30</b>                 | <b>1,995.83</b> |
| XII FYP          | DVVNL  | 21                         | 32,477                            | 13,089                               | 40.30                            | 2,466.14                        | 1,044.15        | 845.94                  | 198.21                        | 714.57          |
|                  | PuVVNL | 17                         | 60,642                            | 34,161                               | 56.33                            | 2,247.39                        | 1,292.02        | 1,031.78                | 260.24                        | 824.73          |

<sup>3</sup> District Level Co-ordination Committee consists of District Magistrate, Chief Development Officer, GM, Industries, District Agriculture Officer of respective district, SE/EE of DISCOMs and members of Trade, Industries' and Farmers' groups.

Table 2.1.1: Physical and Financial Progress in XI and XII FYP

| Five Year Plan  | DISCOM | No of Projects / Districts | Physical Progress                  |                                       |                                  | Financial Progress (₹ in crore) |                 |                         |                               |                 |
|-----------------|--------|----------------------------|------------------------------------|---------------------------------------|----------------------------------|---------------------------------|-----------------|-------------------------|-------------------------------|-----------------|
|                 |        |                            | No of villages/ habitations in DPR | No of villages /habitations completed | Percentage of completed villages | Sanctioned cost                 | Claim lodged    | Claim received from REC | Balance amount to be received | Expenditure     |
| (2012-17)       | PVVNL  | 12                         | 10,101                             | 5,774                                 | 57.16                            | 983.39                          | 505.84          | 356.39                  | 149.45                        | 272.32          |
|                 | MVVNL  | 14                         | 37,431                             | 9,528                                 | 25.45                            | 1,585.90                        | 804.45          | 609.53                  | 194.92                        | 414.27          |
| <b>Total</b>    |        | <b>64</b>                  | <b>1,40,651</b>                    | <b>62,552</b>                         | <b>44.47</b>                     | <b>7,282.82</b>                 | <b>3,646.46</b> | <b>2,843.64</b>         | <b>802.82</b>                 | <b>2,225.89</b> |
| <b>G. Total</b> |        | <b>86</b>                  | <b>1,72,682</b>                    | <b>87,889</b>                         |                                  | <b>11,697.84</b>                | <b>6,645.99</b> | <b>5,030.87</b>         | <b>1,615.12</b>               | <b>4,221.72</b> |

Source- Information furnished by DISCOMs

REC has withheld (as of 31 March 2017) reimbursement of ₹ 1,197.22 crore due to negligence of the DISCOMs to upload habitation wise online data, install sign boards, not submitting village/ habitation wise inspection reports and not complying with the inspection reports of the Quality Monitors.

**Recommendation:**

**The Department and the DISCOMs should proactively address the concerns of REC to ensure release of withheld amounts.**

**Acknowledgement**

2.1.10 Audit acknowledges the cooperation and assistance extended by the DISCOMs and their officials during conduct of the Performance Audit.

**Audit Findings**

2.1.11 The Audit findings are discussed in the succeeding paragraphs:

**Project Planning**

2.1.12 The DISCOMs engaged project management consultants<sup>4</sup> (PMCs) at a total cost of ₹ 40.17 crore<sup>5</sup> in XI FYP and ₹ 157.60 crore<sup>6</sup> in XII FYP to prepare DPRs. Irregularities in preparation of DPRs of XI FYP and XII FYP are discussed in the succeeding paragraphs:

**Preparation of DPRs without field survey**

2.1.13 The DPRs, forwarded to the state level standing committee (SLSC) as well as the monitoring committee (MC) for approval, included undertakings by the DISCOMs that the DPRs were based on field surveys and updated SoR.

Audit observed that DISCOMs did not maintain any centralised data for electrified and unelectrified villages/habitations and relied on the field survey conducted by the PMC. As a result, out of 28,342 villages/habitations (as per DPRs prepared by PMC) proposed by DISCOMs for electrification in 13 districts/projects, 2,053 villages/habitations of nine districts were found already electrified and 286 villages/habitations in nine districts did not exist when site survey was done by turnkey contractor (TKC) before start of the execution of the work as detailed in table 2.1.2.

<sup>4</sup> Project Management Consultant is an outside agency appointed by the DISCOMs for preparation of DPRs and monitoring and management of projects.

<sup>5</sup> DVVNL-₹ 2.27 crore, PuVVNL-₹ 11.07 crore, PVVNL-₹ 1.32 crore and MVVNL-₹ 25.51 crore

<sup>6</sup> DVVNL-₹ 32.80 crore, PuVVNL-₹ 76.05 crore, PVVNL-₹ 11.88 crore and MVVNL-₹ 36.87 crore

**Table 2.1.2: Details of already electrified and non-existing habitations**

| <b>Name of DISCOM</b> | <b>No. of districts/projects</b> | <b>No. of habitations to be electrified</b> | <b>No. of habitations already electrified</b> | <b>No. of non-existing habitations</b> |
|-----------------------|----------------------------------|---|---|--|
| MVVNL                 | 3                                | 7,656                                       | 267   | 54                                     |
| PuVVNL                | 4                                | 10,918                                      | 1,624   | 22                                     |
| PVVNL                 | 1                                | 503   | 85  | 119                                    |
| DVVNL                 | 5                                | 9,265                                       | 77  | 91                                     |
| <b>TOTAL</b>          | <b>13</b>                        | <b>28,342</b>                               | <b>2,053</b>                                  | <b>286</b>                             |

*Source- Information furnished by DISCOMs*

Further audit findings are given below:

- As per the Scheme guidelines, villages/habitations having population of more than 300 were to be covered for electrification under the XI FYP. Audit noted that 497 villages/habitations with population of more than 300 were not initially included in the approved DPR of Barabanki District under MVVNL. Subsequently, on the exclusion being pointed out (August 2014) by the executing firm, these villages/habitations were allowed (June 2015) by the REC for coverage on the condition that the project cost not to be revised.
- As per the Scheme guidelines, villages/habitations having population of more than 100 were to be covered for electrification under the XII FYP. Audit observed that 19 villages/habitations with population of more than 100 were not included in the DPR of Sultanpur District under MVVNL. Further, MVVNL electrified (2016-17) these 19 villages/habitations at a cost of ₹ 3.03 crore under Dr. Ram Manohar Lohia Samgra Gram Vikas Yojna (a Scheme funded by the GoUP). Though subsidy was available under RGGVY from GoI, incorrect planning led to an avoidable burden of ₹ 2.73 crore (90 per cent of the project cost) on the State exchequer. Further, 213 BPL households of these 19 habitations were still without free electricity connections.
- Contrary to the Scheme guidelines, the DPR of Sonebhadra district under PuVVNL did not include provision for electrification of 34 primary schools. As a result, instead of availing of Scheme funds, the PuVVNL used GoUP fund of ₹ 1.68 crore for electrifying these schools.

The above indicates that the DPRs were prepared either on the basis of a doubtful or no survey due to complete dependence on PMCs data/survey. The CE/SE (RGGVY Wing of respective DISCOMs) failed to ensure genuineness of the villages covered in the DPRs and correctness of the DPRs prepared by the PMCs.

These DISCOMs stated (March 2018) that the DPRs were prepared much before the commencement of the work and some habitations might have been electrified under various ongoing schemes in the State. Instances of habitations not being found were likely due to their relocation due to climatic conditions/changes in local nomenclature over the period. The reply is not convincing as the DPRs in question were revalidated/re-cast and there was time gap of only one year between the submission of the revalidated DPRs and commencement of the work. This confirms the audit observation that surveys were not reliable.

**Inclusion of inadmissible works/items in DPRs despite disallowance by REC earlier**

**2.1.14** The Scheme guidelines prohibited inclusion of inadmissible works/items in the DPR.

Audit observed that despite disallowance of inadmissible items by REC at the time of project closure of X FYP, three DISCOMs included various inadmissible works/items of ₹ 12.98 crore in the DPRs as detailed in table 2.1.3. Such inadmissible expenditure is likely to be disallowed by REC at the time of project closure.

| DISCOM       | Projects   | FYP | Name of work   | Amount (₹ in crore) |
|--------------|--|-----|--|---------------------|
| MVVNL        | Shahjahanpur   | XI  | Conversion of 66/11 KV S/s to 33/11 KV S/s   | 3.80                |
|              | Ambedkar Nagar, Hardoi, Gonda, Lakhimpur, Barabanki, Faizabad, Unnao, Bahraich, Shahjahanpur | XI  | Work of establishing the set up for computerisation of consumer data, indexing, billing and construction of billing centers etc. | 3.06                |
| PVVNL        | Bulandshahr  | XI  | -do-   | 0.16                |
| DVVNL        | Etah, Kannauj  | XI  | LT PVC cables for street light connections   | 2.61                |
|              | Aligarh, Mathura, Hathras, Agra, Etawah  | XII | LT PVC cables for street light connections   | 3.35                |
| <b>TOTAL</b> |  |     |  | <b>12.98</b>        |

**DISCOMs incurred avoidable expenditure of ₹ 12.98 crore due to inclusion of inadmissible works/items in the DPRs**

*Source- Detailed Projects Reports sanctioned by REC.*

DISCOMs stated (March 2018) that these works were sanctioned by the REC. The reply is not acceptable as in a similar case of Bulandshahr project of PVVNL under X FYP, despite initial approval, the REC had disallowed inadmissible items of ₹ 1.63 crore at the time of project closure.

**Irregular reduction in the scope of work of approved DPRs**

**2.1.15** As per Scheme guidelines, the DISCOMs were to prepare the DPRs as per the data based on actual surveys and latest cost schedules to avoid any subsequent quantity or cost variations. Any cost overrun due to variation in quantity or rate was to be borne by the State Government.

**By resorting to irregular reduction in the scope of work of the approved DPRs, 4,24,370 households were deprived of electrification and 1,22,441 BPL households could not get connection**

Audit observed that while finalising the tenders for award of work to the PIAs, DISCOMs (MVVNL, PuVVNL and DVVNL), found that the rates quoted by the L-1 firms were higher than the sanctioned in the DPRs leading to an increase in the cost of work. However, instead of transferring the cost difference to the GoUP or referring the matter to the MC and REC, CE/SE (RGGVY) of DISCOMs reduced the scope of the said works by ₹ 207.31 crore (MVVNL ₹ 19.81 crore, PuVVNL ₹ 118.90 crore and DVVNL ₹ 68.60 crore) in order to limit the overall cost of the project within the sanctioned amount. Consequently 4,24,370 households were deprived of electrification and 1,22,441 BPL households could not get connection as detailed in table 2.1.4.

| Name of DISCOMs | No. of projects/districts | No. of RHHs deprived of electrification | No. of BPL HHs deprived of connections |
|-----------------|---------------------------|---|--|
| MVVNL           | 3                         | 21,844                                  | 1,22,441                               |
| PuVVNL          | 3                         | 3,25,254                                | NIL                                    |
| DVVNL           | 3                         | 77,272                                  | NIL                                    |
| <b>TOTAL</b>    | <b>9</b>                  | <b>4,24,370</b>                         | <b>1,22,441</b>                        |

The DISCOMs accepted (March 2018) the audit observation.

***Failure in obtaining approval of DPRs of 11 districts***

**2.1.16** GoI directed (September 2013) the continuance of the scheme under XII FYP in order to cover all the remaining census villages and habitations with population of above 100 and to complete the spill over works of the projects already sanctioned under X and XI FYP. Accordingly, the DISCOMs submitted (November 2013) DPRs for all the 75 districts of the State having villages/habitations with populations above 100. However, the REC sanctioned (January 2014) DPRs of 64 districts only, excluding 11 districts<sup>7</sup> on the ground that these districts were already covered under the X and XI FYP. As the XI FYP covered the villages/habitations having populations more than 300, the refusal of the REC to sanction DPRs of these 11 districts were not in line with the directions of the GoI to cover all remaining census villages and habitations with population of above 100 in these districts.

Though the REC rejected the DPRs on wrong grounds, DISCOMs failed to pursue the matter with the REC. As a result, 45,492 villages/ habitations having 21,35,768 RHHs and 7,18,083 BPL RHHs in these 11 districts having population between 100 to 300 were deprived of access to electricity as detailed in **Annexure-2.1.1**.

The Management stated (March 2018) that the DPRs of all the projects had been submitted to the REC and the decision to accord the sanction was with the REC. The reply is not convincing as DISCOMs did not take up the matter with REC as well as MoP, GoI for re-considering the rejected DPRs.

***Non-adjustment of value of material received back***

**2.1.17** As per the orders (August 2011 and May 2013) of the UPPCL, in case of augmentation of a sub-station, value of received back transformers should be adjusted against the project cost.

Audit observed that in MVVNL and DVVNL, 42 power transformers of various capacities valued at ₹ 11.99 crore were removed on account of capacity augmentation of the sub-stations in 10 projects and kept by the DISCOMs for their own use. However, the costs of these transformers was not adjusted against the respective project costs, resulting in excess drawal of funds totalling ₹ 11.99 crore by MVVNL and DVVNL.

The DISCOMs accepted (March 2018) the audit observations.

***Avoidable expenditure on augmentation of capacities of 33/11 KV sub-stations***

**2.1.18** As per the Scheme guidelines, establishment of new 33/11 KV sub-stations and augmentation of existing 33/11 KV sub-stations was to be carried out by the respective DISCOMs after furnishing proper justification substantiated with data regarding system requirements.

Audit observed that in two (Ambedkar Nagar and Faizabad) out of 19 districts of MVVNL, the existing capacity of 28 sub-stations of 33/11 KV (539 MVA) was over and above the connected load of existing consumers as well as increased load of anticipated consumers (438 MVA). Therefore, the available

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<sup>7</sup> Bahraich, Barabanki, Lakhimpur Kheri, Shahjahanpur, Unnao, Bulandshahr, Muzaffarnagar, Allahabad, Ballia, Gorakhpur and Jaunpur.



**In DPRs of Ambedkar Nagar and Faizabad districts, MVVNL provided for augmentation of capacity of sub-stations, which involved an avoidable expenditure of ₹ 33.61 crore**

capacity of the sub-stations was sufficient to cater to the increased load of anticipated consumers as mentioned in the DPRs.

Despite this, the management of MVVNL provided for augmentation of additional capacity of sub-stations of 155 MVA in DPRs of aforesaid districts, which involved an avoidable expenditure of ₹ 33.61 crore of Scheme funds.

### ***Excess provision of Distribution Transformers (DTs) in DPRs***

**2.1.19** As per the Scheme guidelines, village electrification infrastructure (VEI) was to be created with provision for distribution transformers (DTs) of appropriate capacity, keeping in view the load required for electrification of BPL/APL RHHs and public places.

Audit observed that:

- In two districts of MVVNL (Ambedkar Nagar and Sultanpur), load of 49,575 KVA only (80 *per cent* of installed capacity) was required for giving connections to 1,27,074 RHHs as proposed in the DPRs. However, the MVVNL proposed installation of DTs of 1,21,518 KVA capacity which was in excess of 59,550 KVA (120 *per cent* higher) as compared to the requirement of load assessed on the basis of anticipated connections provided in the DPRs. This inflated estimation led to installation of excess capacity of 59,550 KVA (3,721 DTs of 16 KVA) valued at ₹ 27.91 crore.

- The DPRs prepared under the Scheme specified the category of consumers to whom the electricity connections were to be provided. The DPRs of three districts (Ambedkar Nagar, Barabanki and Faizabad) of MVVNL, despite making provisions for giving connections to all known categories, also made provision for an additional 2,984 connections (load of 6,631 KVA) to 'Other' category of consumers. This additional provision led to unwarranted installation of DTs of 6,640 KVA (10 KVA each) valued at ₹ 2.56 crore.

The excess provision for installation of DTs by the management of MVVNL led to creation of idle capacity and involved an avoidable expenditure of ₹ 30.47 crore (₹ 27.91 crore for 16 KVA and ₹ 2.56 crore for 10 KVA DTs).

Thus, if the expenditure of ₹ 64.08 crore (₹ 33.61 crore in paragraph 2.1.18 and ₹ 30.47 crore in paragraph 2.1.19) could have been avoided by the DISCOMs, more districts could have been covered under the scheme as discussed in paragraph 2.1.17.

MVVNL stated (March 2018) in respect of paragraph 2.1.18 and 2.1.19 that the excess capacity was created to keep the system under load even after five years. The reply is not acceptable as the MVVNL has chosen to provide capacity augmentation only in two districts out of 19 districts. Hence, this does not seem to be a conscious policy decision, and the reply is an afterthought.

### ***Award of work for preparation of DPRs without obtaining competitive bids***

**2.1.20** The work of survey, preparation of DPRs and project monitoring during construction (PMC) work in 14 districts for 36,889 villages/habitations under the XII FYP was awarded (November 2013) by PuVVNL to REC Power Distribution Company Limited (RECPDCL) at the previous rates (rate for work executed by the same firm under XI FYP) of ₹ 16,720 per habitation/village on single offer basis. Out of the value of the awarded rates 25 *per cent* (₹ 4,180 per villages/habitation) was for carrying out the survey

**In DPRs, MVVNL made excess provision for installation of DTs involving an avoidable expenditure of ₹ 30.47 crore**

and preparation of DPRs and 75 per cent (₹ 12,540 per villages/habitation) was intended for PMC work.

Audit observed that the management of PuVVNL, awarded (November 2013) the work at the old rates without taking cognizance of the rates awarded (September 2013) i.e. ₹ 2,500 per village/habitation by a sister company MVVNL to M/s Medhaj Techno Concepts Limited (referred to in paragraph 2.1.21 below) for the work of survey and preparation of DPRs after inviting tenders (June 2013). This led to award of work by the company at a rate higher by ₹ 1,680 per habitation/village involving an extra expenditure of ₹ 6.20 crore<sup>8</sup>.

PuVVNL stated (March 2018) that due to urgency of work and shortage of time, the PMC work was awarded to the same firm at old rates. The reply is not convincing as the progress of the work was 52.69 per cent (March 2017) despite the expiry of schedule date of completion, which itself indicates that the urgency of work was merely an excuse or afterthought. Further, the reply does not address the issue of how, in similar circumstances, PVVNL (another sister company of PuVVNL) also had awarded (July 2013) the work of preparation of DPRs by inviting open tender.

#### ***Excess payment to PMC for preparation of DPRs***

**2.1.21** MVVNL entered into an agreement (September 2013) with M/s Medhaj Techno Concept Private Limited (Contractor) for preparation of DPRs including GPS survey of various habitations in 19 districts under the XII FYP. As per the Scheme guidelines, the Contractor was to prepare DPRs for habitations having population above 100 and habitations not covered earlier under the X and XI FYP. The Contractor was to be paid ₹ 2,500 per habitation (service tax extra) on the basis of actual number of habitations covered for electrification after survey and approval of the same by the REC.

Audit observed that the Contractor, in violation of the Scheme guidelines, prepared DPRs for all the 95,067 habitations in the 19 districts including habitations having population less than 100 and habitations already covered under X and XI FYP. The REC, in line with the provisions of the Scheme, sanctioned (December 2013) DPRs of 37,431 habitations only.

The Contractor submitted a claim for payment against total 95,067 habitations. The MVVNL released (January 2015) full payment of ₹ 9.36 crore (service tax extra) for 37,431 habitations as approved by the REC. In addition, the MVVNL also made payment of ₹ 5.96 crore being 50 per cent payment for the balance 42,384 habitations with the approval of the Chairman and the Managing Director without assigning any reason, thereby extending an undue benefit of ₹ 5.96 crore (including service tax) to the Contractor.

MVVNL stated (March 2018) that the Contractor had surveyed all the villages/habitations of the DISCOM excluding villages covered under X, XI FYP and villages/habitations having population below 100, and hence, payment of all surveyed villages/habitations was released to Contractor. The reply is not acceptable as it is contrary to the scope of the Scheme guidelines and the Contractor was not eligible for any reimbursement.

**MVVNL extended undue benefit to contractor by release of payments for covering habitations not approved by REC**

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<sup>8</sup> 36,889 village/majras x ₹ 1,680 (₹ 4,180-₹ 2,500) = ₹ 6.20 crore

**Recommendations:**

1. DISCOMs should ensure inclusion of only eligible villages/habitations in DPRs;
2. DISCOMs should adhere to the Scheme guidelines and ensure due diligence in preparation of DPRs; and
3. DISCOMs should take up the matter with GoUP to bear the burden of cost difference of sanctioned cost and awarded cost instead of reducing the BOQ/scope of the work so that the intended objective of the Scheme of electrification of all eligible villages/habitations can be achieved.

**Project Management**

2.1.22 Audit examined execution of projects in 19 districts (sanctioned cost of ₹ 3,026.74 crore) out of 75 districts (sanctioned cost of ₹ 11,697.84 crore). For implementing, monitoring and quality control activities, the DISCOMs had received service charges/fees of ₹ 353.20 crore and ₹ 364.14 crore under XI and the XII FYP respectively (at the rate of eight *per cent* of the sanctioned cost of the projects in XI FYP and five *per cent* in XII FYP). Plan wise physical and financial progress in these sampled districts is detailed in table 2.1.5.

**Table 2.1.5: Physical and financial progress of sampled districts of XI and XII FYP**

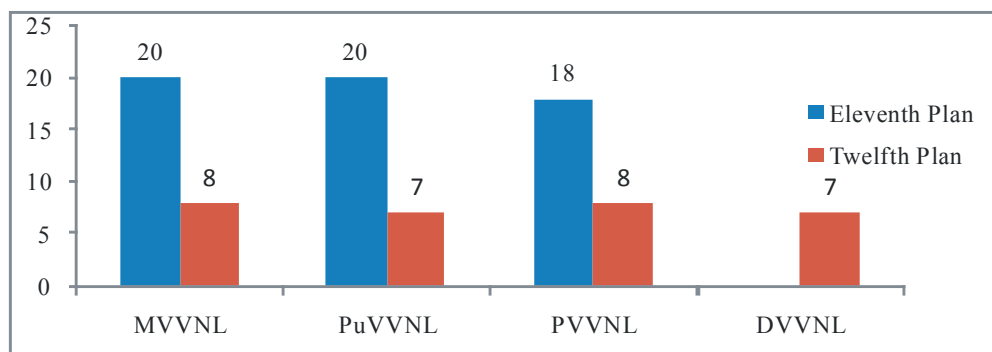
| (₹ in crore)       |        |                       |                                   |                                      |                                  |                    |                 |                                  |                               |                 |
|--------------------|--------|-----------------------|-----------------------------------|--------------------------------------|----------------------------------|--------------------|-----------------|----------------------------------|-------------------------------|-----------------|
| Five Year Plan     | DISCOM | No of districts       | Physical progress                 |                                      |                                  | Financial progress |                 |                                  |                               |                 |
|                    |        |                       | No of villages/habitations in DPR | No of villages/habitations completed | Percentage of completed villages | Sanctioned cost    | Claim lodged    | Claimed amount received from REC | Percentage of claims received | Expenditure     |
| XI FYP (2007-12)   | MVVNL  | 3                     | 8,746                             | 7,792                                | 89.09                            | 893.14             | 680.55          | 566.67                           | 83.27                         | 571.03          |
|                    | PuVVNL | 1                     | 984                               | 984                                  | 100.00                           | 153.59             | 138.2           | 122.11                           | 88.36                         | 124.82          |
|                    | PVVNL  | 1                     | 503                               | 329                                  | 65.41                            | 160.81             | 104.99          | 77.3                             | 73.63                         | 58.65           |
| <b>Sub-total</b>   |        | <b>5</b>              | <b>10,233</b>                     | <b>9,105</b>                         | <b>88.98</b>                     | <b>1,207.54</b>    | <b>923.74</b>   | <b>766.08</b>                    | <b>82.93</b>                  | <b>754.50</b>   |
| XII FYP (2012-17)  | MVVNL  | 4                     | 8,699                             | 1,984                                | 22.81                            | 317.5              | 131.77          | 103.65                           | 78.66                         | 122.42          |
|                    | PuVVNL | 4                     | 15,708                            | 8,276                                | 52.69                            | 621.9              | 413.56          | 330.16                           | 79.83                         | 245.11          |
|                    | PVVNL  | 3                     | 2,300                             | 1,873                                | 81.43                            | 214.7              | 106.1           | 78.03                            | 73.54                         | 79.33           |
|                    | DVVNL  | 5                     | 9,265                             | 3,712                                | 40.06                            | 665.1              | 277.66          | 214.05                           | 77.09                         | 186.27          |
| <b>Sub-total</b>   |        | <b>16</b>             | <b>35,972</b>                     | <b>15,845</b>                        | <b>44.05</b>                     | <b>1,819.2</b>     | <b>929.09</b>   | <b>725.89</b>                    | <b>78.13</b>                  | <b>633.13</b>   |
| <b>Grand total</b> |        | <b>21<sup>9</sup></b> | <b>46,205</b>                     | <b>24,950</b>                        | <b>54.00</b>                     | <b>3,026.74</b>    | <b>1,852.83</b> | <b>1,491.97</b>                  | <b>80.52</b>                  | <b>1,387.63</b> |

Source- Information furnished by DISCOMs

Physical progress in the sampled districts of the DISCOMs ranged between 22.81 *per cent* and 89.09 *per cent* (except 100 *per cent* in one district of PuVVNL). Electrification work could not be completed even after delay of one to 20 months after the scheduled date of completion. The position of maximum delay in sampled RGGVY projects in the State DISCOMs up to March is depicted in chart 2.1.2.

<sup>9</sup> Two districts *i.e.*, Faizabad and Ambedkar Nagar are common in XI and XII FYP.

**Chart 2.1.2: Position of delay (in months) in sampled projects up to March 2017**



The main reasons for delay in completion of 19 projects test checked in audit were delays in awarding works (one to 13 months) in 17 projects, delays in actual site survey (one to 24 months) in 19 projects and delays in supply of material (one to 24 months) in 19 projects as detailed in **Annexure-2.1.2**.

DISCOMs have outsourced all the implementation activities on turnkey/ semi turnkey basis to various turnkey contractors (TKCs). Further, DISCOMs have even outsourced regular monitoring and supervision works of projects to project management consultants (PMCs) at a total cost of ₹ 197.76 crore in all DISCOMs. The TKCs submit monthly progress reports to the PMCs who in turn submit the MIS to CE, RGGVY. In spite of having habitation wise monthly MIS reports, the CE, RGGVY failed to take corrective measures to control the delay in implementation of projects.

The deficiencies observed during examination of records at the Headquarters of the DISCOMs and in execution of work in the selected 19 projects are discussed below:

***Non-adoption of rates of cost schedule in NIT led to award of works at higher rate***

**2.1.23** As per Scheme guidelines, DISCOMs are required to prepare DPRs based on actual field survey and updated cost schedule to avoid subsequent revision in projects cost.

Accordingly, the DISCOMs prepared DPRs considering their updated Rural Electrification and Secondary System Planning Organisation (RESSPO) Cost Schedule<sup>10</sup> applicable for the respective years. Further, the Scheme guidelines stipulate that any cost revision is to be borne by the State Government.

Audit observed that the Managing Director's Committee<sup>11</sup> of the respective DISCOMs awarded the work on turnkey basis at higher rates ranging between 16 and 58 per cent as compared to the rates approved in the DPRs (**Annexure-2.1.3**) of 14 out of 19 sampled districts in all the four DISCOMs. The main reason, as analysed by audit, for higher rates, was the higher cost of materials ranging between 21 and 67 per cent (**Annexure-2.1.4**) as compared to the RESSPO Cost Schedule and non inclusion of applicable rates of cost schedule in the Notice Inviting Tenders (NITs) by the aforesaid Committees. The

<sup>10</sup> RESSPO cost schedule is prepared on the basis of highest rates of materials and erection charges (inclusive of all taxes and establishment cost etc.) noticed among all the DISCOMs during the respective years.

<sup>11</sup> Managing Director's Committee comprises MD, Director (Technical), Director (Finance), CGM/GM (Finance) and Chief Engineer (RGGVY) of the respective DISCOM.

guidelines issued by the CVC<sup>12</sup> also provide that before acceptance of offer, reasonability of the quoted rates should be established based on estimated rates and prevailing market rates. The DISCOMs, however, without justifying such significantly higher rates (up to 67 per cent) or exercising any other alternative like retendering, awarded the work. This led to extra expenditure of ₹ 537.45 crore (*Annexure-2.1.3*).

The DISCOMs stated (March 2018) that works were awarded on turnkey basis against e-tendering following the tender procedures. Further, the revised higher cost under XI FYP works had been approved by REC. In the XII FYP, BOQ/scope of work was curtailed accordingly to restrict the cost of project within the sanctioned limit. The reply is not acceptable as these DISCOMs adhere to RESSPO cost schedule while implementing GoUP electrification schemes and the RGGVY scheme also stipulates the same provision. Further, the REC had already disallowed such cost escalation of ₹ 4.22 crore in J.P. Nagar project of PVVNL under X FYP projects at the time of closure of the project and it is therefore likely that in these cases also, REC will disallow cost escalation at the time of closure. Reducing the BOQ/scope of work to fit the cost of the project is injudicious since it implies that the project will ultimately not meet the envisaged goals.

#### ***Extra expenditure due to excess provision of PCC poles***

**2.1.24** REC guidelines stipulate preparation of DPRs based on actual field surveys and updated RESSPO cost schedule to avoid subsequent revision in projects cost.

Audit noticed that against the DPR provision of installing 17 portland cement concrete (PCC) poles at every one kilometer (km), MVVNL installed 25 PCC poles per km in three out of four sampled districts (Lucknow, Faizabad and Ambedkar Nagar) under XII FYP for the spur (branch) line for electrification of villages/habitations. This led to increased cost against RESSPO cost schedule, and excess installation of 3,362 PCC poles involving extra expenditure of ₹ 1.73 crore.

The MVVNL stated (March 2018) that the number of poles were increased to avoid accidents by reducing the span of distance between two poles. The reply is not acceptable as other DISCOMS as well as MVVNL itself had installed 17 PCC poles per km earlier in other districts. Further, MVVNL has not furnished a single instance of accident due to span of distance between two poles where MVVNL had earlier installed 17 PCC poles per km.

#### ***Burden on State exchequer due to deviation from Scheme guidelines***

**2.1.25** As per Scheme guidelines, the DPRs prepared by the DISCOMs are submitted to the SLSC for approval with the undertaking that no villages/habitations of the DPRs were included in any other scheme. The DPRs approved by the SLSC are sent to the REC for approval by the MC.

Audit noticed that an agreement was executed (December 2014) by MVVNL with M/s Jyoti Structural Limited for the electrification of 1,991 villages/habitations of Lucknow district. Due to slow progress of work (three per cent) the agreement of M/s Jyoti Structural Limited was terminated

<sup>12</sup> As per point no. 15 in respect of reasonableness of prices envisaged in guidelines in reference to common lapses/irregularities issued by CVC on 15 January 2002.

(May 2016) and a new agreement with M/s KEI Limited was executed (June 2016) to cover the district under the Scheme.

Audit further noticed that contrary to the undertaking given to SLSC, SE Distribution Circle, Lucknow approved (May 2016) the electrification of 107 villages/habitations (out of 1,991 villages/habitations) at cost of ₹ 16.26 crore under the Ram Manohar Lohia Scheme, {(RML) funded by the GoUP}, which were electrified in December 2016. These villages were already covered under the RGGVY Scheme. The justification for electrification of 107 villages under the RML scheme given by the SE was termination of agreement (May 2016) under RGGVY scheme. The justification of SE was not convincing as before the termination of the agreement of M/s Jyoti Structural Limited, the process of retendering under RGGVY was initiated (March 2016) for the work of electrification of villages/habitations of Lucknow district well before undertaking (May 2016) the work under RML Scheme. Therefore, had these 107 habitations not got electrified under RML Scheme, these could have been carried out by M/s KEI Limited under RGGVY Scheme.

Thus, due to irregular action of the SE, the GoUP had to bear extra burden of of ₹ 14.63 crore<sup>13</sup>, which was otherwise available under the RGGVY scheme. Further, since there was no provision of releasing connections to BPL households free of cost in RML Scheme, 2,067 BPL households of these 107 habitations which could have been released connections free of cost in RGGVY, were also deprived of free electricity connections.

MVVNL stated (March 2018) that due to termination of the agreement of the contractor, these villages were covered under RML Scheme on the request of the villagers for early electrification. The reply is not acceptable as the retendering process was already initiated in March 2016 for all the remaining habitations including these 107 habitations.

### ***Non-imposition of liquidated damages***

**2.1.26** As per the agreements under the scheme, if a contractor fails to perform the assigned works within the stipulated time (18/24 months from agreement); liquidated damages (LD) at the rate of half *per cent* of the uncompleted works to a maximum of five *per cent* are leviable.

Audit observed that though 17 projects of DISCOMs<sup>14</sup> were delayed by one to 24 months from the scheduled dates of completion, the CE/SE (RGGVY) of respective DISCOMs failed to deduct LD of ₹ 43.87 crore from the bills of contracting firms.

Audit, further, observed that MVVNL had deducted LD of ₹ 3.23 crore from the bills of the contractors (M/s Everest India for Faizabad and M/s IL&FS for Ambedkar Nagar) for failure to execute the work within the stipulated time (by July 2015) under the XI FYP. Subsequently, the Managing Director of MVVNL refunded (March 2017) the LD amount of ₹ 2.27 crore to the contractors by extending completion period by six to eight months without specifying any reason.

Thus, by not deducting LD despite their failure to complete the works within the stipulated period and by refunding the already deducted LD, the

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<sup>13</sup> ₹14.63 crore = (90 *per cent* of ₹16.26 crore).

<sup>14</sup> **XI FYP**- PVVNL- 3 projects and DVVNL- 3 projects; **XII FYP**- MVVNL-2 projects, PuVVNL-2 projects and DVVNL-7 projects.

management of DISCOMs extended undue favour of ₹ 46.14 crore (₹ 43.87 crore + ₹ 2.27 crore) to contractors.

The DISCOMs stated (March 2018) that LD was not deducted as the matter of time extension was pending with the REC. DVVNL further stated that it had deducted LD of ₹ 15.22 crore out of deductible amount of ₹ 25.12 crore pointed out by Audit. The replies are not acceptable, as LD was to be deducted after the lapse of scheduled completion period immediately. Moreover, the time extension sought had not been provided by REC till date. Further, no reply was furnished by MVVNL with respect to unjustified refund of the LD.

### ***Deficient provision in PMC agreement***

**2.1.27** An agreement was executed (March 2015) between the MVVNL and M/s Medhaj Techno Concept Private Limited (PMC), under the XII FYP for a contracted price of ₹ 41.42 crore for undertaking PMC work in 19 districts. Out of the contract price of ₹ 41.42 crore, ₹ 18.64 crore was awarded for inspection of materials, physical verification and quality monitoring of works being executed by turnkey contractors (TKCs). The PMC was to be paid in 24 equal monthly installments.

Audit noticed that the agreement between PMC and MVVNL did not include any provision for linking PMC payment with actual progress of work by TKC. After 24 months (March 2017), out of 37,431 habitations awarded for electrification, only 12,889 habitations (34.43 per cent) were completed by TKC. However, MVVNL released total awarded amount of ₹ 18.64 crore to PMC (April 2015 to March 2017) on monthly basis even though the physical progress was only 34.43 per cent.

Thus, non-linking of payment of PMC with progress of work executed by TKC resulted in release of ₹ 12.22 crore<sup>15</sup> to the PMC without any physical progress being achieved on the ground.

MVVNL stated (March 2018) that the PMC had deployed required technical manpower at the DISCOM as well as in the field offices. The reply is not convincing as the management of MVVNL did not ensure the linking of payment to the firm with physical progress of the work, due to which payment had been made to the PMC without performing the work it was engaged for. MVVNL was well aware of implementation delays in all projects in X and XI FYP. Therefore, they should have included an enabling provision in the contract to safeguard their interest in case of delay by TKC in execution of projects. After the completion of agreement period, MVVNL does not have any legally enforceable clause against PMC on the remaining 65 per cent of work. Further, the PVVNL (sister company of MVVNL) had fixed the terms of payment to be made to PMC in such a way that, if no work was done by TKC, no payment would be made to PMC after three months and limiting such payment for the three months period to ₹ 5 lakh.

**2.1.28** DVVNL entered (January 2015) into an agreement with REC Power Distribution Company Limited, New Delhi as PMC for projects in 21 districts under XII FYP at the rate of ₹ 10,100 per village (excluding Service Tax), in which, the DVVNL allowed activity based payment to the PMC. For the work of activity number two “Pre-dispatch inspection of quality of material as per technical specifications of material and physical verification of material

<sup>15</sup> ₹ 18.64 crore - ₹ 6.42 crore (34.43 per cent of ₹ 18.64 crore).

received/installed and erected in electrification works”, 45 *per cent* (₹ 4,545 per villages/habitations, out of ₹ 10,100 per habitations) of the total contract value was to be paid.

Audit observed that out of 21 districts, in four districts (Agra, Mainpuri, Etawah and Kannauj) having 6,668 villages/habitations, the work was being executed by the DVVNL on semi-turnkey basis (the works were awarded during September 2013 to January 2016) in which the materials were procured by DVVNL. Hence, pre-dispatch inspection as well as physical verification of material was to be ensured by the company’s own material management (MM) wing.

**DVVNL made avoidable payment of ₹ 3.41 crore to PMC due to faulty agreement**

Therefore, the rate allowed for activity number two of the payment schedule *i.e.*, ₹ 5,106.76 (₹ 4,545 plus ST) per villages/habitations was avoidable. However, Chief Engineer and Superintending Engineer (RGGVY Wing) of DVVNL failed to exclude activity number two from the scope of the agreement in respect of 6,668 villages/habitations of four districts and made an avoidable payment of ₹ 3.41 crore to the PMC.

DVVNL stated (March 2018) that the PMC was carrying out 100 *per cent* pre dispatch inspection of materials. The reply substantiates the audit observation that DVVNL allowed the PMC to inspect the material supplied by it and made payment for the same whereas its own MM wing could have easily inspected the material at little or no extra cost.

### ***Short collection and failure in encashment of BG and CPG***

**2.1.29** The agreements entered into by DISCOMs with contractors for the execution of projects, stipulate an unconditional and irrevocable contract performance guarantee (CPG) of 15 *per cent* of the total contract price to be obtained from the contractors at the time of agreement. Further, the contractors are to deposit bank guarantee (BG) of 110 *per cent* against any mobilisation advance prior to its release. The Chief Engineer (RGGVY) of DISCOMs is responsible for obtaining BG/CPG of the required amount. Audit observed that:

- MVVNL awarded (August 2013) the work of rural electrification of Hardoi and Bahraich districts under XI FYP to M/s Modern Instrument Limited (contractor). MVVNL obtained the BG for required amount of ₹ 6.71 crore. However, the CE (RGGVY) short collected CPG by ₹ 16.65 crore (required ₹ 52.32 crore – deposited ₹ 35.67 crore).

Against the completion schedule by July 2015, the contractor executed (upto April 2016) only 21.17 and 32.82 *per cent* in Hardoi and Bahraich districts respectively. Despite the fact that the scheduled date of completion was over, CE, RGGVY issued four reminders during December 2015 to February 2016 for early completion of works. Even after these reminders, the performance of the firm remained poor. Finally, after the eight months of the scheduled date of completion, MD terminated (1 April 2016) the agreement without encashing BG/CPG. After more than one month (6 May 2016) the MD ordered deferment of encashment of BG and CPG of ₹ 42.38 crore (BG of ₹ 6.71 crore and CPG of ₹ 35.67 crore) till 14 May 2016 without recording any reason. Though the extension for encashment also expired on 14 May 2016, MVVNL did not encash the BG/CPG till 29 May 2016. Meanwhile, the contractor approached the High Court, Allahabad on 30 May 2016 and obtained stay



order on 16 June 2016 against encashment of BG and CPG. However, BG expired in January 2017 and CE, RGGVY, MVVNL did not make any efforts for its renewal.

- DVVNL awarded (September 2014) the works of rural electrification of Agra and Hathras districts under XII FYP to M/s Accurate Transformers (Contractor) for contracted values of ₹ 133.18 crore and ₹ 103.48 crore respectively with completion schedule up to August 2016. As per the provisions of tender document and contract terms, the firm was to deposit full amount of BG/CPG within 30 days from the date of issue of LOI.

The Contractor requested DVVNL to grant the relaxation in deposit of full amount of BG/CPG on the ground of increasing pace of work, which REC refused (October 2014). Despite the refusal of REC, MD/CE irregularly obtained approval (March 2015) from the BODs, which was not competent to grant such relaxation. By such relaxation the Contractor was irregularly favoured to short deposit BG/CPG by ₹ 21.38 crore (CPG of ₹ 17.76 crore in Agra and Hathras projects and BG by ₹ 3.62 crore in the Hathras project). Further, due to slow progress of the work (one *per cent* to 17.86 *per cent*), MD of DVVNL terminated (February 2016) the agreement of Agra district and short closed (September 2016) the agreement of Hathras district. Moreover, the CE (RGGVY) of DVVNL short recovered BG of ₹ 4.06 crore (recovered ₹ 5.92 crore against BG of ₹ 9.98 crore) at the time of termination of the agreement in Agra project without recording any reasons. Further, in Hathras project, MD short closed the agreement which should have been terminated involving encashing BG and CPG. Consequently, DVVNL unduly favoured the Contractor by not encashing BG and CPG of ₹ 11.44 crore.

Thus, by neglecting to take necessary steps in obtaining full amount of BG/CPG, encashing BG/CPG and by resorting to short closure of the project in place of termination of the agreement, the management of DVVNL could not safeguard its financial interest to the tune of ₹ 36.88 crore (including the short deposited amount of CPG of ₹ 21.38 crore).

DVVNL stated (March 2018) that the BODs provided the necessary relaxation (March 2015) to the firm in depositing the full amount of CPG to increase the pace of work. The reply is not acceptable as providing relaxation in depositing the full amount of CPG was contrary to the order of REC refusing to provide relaxation. Moreover, the pace of work performed by the firms was also not satisfactory. Further, DVVNL did not furnish any reply regarding the failure to encash BG/CPG in the Agra project and also did not furnish the justification of short closure of agreement of Hathras project instead of terminating the same.

- In 10 projects of MVVNL and DVVNL, the firms deposited ₹ 49.86 crore CPG against the required amount of ₹ 128.56 crore, as detailed in **Annexure-2.1.5**. Thus, by permitting short deposit of CPG of ₹ 78.70 crore, the CE (RGGVY) of MVVNL and DVVNL violated Scheme guidelines and unduly favoured the contractors. Further, the interests of the DISCOMs were also at the stake in case of termination of the agreements due to failure of the firms.

MVVNL and DVVNL stated (March 2018) that the firms were provided relaxation in submission of CPG to speed up the progress of the work. However, the balance amount of CPG would be deducted from the bills of the contractors. The reply is not acceptable, as the full amount of CPG was to be obtained as per the terms and conditions of the agreement as also

**DISCOMs extended undue favour of ₹ 95.91 crore to the contractors by not obtaining full amount of BG/CPG and not encashing BG/CPG.**

instructed/clarified by REC. Further, though all the projects awarded under both plans were to be completed between July 2015 to March 2017, but no project has been completed till date (March 2018), despite relaxation in respect of BG/CPG.

***Non submission of additional bank guarantee***

**2.1.30** As per the terms and conditions of the notification of award (NOA)/ letter of intent (LOI) issued to the contractors under RGGVY (XII FYP) in PVVNL, the contractors were required to submit an additional security of 15 *per cent* of the total cost of distribution transformers (DTs) and energy meters in the form of additional bank guarantee (BG). CE (RGGVY) was responsible for obtaining additional Bank Guarantee of the required amount.

Audit observed that in 19 out of 51 turnkey/semi-turnkey agreements in 12 districts/projects of PVVNL, the CE (RGGVY) did not obtain (between December 2014 to March 2016) the additional BG for ₹ 9.08 crore against supply of DTs and energy meters from the contractors on the ground that the required amount would be deducted from the running bills of the contractors. Since the submission of additional BG was the requirement of the terms and conditions of the contract, the granting relaxation in submission resulted in undue favour to contractor.

PVVNL accepted (March 2018) the facts.

**Recommendations:**

- 1. The DISCOMs should take corrective measures to control delays in implementation of projects;**
- 2. The DISCOMs should ensure the reasonableness of the rates as per CVC guidelines when awarding the work;**
- 3. The DISCOMs should evolve a detailed checklist to be followed to ensure compliance with the terms and conditions of the agreement; and**
- 4. The Department may examine from a vigilance angle the undue advantage extended to contractors by DISCOM functionaries.**

**Financial Management**

**2.1.31** The Scheme was to be financed on 90:10 basis with GoI providing capital subsidy and GoUP contributing from its own resources or through loan from FIs (including REC). On request of the DISCOMs and after satisfying itself that the conditions specified for release of particular installment had been complied with, REC would release the GoI capital subsidy in five installments (30, 20, 20, 20 and 10 *per cent*) against the project cost (including cost of BPL connections) as detailed in the table 2.1.6.

| <b>Table 2.1.6: Mechanism of fund release in XI and XII FYP</b> |  |                            |   |                               |
|---|--|----------------------------|---|-------------------------------|
| <b>Installment No.</b>  | <b>Progress of villages including associated habitations &amp; BPL HHs (in percentage)</b> |                            | <b>Release of funds (in percentage)</b> |                               |
|   | <b>Progress</b>  | <b>Cumulative progress</b> | <b>Installment amount</b>               | <b>Cumulative installment</b> |
| 1   | -  | -                          | 30                                      | 30                            |
| 2   | 05   | 05                         | 20                                      | 50                            |
| 3   | 25   | 30                         | 20                                      | 70                            |
| 4   | 25   | 55                         | 20                                      | 90                            |
| 5   | 45   | 100                        | 10                                      | 100                           |

*Source: Guidelines of the Scheme*

**Avoidable burden of interest**

2.1.32 Details of eligible capital subsidy receivable by the DISCOMs, subsidy and loans availed and expenditure incurred under XI and XII FYP during 2012-13 to 2016-17 are given in the table 2.1.7 below:

| FYP          | Eligible subsidy (₹ in crore) | Subsidy received (₹ in crore) | Loan availed from REC (₹ in crore) | Expenditure incurred (₹ in crore) |
|--------------|-------------------------------|-------------------------------|------------------------------------|-----------------------------------|
| XI           | 1,986.76 <sup>16</sup>        | 1,968.51                      | 201.85                             | 1,995.83                          |
| XII          | 3,277.26 <sup>17</sup>        | 2,559.23                      | 240.75                             | 2,225.89                          |
| <b>TOTAL</b> | <b>5,264.02</b>               | <b>4,527.74</b>               | <b>442.60</b>                      | <b>4,221.72</b>                   |

*Source: Information furnished by DISCOMs*

It may be seen from the above that despite being eligible for getting GoI capital subsidy from the REC, the managements of DISCOMs instead availed loans from the REC.

Audit observed that while releasing funds, the REC clubbed loan with capital subsidy, which the DISCOMs did not protest against. Funds already availed of by the DISCOMs as subsidy of ₹ 4,527.74 crore were also almost sufficient to cover the expenditure of ₹ 1,995.83 crore incurred in the XI FYP and expenditure of ₹ 2,225.89 crore in the XII FYP up to 31 March 2017. Thus, drawal of loan despite the availability of subsidy was indicative of poor financial management leading to avoidable burden of interest of ₹ 129.22 crore (*Annexure- 2.1.6*) on the State exchequer.

The DISCOMs accepted (March 2018) the audit observation.

**Release of mobilisation advance without valid Bank Guarantee**

2.1.33 MVVNL signed an agreement (October 2013) with M/s IVRCL Limited, Hyderabad (Firm) for rural electrification work of Unnao district under XI FYP for a contracted value of ₹ 394.36 crore (including ₹ 322.46 crore for supply of materials). The agreement stipulated that 10 per cent of the ex-work price component of the supply of materials of the contract price shall be paid as an initial mobilisation advance bearing interest at the rate of 12 per cent and shall be recovered from the first five bills. The mobilisation advance was payable only after presentation of an unconditional and irrevocable bank guarantee (BG) of 110 per cent of the amount of mobilisation advance valid for 18 months or till the recovery of the mobilisation advance. The firm submitted a BG of ₹ 35.47 crore (110 per cent of 10 per cent of supply portion) on 20 November 2013 drawn on the Chartered Mercantile M.B. Limited, Lucknow (CMMB), which was a mutual benefit company and not a bank.

Audit noticed that despite receipt of prior intimation (28 December 2013) from the CMMB that the BG issued in favour of the firm had been terminated due to non-completion of required formalities, the CE/SE (RGGVY) of MVVNL released (3 January 2014) mobilisation advance of ₹ 13.83 crore to the firm. Further, the MVVNL had to terminate the agreement on

**MVVNL released mobilisation advance without valid BG which led to non-recovery of ₹ 13.83 crore**

<sup>16</sup> Eligible amount of subsidy in XI FYP = 50 per cent of (total sanctioned cost of ₹ 4,415.02 crore x 90 per cent) = ₹ 1,986.76 crore.

<sup>17</sup> Eligible amount of subsidy in XII FYP = 50 per cent of (total sanctioned cost of ₹ 7,282.81 crore x 90 per cent) = ₹ 3,277.26 crore

25 August 2014 as the firm did not commence the work for seven months from the date of obtaining the mobilisation advance.

Accepting the Audit observations, MVVNL stated (March 2018) that following the Audit observation, out of ₹ 13.83 crore released to the firm, ₹ 11.86 crore was adjusted (September 2017) against the pending bills of the firm pertaining to X FYP of RGGVY of MVVNL and the balance amount would be adjusted against the pending bills of firm pertaining to X FYP of RGGVY (₹ 35.13 crore against X FYP) of DVVNL. However, the fact remains that the MVVNL released the advance without the requisite bank guarantee, providing an undue advantage to the firm.

**Recommendation:**

**The Department may examine from a vigilance angle, the suspected collusion of MVVNL officials.**

***Irregular retention of miscellaneous income earned on Scheme funds***

**2.1.34** The Scheme guidelines stipulated that funds would be maintained in a dedicated bank account of the Scheme. Funds in excess of ₹ 50 lakh in the dedicated bank account would automatically be maintained as fixed deposits by the bank and the DISCOMs should not invest the funds in any other bank. The interest earned on the unutilised amount would be considered as RGGVY funds and credited to the Scheme fund account. Thus, in line with the guidelines of the Scheme, the interest earned on mobilisation advances, forfeited amount of BG/CPG and Earnest Money should be remitted to the Scheme fund account.

Audit observed that DISCOMs did not transfer interest earned on unutilised funds/mobilisation advance and forfeited amount of CPG/earnest money amounting to ₹ 61.17 crore (upto March 2017) to Scheme fund account and instead treated these funds as their own income as shown in table 2.1.8.

**DISCOMs retained the income amounting to ₹ 61.17 crore earned as interest on Scheme fund and forfeited amount of earnest money, BG/CPG instead of remitting the same to GoI**

| <b>Table 2.1.8: Details of miscellaneous income earned on Scheme fund</b> |  |                             |               |              |              |              |
|---|--|-----------------------------|---------------|--------------|--------------|--------------|
| <b>Sl. No.</b>  | <b>Particulars</b>                                     | <b>DISCOMs (₹ in crore)</b> |               |              |              |              |
|   |  | <b>MVVNL</b>                | <b>PuVVNL</b> | <b>PVVNL</b> | <b>DVVNL</b> | <b>TOTAL</b> |
| 1   | Interest on Mobilisation Advances (XI and XII FYP)     | 11.73                       | 20.29         | --           | 4.41         | 36.43        |
| 2   | Interest on unutilised fund of Scheme (XI and XII FYP) | --                          | 2.65          | 0.68         | --           | 3.33         |
| 3   | Forfeited amount of Earnest Money Deposit              | 1.21                        | --            | --           | 1.30         | 2.51         |
| 4   | Forfeited amount of Contract Performance Guarantee     | --                          | --            | --           | 18.90        | 18.90        |
|   | <b>TOTAL</b>   | <b>12.94</b>                | <b>22.94</b>  | <b>0.68</b>  | <b>24.61</b> | <b>61.17</b> |

**Source- Information and details furnished by DISCOMs**

The DISCOMs accepted (March 2018) the audit observations and after this was pointed out by Audit, the DVVNL credited ₹ 23.31 crore to the Scheme fund. However, the remaining amount of ₹ 37.86 crore was still pending to be credited to the Scheme fund.

Further, as per provisions of the Scheme, Income tax on interest earned on unutilised funds of the Scheme was not to be deducted under Section 197 of the Income Tax Act. Audit observed that the Director (Finance) and General Manager (Finance) of MVVNL and DVVNL did not bring the above provisions in the notice of the banks. As a result, the banks deducted income

tax of ₹ 10.51 lakh and ₹ 2.46 crore from the interest earned on the Scheme fund by MVVNL and DVVNL respectively during 2014-15 and 2016-17.

***No claiming of Value Added Tax, Works Contract Tax and Labour Cess from the State Government***

**2.1.35** As per Scheme guidelines, capital subsidy was to be provided for rural electrification at the rate of 90 *per cent* of the cost of the projects, excluding the amount of State or local taxes which were to be borne by the concerned State/State Utility. Accordingly, the GoUP ordered (March 2014) that these taxes were reimbursable to DISCOMs. The Chief Engineer (RGGVY) and Director/General Manager (Finance) of the concerned DISCOMs were responsible for ensuring compliance with the aforesaid guidelines and Government Order.

Audit observed that:

- While making payments to contractors from Scheme funds, all the four DISCOMs deducted and deposited value added tax (VAT) and work contract tax (WCT) to the tune of ₹ 120.97 crore<sup>18</sup> with the Commercial Tax Department during 2012-17. The DISCOMs, however, failed to claim reimbursement of these taxes from the State Government.
- In 17 districts, DVVNL, instead of asking the contractors to submit the bills showing cost of materials and VAT separately, released the payment of ₹ 397.84 crore under XII FYP against supply bills wherein VAT was not shown separately. As a result, DVVNL was unaware of the amount of VAT to be claimed from the State Government and was, therefore, deprived of reimbursement of VAT amounting to ₹ 15.30 crore (considering lower rate of four *per cent* of VAT).
- DVVNL, PuVVNL and MVVNL deducted and deposited ₹ 2.69 crore towards labour cess from the running bills of the contractors in the XI and XII FYP. The DISCOMs, however, failed to get the labour cess from the State Government.

Thus, the Chief Engineer (RGGVY) and Director/General Manager (Finance), failed to claim State taxes/levy aggregating ₹ 139.57 crore.

The DISCOMs accepted (March 2018) the audit observation.

***Short deduction of Labour Cess from the bills of the contractors***

**2.1.36** As per the Building and Other Construction Workers' Welfare Cess Act, 1996, the executing agency should deduct labour cess at the rate of one *per cent* of total cost of projects and the same should be deposited with the labour cess authority within 30 days of receipt of payment. The Director (Finance) and General Manager (Finance) of the concerned DISCOMs were to ensure the compliance of the aforesaid provision.

Audit observed that all the four DISCOMs made payment of ₹ 4,221.72 crore to various contractors and deducted labour cess of ₹ 2.69 crore only against

**Inaction of DISCOMs resulted in non-reimbursement of State taxes/cess aggregating ₹ 139.57 crore from the State Government**

<sup>18</sup> MVVNL-₹ 45.23 crore, PuVVNL-₹ 63.80 crore, PVVNL-₹ 11.07 crore and DVVNL-₹ 0.87 crore.

the required amount of ₹ 42.21 crore leading to short deduction of ₹ 39.52 crore<sup>19</sup> from the bills of the contractors.

The DISCOMs accepted (March 2018) the audit observation.

***Diversion of fund***

**2.1.37** The Scheme guidelines prohibited diversion of funds beyond the purpose of the Scheme.

Audit observed that the Managing Directors (MDs) of MVVNL and DVVNL approved the utilisation of the fund on works, which did not form part of the DPRs approved by the REC under the scheme, as discussed in table 2.1.9 below:

| <b>Table 2.1.9: Details of diversion of Scheme fund</b> |                            |  |
|---|----------------------------|--|
| <b>Name of DISCOMs</b>                                  | <b>Amount (₹ in crore)</b> | <b>Reason/purpose for diversion</b>  |
| MVVNL   | 3.92                       | For construction of MD's camp office, own building of Distribution/Test division in five Districts <sup>20</sup> and extension/strengthening of 33/11 KV sub-stations, not covered under the Scheme. |
| MVVNL   | 1.24                       | Adjustment of mobilisation advance of ₹ 2.61 crore released under R-APDRP to Biecco Lawrie Limited with RGGVY fund.  |
| DVVNL   | 5.47                       | For construction of DISCOM's own building, CE's office, residences and other field offices buildings.  |
| <b>TOTAL</b>  | <b>10.63</b>               |  |

*Source: Information furnished by the DISCOMs*

Thus, the MDs of the DISCOMs irregularly diverted the Scheme fund amounting to ₹ 10.63 crore for purposes not covered under the Scheme.

***Irregular inter plan diversion of fund***

**2.1.38** As per the Scheme guidelines, the DISCOMs were to open dedicated bank accounts under the XI and XII FYP. On request of the DISCOMs, REC was to release funds to their dedicated bank accounts. Subject to fulfilment of certain conditions, the DISCOMs were allowed to utilise funds, earmarked for one project, for other projects of the same plan of the respective DISCOM. The inter plan diversion of fund was strictly restricted.

Audit observed that without approval of REC:

- The MD of MVVNL did not adhere to the guidelines and to liquidate the liability of payment to the contractors under XII FYP, diverted ₹ 59.45 crore from the dedicated account of the XI FYP to that of the XII FYP during April 2016 to June 2016. However, ₹ 39.03 crore was reverted to the account of XI FYP during June 2016 to October 2016. Balance ₹ 20.42 crore were still (March 2017) remaining to be reverted.
- The MD of DVVNL also diverted ₹ 22 crore from the dedicated account of XII FYP to that of the XI FYP for making payments to the contractors under XI FYP. No amount had been remitted to the account of XII FYP (April 2017).

<sup>19</sup> MVVNL-₹ 16.06 crore, PuVVNL- ₹ 12.41 crore, PVVNL-₹ 3.98 crore and DVVNL- ₹ 7.07 crore.

<sup>20</sup> Rai Bareilly, Bahraich, Faizabad, Bareilly and Unnao.

Despite the restrictions on inter plan diversion under the scheme, the DISCOMs diverted funds from XI FYP to XII FYP and *vice-versa*, out of which ₹ 42.42 crore were still (April 2017) to be remitted to the respective plan's account.

The DISCOMs accepted (March 2018) the audit observation.

**Recommendation:**

**DISCOMs should strictly comply with Scheme guidelines relating to fund management.**

**Scheme Performance**

**2.1.39** In order to achieve the objectives of the Scheme, rural electrification work in the districts was to be completed within a period of two years from the date of issue of letter of intent (LOI) to the contractors engaged under the Scheme by the DISCOMs. The Managing Directors of DISCOMs were responsible for setting up the control mechanism to ensure achievement of targets set under the Scheme. Deficiencies observed in achievement of the targets/objectives of the Scheme and control mechanism are discussed below:

***Failure in achieving the target of BPL connections***

**2.1.40** The Scheme envisaged free of cost of electricity connection to BPL households. The GoI provided 100 *per cent* subsidy for the cost of releasing connection. The status of connections released to BPL as on 31 March 2017 is shown in table 2.1.10:

| Table 2.1.10: Status of electricity connections to BPL households |              |                           |  |                                |                                  |
|---|--------------|---------------------------|--|--------------------------------|----------------------------------|
| Five Year Plan (FYP)  | Year DISCOMs | No of Projects /Districts | No. of BPL connections to be issued as per DPR | No of BPL connections released | Short fall (in <i>per cent</i> ) |
| XI  | DVVNL        | 03                        | 58,617   | 9,692                          | 83.47                            |
|   | PuVVNL       | 07                        | 3,08,241                                       | 1,74,102                       | 43.52                            |
|   | PVVNL        | 03                        | 1,07,717                                       | 18,046                         | 83.25                            |
|   | MVVNL        | 09                        | 3,82,742                                       | 2,42,642                       | 36.60                            |
| <b>Sub total</b>  |              | <b>22</b>                 | <b>8,57,317</b>                                | <b>4,44,482</b>                | <b>48.15</b>                     |
| XII   | DVVNL        | 21                        | 8,69,064                                       | 1,10,805                       | 87.25                            |
|   | PuVVNL       | 17                        | 9,67,707                                       | 4,27,775                       | 55.79                            |
|   | PVVNL        | 12                        | 2,55,146                                       | 67,624                         | 73.50                            |
|   | MVVNL        | 14                        | 11,72,268                                      | 1,05,583                       | 91.99                            |
| <b>Sub total</b>  |              | <b>64</b>                 | <b>32,64,185</b>                               | <b>7,11,787</b>                | <b>78.19</b>                     |
| <b>Grand Total</b>  |              |                           | <b>41,21,502</b>                               | <b>11,56,269</b>               | <b>71.95</b>                     |

*Source- Progress Reports and information furnished by DISCOMs*

**DISCOMs failed to provide electricity connections to 29.65 lakh BPL households against the target of 41.21 lakh connections**

The scheduled completion dates of projects under both the plans expired in September 2015 and March 2017 respectively. However, only 11.56 lakh (28.05 *per cent*) BPL connections were provided by the DISCOMs against the target of 41.21 lakh, and 29.65 lakh BPL households (71.95 *per cent*) were still deprived access to electricity as of March 2017. The main reasons of non-achievement of target of release of BPL connections were, delays in award of works, in carrying out actual site survey by contractors and in supply of materials by the contractors *etc.*



**Photograph showing installation of two meters at single RHH**

The DISCOMs accepted (March 2018) the audit observation.

Audit, further noticed that, in Ambedkar Nagar district of MVVNL, total 44,660 BPL connections were to be released, but the firm (IL&FS) released 69,000 BPL connections. The main reason for excess release of 24,340 connections was, issue of connections to BPL consumers who were already

having connection and raising of bills against BPL consumers without giving actual connections to them. Since the connections are released as per the report after site inspection carried out by the junior engineers of the respective divisions, the junior engineers of the field units were responsible for release of connections to consumers already having connection.

This, *prima facie*, indicated that the divisions allowed the firm to release the connections without following the due procedure intentionally to increase its claim against the number of connections released. Further, the Superintending Engineer of the Circle failed to develop a monitoring mechanism to ensure that the connections were released only to un-electrified BPL households. Thus, authenticity of release of 24,340 connections beyond the awarded quantity is questionable and payment of ₹ 5.35 crore (24,340 x ₹ 2,200/per connection) made to the contractor thereagainst was irregular and needed justification.

MVVNL accepted (March 2018) the audit observation.

### ***Non-release of electricity connections to rural house holds***

**2.1.41** The main objective of the Scheme was to provide the access of electricity to all rural households (RHHs). As per the approved DPRs and LOIs issued to the firms, all the four DISCOMs worked out the required capacities of distribution transformers (DTs) to be installed under the Scheme keeping in view the loads of the RHHs (other than BPL) to be connected.

Audit observed that despite provision in the approved DPRs, the DISCOMs did not take any initiative to release the connections to these RHHs (other than BPL). In selected 19 projects of these DISCOMs, 31,69,925 RHHs (excluding BPLs) were to be electrified, against which only 19,48,218 RHHs (61 *per cent*) were electrified. The main reason for short release of connections to the RHHs was that despite the provision in the agreement with the PMC for monitoring BPL connections, the DISCOMs did not develop any similar mechanism for monitoring connections to other than BPL RHHs.

The DISCOMs accepted (March 2018) the audit observation.

### **Recommendation:**

**DISCOMs should ensure completion of projects within the stipulated timelines to achieve intended objectives of the Scheme to provide access of electricity to all RHHs (including BPL families) and to also ensure the**



**release of BPL connections linked with Aadhaar Card to avoid duplicate connections.**

***In-fructuous expenditure on installation of energy meters***

**2.1.42** The Scheme, *inter-alia*, provided that electricity connection shall be released free of charge to the BPL rural households for which capital subsidy was to be provided separately to the DISCOMs including cost of meters to be installed at the premises of such consumers. Executive Engineers of the Distribution Division were to ensure that bills were raised/issued to consumers as per the actual meter readings.

Audit noticed that in 19 sampled districts, 3,29,930 energy meters were installed at the premises of BPL consumers. But due to shortage of manpower, billing of these consumers was still being done by the respective Distribution divisions on provisional basis without actual meter reading. Thus, the purpose of installation of these meters to raise bill on the basis of actual consumption of energy was defeated and expenditure of ₹ 29.14 crore incurred on installation of meters proved to be unproductive.

The DISCOMs accepted (March 2018) the audit observation and stated that the steps for taking meter reading would be taken up.

Audit, further observed (April 2017) that, in DVVNL, 20,574 BPL connections under XII FYP were released but no connection details were included in the consumer ledger. In PuVVNL, 69,723 BPL connections were released under XII FYP out of which, only 26,681 BPL connections could be included in the consumer ledger, and 43,042 connections were awaiting for inclusion in consumer ledger. Due to non-inclusion of connections in consumer ledger by the respective Distribution Divisions, the bills could not be raised even on provisional basis, resulting in non-recovery of revenue of at least ₹ 1.15 crore (63,616 x ₹ 180/per connection) per month.

PuVVNL accepted (March 2018) the audit observation and stated that connections details are being included in consumer ledger. DVVNL also accepted the audit observation and has since taken corrective action.

***In-fructuous expenditure on installation of Distribution Transformers meters***

**2.1.43** In order to ensure energy accounting, auditing and checking of commercial losses, meters were required to be installed at Distribution Transformers (DTs) in the villages electrified under the Scheme. Superintending Engineer/ Executive Engineer of respective Circles/ Distribution divisions were required to ensure that energy accounting was being carried out through meters installed at DTs.

Audit noticed that in 19 districts covered in audit, 36,881 energy meters were installed at the DTs. However, due to shortage of manpower, transformer-wise energy accounting, auditing and checking of energy losses was not being carried out by the Circle/Distribution divisions. Thus, the purpose of installation of DT meters was defeated and investment made on installation of DT meters worth ₹ 5.78 crore was yet to be put to productive use.

The DISCOMs accepted (March 2018) the observation and stated that due to shortage of staff, meter reading could not be carried out. The reply is not acceptable as smart meters could have been installed in place of conventional

**Expenditure of ₹ 5.78 crore on installation of DT meters proved in-fructuous as reading was not being taken**

meters to fetch the meter readings automatically without engaging any field staff.

**Recommendation:**

**The DISCOMs may consider installing smart meters for all categories of consumers including DTs.**

***Quality Control Mechanism of the Scheme***

**2.1.44** Projects under the Scheme are subject to a three-tier Quality Monitoring Mechanism to ensure that all materials are utilised and workmanship conforms to prescribed specifications. The first tier of quality control (50 per cent of completed villages/habitations) was to be carried out by DISCOMs by engaging third party inspection agency (TPIA), second tier (20 per cent of completed villages/habitations) by REC Quality Monitor (RQM) and the third tier (one per cent of completed villages/habitations) by the National Quality Monitor (NQM) appointed by the MoP, GoI.

CEs (RGGVY) of the respective DISCOMs were to ensure compliance with the Scheme guidelines regarding Quality Control Mechanism. Deficiencies noticed in quality control mechanism are given in the table 2.1.11.

| <b>Table 2.1.11: Details of deficiencies noticed in quality control mechanism</b> |            |   |
|---|------------|---|
| <b>DISCOMs</b>  | <b>FYP</b> | <b>Audit observation</b>  |
| DVVNL   | XII        | DVVNL did not appoint TPIA and treated the verification/inspection reports of the PMC as the TPIA reports.  |
| MVVNL   | XII        | As on 31 March 2017, despite 30 per cent progress reported in Lucknow and Sultanpur districts, no inspection was carried out by TPIA.   |
| PuVVNL  | XII        | As per scope of work, TPIA was to verify BPL connections by collecting mobile numbers and photographs of the consumers. The firm verified 53,896 BPL connections without collecting any photographs. Thus, authenticity of the 53,896 verified consumers could not be vouchsafed. |
| All DISCOMs   | XI/<br>XII | Against the total discrepancies of 1,92,458 (as of 31 March 2017) observed by TPIA, RQM and NQM, 1,07,387 discrepancies (55.79 per cent) could be rectified leaving 85,071 discrepancies (44.21 per cent) unaddressed by DISCOMs.   |

The DISCOMs accepted the observation and stated (March 2018) that instructions have been issued to the TPIA to perform the works as per agreements executed with them.

***Non-maintenance of Assets Registers***

**2.1.45** As per the Tripartite Agreement (July 2005) between the State Government, the REC and the DISCOMs, the State Government is the owner of the assets created by the DISCOMs under the Scheme. The State Government, however, authorised the DISCOMs to operate and maintain such assets. For this purpose, separate fixed assets registers were to be maintained by the Superintending Engineers (CEOs) of the respective Circles of DISCOMs for accounting the assets created under the Scheme.

Audit observed that assets worth ₹ 4,221.72 crore (₹ 1,995.83 crore under XI FYP and ₹ 2,225.89 crore under XII FYP) were created under the Scheme but, instead of showing them distinctly by maintaining separate fixed assets registers, the DISCOMs merged these assets with their own assets' database.

The DISCOMs stated (March 2018) that assets register would be maintained after handing over of the projects by turnkey contractors (TKCs). The reply is not convincing as assets registers should have been maintained at the time of

**Despite assets of ₹ 4,221.72 crore created under the scheme, the DISCOMs failed to maintain separate Fixed Assets Registers**

creation of assets and handing over of the projects by TKCs is not requirement for maintaining of assets register.

### **Internal Audit**

**2.1.46** Since the DISCOMs did not have their own Internal Audit Wing, they instead, appointed empanelled Chartered Accountant (CA) firms to do the work. Audit observed that the Internal Audit Reports did not include detailed technical audits or comment upon propriety of expenditure. This weakened overall internal controls. Further, there was no mechanism to review and pursue compliance with the Internal Audit observations.

### **Vigilance Wing**

**2.1.47** The DISCOMs did not have a dedicated vigilance wing to carry out independent checks upon for various functions including RGGVY works.

### **Recommendation:**

**An independent Internal Audit Wing and Vigilance Wing should be established at the earliest for timely detection of deficiencies and for taking remedial action.**

### **Audit Impact**

#### **Action taken by the company on the basis of audit findings:**

- After being pointed out by audit, DVVNL deducted LD of ₹ 15.22 crore out of deductible amount of ₹ 25.12 crore.

*(Paragraph 2.1.26)*

- PVVNL withheld the amount from the bills of the contractors against the amount of additional BG of ₹ 9.08 crore short deposited by them.

*(Paragraph 2.1.30)*

- Out of miscellaneous income earned on Scheme funds of ₹ 24.61 crore which had been treated as its own income by DVVNL, ₹ 23.31 crore was credited to Scheme fund.

*(Paragraph 2.1.34)*

- DVVNL lodged claims on VAT of ₹ 21.86 crore from State Government, out of which, ₹ 20.99 crore was reimbursed.

*(Paragraph 2.1.35)*

- PVVNL deducted labour cess of ₹ 36.72 lakh from the bills of the contractors after short deduction was pointed out by audit.

*(Paragraph 2.1.36)*

- After being pointed out by audit, 20,574 BPL connections were included in the consumer ledger by DVVNL.

*(Paragraph 2.1.42)*

## **2.2 Audit on operation of Urban Transport in Uttar Pradesh under Jawaharlal Nehru National Urban Renewal Mission**

### **Introduction**

**2.2.1** Ministry of Urban Development (MoUD), Government of India (GoI) launched the Jawaharlal Nehru National Urban Renewal Mission (scheme) in 2005 with an aim to encourage fast track planned infrastructure development in identified<sup>1</sup> cities. As part of scheme, the GoI issued guidelines (January 2009) for providing financial assistance to States as a onetime measure for purchase and operation of buses for establishing and maintaining an efficient, reliable and cost effective public transport solution in the selected cities of the State.

Government of Uttar Pradesh (GoUP) nominated (April 2009) the Uttar Pradesh State Road Transport Corporation (UPSRTC) as the Executing Agency (EA) of the scheme in the State. Under the scheme, financial assistance of ₹ 217.17 crore was provided to the UPSRTC as grant for purchase of 1,140 buses for use in seven selected cities<sup>2</sup> of the State.

UPSRTC constituted (February 2010 to July 2010) six Urban Transport Companies (UTCs) for operating bus services in seven cities *viz.*, Agra-Mathura City Transport Services Limited (A-MCTSL), Allahabad City Transport Services Limited (ACTSL), Kanpur City Transport Services Limited (KCTSL), Lucknow City Transport Services Limited (LCTSL), Meerut City Transport Services Limited (MCTSL) and Varanasi City Transport Services Limited (VCTSL) under the Companies Act, 1956 as independent Government companies, each having eight<sup>3</sup> members in their respective Boards. Audit was conducted for the period April 2012 to March 2017 with the objective of assessing whether implementation of the scheme was properly executed with effective monitoring and oversight control, UTCs were operating and maintaining the buses efficiently and economically.

### **Audit Scope and Methodology**

**2.2.2** Audit methodology included examination of the records at the Urban Transport Directorate, the Headquarters of UPSRTC, and the Head offices and Depots of the three selected UTCs; interaction with personnel; issuing of audit observations/queries, joint physical verification of cannibalised buses<sup>4</sup>. Management/DoUD views were also elicited in the Entry and Exit Conference.

Out of the six UTCs, three UTCs (LCTSL, KCTSL and A-MCTSL) were selected as sample for detailed audit on basis of quantum of funds allocated to them. These selected UTCs had been allocated 70.25 *per cent* (₹ 152.56 crore) of the total funds received under the scheme for all the seven cities. There are 13 observations which are of nature that may reflect similar errors/omissions in other three UTCs formed under the scheme but not covered in test audit.

<sup>1</sup> Selected on the basis of having minimum population of 10 lakh or being State capital or having religious/historic/tourist importance.

<sup>2</sup> Agra, Allahabad, Kanpur, Lucknow, Mathura, Meerut and Varanasi.

<sup>3</sup> Special Secretary and Director, Urban Transport Directorate, Divisional Commissioner, District Magistrate, Senior Superintendent of Police, Municipal Commissioner, Regional Transport Officer and Assistant Regional Manager (Operation).

<sup>4</sup> Buses lying without parts, which were used in other buses.

The DoUD may like to internally examine other three UTCs working under the scheme with a view to ensuring that they are being carried out as per requirement and rules.

### **Acknowledgement**

**2.2.3** Audit acknowledges the cooperation and assistance extended by the UTCs, UPSRTC, Directorate of Urban Transport and its officials during conduct of the Audit.

### **Audit findings**

**2.2.4** The Audit findings are discussed in succeeding paragraphs:

### **Deficient oversight control**

**2.2.5** According to the provisions of the scheme, the Chief Secretary, GoUP was required to set up following bodies/authorities for oversight, control and reforms in operation of Urban Transport in the State:

- Unified Metropolitan Transport Authority (UMTA) to facilitate coordinated planning and implementation of projects relating to urban transport and their integrated management;
- Dedicated Urban Transport Fund (DUTF) at the State as well as city levels to bridge the viability gap in operations by UTCs;
- A regulatory body/ institutional mechanism to revise the passenger fares periodically.

Audit observed that the Chief Secretary, GoUP constituted (28 June 2010) the UMTA to work as a committee and created (27 January 2014) the DUTF at the State level. However, Chief Secretary, GoUP did not create a city level DUTF as well as Regulatory body/institutional mechanism to revise the passenger fares periodically as per the scheme guidelines. Due to deficient functioning of UMTA, non-utilisation of DUTF, and absence of city level DUTF and Regulatory bodies, the urban transport system in the State could not get proper monitoring and regulatory support. It also lacked oversight control as discussed below:

### ***Inactive Unified Metropolitan Transport Authority***

**2.2.6** Since formation in June 2010, only three meetings (June 2010, October 2010 and September 2012) of the UMTA headed by Chief Secretary, were held as on March 2018. Thereafter, UMTA remained inactive. When UMTA was active it ordered (June 2010) MD, UPSRTC to submit a proposal to make the urban transport profitable. Though MD, UPSRTC did not submit such proposal, yet no action has been taken by the UMTA even after eight years (September 2018).

The Director, Urban Transport Directorate, DoUD, which was to work as technical secretariat of the UMTA, did not take any initiative to revive UMTA. Activities of the UTCs were to be monitored by the UMTA but due to non- functioning of UMTA, UTCs remained unmonitored and shortcomings as discussed in succeeding paragraphs remained unchecked and uncorrected.

### ***Deficient working of DUTF***

**2.2.7** State level DUTF was created (January 2014) by the Chief Secretary, GoUP with a delay of 21 to 36 months from the date of commencement of

UMTA remained inactive after September 2012

operations by the UTCs. Reasons for delay are not on record. Directorate of Urban Transport (Directorate) was to operate the DUTF.

**Funds amounting to ₹ 445.67 crore were lying unutilised in the DUTF**

Directorate was required to formulate policies for priorities and programs of urban transport along with proper utilisation of funds. No such policy/priority was framed by the Directorate for best utilisation of funds. In absence of such planning, a substantial part of funds provided as grant amounting to ₹ 445.67 crore out of ₹ 550 crore made available to the DUTF by GoUP up to March 2016, remained unutilised till March 2017, resulting in failure to meet the objective to support urban transport. Since the funds were kept in normal savings account, GoUP suffered loss of interest amounting to ₹ 7.80 crore<sup>5</sup>.

***Non-formation of regulatory body for passenger fare***

**The GoUP did not setup any Regulatory body/institutional mechanism as required under the scheme**

**2.2.8** As per scheme guidelines a regulatory body/ institutional mechanism was to be formed to revise the passenger fares periodically. The Chief Secretary, GoUP did not setup any Regulatory body/institutional mechanism in this regard. In place of forming a regulatory body, Principal Secretary, DoUD of the GoUP, for reasons not on record, authorised (March 2009) the Board of Directors (BoDs) of the UTCs to fix passenger fares of the city buses. Further, the Detailed Project Reports (DPRs) provided that in revising fares, operating cost including cost of fuel, lubricants, dearness allowances, cost of spares, tyre replacement, changes in taxes/duties and insurance were to be considered. Audit noticed the following deficiencies in fixing of passenger fares as discussed below:

- MD LCTSL revised the fares five times during October 2013 to January 2015 out of which, it took approval of its BoDs only once (January 2015). No Board approval was taken for other four revisions. Revisions in passenger fare were carried out on the bare statements by MD, that there is increase in rate of CNG and remuneration of drivers/conductors, without carrying out any financial analysis with the operating cost elements as provided in DPR. In the absence of final accounts and MIS reports indicating the bus number wise route wise details of number of passengers travelled as required by DPR, audit could not determine the financial impact of this systemic failure. Due to non-consideration of operating cost in fixation of passenger fare, revenue earned was less than the expenditure incurred by ₹ 0.17 crore to ₹ 4.91 crore during April 2012 to March 2017.

In the Exit Conference (November 2017), the LCTSL management accepted the audit observation.

- The MD, KCTSL enhanced the fare for monthly season tickets in July 2012 without approval of the BoDs. In A-MCTSL, revision of fare was carried out (January 2013) with the approval of the BoDs but without quoting any analysis for the same. Thereafter no revision in fare has taken place till March 2017 in both the above UTCs.

In reply, the KCTSL Management stated (October 2017) that the matter is under examination. A-MCTSL Management accepted (September 2017) the audit observation and stated that action in this regard will be taken shortly. Due to deficient fixation of passenger fare, expenditure of the KCTSL and

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<sup>5</sup> Estimated at the rate receivable on flexi funds with auto sweep facility.

A-MCTSL has exceeded the revenue by ₹ 0.17 crore to ₹ 10.61 crore during April 2012 to March 2017.

**Recommendation:**

**UMTA should ensure adequate oversight control and should make efforts for effective utilisation of DUTF.**

**Deficient Manpower Management**

2.2.9 Sanctioned strength of officers and staff (except for drivers and conductors) was neither provided in the DPR<sup>6</sup> nor sanctioned by the BoDs of UTCs. Further, to systematise the deployment of man power the issue was never properly flagged by the respective managements to the BoDs of UTCs, DoUD and UMTA. Table 2.2.2 below provides the status (March 2017) of manpower of officers and accounts staff in the selected three UTCs:

| Sl. No. | Designation                          | Actual Strength                |        |                                |        |                                |        |
|---------|--------------------------------------|--------------------------------|--------|--------------------------------|--------|--------------------------------|--------|
|         |                                      | A-MCTSL                        |        | KCTSL                          |        | LCTSL                          |        |
| 1.      | Managing Director                    | 1 (RM, UPSRTC)                 |        | 1 (RM, UPSRTC in dual charge)  |        | 1 (RM, UPSRTC in dual charge)  |        |
| 2.      | Assistant Regional Manager (Finance) | 1(UPSRTC staff in dual charge) |        | 1(UPSRTC staff in dual charge) |        | NIL                            |        |
| 3.      | Assistant Regional Manager           | 1(Outsourced)                  |        | 1(UPSRTC staff in dual charge) |        | NIL                            |        |
| 4.      | Service Manager                      | Nil                            |        | 1(UPSRTC staff in dual charge) |        | 1(UPSRTC staff in dual charge) |        |
| 5.      | Accountant                           | 2 (Outsourced)                 |        | 1(UPSRTC staff in dual charge) |        | 1(UPSRTC staff)                |        |
|         |                                      | As per DPR                     | Actual | As per DPR                     | Actual | As per DPR                     | Actual |
| 6.      | Conductors                           | 460                            | 342    | 540                            | 238    | 520                            | 447    |
| 7.      | Drivers                              | 460                            | 352    | 540                            | 1      | 520                            | 418    |

*Source: Records of concerned UTCs*

**The issue of proper deployment of officers and staff in UTCs was never flagged to the respective Board of Directors of the UTCs**

Proper deployment of officers and staff was not ensured in the UTCs. The issue was never flagged to the respective BoDs of the UTCs. This led to deficient working and monitoring, non-preparation of financial accounts and management information system concluding with deficient internal control mechanism as discussed in succeeding paragraphs.

**Deficient Internal controls**

2.2.10 There was no internal control mechanism for monitoring and control at the level of UTCs. Moreover, no internal audit wing was formed in any of the three selected UTCs. The following deficiencies were noticed by Audit in this regard:

**Non-preparation of annual financial statements**

2.2.11 The Companies Act, 2013 stipulates that the annual financial statements of the Companies are to be finalised within six months from the end of the relevant financial year i.e., by September end. Failure to do so may attract penal provisions, which stipulates that every officer of the concerned

<sup>6</sup> Other than drivers and conductors

defaulting company shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand Rupees, but which may extend to five lakh Rupees, or with both.

Out of the three selected UTCs, KCTSL did not prepare any annual financial statements since its incorporation (April 2010). A-MCTSL prepared annual financial statements from the date of commencement of business (10 April 2012) to 2015-16 but failed to get the same audited through Statutory Auditors and the CAG. LCTSL prepared its first financial statements for the period from the date of commencement of business 25 January 2011 to 31 March 2011 and got the same audited by the Statutory Auditors but failed to submit the same to CAG till date (September 2018). After March 2011, no financial statements of LCTSL have been audited by the Statutory Auditor till date (September 2018). Audit observed that due to deficient manpower management and deficient oversight controls these deficiencies remained unwatched and unattended. Delays/non preparation of accounts are fraught with risk of misrepresentation of facts, fraud and misappropriation.

The UTCs accepted (October 2017 and March 2018) the audit observations.

***Inadequate numbers of meetings of Board of Directors***

**2.2.12** As per Section 173 of the Companies Act, 2013, every Company shall hold the first meeting of the BoDs within thirty days of the date of its incorporation and thereafter hold a minimum number of four meetings of its BoDs every year in such a manner that not more than one hundred and twenty days shall intervene between two consecutive meetings of the BoDs. Status of BoDs meetings of the selected three UTCs are detailed in table 2.2.3:

| Sl. No. | Financial year | Number of meetings required | Number of meetings actually held |       |       |
|---------|----------------|-----------------------------|----------------------------------|-------|-------|
|         |                |                             | A-MCTSL                          | KCTSL | LCTSL |
| 1       | 2012-13        | 4                           | 3                                | 1     | 8     |
| 2       | 2013-14        | 4                           | 2                                | 1     | 5     |
| 3       | 2014-15        | 4                           | 1                                | 1     | 4     |
| 4       | 2015-16        | 4                           | 2                                | Nil   | 3     |
| 5       | 2016-17        | 4                           | 1                                | Nil   | 2     |

Thus, all the three UTCs selected for detailed audit had failed to hold the required number of BoDs meetings to fulfill the requirements of Companies Act, 2013. As a result, deficiencies of non- preparation of financial statements, weak management information system (MIS) and manpower issues could not be resolved and oversight control remained weak.

***Deficient Management Information System***

**2.2.13** DPRs provided that an Management Information System was to be introduced in each UTC, covering details regarding bus number wise and trip number wise details of routes of buses, passengers travelled, fuel used, lubricants used and details of date wise repairs carried out. Audit observed that MD and Assistant Regional Manager (ARM) of UTCs belonged to UPSRTC which maintains its MIS indicating number of buses on road, running of buses, number of passengers travelled, fuel used *etc.* Even though they follow well-structured MIS in UPSTRC, they failed to adopt the same in UTCs. In the



absence of the required MIS and supporting records, the management of UTCs failed to monitor and control the deficiencies of shortfall in revenue earnings, less running of buses and deficient maintenance of buses as discussed in succeeding paragraphs.

The UTCs accepted (October 2017 and March 2018) the audit observation.

**Recommendations:**

1. UTCs should ensure maintenance of MIS as required by the DPR.
2. The DoUD should ensure that the UTCs take immediate action to make their accounts current, so that the directors of these PSUs do not continue to fall foul of the Companies Act.

**Operational performance of Urban Transport**

2.2.14 The city-wise DPRs envisaged operating standards for running of buses and revenue to be earned. For effective control and monitoring, a mechanism to compare the actual operational results with the operating standards was required to be maintained at the level of UTCs. Audit noticed that no control or monitoring mechanism was in place in any of the UTCs. MD and ARM of UTCs were from UPSRTC which maintains its own MIS for comparing the revenue earned per bus, kilometers run by each bus *etc.* Yet the same officials did not adopt the monitoring mechanism of UPSRTC when managing UTCs. With a view to examine the operational efficiency of UTCs, Audit compared the actual results with the operational standards set in the respective DPRs for 2012-17 as detailed in table 2.2.4.

| Table 2.2.4 UTC-wise operating standards envisaged in DPRs |                                 |              |        |         |       |       |       |
|--|---------------------------------|--------------|--------|---------|-------|-------|-------|
| (₹ in crore)   |                                 |              |        |         |       |       |       |
| Sl. No.  | Particulars                     | Name of UTCs |        |         |       |       |       |
|  |                                 | LCTSL        | KCTSL  | A-MCTSL | ACTSL | MCTSL | VCTSL |
| <b>Revenue earning</b>                                     |                                 |              |        |         |       |       |       |
| 1.   | Revenue to be earned as per DPR | 212.80       | 205.80 | 151.80  | 96.35 | 88.85 | 93.10 |
| 2.   | Actual revenue earned           | 143.03       | 52.97  | 83.95   | 77.69 | 82.64 | 72.14 |
| 3.   | Shortfall of revenue earned     | 69.77        | 152.83 | 67.85   | 18.66 | 6.21  | 20.96 |
| 4.   | Shortfall in <i>per cent</i>    | 32.79        | 74.32  | 44.76   | 19.36 | 6.99  | 22.51 |

**Sources: Records and information furnished by the Management.**

The reasons for short fall of revenue earnings noticed in test check of records, were, shortfall in kilometer running of buses and unplanned operation of routes as compared to the standards envisaged in the DPRs as discussed in the succeeding paragraphs:

**Deficit in revenue earnings due to shortfall in running of buses**

2.2.15 UTC-wise operating standards envisaged in DPRs of the scheme for running of buses and actual operating results of the UTCs during 2012-17 are summarised in table 2.2.5.

| Table 2.2.5 UTC-wise operating standards envisaged in DPRs |                                    |              |         |         |        |        |        |
|--|------------------------------------|--------------|---------|---------|--------|--------|--------|
| (Running: in lakh km)                                      |                                    |              |         |         |        |        |        |
| Sl. No.  | Particulars                        | Name of UTCs |         |         |        |        |        |
|  |                                    | LCTSL        | KCTSL   | A-MCTSL | ACTSL  | MCTSL  | VCTSL  |
| <b>Running of buses</b>                                    |                                    |              |         |         |        |        |        |
| 1.   | Running of buses as per DPR (km)   | 947.70       | 1056.60 | 785.70  | 480.60 | 457.20 | 471.60 |
| 2.   | Actual running of buses (km)       | 739.57       | 294.48  | 573.42  | 424.65 | 372.89 | 363.90 |
| 3.   | Shortfall in running of buses (km) | 208.13       | 762.12  | 212.28  | 55.95  | 84.31  | 107.70 |
| 4.   | Shortfall in <i>per cent</i>       | 21.96        | 72.13   | 27.02   | 11.64  | 18.44  | 22.84  |

**Sources: Information furnished by the Management**

The Managements of UTCs did not maintain any records to compare the running of buses with DPR standards. Though, MD and ARM of UTCs were from UPSRTC which controls the running of buses with its own standards, no efforts were made by the UTCs to analyse the reasons for the shortfall in distance travelled by the buses as compared to the DPR standards. However, as analysed in test check of records and information made available during audit of selected three UTCs, main reasons for deficit in running kilometers were excessive number of buses lying off-road due to repair and maintenance and deficient deployment of man power, unauthorised cannibalisation of buses by the maintenance contractors as discussed below:

- Though, no norm was provided in the DPRs of UTCs regarding percentage of off-road buses, the agreement entered with the annual maintenance contractor as discussed in paragraph 2.2.18 provided that availability of buses has to be 95 *per cent* for the first two years and 92 *per cent* thereafter. UPSRTC standardised (since June 2011) a norm for off road buses at any given point of time at three *per cent* of the total buses under operation.

In the three selected UTCs, Audit noticed that on an average, 12 to 24 *per cent* buses in LCTSL, 34 to 78 *per cent* buses in KCTSL and two to three *per cent* in A-MCTSL remained off road for repair and maintenance exceeding the norm for reasons not on record. The main reasons for this higher percentage of off-road buses as analysed by Audit were poor maintenance of buses as discussed in paragraph 2.2.18 and deficient deployment of man power as discussed in paragraph 2.2.9. Audit further observed that though the MD and ARM of UTCs were from UPSRTC, they failed to exercise similar control mechanism as prevailing in UPSRTC in UTCs. Due to higher percentage of off-road buses, there was a shortfall in revenue. Further, the objective of providing regular and reliable public transport could also not be achieved.

- Audit noticed that 42 buses in LCTSL and 19 buses in KCTSL were cannibalised by the annual maintenance contractor. Out of 61 buses 48 buses were repaired and rehabilitated by the UTCs balance 13 buses were lying unauthorisely cannibalised in LCTSL as discussed in detail in paragraph 2.2.18. Due to this, the UTC was deprived of revenue to the extent of ₹ 11.33 crore till March 2017.

UTCs accepted (March 2018) the irregular cannibalisation of buses.

- Further, as per DPR<sup>7</sup> 1,520 conductors and 1,520 drivers were required in the three selected UTCs per year, against such requirement, only 904 to 1,194 conductors and 719 to 1,044 drivers were posted for operating the buses during 2012-17.

Thus, higher percentage of off-road buses and deficient man power followed by deficient oversight control as discussed in paragraph 2.2.5 and 2.2.9, led to shortfall in running of buses from 11.64 to 72.13 *per cent* as compare to standards provided in DPR.

The UTCs accepted (March 2018) audit observation.

### ***Operation of routes contrary to DPR***

**2.2.16** Revenue to be earned from running of buses was assessed considering the routes specified in the DPRs. UTCs, therefore, should have either operated the buses on specified routes or, alternatively, should have identified the most beneficial routes in case of any deviation from the DPR. Audit noticed that LCTSL and KCTSL were operating buses on 83 routes, of which, none of the routes were specified in DPRs. A-MCTSL was operating buses on 21 routes out of which only three routes<sup>8</sup> were specified in the DPR. These UTCs operated the deviated routes without carrying out any cost-benefit analysis. Besides, LCTSL, KCTSL and A-MCTSL also operated the buses on 21 rural routes for reasons not on record which was against the basic purpose of providing regular transport to the urban population. Further, no records were maintained showing the dates since when the routes were changed and on whose authority. UTCs did not maintain bus-wise/route-wise details of revenue earned. Consequently, impact of deviations, compared with the routes specified in the DPRs, could not be ascertained in audit.

In reply, UTCs accepted (October 2017, March 2018) the audit observation and stated that in future efforts will be made to operate the routes as provided in DPR.

### **Recommendation**

**UTCs should prepare their own standards of operation or adopt UPSRTC's Standards for periodic monitoring of operation of city buses.**

### ***Non-installation of Intelligent Transport System in buses***

**2.2.17** DPR provided for installation of Intelligent Transport System (ITS) equipped with Global Positioning System (GPS) and other facilities<sup>9</sup>. ITS was designed to provide timely information and assistance to the passengers. Besides, it could potentially help the respective managements of UTCs in controlling the operation of the buses. Audit noticed that no such ITS system was installed by the Managing Directors of the UTCs on the buses.

The work of installation of ITS in six UTCs was awarded (March 2010) for a contract value of ₹ 14.32 crore for 1,140 buses to Vayam Technologies

**ITS was not installed in buses despite unfruitful expenditure of ₹ 2.04 crore**

<sup>7</sup> For operating the buses in two shifts, each shift having one conductor and one driver.

<sup>8</sup> Agra-Mathura, Idgah to Fatehpursikari and Govardhan to Barsana.

<sup>9</sup> GPS and data logger facility over the buses; LED display on buses; Automated announcement facilities; Modem/GSM based transceiver for maintaining contact between the bus driver and control center; Fuel sensor on buses; LED display at bus shelter of the bus stops; Communication interlink system; Communication centre at control stations; GIS application software and other requirement of hardware and software at the control centre.

Limited (Contractor) by UPSRTC with the stipulation to complete the work by March 2012. The Contractor supplied (June 2011) the material for ITS enabled systems for 260 buses of LCTSL. However, it did not supply/install any hardware/software in remaining 880 buses of other five UTCs for no reasons on record.

Audit observed that the General Manager (Technical) UPSRTC released part payment of ₹ 2.04 crore to the Contractor irregularly (January 2012) without ensuring successful commissioning of the material received for the LCTSL. Further, the Contractor failed to commission the project despite continuous reminders from February 2011 to March 2013. The contract was terminated (March 2013) and material was lying unused (March 2018). Thereafter, due to deficient oversight control as discussed in paragraph 2.2.5, neither the UTCs nor UPSRTC made any attempt to ensure the commissioning of ITS for the buses. Consequently, buses were being operated without ITS despite unfruitful expenditure of ₹ 2.04 crore.

The UTCs accepted the facts in the Exit Conference (November 2017).

**Recommendation:**

**UTCs should ensure installation of ITS on all city buses for effective monitoring.**

**Maintenance of buses**

**2.2.18** UPSRTC awarded (April 2010) five year comprehensive Annual Maintenance Contracts (AMCs) to maintain 260 and 270 buses for LCTSL, Lucknow and KCTSL, Kanpur respectively, to M/s Goldrush Sales Limited (Contractor). As per AMC the Contractor was required to ensure availability of 95 *per cent* buses on road in the first two years of the contract and 92 *per cent* buses in the remaining three years of the contract. The Contractor was required to arrange supply of consumables, spare parts, tyres and other accessories, and was to be paid by the UTCs (LCTSL and KCTSL) on the basis of running kilometers of buses for which bills were to be raised fortnightly. The supervisors (service managers) of the UTCs were to perform daily inspection of the maintenance and repair work done by the Contractor.

Audit scrutiny revealed that the Contractor only made 90.39 *per cent* to 66.92 *per cent* buses available during the period from September 2011 to July 2012 despite being paid on time<sup>10</sup> except in few cases<sup>11</sup>. The UTCs citing poor performance of the Contractor, terminated (July/August 2012) the AMCs. Audit noticed from the records that the Contractor had cannibalised<sup>12</sup> 61 buses (42 buses of LCTSL and 19 buses of KCTSL). Besides, the above, LCTSL also noticed that (November 2012) that the Contractor had unauthorisedly sold 670 old tyres and 489 old tubes valued at ₹ 64.31 lakh. LCTSL and KCTSL spent ₹ 5.69 crore on rehabilitation of 48 cannibalised buses. The remaining 13 cannibalised buses of LCTSL were lying off-road as at the end of March 2017.

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<sup>10</sup> In 34 cases payments were made before 21 days, in eight cases 21 to 30 days, in 20 cases 31 to 60 days and in 11 cases 61 to 90 days.

<sup>11</sup> In seven cases payment was made from 90 to 170 days.

<sup>12</sup> Buses lying without those parts which were used in other buses.

### Photographs of cannibalised buses of LCTSL



Audit further noticed that despite the AMC providing for daily supervision, and their own supervisory staff in the same premises adjacent to the workshop, MDs and service managers of both the UTCs did not inspect the maintenance or repair work done by the Contractor. Consequently, the activities of the Contractor remained unwatched and unauthorised cannibalisation of the buses under repair by the AMC contractor went unnoticed by the UTCs.

Both the UTCs did not take any legal action against the Contractor for such unauthorised cannibalisation and sale of old tyres and tubes. Thus, there seems to be a suspected collusion of senior officials of UTCs with the Contractor. Ultimately, UTCs have incurred avoidable expenditure of ₹ 5.69 crore on rehabilitation of 48 cannibalised buses which could have been avoided by preventing the unauthorised cannibalisation of buses. Besides, there was revenue loss of ₹ 11.97 crore<sup>13</sup>. Moreover, social objective of providing transportation to urban people through these cannibalised buses was also defeated.

Joint physical inspection<sup>14</sup> (April 2017) of 10 cannibalised buses confirmed that such buses were lying cannibalised for bus parts valuing ₹ 1.92 crore.

The UTCs accepted (October 2017 and March 2018) the audit observations for corrective actions.

#### ***Non recovery of scrap***

**2.2.19** A-MCTSL entered (April 2010) AMC with M/s Shyama Shyam Services (Contractor) with a condition that the Contractor would return the scrap to the UTC. However, due to absence of internal control mechanism and internal audit A-MCTSL failed to ensure return of scrap by the Contractor against the purchase of spares worth ₹ 14.24 crore during April 2013 to February 2017.

A-MCTSL accepted (March 2018) the audit observation and stated that a committee had been constituted to assess the value of scrap and to realise the value of the scrap material from the Contractor.

<sup>13</sup> Revenue loss ₹ 11.33 crore and ₹ 0.64 crore, value of unauthorised sale of tyres and tubes.

<sup>14</sup> Joint Physical Verification was done by Audit Party under supervision of DAG/ES-I with ARM of LCTSL.

**Recommendation:**

- 1. UTCs should develop MIS to ensure daily monitoring of the bus wise/job wise maintenance work done with strict follow-up of the same to prevent unauthorised cannibalisation of buses.**
- 2. A-MCTSL needs to realise the value of scrap from the annual maintenance contractor.**

***Non availing of discount in purchase of CNG***

**2.2.20** No system of comparative analysis or other-wise, was in place in the UTCs to ensure economy in purchase of CNG. For ascertaining economy in the purchase of CNG by UTCs, audit compared the contract awarded (April 2012) by the UPSRTC to M/s Green Gas Limited (GGL) for supply of CNG for its own buses i.e. buses other than those covered under the scope of audit. Audit noticed that as per the conditions of the contract, the supplier provided a discount of ₹ 0.70 per kg<sup>15</sup> for CNG supplied to the UPSRTC.

A-MCTSL was purchasing the CNG since April 2012 from the GGL on the lines of contract entered with UPSRTC without entering into a separate contract. MD, A-MCTSL, however, failed to avail the discount as provided to UPSRTC by the GGL. This led to avoidable expenditure of ₹ 49.38 lakh during April 2012 to December 2016.

A-MCTSL stated (March 2018) that efforts are being made to obtain the discount in future.

LCTSL awarded (April 2012) the contract to the GGL for supply of CNG on the conditions<sup>16</sup> as stipulated in the contract entered into with UPSRTC. Audit noticed that despite having the condition in the agreement, the LCTSL failed to avail a discount of ₹ 39.70 lakh for the period from March 2015 to November 2016 whereas for earlier period w.e.f. April 2012 discount was availed by the LCTSL.

LCTSL stated (March 2018) that GGL officers were contacted but discount could not be obtained. Reply is not acceptable as payments were made without retaining the amount of discount to enforce the contract condition as done in earlier period.

In totality, A-MCTSL and LCTSL incurred avoidable expenditure of ₹ 89.08 lakh.

**Miscellaneous issues**

***Loss of revenue due to non-recovery of license fees on advertisement***

**2.2.21** Examination of contracts on display of advertisements on the UTC's buses and related records revealed deficiencies leading to loss of revenue amounting to ₹ 2.29 crore as discussed below:

- For display of advertisement on 260 buses, LCTSL entered into an agreement (December 2011) with M/s Momentum Control Software Pvt. Limited (Contractor). As per the agreement, ₹ 16.37 lakh was to be paid by the

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<sup>15</sup> Condition 10.01 stipulated a discount of ₹ 0.70 per kg for CNG supplied and ₹ 0.80 per kg if supply exceeded above 10,000 kg per day.

<sup>16</sup> Condition 10.01 stipulated a discount of ₹ 0.70 per kg for CNG supplied and ₹ 0.80 per kg if supply exceeded above 10,000 kg.

Contractor per month as license fee for the whole group of buses. Audit noticed that after awarding the contract, LCTSL failed to establish any systemic mechanism to keep watch over periodic recovery of dues from the Contractor. Consequently, the Contractor defaulted on the payments since March 2012. LCTSL encashed the bank guarantee amounting to ₹ 49.10 lakh and the contract was terminated (December 2012) due to failure of the Contractor to pay the monthly license fee. LCTSL however, has failed to initiate measures to recover dues of ₹ 81.97 lakh plus interest of ₹ 13.94 lakh from the Contractor.

LCTSL accepted (March 2018) the audit observation.

- LCTSL and KCTSL suffered loss of license fee from advertisements displayed on buses which were off-road for period exceeding limit of seven days in a month as per the contract, to the extent of ₹ 41 lakh<sup>17</sup> and ₹ 66 lakh<sup>18</sup> respectively.

UTCs confirmed (March 2018) the facts and accepted the loss of revenue on account of excessive off-road buses. Management assured to control the same in future.

- Advertisement contract entered (November 2012) into with M/s Proactive Limited by UPSRTC for A-MCTSL ended on 30 November 2015. In the absence of any strategic plan despite having an offer from the same party, no retendering or other option was resorted to by the MD of A-MCTSL before the expiry of the earlier agreement to safeguard the financial interests of the UTC. This led to loss of revenue amounting to ₹ 26.41 lakh for the period from December 2015 to March 2017.

A-MCTSL accepted (March 2018) the delay in finalisation of advertisement contract.

#### ***Utilisation of parastatals contribution for settling the dues of UPSRTC***

**2.2.22** Under the scheme, funds received were to be utilised by UPSRTC for purchase of buses. Audit noticed that out of the funds received under the scheme amounting to ₹ 217.17 crore, Regional Manager Agra, UPSRTC unauthorisedly utilised ₹ 1.09 crore, against the dues of house tax of the UPSRTC paid to the Nagar Nigam Agra.

UPSRTC accepted (September 2017) the fact and A-MCTSL stated (November 2017) that a letter had been issued to the Regional Manager UPSRTC to refund the said amount to the UTC.

#### ***Irregular payment of Service Tax***

**2.2.23** Services provided by way of repair, and maintenance under Jawahar Lal Nehru National Urban Renewal Mission, were exempted from Service Tax under the Finance Act, 2012. Audit observed that the KCTSL irregularly paid ₹ 1.05 crore towards Service Tax to M/s Shyama Shyam for maintenance of its 270 buses during October 2015 to March 2017. It is pertinent to mention that the other two UTCs were not paying such tax.

In the Exit Conference (November 2017), the management assured to examine the issue for recovery of the said amount from the contractor.

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<sup>17</sup> For the period from February 2012 to November 2012.

<sup>18</sup> For the period from December 2012 to March 2014.

***Non-deduction of Value Added Tax at Source***

**2.2.24** GoUP notified (October 2013) deduction of VAT equal to four *per cent* of the value of goods by every person responsible for making payment to the seller. LCTSL and A-MCTSL failed to deduct VAT amounting to ₹ 82.71 lakh on payments made to suppliers for materials and spare parts procured during October 2013 to November 2016.

LCTSL Management stated (March 2018) that due to non-receipt of the Government notification, it could not take necessary action and that the corrective action is in process.

A-MCTSL Management stated (March 2018) that they had paid the maintenance contractor on composite rate, and no separate materials were purchased; therefore, they had not deducted the required VAT. Reply is not acceptable as Audit pointed out cases where payment for material was made without deducting VAT.



## **2.3 Follow-up Audit of Review of the Performance of Uttar Pradesh Projects Corporation Limited**

### **Introduction**

**2.3.1** Uttar Pradesh Projects Corporation Limited (Company) under the administrative control of the Irrigation Department (ID) of Government of Uttar Pradesh (GoUP) accepts deposit works<sup>1</sup> from the GoUP for construction and reconstruction of shallow and deep tube wells, construction of hydrological structures, and undertaking works relating to irrigation, drainage and buildings. Works are executed through 31 field units of the Company, 29 located across the State, and one unit each at Roorkee (Uttarakhand) and Bhubaneswar (Orissa). Each unit is headed by a Project Manager (PM). The units are distributed among eight zones, each zone being supervised by a General Manager (GM).

A Performance Audit of the Company for the period 2007-13 was featured as paragraph 2.1 of Chapter- II of the Audit Report of the Comptroller and Auditor General of India (Public Sector Undertakings) for the year ended 31 March 2013, Government of Uttar Pradesh (GoUP).

The Performance Audit Report was laid in the State Legislature on 20 June 2014, and is yet to be discussed (September 2018) by the Committee on Public Undertakings (COPU).

The following four recommendations of Audit were accepted by the Company:

- The Company should strictly adhere to the prescribed procedures for execution of works, engagement of architects and payment of architect fee;
- Advances to sub-contractors should be made as per the laid down procedure;
- Financial management needs to be streamlined to ensure that expenditure incurred on works does not exceed the sanctioned cost/ funds received, and also to ensure that surplus funds are invested judiciously in order to maximise the yield; and
- The Company should strengthen its internal control mechanism relating to financial management, execution of works, procurement of materials and maintenance of necessary control records.

### **Scope and methodology of audit**

**2.3.2** The main objective of conducting this follow-up audit was to assess the progress made by the Company towards implementation of the accepted recommendations of the previous Performance Audit. The follow up audit was conducted during December 2016 to April 2017.

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<sup>1</sup> Deposit or Cost *plus* Centage works are those works where Government Departments, Government organisations, and other clients agree to get their works executed on the basis of actual cost of materials, labour, *etc.*, incorporated in the actual works concerned *plus* certain percentage of additional payment towards overheads and profit for execution of these works.

Audit methodology included examination of records at the Headquarters of the Company and in the 11 selected units<sup>2</sup> which had been covered during the previous Performance Audit, issue of Audit observations/queries, and Entry and Exit Conference with Management/ID views.

**Status of works executed**

**2.3.3** The position of works executed during the period from 2013-17 is depicted in table 2.3.1.

| <b>Table-2.3.1 Statement showing status of works executed during 2013-14 to 2016-17</b> |  |                |                |                |                |
|---|--|----------------|----------------|----------------|----------------|
| (₹ in crore)  |  |                |                |                |                |
| <b>Sl. No.</b>  | <b>Particulars</b>   | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> | <b>2016-17</b> |
| 1   | Value of works-in-progress at beginning of year                                  | 1,304.96       | 1,060.63       | 1,013.13       | 961.76         |
| 2   | Value of works received for execution during the year                            | 273.00         | 479.52         | 728.06         | 860.52         |
| 3   | Total value of available works (1+2)   | 1,577.96       | 1,540.15       | 1,741.19       | 1,822.28       |
| 4   | Value of works executed during the year  | 517.33         | 527.02         | 779.43         | 966.34         |
| 5   | Value of closing works-in-progress (3-4)   | 1,060.63       | 1,013.13       | 961.76         | 855.94         |
| 6   | Percentage of value of works executed to total value of available works (4 to 3) | 32.78          | 34.22          | 44.76          | 53.03          |

**Source: Information provided by the Company**

**Compliance by the Company on accepted recommendations**

**2.3.4** After the tabling (20 June 2014) of the Audit Report in the State Legislature, the Company was required to bring the audit recommendations to the notice of the Board of Directors (BoDs). Further, the Company was also required to devise a strategic plan for implementation of the aforesaid recommendations to prevent occurrence of the irregularities/deficiencies highlighted during the previous performance audit.

Audit noticed that the Management did not apprise the BoDs about the audit recommendations. It also failed to devise a strategic plan for the implementation thereof. The Irrigation Department also did not issue any instructions to the Company for ensuring compliance to the audit recommendations.

Recommendation-wise non compliance by the Company is discussed in the succeeding paragraphs:

**Strict adherence to the prescribed procedures for execution of works, engagement of architects and payment of architect fee**

**2.3.5** In the previous performance audit, it was commented that the Company was not following prescribed procedures for execution of works. Cases of violation of the Uttar Pradesh Rajkiya Nirman Nigam (UPRNN) Working Manual (Manual) provisions, irregular technical sanctions, award of works and purchase of materials at higher rates, irregularities in engagement/appointment of architects and in payment of architect fees, were noticed.

<sup>2</sup> Unit -1 Sitapur, Unit -2 Allahabad, Unit -3 Varanasi, Unit - 4 Agra, Unit - 5 Ghaziabad, Unit - 8 Lucknow, Unit - 11 Faizabad, Unit - 14 Lucknow, Unit - 29 Gorakhpur, Unit - 36 Noida, Unit - 37 Roorkee.

Based on the above audit findings, it was recommended that the Company should strictly adhere to the prescribed procedure for execution of works, engagement of architects and payment of architect fees.

During the course of follow-up audit, it was noticed that the Management of the Company, by and large, did not comply with the recommendations and out of 20 deficiencies highlighted in the previous performance audit, it has acted upon in seven deficiencies only and the remaining deficiencies still persisted, as discussed below:

**2.3.6** As per the Manual, works are to be executed directly through the technical and other staff of the Company by procuring necessary materials and arranging for necessary tools and equipments while labour is to be engaged through piece rate workers (PRWs). Further, in case it is considered unavoidable to sub-let a part of the work due to specific reasons, this can be done only under special written orders of the Managing Director (MD). During the current audit, it was noticed that the Project Managers of the Company continued with the practice of executing works through sub-contractors rather than executing the works directly without obtaining the prior approval of the MD. Consequently, out of the total 1,079 works valued at ₹ 1,034.67 crore<sup>3</sup> executed by the Company during 2013-17, 989 works (91.66 per cent) valued at ₹ 883.77 crore were executed through sub-contractors.

**Out of the total 1079 works executed by the Company during 2013-2017, 989 works (91.66 per cent) of the works, were executed through sub-contractors**

In Exit Conference (November 2017), the Management and the Department accepted the facts and assured corrective action.

#### **Appointment of and payments to the architects**

**2.3.7** Despite the audit recommendations, the Company failed to take corrective action in appointment and payment of architects, which resulted in continued occurrence of irregularities. Test check of 101 works (out of 363 works in the 11 selected units where Management had appointed 71 architects during the period 2013-17) revealed the following irregularities:

##### ***Appointment of architects without competitive bidding***

**2.3.8** The Project Managers did not adhere to the Central Vigilance Commission's guidelines (November 2002) in selection of architects in a transparent manner through competitive bidding, and continued with the past practice of appointing architects from the panel of prequalified architects on the basis of technical bids during 2013-14 to 2016-17 through inviting quotations from only a few of the empanelled architects.

In the Exit Conference (November 2017), the Management and the Department accepted the audit observation and assured corrective action.

##### ***Undue favour to architects***

**2.3.9** Audit noticed extension of undue favour to contractors in following cases:

**2.3.10** Despite extant orders (January 2008) of the Managing Director fixing the fee of the architects according to the procedure adopted by the Uttar Pradesh Rajkiya Nirman Nigam Ltd. (UPRNN), i.e. at 1.5 per cent of the cost

<sup>3</sup> Being value of works completed during the period 2013-17 by the 11 units examined in audit.

of work for architectural work<sup>4</sup> and at 0.25 per cent of the cost of work in case the designs are put to repetitive use, the Project Managers (six units<sup>5</sup>) paid fee to six architects at varying rates of 1.2 to 1.25 per cent (inclusive of service tax) in eight works<sup>6</sup> where the architects had prepared uniform drawings and designs which entailed payment at the rate of 0.25 per cent as applicable for repetitive drawings and designs. This resulted in excess payment of ₹ 13.30 lakh to the engaged architects.

The Management stated (January 2018) that it had recovered ₹ 6.09 lakh out of total ₹ 13.30 lakh from the architects and remaining ₹ 7.21 lakh were paid at the full rate as these are not the repetitive designs. The reply is not correct as in respect of remaining ₹ 7.21 lakh, the user departments<sup>7</sup> while vetting design clearly stated that works were of similar nature, hence subsequent drawings were repeated drawings.

### ***Payment of service tax to architects***

**2.3.11** During the previous performance audit, the Company had stated that efforts were being made to recover the excess payments already made to the architects. However, in the follow-up audit, it was noticed that the Company had not recovered excess payment of ₹ 29.30 lakh paid to the architects earlier. Out of 11 selected units, two Project Managers had paid excess amount of ₹ 1.31 lakh in five cases during the period 2013-17. This indicated that the Management even after a lapse of more than four years failed to rectify the systemic defects leading to instances of excess payment to the architects.

The Management stated (February 2018) that excess payment amounting to ₹ 1.31 lakh made by two units and ₹ 17.70 lakh, out of excess payment of ₹ 29.30 lakh commented upon in the previous performance audit, had been recovered and efforts were being made to recover the balance amount. The fact remains that ₹ 11.60 lakh were still (September 2018) pending for recovery.

**Despite assurance given during the previous performance audit, the Management failed to recover ₹ 11.60 lakh from the architects**

### **Deficiencies in execution of work**

#### ***Irregular grant of Technical Sanction***

**2.3.12** GoUP delegated (February 2013) to the Company officers at the levels of Chief Engineers and above, the powers to grant technical sanction (TS). Accordingly, the Managing Director of the Company designated (September 2014) the Chief General Manager (CGM), a post equivalent to that of the Chief Engineer, as the competent authority to grant TS.

Audit examination of the TS granted to 507 works valued at ₹ 710.30 crore in eight<sup>8</sup> out of 11 selected units during 2013-14 to 2016-17 revealed that TS

<sup>4</sup> Detailed architectural drawings/ structural drawings/ sanitary/electrical drawings and detailed estimates.

<sup>5</sup> Unit 1, Sitapur, Unit 2, Allahabad, Unit 3, Varanasi, Unit 11, Faizabad, Unit 14, Lucknow and Unit 29, Gorakhpur.

<sup>6</sup> ITI Building at Sidhauri, Sitapur; three numbers 30 Bedded Maternity wings at Phoolpur, district Allahabad, Kada, district Kaushambi and Bhiyaon, district Ambedkar Nagar; two Sub-health Centres at Puwarikalan, district Varanasi and Jalalpur, district Jaunpur; one PHC at Jethumawai, district Amethi and one at Tehsil Kasya, district Kushinagar.

<sup>7</sup> Health department and the Planning department, GoUP

<sup>8</sup> Unit 2 Allahabad (28 works), Unit 3 Varanasi (16 works), Unit 4 Agra (15 works), Unit 5 Ghaziabad (137 works), Unit 8 Lucknow (31 works), Unit 11 Faizabad (158 works), Unit 29 Gorakhpur (20 works) and Unit 36 Noida (29 works).

were granted by the CGM in only 73 works (14 per cent). In the remaining 434 works valued at ₹ 359.85 crore, the TS were granted by the Project Managers/General Managers who were of lesser rank.

In the Exit Conference (November 2017), the Management and the Department accepted the facts and assured corrective action.

#### **Award of works at higher rates**

**2.3.13** In terms of extant orders (February 1997) of the GoUP, centage<sup>9</sup> on deposit works executed by an executing agency is limited to 12.5 per cent of the cost of the work after deducting five per cent from the estimates for the work prepared on the basis of UPPWD SOR. In other words, the Company was required to complete deposit works entrusted to it at 95 per cent of the estimates of the cost of the work to maximise its earnings. In order to ensure this, the Company was required to invite tenders (in case of sub-contracting of works) at 95 per cent of the estimated cost or below it.

**Invitation of tenders at costs higher than 95 per cent of the estimated cost resulted in loss of centage of ₹ 3.71 crore**

As highlighted in the previous performance audit, the Company awarded the works at higher rates to the sub-contractors, thereby resulting in a loss to the user departments/ Company. In the follow-up Audit, it was noticed that during November 2012 to May 2016, the General Managers of Allahabad and Ghaziabad zones of the Company invited tenders from the registered contractors for two deposit works<sup>10</sup> at 100 per cent of the estimated cost which resulted in award of works to private contractors at rates higher than 95 per cent of the estimated costs. This also resulted in loss of centage to the Company to the extent of ₹ 3.71 crore.

#### **Unsystematic allocation of works among units**

**2.3.14** As commented on in the previous performance audit, the Managing Director of the Company was required to organise and adopt yardsticks for distribution of works to various units to the best advantage of the Company keeping in view the cost considerations in line with Para 17B of the Manual. In compliance to the above comment, the Company had also defined<sup>11</sup> work areas of the various units.

Audit noticed that despite defining work areas of the various units, the MD allocated works to other units located 46 to 143 kilometers away from the work areas as shown in table 2.3.2.

**Table 2.3.2 Statement showing allocation of work**

| Name of work  | Available units as per defined work areas | Name of the unit to which work was allotted | Distance in kms. between site of work and unit executing the work |
|---|---|---|---|
| Poultry shed in Agricultural University, Meerut   | Meerut                                    | Ghaziabad                                   | 46  |
| Additional room in the office of District Agriculture Protection Officer (DAPO), Meerut | Meerut                                    | Ghaziabad                                   | 46  |
| Additional room and buffer  | Meerut                                    | Ghaziabad                                   | 46  |

<sup>9</sup> The margin of profit available to the executing agency to meet out its overheads.

<sup>10</sup> Construction/renovation/landscaping/ channelisation works on river Varuna at Varanasi, on river Yamuna at Vrindavan, Mathura.

<sup>11</sup> Territorial jurisdiction of units was defined by the Company vide office order dated 28 June 2013.

| <b>Table 2.3.2 Statement showing allocation of work</b>            |  |  |  |
|--|--|--|--|
| <b>Name of work</b>  | <b>Available units as per defined work areas</b> | <b>Name of the unit to which work was allotted</b> | <b>Distance in kms. between site of work and unit executing the work</b> |
| godown in the office of DAPO, Meerut                               |  |  |  |
| Veterinary Hospital, Meerut  | Meerut   | Ghaziabad  | 46   |
| Repair and renovation works in Agricultural University, Meerut     | Meerut   | Ghaziabad  | 46   |
| Construction of trauma center, Basti                               | Basti  | Faizabad   | 71   |
| NRHM works, Gorakhpur (12 works)                                   | Gorakhpur  | Faizabad   | 143  |
| Construction of Houses of District Urban Development Agency, Basti | Basti  | Faizabad   | 71   |

**Source: Progress Reports of the units**

In the Exit Conference (November 2017), the Management and the Department accepted the audit observation and informed that appropriate administrative orders had been issued (October 2017).

**Advances to sub-contractors should be made as per laid down procedure**

**2.3.15** The Management had accepted the audit observations contained in the previous performance audit report on the issue of advances to sub-contractors, and agreed to take necessary action. Thus, the Company was required to strictly adhere to the provisions contained in the Manual and the guidelines issued by CVC/GoUP and to take necessary action against errant official(s). During the course of the present follow-up audit, it was noticed that the Company failed to fulfill its assurances, as discussed in the succeeding paragraphs:

***Non-adjustment of advances released to sub-contractors***

**2.3.16** In the previous performance audit, it was pointed out that the Company should adhere to the provisions of the Manual<sup>12</sup> related to release of advances to the contractors. Audit had also pointed out that advances should be released only in urgent cases after assessment and evaluation of the quantum of the total work done duly certified by the Engineer-in-charge. Audit observation on release of irregular advances amounting to ₹ 22.60 crore to sub-contractors by one unit (Unit-37 Roorkee) was also raised in the previous performance audit report.

In the present follow-up audit, it was noticed that though the Company had imposed minor penalties upon some of its officials for not conforming to the extant provisions, it failed to adjust the advances completely due to non-measurement of the works and preparation of bills. The Management

**Advances amounting to ₹ 2.71 crore were lying unadjusted even after a lapse of four years**

<sup>12</sup> The Manual provides that the Project Manager may advance up to 75 per cent of the current value of material brought to site by the sub-contractor after entering into a formal agreement to secure a lien on the materials. It further provides that in urgent cases, where the sub-contractor needs money but measured bill could not be prepared, the Project Manager may release advance to the sub-contractor after an assessment and evaluation of the quantum of the total work done is made and a certificate is signed by him for such assessment. The frequency of such unmeasured advance payments should not be more than two advance payments against one payment on the basis of due measurements.

confirmed that the advances of ₹ 2.71 crore were pending adjustment as on February 2018.

### **Audit Impact**

The Company, in compliance of audit observation, adjusted advances of ₹ 19.89 crore against total advances of ₹ 22.60 crore released to the sub-contractors.

Other irregularities noticed in audit regarding release of advances are briefly discussed below:

#### ***Irregular release of advances to sub-contractors***

**2.3.17** In test check of nine works executed by Unit-3, Varanasi, it was noticed that the Project Manager had released interest free secured advances of ₹ 3.77 crore to 10 sub-contractors during the period from December 2014 to January 2017 on the basis of applications made by them without assessing actual quantum of work executed or value of material brought at site by the sub-contractors in contravention of the provision of Manual. Further, no bank guarantee of an equivalent amount was obtained to safeguard the Company's interest.

The Management stated (September 2017) that advances were released after valuation of the executed works, and all advances had been adjusted. The reply is incorrect as advances were given without measurement of executed works and in contravention of the provisions of the Manual. The Company also failed to adhere to the assurance given to Audit resulting in continuation of the irregular practice of release of secured advances to the sub-contractors.

**2.3.18** As per CVC guidelines (October 1997 and April 2007), Mobilisation Advance (MA) should be given in specific cases clearly stipulating the same in the tender document and advances should be interest bearing so that contractor does not draw undue benefit.

**Release of interest free advance resulted in loss of interest of ₹ 24.79 lakh**

Audit examination of the work of channelisation and development of the river Varuna revealed that in violation of the guidelines of the CVC, the Project Manager (Unit-3 Varanasi) released (27 July 2016) an interest free mobilisation advance of ₹ 23.50 crore to M/s APCO Infratech Private Limited (sub-contractor) despite there being no provision for the same in the Notice Inviting Tender (NIT) and in the agreement entered into with the sub-contractor. Moreover, no bank guarantee was obtained from the sub-contractor against this advance. Thus, release of interest free mobilisation advance resulted in loss of interest to the State exchequer and extension of an undue benefit to the sub-contractor to the extent of ₹ 24.79 lakh<sup>13</sup>.

Further, secured advances of ₹ 38 crore<sup>14</sup> were also released to the sub-contractor on the basis of his application without any supporting documents for receipt of materials at site and their measurement.

The Management stated (February 2018) that advances were released for the work against 75 per cent of value of materials stored at site after verification

<sup>13</sup> Calculated at the rate of 5 per cent (rate of interest applicable on fixed deposit) for the period from 27 July 2016 to 13 October 2016 for 77 days being date of adjustment against the measurement done.

<sup>14</sup> ₹ 18.00 crore on 14 October 2016 and ₹ 20.00 crore on 19 December 2016.

and obtaining an indemnity bond from the sub-contractor. The reply is incorrect as the mobilisation advance was released on the request of the sub-contractor for mobilisation of resources and advance in both cases were released without obtaining any supporting documents for receipt of materials at site and their measurement.

The Company thus failed to act upon its assurance given during the previous performance audit and continued with the practice of releasing irregular advances to the sub-contractors.

**Financial management needs to be streamlined to ensure that expenditure incurred on works does not exceed the funds received/sanctioned cost. There is also a requirement to invest surplus funds judiciously in order to maximise the yield.**

**2.3.19** As per the above recommendation, the Management was required to restrict its expenditure within the sanctioned cost/actual receipt of funds. It was also required to manage the surplus funds judiciously. This required strict adherence to the provisions of the generally accepted financial rules as provided in the Manual. The following were noticed in this regard:

#### ***Interest on Government funds***

**2.3.20** It was noticed that ₹ 119.09 crore was shown as liability in the annual accounts of the Company during 2005-06 to 2010-11, being interest earned on the unutilised Government funds. This amount increased to ₹ 293.08 crore in the annual accounts of the Company for the year ending 31 March 2016 (as per latest accounts finalised by the Company). GoUP vide order dated 16 December 2014 instructed all the Government agencies executing works to deposit interest earned on the Government funds in the treasury under the specific heads. The Company deposited during November 2011 to April 2018 interest income amounting to ₹ 155.67 crore in the Government treasury in compliance to the Government's directions. The Company, however, failed to ensure deposit of balance interest of ₹ 137.41 crore in the treasury.

#### **Audit Impact**

In compliance to the audit observation, the Company remitted ₹ 155.67 crore into the Government treasury out of total amount of interest earned ₹ 293.08 crore up to 31 March 2016.

#### ***Excess expenditure over funds received***

**2.3.21** As per the Manual, expenditure on deposit works should be restricted to the extent of funds received from the clients.

It was noticed (February/March 2017) that the units of the Company did not maintain appropriate control records such as work register, *etc.*, in the absence of which it had no mechanism to restrict the expenditure on works to the extent of funds received from the client organisations. As a result, the Project Managers incurred expenditure of ₹ 40.42 crore against funds received of ₹ 37.95 crore, an excess of ₹ 2.47 crore on 55 works.

The Management stated (September 2017) some works such as flood safety works and earth works were executed up to a safe level. Works involving public interest were also executed as per the directions of the Government.

**The Company incurred excess expenditure of ₹ 2.47 crore over the funds received from the client**



The Management further stated (February 2018) that out of ₹ 2.47 crore only ₹ 1.22 crore of excess expenditure against five works remains to be received.

The reply is not acceptable as safe level/flood safety level and earth work were the initial stage works which had already been completed with the available funds. Further, the Management did not furnish any evidence to support their counter that works had been executed on orders of Government.

**The Company should strengthen its internal control mechanisms relating to financial management, execution of works, procurement of materials and maintenance of necessary control records**

2.3.22 The previous performance audit report commented on the absence of internal controls in the Company. Examples of consequences of the Management failing to fulfill their assurances in this regard as found during the present follow-up audit have already been discussed in paragraphs 2.3.17, 2.3.18 and 2.3.21. Further findings are discussed below:

***Improper maintenance of basic records***

2.3.23 Based on the audit recommendation, the Project Managers were required to maintain Index Registers showing details of Measurement Books (MB) issued and returned. All measurements pertaining to a single work were to be included in the same MB, and details recorded therein were to be compared with work registers to prevent double payments and manipulation.

Audit noticed that Project Managers of the Company continued to record measurements of one work in several MBs (except for Unit-29 Gorakhpur) without maintaining Index Register of MBs. Due to the multiplicity of MBs for the same work, and no record of the number of MBs in existence, it was not possible for audit to verify the correctness and completeness of entries relating to works. Nor would the Company be able to secure any assurance from its own records. Some of the audit checks that could not be performed are given below:

- Total quantity of actual work executed could not be compared with the bills of quantities provided in the estimates.
- Material Consumption Statement after the completion of work and at the end of the year as required in the Manual could not be prepared by the Company. Therefore, the total consumption of material in a work could not be compared with estimates of consumption.
- Double payment could not be easily detected.
- Manipulation in MBs may be possible in view of deficiency in maintaining MBs.

In the Exit Conference (November 2017), the Management and the Department accepted the facts and assured corrective action.

**Conclusion**

**The follow-up audit disclosed that recommendations were partly implemented by the Company. The persistent shortcomings going unchecked are as under:**

- 1. In violation of the provisions of the Manual, 91.66 per cent works were executed through sub-contractors instead of directly through the**

technical and other staff of the Company by procuring necessary materials, and arranging for necessary tools and equipments and labour through piece rate workers (PRWs);

2. The Company did not adhere to the prescribed procedure for execution of works, engagement of architects and payment of architects' fees and continued to appoint architects without competitive bidding;

3. Technical Sanction to 434 works valued at ₹ 359.85 crore was given irregularly by officers below the rank of CGM viz., PM/GM in violation of the orders of GoUP;

4. The Company irregularly released advances to the sub-contractors to the extent of ₹ 65.27 crore; and

5. The Company failed to strengthen its internal control mechanisms relating to financial management, execution of works and maintenance of necessary control records.