

CHAPTER-3

3. Compliance Audit Observations relating to Public Sector Undertakings

Important audit findings emerging from test check of transactions made by the Public Sector Undertakings are included in this Chapter.

Uttar Pradesh Avas Evam Vikas Parishad

3.1 Non levy of infrastructure surcharge on sale of plots

The Parishad did not realise infrastructure surcharge of ₹ 33.89 crore on sale of 20 plots in contravention of Government order and extended undue benefit to purchasers of plots.

Government of Uttar Pradesh (GoUP) directed (August 1998) the Uttar Pradesh Avas Evam Vikas Parishad (*Parishad*) to charge Residential Infrastructure surcharge¹ (surcharge) at the rate of 10 *per cent* of the value of plots while selling them. This surcharge was to be deposited in separate bank accounts for each town as Residential Infrastructure Fund. The amount deposited in the fund was to be spent on construction of drainage and sewers, provision of street lights and water supply, beautification of the concerned town, *etc.*

Audit of the Joint Housing Commissioner, Lucknow zone of the *Parishad* showed that four² Estate Management Offices (EMOs) of the *Parishad* sold/auctioned 20 plots (1,24,810.37 sqm.) for ₹ 338.89 crore during September 2014 to December 2016. The Officer in-charge of the said EMOs, however, did not levy surcharge of ₹ 33.89 crore leading to extension of undue benefit to the purchasers.

The *Parishad* stated (August 2017) that surcharge had not been levied as the matter of exemption was under pursuance with the Government. The reply was not tenable as no correspondence was made with the Government after September 1999 (*i.e.*, since last 18 years) to get the necessary exemption from the levy of surcharge. Therefore, the surcharge should have been levied and realised, since there was no exemption by the Government.

The matter was reported to the Government in July 2017 and March 2018; their reply is awaited (September 2018).

Uttar Pradesh State Road Transport Corporation

3.2 Undue benefit to contractor in recovery of dues

The Corporation extended an undue benefit to contractor in recovery of dues which resulted in loss of revenue of ₹ 16.25 crore

Uttar Pradesh State Road Transport Corporation (Corporation) entered into an agreement (September 2015) for a period of three years (01 September 2015 to 31 August 2018) at annual license fees³ with M/s Axiss International

¹ In order to ensure infrastructural development of the town, the *Parishad* was directed to charge Residential Infrastructure Surcharge which was to be deposited in separate bank accounts for each town as Residential Infrastructure Fund. This fund was to be spent on strengthening of infrastructural facilities such as construction of drainage and sewer, providing street lights and water supply, beautification of the concerned town, *etc.*

² Vrindavan, Awadh Vihar, Amrapali and Indira Nagar.

³ ₹ 21.00 crore for first year, ₹ 22.05 crore for second year and ₹ 23.15 crore for third year was payable in eight equal installments *plus* applicable Service Tax and penalty for delay, if any, at the rate of 0.10 *per cent*.

(contractor) for supply and sale of packaged drinking water under the brand name of 'Parivahan Neer' in the buses and authorised food plazas of all the 242 bus stations of the Corporation in the State. The selection of contractor was made on the basis of the highest bid received through an open tender. Further, as per the terms of the agreement, any default in payment of license fee, tax, levy or other dues or damages shall be deducted from the security deposit furnished by the contractor which shall be recouped by the contractor within 15 days by the amount so deducted, failing which, this would result in automatic cessation of the agreement.

Audit noticed (April 2016) that as per the agreement, the contractor deposited (September 2015) ₹ 5.25 crore as security (towards 25 per cent of the annual license fee payable for the first year i.e., ₹ 21 crore) and first and second installments of the license fee due on 1 September and 1 October 2015. However, thereafter, he failed to pay the monthly installments on due dates from November 2015 onwards. On account of continuous failure of the contractor to pay the due license fee, the Corporation encashed (January 2016) the BG of ₹ 5.25 crore. The contractor continued to default (except for part payment of ₹ 40.89 lakh in February 2016) on payment of monthly installments even after encashment of the BG and failed to recoup the BG within 15 days after its encashment. Audit further noticed that the Managing Director failed to invoke the clause of automatic cessation of agreement and allowed the contractor to continue his business till 28 July 2016 when the agreement was terminated assessing arrear of dues payable at ₹ 16.25 crore⁴.

The contractor, after termination of the contract, filed a writ petition in the Hon'ble High Court against the termination order, which was turned down (August 2016). The Court further directed the contractor to either negotiate with the Managing Director of the Corporation or arrange for arbitration under the Arbitration and Conciliation Act, 1996. The case is pending with the Arbitrator at present (September 2018).

The Management stated (April 2018) that the accepted bid value (₹ 21 crore) was very high. The second highest bidder had quoted only ₹ 2.02 crore for the bid, and therefore, the Corporation neither suffered any loss nor favoured the contractor. The reply was not tenable as the Managing Director should have terminated the agreement, as per the terms of the agreement, after 15 days from the date (January 2016) of adjustment of dues from the security deposit.

The matter was reported to the Government in July 2017 and March 2018; reply is awaited (September 2018).

**Madhyanchal Vidyut Vitran Nigam Limited
Paschimanchal Vidyut Vitran Nigam Limited**

3.3 Avoidable loss

The DISCOMs suffered a loss of ₹ 3.69 crore due to not having a system of procurement of replaceable meter boxes separately

Uttar Pradesh Electricity Supply Code, 2005 (Supply code) provides *inter alia* that the licensees⁵ are mandated to arrange pilfer proof meter boxes to prevent

⁴ ₹ 12.67 crore as license fee with Service Tax and ₹ 3.58 crore as penalty on late payment

⁵ As per section 2(17) of Electricity Act 2003 (the Act), Licensee means a person who has been granted a licence under section 14 of the Act to distribute electricity as a distribution licensee in the area specified in the licence. In the present case Madhyanchal Vidyut Vitran Nigam Limited and Paschimanchal Vidyut Vitran Nigam Limited are licensees.

diversion, theft or unauthorised use of electricity or tampering, distress or damage to meter. Tamper (pilfer) proof meter boxes are integrated in a transparent plastic case that breaks if the meter box is opened, leaving no alternative but to replace the entire meter box in such eventuality, even if the meter is otherwise functional. The meter and box are two separate units and procured separately against their respective technical specifications through open tender.



Audit observed that the Electricity Urban Test Division⁶ (EUTD)-X, Lucknow Electricity Supply Administration (LESA), Electricity Test Division (ETD), Bareilly² and EUTD, Bareilly² of Madhyanchal Vidyut Vitran Nigam Limited (MVVNL) and EUTD, Moradabad² of Paschimanchal Vidyut Vitran Nigam Limited (PVVNL) replaced⁷ 50,367 working meters with new meters costing ₹ 3.69 crore⁸ during 2014-15 to 2016-17⁹. Once the plastic meter boxes were broken the DISCOMs declared the existing functional meters as scrap, rather than procuring meter boxes separately by incurring an expenditure of ₹ 71.01 lakh¹⁰, and fitted them to the existing working meters.

Despite the fact that the existing meters were functional, the Managing Director of Distribution Companies (DISCOMs) did not evolve the system of procurement of separate meter boxes and continued to replace otherwise functional meters with new meters, the cost of which was borne by the DISCOMs as the consumers were not liable to pay for replacement of working meters with new meters.

Audit, further, observed that Dakshinanchal Vidyut Vitran Nigam Limited, a sister concern, had adopted the system of procuring meter boxes separately to reuse the working meters which was cost effective.

⁶ EUTD-X (LESA):11,238 single phase and 329 three phase meters, ETD, Bareilly: 1,295 single phase and 98 three phase meters, EUTD, Bareilly: 6,705 single phase and 267 three phase meters, EUTD, Moradabad: 30,435 single phase meters.

⁷ Meters were replaced either due to cable fault or under special drive to dismantle meters installed inside and re-install them outside the premises of the consumers.

⁸ 19,238 single phase meters x ₹ 864 per meter plus 30,435 single phase meter x ₹ 610 per meter plus 694 three phase meters x ₹ 2,414 per meter

⁹ EUTD-X (LESA):2015-16, ETD and EUTD, Bareilly: 2014-15 to August 2016, and EUTD, Moradabad: 2015-16

¹⁰ 19,238 single phase meters x ₹ 175 per meter box plus 30,435 single phase meter x ₹ 101 per meter box plus 694 three phase meters x ₹ 952 per meter box.

As a result, 50,367 (49,673 single phase and 694 three phase) meters in working condition could not be re-utilised and were scrapped by MVVNL¹¹ and PVVNL¹². By not carrying out a cost-benefit analysis of the options available, and going ahead with the decision of procurement of separate meter boxes, these DISCOMs lost an opportunity to re-utilise the working meters and consequently suffered a loss of ₹ 3.69 crore which could have been avoided.

The reply furnished (November 2017) by the PVVNL does not address the issue raised by Audit.

The matter was reported to the Government and Management in July 2017 and March 2018. The reply of the Government and Management of MVVNL is awaited (September 2018).

Audit Impact

Purvanchal Vidyut Vitran Nigam Limited

3.4 Recovery of ₹ 3.63 crore at the instance of Audit

As per CNCE Regulation 2009¹³ Captive Generating Plants shall be allowed banking of power¹⁴ subject to the condition that withdrawal of banked energy shall be adjusted against the energy purchased from the Purvanchal Vidyut Vitran Nigam Limited during the period *other than* peak hours (17:00 hours to 22:00 hours).

After being pointed out by Audit in May 2017, that the energy drawn by a consumer¹⁵ during the peak hours was being adjusted incorrectly against the banked energy, the Executive Engineer, Electricity Distribution Division, Pipri issued (July 2016) supplementary bill of ₹ 3.63 crore (April 2009 to August 2013) for the supply of electricity during the peak hours (17:00 to 22:00 hours) and recovered the same from the consumer in October 2017.

Uttar Pradesh Forest Corporation

3.5 Loss of interest due to imprudent investment of surplus funds

The Corporation was deprived of additional interest income of ₹ 1.52 crore due to imprudent investment of surplus funds created through its business activities¹⁶

As per Accounts' Manual of the Uttar Pradesh Forest Corporation (Corporation), the funds of the Corporation would be deposited into the State Bank of India, the UP Co-operative banks and other scheduled banks. A Committee (comprising three members¹⁷) was formed by the Managing Director (MD) of the Corporation for managing/investment of these funds.

¹¹ 19,238 single phase meters and 694 three phase meters.

¹² 30,435 single phase meters.

¹³ Uttar Pradesh Electricity Regulatory Commission notifies the Captive and Non-Conventional Energy Generating Plants Regulations.

¹⁴ Banking of power is a process under which a Generating Plant supplies power to the grid not with the intention of selling it to either a third party or to a Licensee, but with the intention of exercising its eligibility to draw back this power from the grid.

¹⁵ Kanoria Chemicals and Industries Limited {Aditya Birla Chemicals (India) Limited}

¹⁶ Corporation's business activities are collection/disposal of the forest produces handed over to it by Forest Department in lieu of payment of royalty.

¹⁷ General Manager (Industry) was the Chairman of the Committee and two other members of the Committee were General Manager (Marketing) and Chief Accounts Officer.

The Committee invites quotations from the scheduled banks for investment of surplus funds in Fixed Deposits (FDs). Funds are invested by the MD on the recommendations of the Committee at the highest quoted rates.

Audit noticed (January 2017) that the MD, on the recommendation of the Committee, approved proposals submitted by the Committee for investing ₹ 248.82 crore in 26 FDs made on three different dates for a period of one year. It was further noticed that the interest rates for FDs of less than ₹ one crore (for a period of one year) were higher as compared to rates offered by the banks for FDs of higher amount or of larger period or both.

Scrutiny of the FDs made by the Corporation revealed that on 17 December 2016, five FDs¹⁸ of less than ₹ one crore were made at the rates of seven to 7.25 per cent and one FD of more than ₹ one crore was made at 6.5 per cent. On 21 December 2016, four FDs of less than ₹ one crore were made at seven per cent and other five FDs of more than ₹ one crore were made at the rates lower than seven per cent¹⁹. Similarly on 23 December 2016, four FDs of less than ₹ one crore were made at seven per cent and other seven FDs of more than ₹ one crore were made at rates lower than seven per cent²⁰.

It is evident that 13 FDs were invested at higher rates of seven to 7.25 per cent. However, other 13 FDs were invested at lower rates of interest ranging between 6.26 and 6.61 per cent. This indicated that the Committee did not properly analyse the quotations obtained from various banks for making investments of surplus funds in a manner which would have provided maximum return. Even otherwise, if all the FDs of above three dates would have been invested at generally available rate of seven per cent, the Corporation could have earned an additional interest of ₹ 1.52 crore. As per records available, the matter was never reviewed internally by the Corporation.

The Management (August 2017) and the Government of Uttar Pradesh (February 2018) stated that the banks were committed to issue only one FDR on a particular date in different slabs of interest rate. If all amounts on a particular date were invested in a single FDR, there would be loss of interest to the Corporation. The reply was not acceptable as only four bank branches had proposed to issue one FDR on a particular date for an amount of less than ₹ one crore. Further, the Corporation itself had invested in 10 FDs of less than ₹ one crore in a bank branch²¹ on same date (December 2016). The amount of FD could have been split and invested in different banks on different dates in FDs of less than ₹ one crore to earn maximum interest.

Paschimanchal Vidyut Vitran Nigam Limited

3.6 Short charge of revenue

The Company short charged a consumer by ₹ 1.28 crore by not adhering to the provisions of the Supply Code, 2005

The Uttar Pradesh Electricity Supply Code, 2005 (Supply Code) under clause 5.7 (meter not recording) provides that the consumer shall be billed for the period between the date of last reading and the date of replacement of

¹⁸ Four FDs was of ₹ 99,90,000 at seven per cent and one FD of ₹ 99,90,000 at 7.25 per cent.

¹⁹ Two at 6.5 per cent, one at 6.61 per cent and remaining two at 6.26 per cent.

²⁰ Two at 6.5 per cent, one at 6.61 per cent and four at 6.26 per cent.

²¹ Punjab National Bank, Banthra branch

defective meter on the basis of average consumption and average maximum demand of three billing cycles prior to the last reading. The provisional bills, if any issued, shall be accordingly adjusted.

Audit noticed (December 2016) that in contravention to the provisions of the Supply Code, the Executive Engineer, Electricity Urban Distribution Division-II Noida (Division) of Paschimanchal Vidyut Vitran Nigam Limited (Company) issued bills for the electricity consumption of a consumer²² for the month of October 2015 (from 16 October to 31 October 2015 *i.e.*, 16 days) on the basis of reading recorded in the defective double pole meter²³ and for the month of November 2015 on the basis of *pro rata* of reading recorded in the main meter²⁴ during 23 November to 1 December 2015. Instead, the bills for the aforementioned periods were to be issued on the basis of average consumption and average maximum demand of three billing cycles prior to the last reading *viz.*, August, September and October 2015. By not adhering to the provisions of the Supply Code, the Company short charged the consumer by ₹ 1.28 crore.

The Management stated (October 2017) that when the double pole meter was recording the correct reading, the assessment of consumption should not be made as per the Supply Code 2005 on the basis of average of last three months' consumption. The reply of the Management was not acceptable. The Division billed the consumer in contravention of the provisions of the Supply Code. Besides the Officer/Officials²⁵ of the Division reported that RTC of the double pole meter was damaged and it was not possible to issue the correct bill on the basis of consumption recorded in the double pole meter.

The matter was reported to Government and the Management in June 2017 and March 2018. Reply of the Government is awaited (September 2018).

Dakshinanchal Vidyut Vitran Nigam Limited

3.7 Loss of revenue by not levying the applicable minimum charge

By not charging the applicable minimum charges in the bill of HV-3 category consumer (Railway traction), Dakshinanchal Vidyut Vitran Nigam Limited suffered a loss of revenue of ₹ 1.20 crore

The Tariff Orders²⁶ 2012-13 and 2013-14, approved by the Uttar Pradesh Electricity Regulatory Commission and applicable to High Voltage (HV)-3 category consumers (Railway Traction), provide the 'Rate'²⁷ which provides the demand and energy charges at which a consumer shall be billed for consumption of electricity. It, further, provides that a consumer shall be billed on the basis of 'Minimum charges' which come into effect only when the 'Rate of charge' is less than the Minimum charges.

²² Samsung, Noida having contracted load of 15,000 KVA.

²³ As per the report of Officials of the Division, the main meter installed in the premises of the consumer was not recording energy consumption from 16 October 2015 in all the eight TOD zones except one *i.e.*, zone one, due to a defect in the software pre-installed in the meter. Further, RTC (Real Time Clock) of double pole meter was defective.

²⁴ Software of the main meter was uploaded on 23 November 2015. Bill for the month of November 2015 was prepared taking the average of the reading recorded in the main meter during 23 November to 1 December 2015.

²⁵ Executive Engineer, Electricity Urban Distribution Division-II, Noida

²⁶ Tariff Order 2012-13 (1 October 2012 to 9 June 2013) and Tariff Order 2013-14 (10 June 2013 to 11 October 2014)

²⁷ Fixed/Demand Charges *plus* Energy Charges

Audit noticed (May 2016) that the Executive Engineer, Electricity Distribution Division-II, Jhansi (Division) of Dakshinanchal Vidyut Vitran Nigam Limited (Company) released (January 2013) a connection with the contracted load of 5,000 KVA under HV-3 (Railway Traction) category to the Senior Divisional Electrical Engineer, Indian Railway, Jhansi (consumer). The Division billed the consumer for the period during January 2013 to August 2013 (except April 2013) on the basis of actual consumption instead of Minimum charges (₹ 550/KVA/month during 1 October 2012 to 9 June 2013 and ₹ 650/KVA/month during 10 June 2013 to 11 October 2014) prescribed; despite the fact that the actual consumption was less than the Minimum charges. This resulted in loss of revenue of ₹ 1.20 crore. Further, the amount became irrecoverable as more than two years lapsed from the date when such sum became first due.

The Management accepted the audit observation and stated (September 2017) that assessment of ₹ 95 lakh had been added in the bill for the month of June 2016. The consumer has since filed (January 2017) a petition in the Consumer Grievance Redressal Forum, Jhansi (Forum) under Supply Code which was still (September 2018) pending. Though, after the under-recovery was pointed out by Audit, the Management took corrective action, the case is now time barred and the dues are irrecoverable. Had the Company developed and maintained a proper monitoring mechanism, this avoidable delay in taking corrective action could have been prevented.

The matter was reported to Government and the Management in June 2017 and March 2018. Reply of the Government is awaited (September 2018).

Lucknow

The 10 नवम्बर 2018
NOV 2018



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The 12th NOV. 2018



(RAJIV MEHRISHI)

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