CHAPTER–II

Compliance Audit observations relating to Public Sector Undertakings

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

Public Works Department

Uttar Pradesh Rajkiya Nirman Nigam Limited

2.1 Audit of 'Construction of High-Level Cancer Institute'

Introduction

2.1.1 In view of the shortage of quality and affordable cancer care in the State, the Government of Uttar Pradesh (GoUP)[1] decided (June 2013) to construct a High-Level Cancer Institute at Medicity, Chak Ganjaria Farm, Lucknow (Cancer Institute) over an area of 100 acres. Considering the specifications of the proposed Cancer Institute, GoUP also decided (June 2013) that the construction would be done as per the system/procedure prescribed for signature buildings[2] **(Appendix-2.1)**.

Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN) was nominated (June 2013) as the executing agency, Archohm Consults (Architect) was selected (February 2014) as architect after open tender by adopting Quality Based Selection (QBS) system and Mukesh & Associates (Consultant) was selected (November 2014) as third-party consultant for quality control out of firms empanelled by Uttar Pradesh Public Works Department on the recommendation of the committee under the chairmanship of Chief Secretary.

OPD Block of Cancer Institute

The Department of Medical Education, GoUP accorded (February 2015) administrative approval for construction of the Cancer Institute at a cost of

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1 Directorate of Medical Education and Training.

2 Signature buildings are buildings of eminence and flagship projects of the Government. The GoUP designates certain buildings to be signature buildings which are required to be constructed as per the system/procedure prescribed vide GoUP order dated 11 June 2013 as explained in **Appendix-2.1**.

₹ 854.51 crore[3]. Thereafter, UPRNN invited e-bids (August 2015) for construction and awarded (September 2015) the work to Shapoorji Pallonji and Company Private Limited (Construction Agency)[4] at a cost of ₹ 796.76 crore. The scheduled dates of start and completion of work were 23 October 2015 and 22 October 2017 respectively. The sanctioned cost of the project was subsequently revised (May 2020) to ₹ 805.28 crore. The construction work was still under progress and an expenditure of ₹ 698.24 crore had been incurred by UPRNN on the project (March 2021).

UPRNN being the executing agency of the project, was to provide services such as preparation of estimates, invitation of tenders, inspection of works, supervision and quality control, etc. In its work relating to preparation of estimates it was to be assisted by the Architect and for the purpose of quality control it was to be assisted by the Consultant. The construction work was to be done by the Construction Agency under the supervision of UPRNN. Thus, the overall responsibility for execution of the project including preparation of estimates and quality control was of UPRNN.

The present audit was conducted (November-December 2020) to examine execution of the project by UPRNN. During audit, records of UPRNN at its Units[5] and Headquarters relating to the project for the period since inception of the project to November 2020 were examined.

The audit findings were issued to UPRNN on 2 February 2021 and to GoUP on 21 May 2021. The replies of GoUP/UPRNN have been suitably incorporated in the Report.

Audit findings

2.1.2 Canons of financial propriety provides that the expenditure should not *prima facie* be more than what the occasion demands, and officials charged with stewardship of Government funds must exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noticed several deficiencies at various stages of implementation of the project including preparation of estimates and execution. The audit findings are discussed in succeeding paragraphs.

Extra expenditure due to preparation of inflated estimate

2.1.3 The Department of Medical Education, GoUP accorded (February 2015) administrative approval for construction of the Cancer Institute at a cost of ₹ 854.51 crore including cost of work amounting to ₹ 796.84 crore. The main components of the estimated cost of work are detailed in **Appendix-2.2.** The estimate for construction of the Cancer Institute was prepared by the Architect based on Uttar Pradesh Public Works Department's Schedule of Rates (UPPWD SOR)[6], Central Public Works Department's Delhi Schedule of Rates

[3] Cost of work - ₹ 796.84 crore; Contingencies - ₹ 15.97 crore; Labour Cess - ₹ 8.14 crore; Cost of External Electrification - ₹ 1.50 crore; Architect's fee - ₹ 12.21 crore; Quality Control Consultant's fee - ₹ 12.22 crore; Centage Charges - ₹ 7.63 crore.

[4] On the basis of lower of two bids received in re-tender.

[5] The civil works under the project are being executed by Cancer Institute Unit, Lucknow and the electrical works are being executed by Unit-18 (Electrical), Lucknow.

[6] The estimated cost included items valuing ₹ 105.01 crore the rates of which were taken as per UPPWD SOR.

(DSR)[7] and analysis of market rates in case of non-scheduled items[8]. The estimated cost included items valuing ₹ 499.38 crore, the rates of which were based on analysis of market rates. Thus, of the total sanctioned cost of work of ₹ 796.84 crore, more than half i.e. 62.67 *per cent* was based on market rates and these were determined by the Architect by obtaining budgetary offers/quotations.

Tenders for construction of Cancer Institute were invited on percentage rate basis wherein the bidders were required to offer their rates as a percentage below or above the estimated cost. The bidders were required to fulfill the minimum eligibility criteria regarding satisfactory completion of similar works valuing specified percentages of the estimated cost put to tender[9] and average annual financial turnover on construction works equivalent to the estimated cost put to tender[10]. The Construction Agency had offered to execute the work at 0.01 *per cent* below the estimated cost. Thus, payment was made to the Construction Agency for actual work done against each item of work at estimated cost of the item reduced by 0.01 *per cent*.

The Expenditure Finance Committee (EFC) while approving the estimated cost had noted (January 2015) that since rates of various items in the estimate were based on budgetary offers/quotations hence, before implementing such items, UPRNN should obtain rates from manufacturers on competitive basis.

Audit noticed that the UPRNN without obtaining rates of non-scheduled items[11] from manufacturers on competitive basis to verify the veracity/ correctness of the rates independently, invited tenders for execution of the project on the basis of the sanctioned estimate.

Audit examined the sanctioned estimate on the basis of which tenders were invited and found nine non-scheduled items having estimated cost of ₹ 99 crore where high rates were adopted based on single budgetary offer/quotation resulting in increase in the estimated cost by ₹ 45.50 crore as detailed in **Appendix-2.3.** The estimated cost of the aforesaid nine items was inflated by 33 *per cent* to 395 *per cent* when compared to the cost calculated on the basis of procurement cost as evidenced from the invoices attached with the bills submitted by the Construction Agency.

In addition to above, Audit also found five items having estimated cost of ₹ 153.64 crore where incorrect rates were adopted (details in **Appendix-2.4**) resulting in inflation of the estimated cost by ₹ 30.41 crore. The estimated cost

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[7] The estimated cost included items valuing ₹ 192.45 crore the rates of which were taken as per DSR.

[8] Non-scheduled items are items the rates of which are neither available in the UPPWD SOR nor in the DSR.

[9] Three similar completed works each costing not less than the amount equal to 40 *per cent* of the estimated cost put to tender or two similar completed works each costing not less than the amount equal to 60 *per cent* of the estimated cost put to tender or one completed work costing not less than the amount equal to 80 *per cent* of the estimated cost put to tender or one completed work of any nature costing not less than the amount equal to 40 *per cent* of the estimated cost put to tender with some Government Department/ Autonomous Body/Public Sector Undertaking.

[10] The bidder should have had average annual financial turnover of ₹ 796.85 crore on construction works during any three years out of last five financial years.

[11] Items the rates of which were to be included in the estimate on the basis of analysis of market rates.

of the aforesaid five items was inflated by 6 *per cent* to 100 *per cent* when compared to the correct/reasonable rates.

The estimated cost of the project was thus inflated by ₹ 75.91 crore due to adoption of rates without obtaining competitive rates from market and adoption of incorrect rates. Further, as the Construction Agency was chosen on the basis of experience in execution of similar works equal to specified percentages of the estimated cost and turnover on construction works equivalent to the estimated cost, an inflated estimate reduces competition in bidding and tends to favour a few bidders. In the present tender too only two bidders participated. The inflated estimated cost also resulted in extra expenditure on Architect's fee as the same was based on sanctioned cost of the project.

As the bids were benchmarked against such inflated estimate and justification statement[12] of rates was also not prepared, the inflated estimate resulted in extra expenditure of ₹ 64.60 crore (worked out on the basis of actual quantities executed up to November 2020) as detailed in **Appendix-2.5** and summarised in **Table 2.1.**

Table 2.1: Statement showing extra expenditure due to payment of inflated rates

Sl. No.	Item	Rate used in estimate	Actual rate	Basis of actual rate	Percentage inflated rate	Extra expenditure (₹ in crore)
1.	Light fixtures	₹ 37.33 crore	₹ 19.32 crore	Actual procurement cost	93 *per cent*	18.01
2.	Steel reinforcement	₹ 68.10 per Kg	₹ 54.60 per Kg	Market rates of steel and labour at Lucknow	25 *per cent*	16.12
3.	Horizontal Bed Head Panels	₹ 2 lakh per panel	₹ 40,415 per panel	Actual procurement cost	395 *per cent*	8.47
4.	Waterproofing work	₹ 2,800/ 2,660 per sqm	₹ 1,400/ 1,330 per sqm	Quotation obtained for preparation of estimate	100 *per cent*	3.78
5.	DG sets	₹ 89.39 lakh per set	₹ 65.74 lakh per set	Actual procurement cost	36 *per cent*	3.55
6.	Granite flooring	₹ 3,866 per sqm	₹ 3,244.35 per sqm	DSR 2014	19 *per cent*	3.40
7.	Elevators	₹ 13.35 crore	₹ 9.97 crore	Actual procurement cost	34 *per cent*	3.38
8.	Solar PV system	₹ 1.57 crore per set	₹ 40.15 lakh per set	Actual procurement cost	291 *per cent*	2.34
9.	UPS system	₹ 5.58 crore	₹ 3.54 crore	Actual procurement cost	58 *per cent*	2.04
10.	Granite work in wall lining	₹ 3,907.40 per sqm	₹ 3,469.55 per sqm	Analysis of rates based on DSR 2014	13 *per cent*	1.15
11.	Laundry equipment	₹ 1.65 crore	₹ 0.83 crore	Actual procurement cost	99 *per cent*	0.82
12.	Autoclaved Aerated Concrete block masonry	₹ 4,231.47 per cum	₹ 3,983.68 per cum	Quotation obtained for preparation of estimate	6 *per cent*	0.60
13.	Mortuary Chambers	₹ 16.56 lakh per chamber	₹ 7.04 lakh per chamber	Actual procurement cost	135 *per cent*	0.57

[12] Justification statement is a statement prepared for checking the reasonability of rates obtained in tender. The method consists of preparing detailed analysis of rates by taking market rates of labour, materials, cartage, etc.

Sl. No.	Item	Rate used in estimate	Actual rate	Basis of actual rate	Percentage inflated rate	Extra expenditure (₹ in crore)
14.	Television sets	₹ 1.20 lakh per set	₹ 52,096 per set	Actual procurement cost	130 *per cent*	0.37
Total						**64.60**

In reply, management/Government stated (July/September 2021) that the estimate has been prepared on the basis of UPPWD SOR, DSR and analysis of market rates. Since, the contractor was not required to quote for individual items but on an overall cost percentage basis there may be multiple instances where the contractor had estimated his rates as much lower than the tender rates but are not reflected due to the nature of the contract. Audit has highlighted only a few items where the contractor had purchased items/executed works at rates lower than the estimated rates, whereas some items which were executed by the contractor at rates higher than the estimated rates have not been captured in the Audit Report. As regards not preparing of justification statement it stated that as the lowest tender was below by 0.01 *per cent* than the sanctioned cost, therefore, preparation of justification of rates was not required as per prevailing practice of UPPWD.

The reply is not acceptable because the bids for construction of Cancer Institute were invited on percentage rate basis wherein the bidders were asked to quote a single percentage rate, above or below the estimated cost. Hence, an inflated estimate provided a higher baseline for the bidders. Audit did not come across any item wherein the estimated rates were lower than the actual procurement cost of the Construction Agency. Though the management furnished its replies to the audit observations on multiple occasions it did not furnish even a single bill to prove that the Construction Agency had procured any item at rates higher than the estimated rates. Further, as justification statement based on prevalent market rates was not prepared, the quoted price was benchmarked against an inflated estimate instead of against the reasonable cost of work resulting in extra expenditure on the work.

Excess payment due to irregular substitution of rates for concrete works

2.1.4 The terms and conditions of the agreement entered into (October 2015) with the Construction Agency provided that for concrete work of grade M-20 and above, payment would be made on the basis of design mix[13].

The bill of quantity (BOQ) put to tender *inter-alia* included execution of various items of M-25 and M-30 grade concrete. In the BOQ the rates for the said items of concrete works were arrived at by adding the cost of additional cement required[14] for M-25[15] and M-30[16] grade concrete work to the rates provided for M-15 grade concrete work. The rates provided for M-15 grade

[13] As per IS 456-2000 'Plain and Reinforced Concrete' design mix concrete is to be used in case of concrete of grade above M-20. In view of above, payment for concrete of grade above M-20 should be done on the basis of actual cement requirement as per design mix.

[14] Calculated at the rate of ₹ 312 per bag as per UPPWD SOR 2014. Only M-15 grade concrete rates were available there.

[15] For M-25 grade concrete, cost to be paid in addition to rate of M-15 grade (1:2:4) concrete based on estimated additional cement requirement of 5.80 bags (290 Kg) per cum was ₹ 1,809.60 per cum (5.80 bags x ₹ 312).

[16] For M-30 grade concrete, cost to be paid in addition to rate of M-15 grade (1:2:4) concrete based on estimated additional cement consumption of 12.60 bags (630 Kg) per cum was ₹ 3,931.20 per cum (12.60 bags x ₹ 312).

concrete work were as per the UPPWD SOR 2014 and were inclusive of the cost of centering and shuttering.

As per the approved design mix, the cement requirement for M-25 and M-30 grade concrete was 365 Kg[17] per cum and 410 Kg[18] per cum respectively against the estimated requirement of 610 Kg[19] per cum and 950 Kg[20] respectively provided in the BOQ. As the cement requirement prescribed in the approved design mix was less than the estimated cement requirement as per BOQ, the payment over and above the rates of M-15 (1:2:4) grade concrete should have been made for M-25 and M-30 grade concrete work as per the actual cement requirement prescribed in the design mix.

Audit noticed that after acceptance of bid (0.01 *per cent* below estimated cost) UPRNN substituted the rates for the aforesaid items with rates as per DSR 2014. Further, as the rates provided in the DSR 2014 were excluding centering and shuttering, the cost of centering and shuttering was paid extra by UPRNN.

Audit analysed the impact of substitution of the rates and found that it has entailed extra expenditure of ₹ 4.02 crore[21] on the works executed till November 2020. Thus, irregular substitution of rates to be paid for various items of M-25 and M-30 grade concrete works after award of work has resulted in excess payment of ₹ 4.02 crore to the Construction Agency till November 2020.

In reply, management/Government stated (July/September 2021) that the rates of M-25 and M-30 grade concrete were not available in the UPPWD SOR, hence, the rates of M-15 grade concrete were taken with provision for additional payment of ₹ 1,809.60 and ₹ 3,931.20 per cum for M-25 and M-30 grade concrete respectively. However, as the norms for consumption of cement for M-25 and M-30 grade concrete were not mentioned correctly, the item became disputed. In order to resolve the dispute, it was decided to pay for M-25 and M-30 grade concrete at rates provided in the DSR. It further stated that after comparing the rates as per DSR 2014 for M-25 and M-30 concrete as mentioned in BOQ, overall saving of ₹ 2.77 crore was found.

The reply is not acceptable because the terms and conditions of the agreement entered into with the Construction Agency provided that work of concrete of grade M-20 and above would be executed as per design mix and payment to the Construction Agency would be made on the basis of the said design mix. Even as per CPWD norms, excess or less cement used as per design mix is payable or recoverable separately for concrete of grade above M-20. Further, contention of UPRNN as regards saving of ₹ 2.77 crore is not correct as UPRNN has calculated the saving on the basis of estimated cement requirement of 610 Kg per cum (M-25) and 950 Kg per cum (M-30) whereas as per agreement conditions payment was to be made as per cement requirement prescribed in the approved design mix which was 365 Kg per cum (M-25) and 410 Kg per cum (M-30).

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[17] 7.3 bags
[18] 8.2 bags
[19] 12.2 bags
[20] 19 bags
[21] Considering maximum rate of ₹ 8,050 per cum prescribed for concrete work of M-15 (1:2:4) grade concrete in the bill of quantity put to tender/ UPPWD SOR.

Excess payment to the construction agency due to not deducting the payment made to Project Management Consultant

2.1.5 As per the agreement entered into (October 2015) with the Construction Agency, expenditure up to 0.5 *per cent* of contract value incurred on Project Management Consultant appointed by UPRNN shall be borne by the Construction Agency.

Mukesh & Associates (Consultant) was selected (November 2014) as third-party consultant for quality control of the project at a fee of 1.5 *per cent* (including Service Tax) of the project cost. An analysis of the scope of work and obligations of the Consultant as prescribed in the agreement (28 November 2015) entered into by UPRNN with the Consultant revealed that the services to be rendered by the Consultant were not limited only to quality control of the project but extended to project management too. Duties of Consultant included day-to-day supervision of execution, checking of running account bills, scrutiny of technical audit reports, doing co-ordination with respect to architectural and structural design, etc., which were in nature of project management services (details in **Appendix-2.6)**. Consequently, recovery of expenditure incurred by UPRNN on Project Management Consultant up to 0.5 *per cent* of contract value should have been made from the bills of the Construction Agency.

Audit noticed that work costing ₹ 649.05 crore[22] was done by the Construction Agency up to November 2020. UPRNN, however, had not recovered any amount from the bills of the Construction Agency against expenditure incurred on Project Management Consultant. Thus, UPRNN made excess payment of ₹ 3.25 crore[23] to the Construction Agency.

In reply, management/Government stated (July/September 2021) that Consultant is not rendering any services of Project Management Consultant. It further stated that as the Construction Agency is a very renowned firm having its own planning infrastructure team, design wing, latest software and technologically skilled staff, safety wing, quality control cell, etc., UPRNN has not felt the necessity to engage any Project Management Consultant.

The reply is not acceptable because it is clear from the scope of work awarded to the Consultant (**Appendix-2.6**) that the services being rendered by the Consultant on the project were in the nature of a project management consultant. Hence, recovery against expenditure incurred on above Consultant to the extent of 0.5 *per cent* of contract value was to be made from the bills of the Construction Agency.

Payment against excess quantities/extra items not sanctioned by the Government

2.1.6 Clause 12 of the agreement entered into with the Construction Agency provides that variation is allowed maximum up to final revised sanctioned quantities by the Client/Government (EFC). Such variation in quantities of current BOQ due to change in scope of work or any other reasons shall be part of this tender. This variation will be paid to the contractor on work done and work to be done basis.

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[22] Cancer Institute Unit, Lucknow - ₹ 371.16 crore and Unit-18 (Electrical), Lucknow - ₹ 277.89 crore.

[23] ₹ 649.05 crore x 0.5/100.

Audit noticed that:

- The revised estimate submitted (August 2019) to GoUP included execution of additional works viz., construction of water body, meter room and guard room at a cost of ₹ 2.13 crore. The said additional works were, however, not sanctioned by the GoUP. Despite the fact that the said additional works were not sanctioned by the GoUP, these were executed and UPRNN had made payment of ₹ 1.97 crore to the Construction Agency for these unsanctioned items till November 2020.

- In addition to above, UPRNN made payment of ₹ 5.10 crore to the Construction Agency against quantities executed in excess of the revised sanctioned quantities.

Thus, UPRNN had paid ₹ 7.07 crore to the Construction Agency in violation of the provisions of the agreement.

In reply, management/Government stated (July/September 2021) that the amount will be met from savings in quantity of other items.

The reply is not acceptable because as per the terms and conditions of the agreement variation is allowed maximum up to final revised sanctioned quantities by the Client/Government (EFC). As the aforesaid items/variations were not sanctioned by the Client/Government (EFC), payment on account of aforesaid items was not in order.

Excess payment to Architect for bought out items

2.1.7 The work of architectural and structural consultancy services for the project was awarded (February 2014) to Archohm Consults (Architect) at a fee of 1.5 *per cent* of project cost. As per the agreement entered (May 2014) with the Architect by UPRNN, the cost of project for payment of Architect's fee was to be calculated after deduction of cost of 'any other items sanctioned for which architectural services are not required/approved', from the sanctioned cost of project.

Audit noticed that there were bought-out items valued at ₹ 150.45 crore **(Appendix-2.7)**, which involved merely supply and installation of equipment at site but no deduction on account of 'any other items sanctioned for which architectural services are not required/approved' was made for these from the project cost. These bought out items included light fixtures (₹ 46.14 crore), solar power system (₹ 3.14 crore), television sets (₹ 9.60 crore), lifts (₹ 17.50 crore), kitchen equipment (₹ 1.25 crore), laundry equipment (₹ 1.65 crore), medical equipment (₹ 56.52 crore), art works (₹ 3.41 crore), fish tank (₹ 10.24 crore) and building signages (₹ one crore).

Thus, not deducting the cost of bought out items involving merely supply and installation at site from the project cost sanctioned by the Government for the purpose of calculation of Architect's fee has resulted in excess payment of ₹ 1.49 crore to the Architect up to November 2020.

In reply, management/Government stated (July/September 2021) that cost of art work and fish tank has already been deleted from calculation of Architect's fee. Further, cost of television sets, lifts, kitchen equipment and laundry equipment will be deducted at the time of calculating the fee. As regards indoor and outdoor light fixtures, solar power system and medical works/equipment it stated that these items require composite drawings incorporating different other service lines and many discussions with the concerned vendors.

The management accepted to recover architect fee in respect of items[24] involving architect fee of ₹ 0.65 crore. The reply in respect of remaining four items i.e., light fixtures, solar power system, medical equipment and building signages is not acceptable as these items were also bought out items involving merely supply and installation of equipment at site. Hence, the same should be deducted from the sanctioned cost of project to arrive at the cost of project for the purpose of payment of Architect's fee.

Excess payment due to payment at higher rates for supply and wiring of submain

2.1.8 The bill of quantity included supply and wiring of submain as per given specification[25] at the rate of ₹ 121 per metre. The specification of copper conductor cable in the above item was substituted from 2.5 sq. mm. and 1.5 sq. mm to 4 sq. mm. and 2.5 sq. mm. respectively.

Audit noticed that the rate claimed by the Construction Agency for the substituted item was ₹ 153 per metre which was based on UPPWD SOR. UPRNN, however, made payments for the aforesaid substituted item at the rate of ₹ 253 per metre up to November 2020 resulting in excess payment of ₹ 0.97 crore.

On being pointed out UPRNN recovered (May 2021) the excess payment of ₹ 0.97 crore made to the Construction Agency.

Short recovery of interest on mobilisation advance

2.1.9 The terms and conditions of the agreement entered into with the Construction Agency provides that mobilisation advance shall bear simple interest of 10 *per cent* per annum and shall be calculated from the date of payment to the date of recovery, both days inclusive on the outstanding amount of advance.

Audit noticed that UPRNN had recovered ₹ 13.04 crore from the bills of the Construction Agency in lieu of interest on mobilisation advance against recoverable amount of ₹ 13.69 crore resulting in short recovery of ₹ 0.65 crore to the Construction Agency.

On being pointed out UPRNN recovered (May 2021) the aforesaid amount of ₹ 0.65 crore from the Construction Agency.

Time overrun

2.1.10 The High Level Cancer Institute was a signature project to provide medical service to cancer patients. As per the agreement entered into with the Construction Agency, the work was to be completed by 22 October 2017.

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[24] Television sets, Lifts, Kitchen Equipment, Laundry Equipment, Art Works and Fish Tank.

[25] Supply and wiring of Submain with two number 2.5 sq.mm. FR PVC insulated multi strand single core copper conductor cable in heavy gauge 25 mm outer diameter PVC conduit pipe partly concealed in the wall and partly laid in the slab along with the reinforcement before concreting, complete with 1.5 sq.mm. FR PVC insulated multi strand copper conductor cable as earth wire drawn inside the conduit, complete in all respects.

Audit noticed that even after lapse of more than four years from the scheduled date of completion the work was still incomplete[26] (November 2021). The main reasons for time overrun in the project were delay in demolition of existing structures of Animal Husbandry Department, delay in obtaining approval from Atomic Energy Regulatory Board (AERB) for construction of Oncology Block and slow progress of work by the Construction Agency. UPRNN was responsible for overall monitoring and supervision of the project, Architect for liaising with various authorities and obtaining approvals, Construction Agency for timely execution of the project and Consultant for day-to-day supervision. Thus, delay in completion was attributable to all the aforesaid agencies involved in execution of the project.

Delay in completion of the project has resulted in denial of benefits to the intended beneficiaries of the project viz., cancer patients and research students.

Further, as per the agreement, in case of delays, liquidated damages at the rate of one *per cent* of tendered cost per month for delay of up to three months; two *per cent* of tendered cost per month for delay of four to six months subject to a maximum 10 *per cent* of tendered cost was recoverable from the Construction Agency.

Despite delay being attributable to slow progress of work by the Construction Agency which was evident from the fact that the UPRNN itself had on various occasions directed the Construction Agency to increase the pace of work by employing more labour, time extension was granted by UPRNN without levying due liquidated damages (LD).

In reply, management/Government stated (July/September 2021) that against the sanctioned cost of ₹ 854.51 crore, the GoUP had released funds amounting to ₹ 466.11 crore till the target date of completion and ₹ 728.32 crore till March 2021. In view of above, the work was planned in a phased manner. Besides, land for several buildings was obtained with a delay of nine months due to delay in demolition of existing structures of Animal Husbandry Department. Further, construction of Oncology Block was delayed as approval from Atomic Energy Regulatory Board (AERB) could be obtained only in December 2017. In addition to above, Covid-19 pandemic also came in March 2020.

The fact remains that completion of the project has been delayed by more than four years due to delays attributable to UPRNN/Construction Agency/ Architect resulting in denial of benefits to the intended beneficiaries of the project viz., cancer patients and research students.

Avoidable expenditure on creation of excess capacity

2.1.11 The work of construction of Cancer Institute *inter-alia* included construction of sub-station of 14,000 Kilo Volt Ampere (KVA) capacity (7 transformers of 2,000 KVA capacity each) along with provision of Diesel Generating (DG) sets for power back-up of 15,150 KVA capacity (15 DG sets of 1,010 KVA capacity each including one DG set of 1,010 KVA as stand by)

[26] Works related to OPD Block, Ancilliary Block (HVAC, Mortuary and Medical Gas Pipeline System), Entrance Square, Electrical Sub-Station, Radiology Block, Kitchen and Laundry, Meter Room, Pump Room and STP/ETP were completed and handed over to the client in May 2020. Works related to remaining blocks viz., IPD Block, OT Block, Administration Block, Radiation Oncology Block, Workshop and Store, Basement Plan (Service Corridor), Landscape and Building Signage works were under progress.

and voltage stabilisers of 14,000 KVA capacity (14 voltage stabilisers of 1,000 KVA capacity each).

Audit noticed that the requirement of transformers for sub-station was calculated considering power factor of 0.8 for converting demand from Kilo Watt (KW) to Kilo Volt Ampere (KVA). The Electricity Supply Code and Rate Schedule for Electricity Distribution Companies issued by Uttar Pradesh Electricity Regulatory Commission, however, prescribe power factor of 0.9 for converting demand from KW to KVA.

Thus, due to incorrect application of power factor for conversion of demand from KW to KVA, provision of one transformer, two DG sets and two voltage stabilisers was made in excess of requirement resulting in avoidable expenditure of ₹ 2.30 crore.

In reply, management/Government stated (July/September 2021) that CPWD and PWD also follow a power factor of 0.8 for converting KW to KVA for calculating the capacity of transformers/DG sets/Stabilizers/UPS systems.

The reply is not acceptable because even in the documents submitted by the Management power factor of 0.9 has been considered for converting demand from KW to KVA.

Structural alterations without approval of competent authority

2.1.12 In case of Radiation Oncology Block there was no provision for pile foundation in the Technical Sanction granted by the competent authority.

Audit noticed that pile foundation (800 mm dia piles) was subsequently proposed and executed. However, orders of the competent authority, which granted the Technical Sanction, to such material structural alterations were not available on records.

In reply, management/Government stated (July/September 2021) that as per site conditions some changes become necessary technically which have to be done. At the time of preparation of estimate it is not possible in all cases to know the exact condition of underground.

The reply is not acceptable because execution of such material structural alterations should have been done only after obtaining orders of the competent authority.

Variation in quantities and extra items due to lack of due diligence

2.1.13 The GoUP accorded (February 2015) administrative approval for construction of the Cancer Institute at a cost of ₹ 854.51 crore. Technical Sanction of the estimate for construction of Cancer Institute was granted by UPRNN on 10 July 2015 for ₹ 854.51 crore. The sanctioned cost of the project was subsequently revised (May 2020) to ₹ 805.28 crore.

The work of architectural and structural consultancy services for the project was awarded (February 2014) to Archohm Consults (Architect) at a fee of 1.5 *per cent* of project cost. The scope of work awarded to the Architect *inter-alia* included preparation of drawings, designs and estimates. Thus, in case of construction of the Cancer Institute the detailed estimate of the project was prepared by the Architect and Technical Sanction to the detailed estimate was granted by UPRNN.

Audit noticed that in the revised estimate submitted to the GoUP, excess quantities ranging from 11.44 *per cent* to 2.14 lakh[27] *per cent* and amounting to ₹ 52.93 crore were included in respect of 219 items. Further, 50 extra items i.e., items that were not originally sanctioned by the GoUP were also included at a cost of ₹ 18.07 crore. Besides, lesser quantities ranging from 10.78 *per cent* to 100 *per cent* and amounting to ₹ 125.74 crore were provided in respect of 285 items.

Such large variations in quantities and items of works indicates that due professional care was not taken by the Architect in preparation of the detailed estimate. Besides, it is also indicative of the fact that due diligence was not exercised by UPRNN while granting Technical Sanction.

Further, as no penal clause was incorporated in the agreement entered into with the Architect to penalise the Architect in case of sub-standard work, no penalty could be recovered from the Architect.

In reply, management/Government stated (July/September 2021) that the cost of work has not increased in the revised estimate and the construction cost has been restricted to ₹ 805.44 crore which is less than the earlier sanctioned cost of ₹ 854.51 crore. It further stated that penal clause has been added in the standard bid documents for architect.

Interest earned not deposited in Treasury

2.1.14 Government Order (29 May 2015) provides that interest earned by any Government institution/State Public Sector Undertaking (PSU) on funds released by the Government and parked in bank accounts will be the income of the Government and shall be deposited in the Treasury.

UPRNN received (August 2014 to March 2021) funds of ₹ 728.33 crore from the GoUP (Directorate of Medical Education and Training) for construction of the Cancer Institute. The funds so received were kept in the bank accounts of UPRNN's Headquarters and thereafter remitted to the field Units executing the project as per requirement.

UPRNN earned interest of ₹ 36.68 crore on Government funds during the period 2015-2021 but the same was not deposited in the Treasury (September 2021).

In reply, management/Government stated (July/September 2021) that it has credited interest amounting to ₹ 36.68 crore to the Government account as per provision of GoUP order.

The reply is not acceptable as GoUP order clearly states to deposit interest earned in the treasury and not in bank account.

Interest recovered on mobilisation advance not credited to Government account

2.1.15 UPRNN was nominated as an executing agency to carry out work related to preparation of estimates, invitation of tenders, inspection of works, supervision and quality control, etc., for which it is eligible for centage charges at the rate of one *per cent* of project cost.

The terms and conditions of the agreement entered into with the Construction Agency provided that mobilisation advance shall bear simple interest at the

[27] Item – Extra for additional height in centering and shuttering for suspended floors, roofs, landing and beams.

rate of 10 *per cent* per annum and shall be calculated from the date of payment to the date of recovery, both days inclusive on the outstanding amount of advance.

Audit noticed that UPRNN had recovered ₹ 13.69 crore from the bills of the Construction Agency towards interest on mobilisation advance. As UPRNN is merely an executing agency, it should have credited the amount of interest recovered on mobilisation advance to the Government account. UPRNN, however, had not credited the aforesaid amount to the Government account.

In reply, management/Government stated (July/September 2021) that mobilisation advance is given to a sub-contractor to mobilise men and material at site of work for smooth and speedy work. The interest clause on mobilisation advance has been incorporated in the agreement to safeguard its interest. In view of above interest earned on mobilisation advance is treated as its income and hence, is not creditable to Government.

The reply is not acceptable because mobilisation advance was given to the Construction Agency out of Government funds received by UPRNN in its capacity as the executing agency and not out of its own funds. In view of above, the interest on mobilisation advance recovered from the Construction Agency should have been credited to the Government account.

Services not procured through GeM portal

2.1.16 The Government of Uttar Pradesh directed (August 2017) that all departments and their sub-ordinate institutions shall procure materials and services listed on Government e-Market Place (GeM) through GeM portal only.

Works related to OPD Block, Ancilliary Block (HVAC, Mortuary and Medical Gas Pipeline System), Entrance Square, Electrical Sub-Station, Radiology Block, Kitchen and Laundry, Meter Room, Pump Room and STP/ETP were completed and handed over to the Government. For works related to day to day operation and maintenance of handed over buildings, UPRNN procured manpower on the basis of Purchase Committee Report (PCR)/quotations.

Audit noticed that UPRNN, instead of procuring manpower for day to day operation and maintenance of handed over buildings at the Cancer Institute through GeM portal, awarded (February 2020 to October 2020) work valuing ₹ 51.51 lakh through seven work orders (six work orders issued to Sterling and Wilson and one work order issued to Blue Star) on the basis of Purchase Committee Report (PCR)/quotations. Thus, UPRNN had not adhered to the directions of the GoUP regarding procurement of material and services through GeM portal and deprived itself of competitive rates.

In reply, management/Government stated (July/September 2021) that in view of client's letter (10 February 2020) for providing operation and maintenance of these highly specialised services, immediate action was taken and orders were placed as a time gap arrangement. It further stated that necessary compliance of the directions of the GoUP for procurement of material and services through GeM portal shall be strictly followed if this work is done for a long period.

The reply is not acceptable because even after expiry of the term of initial work order, UPRNN placed (May 2020 to October 2020) work orders for additional periods without using GeM portal.

Conclusion

There were significant deficiencies and delays in implementation of the project. The inflated estimate combined with not preparing of the justification statement resulted in excess expenditure of ₹ 64.60 crore on the project. As the Construction Agency was chosen on the basis of experience in execution of similar works and turnover based on the estimated cost, an inflated estimate also reduced competition in bidding. UPRNN additionally made excess payment/short-recovery/avoidable expenditure of ₹ 19.75 crore to the Construction Agency and Architect.

Large variations in quantities and items required along with material structural alterations raise questions on the competence of the Architect. Further, delays indicate lack of monitoring on part of UPRNN and Project Consultant. Construction of Cancer Institute was incomplete (November 2021) even after lapse of more than four years from the scheduled date of completion due to delays on the part of UPRNN and Construction Agency resulting in denial of full benefits to the intended beneficiaries of the project viz., cancer patients and research students.

Audit Paragraphs

Uttar Pradesh Rajkiya Nirman Nigam Limited

2.2 Violation of Government orders relating to e-tendering of works

UPRNN violated the orders of GoUP as well as its own orders for e-tendering while awarding the work of creation and maintenance of social media platforms.

Government of Uttar Pradesh (GoUP) Orders (GO)[28] issued on 31 March 2017 provided that e-tendering be adopted for award of all works of Public Works Department. The Managing Director, UPRNN also issued orders (09 April 2017 and 17 April 2017) for strict implementation of e-tendering[29] in procurement of all materials and services. It was also stated that violation of these orders would be viewed seriously and stringent action would be taken against the concerned officer. Subsequently, GoUP instructed (vide GO[30] issued on 24 April 2018) that procurements exceeding ₹ 10 lakh were to be made through e-tendering system by all Departments, PSUs and other Government entities.

Audit noticed (January 2020) that the Board of Directors (BoD) of UPRNN, in its 186th meeting (June 2018), accorded approval for engaging a social media management firm, through wide publicity, as per the agenda note submitted before it. However, a proposal for award of work to M/s Paarth Enterprises (firm) on quotation basis was submitted (27 November 2018) by the Unit-in-Charge (UIC), Maintenance Unit, UPRNN Headquarters, stating that *"e-tendering process has been initiated, which will take about three months, hence, keeping in view the instructions of the Government to carry out the work at the earliest, the Social Media Platforms (SMPs) work may be done on Departmental Construction Unit (DCU) pattern. Accordingly, three quotations had been called and till selection of firm through e-tendering execution of work may be got done from L-1 firm (M/s Paarth Enterprises)"*. After approval (27 November 2018) of Managing Director, the work of creation and maintenance of SMPs[31] was awarded (27 November 2018) to the firm at monthly charges of ₹ 5.19 lakh (including GST). The first work order was issued (29 November 2018) by the UIC to the firm for two months (December 2018 and January 2019). The work orders, inter-alia, provided SMPs work to be done by the aforesaid firm for UPRNN, UPPWD and UP State Bridge Corporation Limited (UPSBCL).

The infirmities in the award and execution of the aforesaid SMPs work, as noticed in audit, are as under:

(i) No e-tendering for SMPs was done even after lapse of more than two years of initial award and repeated bi-monthly work orders continued to be issued to the firm by the UIC. The total value of such work orders issued for a period of 28 months (December 2018 to 31 March 2021) stood at ₹ 1.45 crore which was much more than the limit of ₹ 10 lakh by Government order for e-tendering.

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[28] No.6/2017/350/23-7-176 (General)/06 TC.

[29] Mandatorily from 01 September 2017 by all the Departments/PSUs/ABs etc., vide GO No. 1067/78-2-2017-42 IT/2017 dated 12 May 2017.

[30] No. 6/2018/256/78-2-2018-42 IT/TC.

[31] Facebook and Twitter.

(ii) The decision of BoD with regard to selection of the firm through wide publicity was violated as it was selected through the quotation process, instead of open tendering process, even after having sufficient time of five months after approval of BoD. Moreover, UIC justified the selection of the firm through quotation basis citing urgency and stating that e-tendering process for awarding the work has been initiated, however no records related to initiation of e-tendering process for the work were available. Urgency in award of work was also not visible.

(iii) The quotations did not contain the item wise rates linked with the quantum and specification of work. Further, EC did not apply any rational criteria to ascertain the reasonability of rates.

(iv) The scope of work and pattern of depiction of cost as mentioned in the quotation of the L-1 firm and those of other two firms lacked uniformity. This indicated that the specific requirement of work seeking the quotations was not formulated and comparison of rates was made on dissimilar grounds.

(v) As per the GST portal, the effective date of registration of the firm for GST relating to manpower services was 30 November 2018. The quotation mentioning the GST number was submitted by the firm on 26 November 2018 for the SMPs work. This firm was evaluated (27 November 2018) as L-1 to whom the first work order was issued on 29 November 2018. Thus, the firm did not have effective GSTN at the time of award of work.

(vi) There were no criteria either in the quotations or in the work orders for qualitative and quantitative measurement of work for recording it in the Measurement Book (MB). In absence of any such criteria the payments made to the firm were not based on quantum of work done.

(vii) As stated in the work orders, SMPs work was to be done by the aforesaid firm for UPRNN, UPPWD and UP State Bridge Corporation Limited (UPSBCL). Notably, both UPPWD and UPSBCL first denied (September 2020) any linkage with the aforesaid SMPs work done by the firm but subsequently UPPWD and UPSBCL confirmed (November 2020 and June 2021 respectively) that social media cell set up by UPRNN provided input to them.

These infirmities indicate clear violation of the aforesaid GOs as well as the orders of UPRNN with respect to ensuring a transparent and competitive tendering/e-tendering process. Further, the award of work through quotation process in violation of GoUP orders and replication of the scope of work mentioned in the work orders as actual work done in MB makes the expenditure of ₹ 1.45 crore *prima facie* irregular. The hasty manner of processing of the case and obtaining GST number further casts doubts on genuineness of the party and award of work.

In its reply, Government/Management stated (September 2021/June 2021) that as the said work was to be done at the earliest and e-tendering process required more than three months, the firm was engaged being L1 among three quotations received as per provision laid down in working manual of the Nigam for Departmental Construction Unit pattern works. However, e-tendering for the work has been started and would be uploaded on website in June 2021. It further stated that scope of work was clearly explained to all the firms but other bidders except L1 firm quoted lumpsum price. Regarding GST registration it stated that the firm got GST registration number before submission of its bid which could be uploaded on GST portal by 30 November

2018 by the Department. Further, measurements were recorded in MB after obtaining photographs/materials and daily activity report from the firm.

The reply is not acceptable as UPRNN failed to comply the Government and its own orders by awarding the work on quotation basis. Moreover, e-tendering has not been done so far (February, 2022). No documentary proof was provided for seeking specific requirement of the work in quotations, nor any urgency was visible. Further, the effective date of GST registration was clearly mentioned on the portal which was subsequent to date of award of work. Instead of recording quantitative details of photographs/materials obtained or daily activity done in the MB during the period, mere mention of scope of work was done in the MB.

Uttar Pradesh State Bridge Corporation Limited

2.3 Avoidable loss

Participation in the tender process without including GST in their bid price led to denial of reimbursement of GST claim by NHAI and consequential loss of ₹ 41.99 crore to UPSBCL.

U.P. State Bridge Corporation Limited (UPSBCL) participated (August 2018) in the tender invited (June 2018) by the National Highways Authority of India (NHAI) for the balance work of 4-laning of Haridwar-Dehradun section of National Highways 58 and 72[32] by quoting the bid price of ₹ 349.90 crore against the NHAI's estimated cost of ₹ 292.26 crore[33]. NHAI executed (January 2019) a contract with UPSBCL at L-1 price of ₹ 349.90 crore for the aforesaid construction work of roads.

Clause 14.3 of Instructions to Bidders in the tender provided that all duties, taxes and other levies payable by the contractor under the contract, or for any other cause as of the date 28 days prior to the deadline for submission of the bids, should be included in the rates and prices and the total bid price submitted by the bidder; and the evaluation and comparison of bids by the employer would be made accordingly.

Audit noticed (July 2020) that UPSBCL was required to quote the bid price with all taxes and duties including GST, as per the aforesaid condition of the tender. However, it quoted the bid price of ₹ 349.90 crore without GST. In this regard, the facts submitted (25 August 2018) before the Tender Committee (TC) of UPSBCL revealed that to ascertain the bid price to be quoted the cost of work was worked out by the Chief Project Manager, Ghaziabad on four different criteria viz. ₹ 357.11 crore[34], ₹ 373.63 crore[35], ₹ 393.55 crore[36] and ₹ 394.16 crore[37], each formulation inclusive of GST. Against these, the General Manager (GM-Commercial) who was also a member of the TC, finally recommended to the TC, the cost of ₹ 349.90 crore, without disclosing the fact that this cost was not inclusive of GST. This recommended cost was approved (25 August 2018) by the TC comprising the GM-Commercial and the Managing Director (MD) for participation in the above tender.

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[32] NH-58: from km. 211.000 to km. 218.200 and NH-72: from km. 165.000 to km. 196.825.
[33] Revised to ₹ 311.96 crore in August 2018.
[34] As per the schedule of rates (SOR) of Uttarakhand for the year 2017-18.
[35] As per the SOR of Uttarakhand for the year 2018-19.
[36] As per the Departmental construction unit pattern.
[37] Rates based on specifications of Ministry of Road Transport and Highways.

Subsequently, after passage of nine months from the commencement of execution of the contract, a request was made (October 2019) by UPSBCL for reimbursement of GST, in addition to the quoted price of ₹ 349.90 crore. This was not found tenable by NHAI (May 2020), based on an advice from its Legal Division. Accordingly, the reimbursement of claims for the GST of ₹ 31.07 crore already paid by UPSBCL to the Government on the value of work of ₹ 258.93 crore done till August 2020, was not made by NHAI.

Thus, UPSBCL participated in the tender by quoting the bid price without including GST, based on a faulty recommendation of the GM/Commercial, in violation of the specific condition of the tender. This led to denial of reimbursement of GST claim of UPSBCL of ₹ 31.07 crore by NHAI. Consequently, UPSBCL suffered an avoidable loss of ₹ 31.07 crore, which would increase to ₹ 41.99 crore on total contract price of ₹ 349.90 crore.

The Government stated (August 2021) that sub clause 21.2 of Particular Conditions of the Contract Part 'B'-Specific Provisions of tender provided that bid price would include all kind of taxes, *e.g.* all Custom Duties, Import Duties, business taxes and income and other taxes local/State Government, octroi, royalty, etc., that may be levied in accordance with the law and regulations being in force on the date. In view of contents of sub clause 21.2 and specific mention of various categories of taxes, the GST being a Government of India tax, was not included in the bid. UPSBCL further informed that a Conciliation Committee of Independent Experts (CCIE) in the matter has been formed and first meeting was held on July 2021 wherein the matter was dealt on top priority.

The reply is not acceptable since clause 14.3 of the tender document makes specific mention that all taxes needed to be included. Clause 21.2 also provides inclusion of all taxes and mentions some of the taxes as example. This cannot be inferred as exclusion of GST. Doubts about inclusion/exclusion of GST was also not raised in pre-bid meeting held on 25 July 2018. Thus, quoting the bid price without GST to participate in the tender, in violation of the distinct condition of the tender, was based on a faulty recommendation made to the TC. As this was against the tender condition, the possibility of getting relief under the CCIE is remote.

The Government should fix the responsibility on the concerned officer(s) of UPSBCL who have caused an avoidable loss to the Company.

Transport Department

Uttar Pradesh State Road Transport Corporation

2.4 Avoidable loss of cashback

Failure in timely implementation of the National Electronic Toll Collection Program deprived UPSRTC of cashback of ₹ 14.18 crore on payment of tolls and led to an avoidable loss to the same extent.

The Ministry of Road Transport and Highways (MoRTH), Government of India, National Highway Authority of India (NHAI) and Indian Highway Management Company Limited (IHMCL)[38] along with National Payments Corporation of India (NPCI) re-launched (03 December 2016) the National Electronic Toll Collection (NETC) Program. The NETC program allows

[38] A subsidiary of NHAI.

electronic payment of tolls on National Highways (NHs) through a Radio Frequency Identification (RFID) based interoperable[39] tag known as FASTag. This was to minimise leakage in manual collection of tolls. The NETC programme was to be implemented through the Banks authorised by NHAI. As an incentive measure to implement the NETC programme, NHAI provided discounts[40] in the form of cashback payout for the NETC transactions done during the period 2016-17 to 2019-20 provided certain terms and conditions are met.

NHAI invited (16 January 2017) Uttar Pradesh State Road Transport Corporation (UPSRTC) to participate in the NETC program to avail the benefit of discount on the electronic payment of tolls. To implement the NETC programme, UPSRTC invited (10 February 2017) proposals from three banks[41] and selected State Bank of India (SBI) and Axis Bank as partner banks and executed (10 April 2017) agreements with them for a period of five years. The terms and conditions of the agreements provided following:

- UPSRTC shall open and maintain *inter-alia* a current account with the bank, with a debit mandate[42] for the FASTag activity.
- UPSRTC shall ensure that buses are assembled at a predefined location for the Tag affixing process and the schedule of the same shall be shared with the partner bank/its service provider four working days in advance.
- No charges shall be payable to the bank for issue and affixing of the FASTag on the buses.
- The NETC programme shall be implemented in four phases during 01 June 2017 to 20 June 2017 by SBI and Axis Bank in 11 and nine regions respectively.
- The bank shall credit the amount of cashback, at the applicable rate in the UPSRTC's current account for all the toll transactions at all Toll Plazas of the NHs at the end of the month.

Further, to implement the NETC programme within the specified timeframe, UPSRTC, assigned the responsibilities to the designated officers of its headquarters and regions and constituted (30 May 2017) a Monitoring Committee (MoC) of seven officers[43] to ensure that tolls were paid by all the regions through FASTag from 21 June 2017.

Audit noticed (March 2021) that despite making all the necessary arrangements *viz.,* selection and execution of agreements with partner banks, fixation of timeframe, allocation of responsibilities to the designated officers and constitution of the MoC, UPSRTC failed to achieve its own targets for implementing the NETC program fully with effect from 21 June 2017. An analysis of the data relating to payment of tolls by UPSRTC after June 2017

39 The same tag can be used across all toll plazas of NHs.

40 10 *per cent,* 7.5 *per cent,* 5 *per cent* and 2.5 *per cent* in 2016-17, 2017-18, 2018-19 and 2019-20 respectively:

41 State Bank of India, ICICI Bank and Axis Bank.

42 It gives right for deduction of amount of toll from the account of UPSRTC and transfer the same to concerned bank/NHAI's account.

43 Chief General Manager (Operation), General Manager (Commercial), General Manager (MIS), Assistant Manager (Budget), Assistant Manager (Audit), Assistant Regional Manager (Finance), Ghaziabad and Assistant Regional Manager (Finance), Lucknow.

(*i.e.* during July 2017 to March 2020) revealed that out of total toll of ₹ 624.33 crore, only ₹ 283.85 crore (46.46 *per cent*) was paid through FASTag on which cashback of only ₹ 13.41 crore was received **(Appendix-2.8).**

A further analysis of data of all 20 regions pertaining to the period from July 2017 to March 2020 (**Appendix-2.9)** revealed that against the fleet of 12,155 buses, the NETC programme was implemented by these regions in 6,827 buses only (56.17 *per cent*) by July 2017. This position remained almost stagnant by March 2018 (56.35 *per cent*) and March 2019 (56.22 *per cent*) and increased to 79.24 *per cent* by March 2020. The progress of work in the 20 regions of UPSRTC at the end of July 2017 stood at between 14 *per cent* (Meerut Region) and 97 *per cent* (Jhansi Region) of total buses. Further, implementation of NETC programme in the above 20 regions was ranging between 43 *per cent* (Devipatan Region) and 96 *per cent* (Noida Region) of total buses by March 2020, *i.e.* at the closure of the last phase of cashback discount. Audit noticed that six regions viz. Devipatan, Saharanpur, Meerut, Lucknow, Aligarh and Bareilly performed poorly[44] during July 2017 to March 2020.

Thus, due to failure to implement the NETC programme in a time bound manner UPSRTC could not avail the benefit of cashback discount of ₹ 14.18 crore **(Appendix-2.8)** on payment of tolls of ₹ 340.48 crore made without FASTag mode during July 2017 to March 2020 which led to an avoidable loss to the same extent.

UPSRTC may review the reasons for the poor performance of some of the regions and take necessary action.

In its reply, the Management accepted (September 2021) the fact that the percentage of FASTag was less during July 2017 to March 2019. It further stated that this was due to inability of service provider banks as they failed to ensure sufficient availability of FASTags and redress issues in respect of FASTags in a timely manner.

The reply is not acceptable as issues relating to banks, if any, should have been resolved as per agreement terms in a time bound manner. Further, the Management did not furnish any documents in support of their reply inspite of same being asked by the Audit (October 2021).

The matter was reported to the Government (May 2021). The reply is awaited (November 2021).

2.5 Irregular payments for ITMS project

UPSRTC made inadmissible and excess payments of ₹ 69.84 crore to a private firm in violation of the conditions of the agreement in implementation of a project of ITMS.

Uttar Pradesh State Road Transport Corporation (UPSRTC) executed (02 February 2013) an agreement with M/s Trimax IT Infrastructure & Services Limited, Mumbai (Trimax)[45] for supply, installation and operation of an Intelligent Transport Management System (ITMS) in UPSRTC for a period of five years. ITMS was aimed to provide integrated ticketing system, vehicle tracking system and passengers' information system. The operation period of

[44] 14.11 *per cent* to 48.30 *per cent* and 43.48 *per cent* to 74.44 *per cent* in July 2017 and March 2020 respectively.

[45] Known as a System Integrator.

five years of ITMS was to commence after complete 'Go-live' and acceptance of the system in all 20 regions of UPSRTC on Build-Own-Operate and Transfer (BOOT) model. The ITMS went live in various regions during April 2014 to November 2015.

As per Appendix 8 (1) (a) and (2) read with Article 2.1 (a) and (b) of the Agreement, a sum of ₹ 19.13 crore was payable by UPSRTC to Trimax on achieving the specified milestones as a compensation for its upfront investment. Further, ₹ 0.44 per ticket (up to 40-70 crore tickets per year[46]) and ₹ 0.22 per ticket above 70 crore tickets per year inclusive of all taxes, were payable to Trimax for performance of its obligations under the contract after 'Go-live' and acceptance of the system at regions. UPSRTC paid an amount of ₹ 17.39 crore to Trimax towards upfront investment during June 2013 to March 2015.

During scrutiny of records relating to payments made to Trimax, Audit noticed (March 2021) various infirmities pointing to the terms and conditions of the Agreement not being followed and lack of due diligence. These infirmities resulted in inadmissible and excess payments to Trimax during implementation of ITMS project are as under:

(i) Payments for the pre-'Go-live' period: Clause 2 of Appendix-8 of the Agreement stipulated that upon 'Go-live' and acceptance of the system, the payment would be made to Trimax as per the monthly invoice submitted by it against the tickets booked through ITMS in respective regions of UPSRTC. Audit noticed that though the 'Go-live' of ITMS in various regions was achieved during April 2014 to November 2015, Trimax submitted claims of ₹ 26.62 crore (in addition to upfront amount of ₹ 17.39 crore received by it for investment) to UPSRTC for the period prior to the achievement of 'Go-live' in respective regions (February 2013 to October 2015) which was in clear violation of the terms of the agreement **(Appendix-2.10).** Audit further noticed that in many cases, UPSRTC Headquarter had pointed out that the bills submitted by the Regional Managers were without invoices[47] and 'Go-live' certificates[48]. Despite this, payments were proposed and made. This indicated that concerned officers of UPSRTC not only abdicated from their responsibility of exercising basic checks but also ignored valid concerns raised with respect to the admissibility of the aforesaid claims and released payments totaling ₹ 26.62 crore[49] to Trimax in clear violation of the provisions of the agreement.

(ii) Payments for supply of VTS and ETMs: As per Clause 5 read with clause 13 and Note-1 (Scope of work) of the agreement, the per ticket price quoted by Trimax was applicable for all requirements (current and future) as specified in the indicative bill of material. Accordingly, Trimax was liable to provide Vehicle Tracking System (VTS) and Electronic Ticketing Machines (ETMs) for all the buses added to the fleet of UPSRTC throughout the project duration at no extra cost.

Audit noticed that UPSRTC authorized (January 2016) purchase of VTS and ETMs at additional cost for new buses in its fleet beyond 9,500 buses which

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[46] The minimum number of guaranteed tickets per year after 'Go-live' and acceptance of the system at all regions combined was 40 crore.
[47] In respect of Lucknow and Ghaziabad Regions.
[48] In respect of Allahabad, Meerut, Agra and Kanpur Regions.
[49] By 17 regions: ₹ 16.63 crore and UPSRTC HQ: ₹ 9.99 crore.

was in contravention to the provisions of the agreement. Accordingly, UPSRTC made payments of ₹ 10.92 crore **(Appendix-2.11)** to Trimax for supply of 3,921 VTS devices and 8,478 ETMs for the new buses added to the fleet during the said period (February 2016 to May 2017), which entailed an inadmissible post agreement benefit to Trimax.

(iii) SLA penalties not deducted: As per Clause 12.3 of the agreement, UPSRTC was required to pay within 14 days, 75 *per cent* of the invoice amount or 75 *per cent* of average of the previous three months' payment, whichever is less, on submission of the invoice to it. The remaining amount was to be paid to Trimax after calculation of the Service Level Agreement (SLA) penalties[50] to be deducted for not achieving the prescribed service levels within 60 days of submission of a valid invoice by Trimax. Therefore, UPSRTC was required to monitor the status of SLA penalties deductible for lack of performance on regular basis and then release payments to Trimax.

Audit noticed that despite being aware (October 2018) of deductible SLA penalties[51] against bills of Trimax, IT Cell of UPSRTC belatedly (after 25 months) finalised (November 2020) SLA penalties of ₹ 30.09 crore[52] for the period January 2017 to November 2020, which was accepted by Trimax. However, due to not initiating timely action for recovery of SLA penalties in contravention to the aforesaid provisions of the SLA, the same remained unrecovered.

(iv) Payment for repair and maintenance of VTS and ETMs: As per clause 8.2.1.5 of the Agreement, Trimax was required to provide support and maintenance services free of cost for hardware and software to UPSRTC for the entire period of five years from the date of 'Go-live' of ITMS in all regions. Audit noticed that UPSRTC, in contravention to the aforesaid provision of the agreement, authorised payment (September 2016 to November 2019) of an amount of ₹ 91.34 lakh to Trimax for repair and maintenance of ETMs and VTS.

(v) Short recovery from Trimax: Besides the aforesaid infirmities, there were three instances of short recovery of ₹ 1.30 crore from Trimax on account of gateway charges **(**₹ 0.78 crore), expenditure on hired ETMs (₹ 0.28 crore) and 'Go-live' penalty (₹ 0.24 crore) as detailed in **Appendix-2.12.**

Audit noticed that National Company Law Tribunal (NCLT) commenced (21 February 2019) the Corporate Insolvency Resolution Process (CIRP) against Trimax. Consequently, UPSRTC stopped (March 2019) making further payments to Trimax though it continued the work up to November 2020. The unpaid bills for the period from March 2019 to November 2020 worked out to ₹ 43.89 crore[53]. UPSRTC has started the selection for the new system integrator. However, it is doubtful that the existing system (both software and hardware) can be utilized by the new system integrator.

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[50] Ranging from 0.05 *per cent* to 5 *per cent* of the monthly charges against prescribed 31 performance indicators.

[51] For the period from January 2017 to July 2018.

[52] ₹ 26.12 crore for the period January 2017 to November 2019, ₹ 3.35 crore for the period December 2019 to August 2020 and ₹ 0.62 crore for the period September 2020 to November 2020.

[53] After adjusting advance payment of ₹ 4.92 crore.

Audit further noticed that the total amount recoverable[54] form Trimax up to November 2020 stood at ₹ 69.84 crore, as discussed in the preceding sub-paragraphs i to v **(Appendix-2.13).** Only after the matter was pointed out (09 February 2021) by Audit, UPSRTC encashed (04 March 2021) the bank guarantee of ₹ 10 crore. After deducting unpaid bills, the balance amount of ₹ 15.95 crore remains recoverable from Trimax[55].

Thus**,** UPSRTC made inadmissible and excess payments to a private firm, in violation of the conditions of the agreement in implementation of a project of ITMS. It also suffered a consequential loss of interest of ₹ 15.66 crore[56] on inadmissible and excess payments.

Management accepted (November 2021) the Audit observations and stated that a three members Committee formed in the case found outstanding liabilities against the firm amounting to ₹ 70.13 crore in contravention of the terms and conditions of agreement. Out of this ₹ 55.73 crore has been recovered from the bills/ PBG of the firm and action against the officials of UPSRTC has been initiated. It further stated that ownership of the firm (Trimax) has been transferred to M/s EBIX Cash Pvt. Ltd. against which UPSRTC has raised demand of remaining amount of ₹ 14.40 crore. In the meantime, M/s EBIX Cash has appealed in Allahabad High Court[57] for deputing arbitrator in the case.

The matter was reported to the Government (June 2021). The reply is awaited (November 2021).

[54] Including SLA penalties, inadmissible and excess payments and other recoverable amounts as mentioned in the foregoing sub-paragraphs.

[55] ₹ 69.84 crore (total recoverable) - ₹ 43.89 crore (available against unpaid dues of Trimax) - ₹ 10.00 crore (Bank Guarantee).

[56] Worked out @ 9 *per cent,* considering the rates of 9.34 *per cent* to 11.50 *per cent* on the loans availed by UPSRTC.

[57] Lucknow Bench.

Energy Department

2.6 Audit of 'Procurement and Management of Transformers by DISCOMs'

Introduction

2.6.1 The electricity distribution network in Uttar Pradesh (State) is managed by five Distribution Companies (DISCOMs) viz. Madhyanchal Vidyut Vitran Nigam Limited (MVVNL), Lucknow; Purvanchal Vidyut Vitran Nigam Limited (PuVVNL), Varanasi; Pashchimanchal Vidyut Vitran Nigam Limited (PVVNL), Meerut; Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL), Agra and Kanpur Electricity Supply Company (KESCo), under the umbrella of Uttar Pradesh Power Corporation Limited, being the holding company.

DISCOMs are required to maintain a robust distribution network to ensure regular supply of electricity to the people of the State. The transformer, a static equipment used for stepping up or stepping down the voltage in generation, transmission and distribution of electricity, is a vital equipment used by the electricity sector utilities. The transformers used in the electricity distribution system are called Distribution Transformers (DTs) which play a vital role in maintaining efficient electricity distribution network. In the Distribution network, two types of transformers are being used (i) transformers for stepping down voltage from 33 KV to 11 KV and (ii) transformers for stepping down voltage from 11 KV to 0.4 KV.

The procurement of distribution transformers is done by the Material Management (MM) wing of DISCOMs, headed by Chief Engineer (MM). The inventory of distribution transformers is maintained by the Electricity Store Divisions (ESD) headed by Executive Engineers under Superintending Engineers, Electricity Store Circle (ESC). The repair of DTs were carried out by outsourced agency at Electricity Workshop Division (EWD) headed by Executive Engineer under Superintending Engineer, Electricity Workshop Circle (EWC). All these activities are under overall control of Director (Technical) of respective DISCOMs.

The present audit was conducted (June 2019 to August 2019, October 2019 and January 2020) in respect of four DISCOMs[58] to evaluate whether:

- procurement of DTs was economical, efficient and effective;
- quality of transformers being procured was ensured; and
- recovery of material from damaged transformer was appropriate

The Audit findings were issued to the Management and the State Government in April 2021. The reply of Management was received (August 2021) and suitably incorporated in respective paragraph. However, the reply of Government is still awaited (November 2021).

Audit assessed the procurement, quality assurance system and repair of DTs during the period 2016-17 to 2018-19 in four DISCOMs. During this period, these DISCOMs finalised 146 tenders for procurement of 3,01,336 DTs valuing ₹ 2,489.71 crore and 20 tenders for repair of DTs valuing ₹ 290.23

[58] KESCo was not selected for present audit as it has a limited jurisdiction covering the urban area of Kanpur District only.

crore against which Audit reviewed 33 *per cent* tenders for procurement of 1,67,379 DTs valuing ₹ 1,317.29 crore and 45 *per cent* tenders for repair of DTs valuing ₹ 147.73 crore as detailed in the **Appendix-2.14**.

Audit Findings

2.6.2 The audit findings broadly cover issues relating to award of contracts, quality assurance of DTs and repair of DTs. The audit findings are based on sampled cases and are discussed in the subsequent paragraphs:

Procurement of Transformer

2.6.3 The transformer is vital equipment for maintaining continuous and quality supply of power to consumers. As per practices adopted, the DISCOMs assess the quantity required for the current year by adding a certain percentage (10 *per cent* in MVVNL and 20 *per cen*t in PuVVNL and PVVNL) to the requirement for the previous year. In the case of DVVNL, at the start of every Financial Year, a list is received from Zone offices and compiled at DISCOM's Headquarters level after which it is forwarded to Material Management wing for procurement. Thus, the DISCOMs assessment of requirement of transformers was not based on any rational study of their inventories.

For procurement of transformer, DISCOMs invite tenders through e-tendering system[59] from eligible manufacturers/suppliers under two bid system *i.e.,* technical bid (Part-I) and financial bid (Part-II). The financial bids of only technically qualified bidders are opened and agreements for supply are executed with L-1 bidder and with other bidders on L-1 price by giving counter offers.

After evaluation of technical and financial bids by a tender evaluation committee[60], the proposal for procurement is sent to designated Committees[61] as per delegation of financial powers[62].

Following irregularities relating to award of contracts were noticed:

Award of contract to firms not fulfilling the pre-qualifying conditions

2.6.3.1 The pre-qualifying conditions/criteria for tenderers provides that tenderers will be considered technically qualified if they meet the specified requirements in respect of desired turnover, submission of Type Test Report[63] of the equipment offered, requisite operational experience, Bureau of Indian Standards (BIS) certification, etc. For opening of Part-II (Financial) of the bid, it was mandatory for tenderers to submit BIS certificate and Type Test Report of the equipment offered. Type Test is conducted to check whether a transformer meets particular specifications and design. It is done on a prototype transformer.

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[59] E-tendering system was applicable in UPPCL and all DISCOMs *w.e.f.* 07 June 2017.

[60] Constituted separately for each tender.

[61] Director's Store Purchase Committee (DSPC) headed by senior most Director, Managing Director's Store Purchase Committee (MDSPC) headed by the Managing Director of the concerned DISCOM and Corporate Store Purchase Committee (CSPC) headed by the Chairman, UPPCL

[62] As per the delegation of financial power DSPC, MDSPC and CSPC can approve procurement valuing up to ₹ 5 crore, above ₹ 5 crore upto ₹ 25 crore and above ₹ 25 crore respectively.

[63] Type Test are done to see if the prototype meets defined standards. It includes temperature rise test, Impulse voltage test, short circuit withstand test, Air Pressure Test, Magnetic Balanced Test, noise level measurement, etc.

Audit noticed that during 2016-17 to 2018-19, in six out of 48 sampled tenders, DISCOMs not only opened the financial bid of firms which did not fulfill the mandatory pre-qualifying criteria but also awarded contracts for supply of transformers valued at ₹ 44.65 crore to these firms as shown in **Table 2.2**.

Table 2.2: Details of tenders awarded to technically unqualified firms

Name of the DISCOM	Tender No.	Total number of tenderers who participated in Part-I	Tenderers found technically qualified by Management Part-I	Tenderers not technically qualified to whom contract was awarded			Value of the contract awarded to unqualified tenderer (₹ in crore)
				Total number of firms	No types test report/ test certificate	No valid BIS certificate attached	
PuVVNL	54/17-18	16	10	3	3	-	7.29
	56/17-18	16	12	2	2	-	3.15
DVVNL	2092-2017	28	24	2	2	-	18.20
MVVNL	1878/2016	22	11	1	-	1	2.46
PVVNL	MT/1/16-17	11	10	1	-	1	4.59
	MT/3(s)/16-17	23	18	7	-	7	8.96
Total	**6**			**16**			**44.65**

Source: as per the information provided by the DISCOMs.

Award of contract to the firms not having Type Test Reports

As per Clause 1.2.4 (a) of 'Instructions to Tenderers' of Tender Specifications of all DISCOMs, the offered equipment must have been fully Type Tested as per relevant Indian Standards (IS) and/or other specified International Standards during the last five years period to be reckoned from the date of opening of tender. Copy of such Type Test Reports must be submitted along with the bid documents.

Audit noticed that in the following cases, tenderers were recommended as technical qualified without valid Type Test Reports:

2.6.3.1 (i) Purvanchal Vidyut Vitran Nigam Limited

(a) Tender No. EAV-54/17-18 for supply of 5,000 transformers (25 KVA)

PuVVNL invited (June 2017) tender for procurement of 5,000 transformers of 25 KVA (BIS Level-II)[64]. Part-I of the bids submitted by 16 firms were opened (24 June 2017). After evaluation of Part-I bids by a Committee[65], 10 out of 16 firms were found technically qualified and therefore the Committee recommended (13 July 2017) opening of Part-II of their bids. After opening (17 July 2017) of Part-II, the committee headed by Chief Engineer (MM) sent recommendations to Managing Director's Store Purchase Committee (MDSPC) for approval of the lowest rate offered by a bidder (U P Transformers India Private Limited) and counter offer to the remaining nine firms on the lowest approved rate. MDSPC approved (24 July 2017) the rate of ₹ 44,200 (ex-works plus freight and insurance) excluding tax.

Audit noticed that three[66] out of ten firms who were found technically eligible, had not submitted the Type Test Reports with their bid documents and were, therefore, technically ineligible. However, the Committee headed by Director

[64] BIS issues Indian Standards which also rate the transformer on the basis of their relative energy efficiencies or loss standards and classify them in three classes as Level -I, II and III.

[65] Consisting of Chief Engineer (MM), Superintending Engineer (MM), Executive Engineer (MM) and headed by Director (Technical).

[66] U P Transformers (India) Private Limited, DEE Power Transformers and Technocrat Transformers.

(Technical) approved opening Part-II of their bids on the ground that they should submit the Type Test Report before supply in case of purchase order. These three technically ineligible firms[67] were awarded (August/September 2017) the contract for supply of 1,650 transformers of 25 KVA (BIS Level-2) valuing ₹ 7.29 crore.

Further, Clause 1.20 of General requirement of specifications provides that in case any of the parameters of the tested sample after receipt at store was not as per the norms, the order for balance quantity would be cancelled. However, it was noticed that the sample of the transformers supplied by one of the ineligible firms (DEE Power Transformers) sent for testing failed in the test conducted (27 June 2019) at the lab of Central Power Research Institute, NOIDA. However, supply of all the 400 transformers of 25 KVA valued at ₹ 1.77 crore supplied by the firm was received by 03 May 2019. Samples of the other two firms were not tested.

(b) Tender No. EAV-56/17-18 for supply of 300 transformers (100 KVA)

Similarly, in the tender invited for procurement of 300 transformers of 100 KVA, two[68] out of 12 firms who were found technically eligible, had not submitted the Type Test Report with their bid documents and were, therefore, technically ineligible. However, the Committee headed by Director (Technical) approved (13 July 2017) opening of Part-II of their bid documents on the ground that they would submit the Type Test Report before supply in case of purchase order. MDSPC awarded (24 July 2017) contract for supply of 300 transformers of 100 KVA (BIS level-II) valued at ₹ 3.15 crore to these ineligible firms (Technocrat Transformers: 200 transformers and DEE Power Transformers: 100 transformers).

In reply (August 2021), the Management stated that condition of submission of Type Test Report was relaxed on the basis of undertaking given by the firms and the condition was not relaxed for any specific bidder. Therefore, the decision of the Director (Technical) is not arbitrary. It further stated that both tenders were for supply of BIS level-II transformers for the first time and therefore manufacturers were in the process of getting Type Test done and BIS certification.

The reply is not acceptable as there was no provision for relaxing the laid down pre-qualifying conditions in the tender specification. Further, the BIS level-II transformers were already being procured in the DISCOM since 2016-17. Moreover, the UPPCL order (March 2010) clearly prohibits any relaxation in the condition for Type Test Report.

2.6.3.1 (ii) Dakshinanchal Vidyut Vitran Nigam Limited

Tender No. DVVNL/MM/2092-2017 for supply of 10,000 transformers (25 KVA)

DVVNL invited (30 May 2017) tender for procurement of 10,000 transformers of 25 KVA (BIS Level-II). Part-I of the bid submitted by 28 firms was opened on 15 June 2017. After evaluation of Part-I bids by a Committee consisting of Chief Engineer (MM) along with Superintending Engineer (MM) and Executive Engineer (MM), the approval of the Managing Director was sought

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[67] U P Transformers (India) Private Limited: 800 transformers, DEE Power Transformers: 400 transformers and Technocrat Transformers: 450 transformers.

[68] Technocrat Transformers and DEE Power Transformers.

(11 July 2017) for opening of Part-II bids of 24 out of 28 firms stating that only 24 firms were found technically qualified (i.e., having Type Test of 25 KVA Transformer being the mandatory condition). The Managing Director approved the proposal for opening of Part-II of the bid. Part-II of the bid was opened on 12 July 2017 and Swastik Copper Private Limited, Jaipur was found to be the lowest bidder with ₹ 45,500 (ex-works plus freight and insurance), GST extra. DVVNL sent (29 July 2017) recommendations to CSPC for purchase of the 10,000 transformers of 25 KVA (BIS Level-II) from five firms[69] (2,000 each) at the price quoted by the lowest bidder. CSPC approved (16 August 2017) the proposal.

Audit noticed that out of 24 qualified firms, five firms[70] did not submit the Type Test Report for 25 KVA transformer (BIS Level-II) and that the Committee headed by Chief Engineer (MM) had obtained approval of the Managing Director for opening Part-II of the bid by recording a false statement that these firms had enclosed the Type Test Report of their 25 KVA transformer (BIS Level-II), thereby breaching the integrity of tendering process. Out of these five firms, two firms (Swastik Copper Private Limited, Jaipur and Technocrat Transformers, Agra) were awarded contract for supply of 2,000 transformers of 25 KVA (BIS Level-II) at ₹ 9.10 crore each, totalling ₹ 18.20 crore.

Audit further noted that the sample taken from the transformers supplied by the Technocrat Transformers i.e., one of the ineligible firms, failed (05 June 2018) in the test conducted at the lab of Central Power Research Institute. However, supply of the 1,250 transformers of 25 KVA valuing ₹ 5.69 crore was received from the firm. Further, no samples of the other two firms were tested.

In reply (August 2021), the Management stated that in the tender for procurement of 10,000 transformers of 25 KVA, Type Test Report of transformer of higher capacity than offered ones was also made acceptable in the tender documents.

The reply is not acceptable as pre-qualifying tender conditions (permitting Type Test Report of higher capacity transformers) were relaxed in contravention to the provisions of Indian Standard for transformers wherein it is provided that type test of one unit (of respective category) is to be conducted. Further, the fact remains that false information regarding type test report was provided while obtaining approval of the Managing Director for opening of Part-II of the bid.

Award of contract to the firms not having certificate issued by Bureau of Indian Standards

As per clause 28 (3) of the Special Conditions of Tender, the bidders were required to submit valid BIS Certificate (as per IS:1180: 2014)[71] of their transformers.

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[69] (i) Swastik Copper Private Limited, Jaipur (ii) Technocrat Transformers, Agra (iii) Suman Electricals, Meerut (iv) Lakshmi Transfomer & Electricals, Agra (v) Samtech Industries, Unnao.

[70] (i) Swastik Copper Pvt. Ltd., Jaipur (No Type Test report) (ii)Technocrat Transformers, Agra (Type test of 25 KVAT/F BIS Level-I) (iii) Shree Shyam Ji Electrotech, Bareilly (No Type Test report) (iv) Sarvoch (India) Corporation, Bulandshahar (Type test Report of 25 KVA T/F BIS Level-I) (v) International Transformers Pvt. Ltd., Lucknow (Type test of 100 KVA BIS Level-II).

[71] As per Govt. of India Gazette Notification dated 7 May 2015, valid Certificate issued from Bureau of Indian Standards (BIS) is mandatory for all Transformer manufacturers and suppliers.

Cases where contracts were awarded to firms not having certificate issued by BIS are discussed below:

2.6.3.1 (iii) Madhyanchal Vidyut Vitran Nigam Limited

Tender No. MEDCO/1878/2016 for supply of 4,900 transformers (25 KVA)

MVVNL invited (August 2016) a tender for procurement of 4,900 transformers of 25 KVA (BIS Level-I). Part-I of the bids submitted by 22 firms were opened on 12 August 2016. After evaluation by a committee consisting of Chief Engineer (MM), Superintending Engineer (MM) and Executive Engineer (MM), approval for opening of Part-II of the bids of 11 out of 22 firms was sought (16 August 2016) from Director (Technical) and Managing Director by stating that only 11 firms were found technically qualified (i.e., having BIS Certificate being the mandatory condition). The Managing Director approved (19 August 2016) the proposal for opening of Part-II of the bids which were opened on 23 August 2016. The Committee headed by Chief Engineer (MM) recommended (30 August 2016) the lowest rate after negotiation with the L-I bidder (Technical Associates Ltd., Lucknow). Subsequently MDSPC approved (7 October 2016) rate of ₹ 41,025 (ex-works plus freight, insurance and internal circuit breaker) excluding taxes for procurement of 1,100 transformers of 25 KVA from the L-I bidder and the remaining quantity from the remaining 10 bidders by counter offer on the negotiated lowest price. All the 11 bidders accepted the offer/counter offer for supply of transformers.

Audit noticed that out of 11 qualified firms, Anand Transformers Private Limited did not have BIS Certificate[72] on the last date of submission of bid (11 August 2016). However, the Committee headed by Chief Engineer obtained approval of Director (Technical) and Managing Director by recording a false statement that the aforesaid firm had the requisite BIS certificate. Thus, MVVNL breached the integrity of tendering process and awarded the supply of 600 transformers valuing ₹ 2.46 crore to an ineligible firm based on false information submitted by its officials.

In reply (August 2021), the Management stated that Anand Transformers Private Limited is an established firm. The firm had submitted acknowledgement (29 February 2016) of application for grant of BIS License in the office of BIS, Lucknow at the time of tender submission and the same was considered for opening of Part-I of tender. Later on, the Firm had submitted the BIS certificate on 12 August 2016 and approval of opening of Part-II was sought on 16 August 2016.

It is clear that the firm in question *i.e.* Anand Transformers Private Limited did not submit the desired BIS Certificate to MVVNL till 11 August 2016 (5:00 PM) as laid down in the tender document. Further, the fact of BIS Certificate of firm was falsely presented for obtaining approval for opening part-II of the bid for which the company may consider fixing responsibility and taking action against the concerned officials.

2.6.3.1 (iv) Pashchimanchal Vidyut Vitran Nigam Limited

(a) Tender No. MT/1/2016-17 for supply of 350 transformers (250 KVA)

PVVNL invited (09 April 2016) tender for procurement of 350 transformers of 250 KVA (BIS Level-I). Part-I of the bids submitted by 11 firms were opened

[72] Acknowledgment of application for obtaining BIS certificate was enclosed in the tender document.

on 11 May 2016. After evaluation by a committee headed by Director Technical, part-II of the bids received from 10 out of 11 firms were opened (22 June 2016). Director (Technical) sent (22 June 2016) recommendation to MDSPC for approval of the lowest bidder (Rakshan Transformer (P) Ltd. Sonipat) at the rate of ₹ 2,62,567 per transformer (including freight and insurance) excluding taxes and to make counter offer to the remaining nine firms. Out of nine firms, only one firm i.e., Modern Transformer, Ghaziabad who had BIS certificate, accepted the counter offer. On approval of MDSPC (28 June 2016), the contract was awarded for supply of 175 transformers valuing ₹ 4.59 crore each to Rakshan Transformer (P) Ltd. Sonipat and Modern Transformer, Ghaziabad.

Audit noticed that out of 10 firms whose Part-II of bids were opened, only one firm (M/s Modern Transformer, Ghaziabad) had submitted BIS certificate and therefore could be considered technically qualified. The remaining nine firms did not submit the BIS certificate and therefore were ineligible on the date of opening of technical bid. Thus, tender for supply of 175 transforms valuing ₹ 4.59 crore was awarded to one of the ineligible bidders (M/s Rakshan Transformers (Pvt) Ltd. Sonipat).

In reply (August 2021), the Management stated that some firms which had applied for registration with BIS were considered in the tendering process and counter offers were issued to such firms on the basis of their BIS application.

The reply of the Management is not acceptable because the requirement of registration of firms with BIS was violated and firms not having BIS certificate were awarded the contract for supply of transformers.

(b) Tender No. MT/3(s)/2016-17 for supply of 5,000 transformers (25 KVA)

Similarly, PVVNL invited (26 April 2016) tender for procurement of 5,000 transformers of 25 KVA (BIS Level-I). Part-I of the bids submitted by 23 firms were opened on 18 May 2016. After evaluation by a committee consisting of Chief Engineer (MM), Executive Engineer (MM), the committee sought (24 May 2016) approval of Director (Technical) for opening of Part-II (Financial) bids of 18 out of 23 bidders and also proposed not to open Part-II bids of five[73] firms who had not submitted BIS certificate and did not meet the turnover and operational experience requirement. Director (Technical) approved (24 May 2016) the proposal for opening of Part-II of the bids of 18 firms and the aforesaid five firms as trial bidders[74]. Part-II of the bids was opened on 24 May 2016.

Chief Engineer (MM) along with the Executive Engineer (MM) recommended to MDSPC for approval of price of lowest bidder (Bansal Transformers (P) Ltd.) at the rate of ₹ 40,722 (ex-works *plus* freight and insurance) excluding taxes and to make counter offer to the remaining 22 firms. MDSPC approved (01 June 2016) the procurement of 5,000 transformers of 25 KVA from the lowest bidder and 12 other firms (including four trial firms).

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[73] (i) R.K. Electricals, BSR (ii) Shree Shyam Ji Electrotech, Bareilly (iii) Mahendra Engineering Ltd., Lucknow (iv) Sarvoch (India) Corporation, BSR (v) Suman Electricals, Meerut.

[74] Purchaser at his discretion may consider to award trial order of small quantity to those bidders who have proven design and meet the requirement of having BIS certificate, testing facilities, turnover and operational experience, *etc*.

Audit noticed that out of 13 firms to whom the contract was awarded, seven firms (including four trial firms) did not have BIS certificate on the date of opening of the technical bid and were therefore, technically ineligible. Thus, PVVNL placed the order for supply of 2,200 transformers valuing ₹ 8.96 crore to seven firms who did not comply with mandatory condition of having BIS certificate.

In reply (August 2021), the Management stated that some firms who had applied for BIS registration were considered in the tendering process and counter offers were issued to such firms on the basis of their BIS application to obtain competitive rates.

The reply of the Management is not acceptable because the requirement of registration of firms with Bureau of Indian Standards (BIS) was violated and firms not registered with the BIS were awarded the contract for supply of transformers on the basis of acknowledgement of the application to BIS and an assumption that these firms may get BIS certificate and become eligible in future.

Loss due to failure to enforce Price Fall Back clause

2.6.3.2 As per terms and conditions of NIT, if certain quantity of the equipment ordered remains unsupplied up to finalisation of next/subsequent tender, lower of the prices of this tender and the subsequent tender shall be payable for the balance unsupplied material. In case tenderers do not agree to supply the balance quantity at the lower rates, the unsupplied tendered quantity will be cancelled without prejudice.

During 2016-17 to 2018-19, DISCOMs invited various tenders for procurement of transformers. Audit noticed that during the currency of the earlier tenders, the rates finalised in the subsequent tenders were found lower than the rates of earlier tenders. In order to avail the benefit of fall in price, DISCOMs should have enforced the above mentioned clause of the contract by insisting that the balance quantity of the earlier tender be supplied at the rates discovered in subsequent tenders. However, DISCOMs failed to do so which led to avoidable expenditure of ₹ 1.37 crore as summarised in **Table 2.3** below.

Table 2.3: Details of Transformers procured at the rate of earlier tender instead of subsequent tender

Name of the DISCOM	Earlier tender No.	Capacity of the transformer	Ex works Rate (per T/F) (in ₹)	Balance Qty. procured against earlier tender after opening of the subsequent tender	Subsequent tender no.	Rate per transformer (in ₹)	Difference (in ₹)	Extra expenditure (₹ in crore)
MVVNL	2298/2018	25 KVA	44,712	6,290	2327/2018	43,000	1,712	1.08
PVVNL	278(S)/15-16	10 MVA	41,88,000	27	8(s) 16/17	40,79,000	1,09,000	0.29
Total				**6,317**				**1.37**

Source: as per the information provided by the DISCOMs

In reply (August 2021), MVVNL stated that previous supply against tender[75] was in process and the rates as per new tender[76] were less; but the firm was not ready to reduce the rates as per the new tender. Moreover, the Corporate Store Purchase Committee (CSPC) decided (05 October 2018) to relax the provision of Price Fall Back based on minor differences in price and to achieve the targets of Saubhagya Yojana upto 31 December 2018.

[75] MEDCO/2298/2018.

[76] MEDCO/2327/2018.

The reply of MVVNL is not acceptable as there was an option to procure the unsupplied quantity from the firms of the new tender in case the earlier firms disagreed to supply the balance unsupplied quantity at the lower rates. Further, the Management issued dispatch instructions of 4,046 transformers after 31 December 2018.

PVVNL further stated (August 2021) that recovery order of ₹ 37.89 lakh for 15 transformers have been issued against which ₹ 32.83 lakh has been recovered.

Award of the contract without ensuring competitive price

2.6.3.3 Rule 14.15 (4) of Uttar Pradesh Procurement Manual[77] (Manual), 2016 deals with the process of evaluation of technical bids in case of two part bids and stipulates that the number of tenderers qualified in the technical evaluation should not generally be less than three. If the number is less than three and it is considered necessary by the procuring entity to continue with the bid process, reasons shall be recorded in writing and included in the record of the procurement proceedings. Thus, to ensure the competitiveness of the rate offered, the tender should be finalised only if there were at least three technically qualified tenderers.

Audit noticed that in two out of 48 sampled tenders, the DISCOMs finalised and awarded the contract in spite of the fact that the qualified bidders were less than three without recording reasons for the same. This has resulted in award of work valuing ₹ 10.68 crore without ensuring proper competitiveness in the rates as summarised in **Table 2.4**:

Table 2.4: Statement showing the details of tender awarded without ensuring proper competitiveness

Sl. No.	Name of the DISCOM	Tender No.	No. of firms eligible for opening of price bid	Name of the firm whom the contract was awarded	Value of the Contract (₹ in crore)
1	PuVVNL	EAV 39/18-19	1	P P Industries Pvt. Ltd.	4.14
2	DVVNL	2203/2018	2	P P Industries Pvt. Ltd.	3.49
				Modern Transformers Pvt. Ltd.	3.05
Total					**10.68**

Source: as per the information provided by the DISCOMs

2.6.3.3 (i) Superintending Engineer, Electricity Store Circle, Varanasi under PuVVNL requisitioned (July 2018) for procurement of 50 transformers of 630 KVA under Business Plan. Based on the requirement, PuVVNL invited (August 2018) open tender for procurement of 50 transformers of 630 KVA. The last date of submission of bid was 06 August 2018, which was further extended up to 17 August 2018. Two firms participated in the tender. One of the two firms, i.e., Sai Electricals was debarred by PVVNL for one year due to failure of its transformers in the test done after random sampling. Thus, only one firm, i.e., P. P Industries was eligible for opening of price bid.

Audit noticed that the Company finalised the tender on the basis of rate offered by the single firm and awarded (October 2018) the supply work

[77] UPPCL on their website disclosed that Rules and Regulations/Guidelines of UPERC, CERC, CEA and State Government are used by the Company in discharge of functions under the head "Right to Information".

valuing ₹ 4.14 crore. It is notable that the requirement of 630 KVA transformers was not even mentioned in the annual requirement for the year.

In reply (August 2021), the Management stated that DISCOM considered to award the tender due to critical nature of this capacity transformers (630 KVA transformer) which were required essentially to maintain regular supply to public. It further stated that all efforts were made to procure the material at reasonable rates. The Management also stated that 15 transformers have already been received and being utilised as per site requirement.

The reply is not acceptable as purpose of maintaining regular supply to public through procurement of 50 transformer of 630 KVA was defeated as only 15 transformers were received/installed by the Management after lapse of more than two years from the date of requisition received from field.

2.6.3.3 (ii) DVVNL invited (7 March 2018) tender for purchase of 10 MVA transformers which was to be opened on 11 April 2018. Seven bidders participated in the bidding process and their technical bid (Part-I) was opened on the scheduled date. Out of seven bids, only two bids were found technically qualified and their financial bids (Part-II) were opened (17 November 2018). P.P. Industries, Bhatinda was found (05 December 2018) lowest by MDSPC and contract for supply of eight transformers valued at ₹ 3.49 crore was awarded to them. On the basis of the rates of the lowest bidder, the other bidder, i.e., Modern Transformer Pvt. Limited, Haridwar was also awarded contract for supply of seven transformers valued at ₹ 3.05 crore.

Audit noticed that MDSPC did not record any reason for award of supply of ₹ 6.54 crore on the basis of only two qualified bids.

In reply (August 2021), the Management stated that an approval note was put up to the Director (Technical), DVVNL mentioning eligibility of all the seven firms with the proposal for opening Part II bids of two qualified bidders. Accordingly, price bid of two qualified bidders were opened after obtaining approval of Director (Technical) DVVNL.

The reply of the Management did not address the issue that tender were finalised without recording reasons for not adhering to requirement of minimum three technically qualified bidders in contravention to the provisions of Uttar Pradesh Procurement Manual, 2016.

Quality Assurance of Transformers

Procurement of transformers without ensuring quality

2.6.4.1 As per the clause 28.13.3 contained in the technical specifications of tender for procurement of transformers, the purchaser has the right to select the samples from the deliveries made at its store or at manufacturer's works when these are offered in a lot for supply and send the same for quality testing. In case the material was not found conforming to desired specifications, the following penal action was to be taken against the suppliers:

(i) The order for remaining supplies, if any, against the said contract shall be cancelled, and

(ii) The supplier will be debarred from participating in three subsequent tenders.

Further, Para 4 of the notification (12 January 2009) of Ministry of Power (MoP) as amended vide notification dated 16 December 2016 relating to energy efficiency, stipulates that sampling for verification shall be carried out after the deliveries are made to the utilities, who shall forthwith provide the transformers on random selection basis to the BEE for testing of transformer on returnable basis.

UPPCL also issued (03 April 2018) procurement guidelines for ensuring quality of supplied items which stipulates that Purchaser, on his discretion, shall send randomly selected sample(s) from each lot or total supplied material for any/all Routine/Acceptance/Type tests as per technical specification/ISS in NABL accredited lab of good repute.

Audit noticed that the DISCOMs received supply of transformers against 427 agreements executed during 2016-17 to 2018-19. Thus, at least 427 samples should have been sent for testing to verify the quality of the transformers received. However, despite clause in the agreements and GoI guidelines, DISCOMs did not send the adequate number of samples for testing during 2016-17 to 2018-19 as summarised in **Table 2.5**.

Table 2.5: Details of procurement of transformers (T/Fs) without ensuring quality

DISCOMs	No. of Tenders (up to 1000 KVA)	No. of Agreements against which supply received	Samples sent for testing	Samples failed	Value of supply taken against agreement after sample failed (₹ in crore)	No. of agreement from which sample not tested	No of T/Fs	Amount (₹ in crore)
MVVNL	27	69	11	3	0	58	26,947	148.39
PuVVNL	31	75	13	5	11.29	62	20,383	153.29
DVVNL	37	144	46[78]	9	0	98	53,387	305.04
PVVNL	20	139	60[79]	6	0	79	25,488	196.20
Total	**115**	**427**	**130**	**23**	**11.29**	**297**	**1,26,205**	**802.92**

Source: as per the information provided by the DISCOMs

It is evident from the table above that DISCOMs did not send samples for testing after receipt of transformers in the store against 297 agreements. Thus, DISCOMs did not ensure required quality check on 1,26,205 transformers valuing ₹ 802.92 crore before putting in the power distribution system.

In reply (August 2021), MVVNL stated that testing of randomly selected samples in NABL accredited lab from each lot of total supplied transformers is done.

PuVVNL stated (August 2021) that quality of transformers is ensured through 100 *per cent* pre-dispatch inspection by a reputed independent third party agency. It also stated that samples are sent for quality test to CPRI.

DVVNL, in its reply (August 2021), quoted the tender condition before and after issue of guidelines by UPPCL in April 2018. However, reply was silent on deficiencies in actual testing of procured transformers.

PVVNL stated (August 2021) that during 2016-17 and 2017-18, Purchaser, on his discretion, may send any randomly selected sample from the supplies lot for any/all testing and during 2018-19, as per order of UPPCL, Purchaser, on his discretion, shall send any randomly selected sample(s) from each lot or total supplied material.

[78] Total sample sent were 74, out of which 28 samples were repeated in the same agreements.
[79] Total sample sent were 65, out of which 5 samples were repeated in the same agreements.

UPPCL stated (August 2021) that directions have been issued to the DISCOMs for ensuring quality of procured transformers through transparent bidding process.

The replies of DISCOMs are not acceptable as despite condition in the agreements, procurement guidelines of UPPCL and the GoI guidelines, the DISCOMs did not send the adequate number of samples for testing during 2016-17 to 2018-19. It may also be noted that the rate of failure of DTs were much higher than the norm of two *per cent* as discussed in **Paragraph 2.6.5.1**.

Further, it was noticed that PuVVNL had accepted delivery of 2,429 transformers valuing ₹ 11.29 crore against one agreement after sample had failed the quality test as discussed in succeeding para.

Undue favour to a firm due to procurement of transformers after failure of the sample in the quality test

2.6.4.2 PuVVNL issued (28 September 2016) Letter of Award to Karamveer Electronics, Meerut for supply of 5,000 transformers of 25 KVA and further, awarded (14 March 2017) contract for supply of additional 5,000 transformers of 25 KVA. Thus, PuVVNL awarded contract for supply of 10,000 transformers of 25 KVA to Karamveer Electronics, Meerut.

Clause 1.20 of General requirement of specification read with clause 32.13.3 of technical specifications provides that after receipt of transformers, the purchaser would select the sample and get it tested. In case any of the parameters of the tested sample after receipt at store was not as per the norms, the order for balance quantity would be cancelled.

Audit noticed that the firm started supplies from January 2017. After the receipt of the transformers, one sampled transformer was sent (November 2017) to Central Power Research Institute (CPRI) Noida, one of the authorised agency for testing. The sampled transformer failed (22 November 2017) in test parameters namely 'separate voltage withstand test between HV winding to earth'. As a penal action, Managing Director debarred (03 February 2018) the firm from participating in the tenders of PuVVNL (for 25 KVA transformers) for six months but did not cancel the supply order for the remaining 6,300 transformers to be supplied. After debarring the firm, PuVVNL received supply of 2,429 transformers of 25 KVA valuing ₹ 11.19 crore from the firm till July 2019. Thus, PuVVNL extended undue favour to the firm by not cancelling the supply order for the balance quantity to be supplied, despite failure of the sample.

In reply (August 2021), the Management stated that the sample testing provision is for new transformers and not for repaired transformers. It further stated that the sampled transformer was repaired once under guarantee period and it should not have been subjected to high voltage test. It was also stated that there was no provision for penal action like debarring, blacklisting and that another transformer of 63 KVA supplied by the firm had successfully passed all the tests.

The reply is factually incorrect as the transformer was shown as new in the CPRI report and CPRI conducts tests as per relevant standards.

Repair of Transformers

2.6.5 The erstwhile Uttar Pradesh State Electricity Board fixed (May 1982) permissible limit for failure of transformers as two *per cent* of the transformers installed. This limit has remained unchanged since then.

Higher failure rate of distribution transformers

2.6.5.1 The position of failed distribution transformers during the three years ending 31 March 2019 is as depicted in the **Table 2.6** below (details in **Appendix-2.15**).

Table 2.6: Statement showing details of failed distribution transformers

DISCOMs	Year wise excess number of Distribution Transformers failed over prescribed norm of 2 *per cent*		
	2016-17 *(in per cent)*	2017-18 *(in per cent)*	2018-19 *(in per cent)*
MVVNL	50,279 (22.93)	53,297 (19.59)	67,474 (20.27)
PuVVNL	65,503 (17.82)	61,746 (16.52)	72,684 (16.14)
DVVNL	35,305 (17.00)	42,964 (18.03)	44,074 (13.92)
PVVNL	39,830 (16.72)	47,510 (17.74)	48,483 (13.28)
Total	**1,90,917 (18.49)**	**2,05,517 (17.84)**	**2,32,715 (15.89)**

Source: as per the information provided by the DISCOMs

It is evident from the above table that actual failure rate of Distribution Transformers installed by the DISCOMs was much higher than the norm of two *per cent*. Audit noticed that not installing adequate protection system at HV and LV side, not adhering to/not preparing preventive maintenance schedule and over loading of distribution transformers were main reasons for excessive failure of the transformers.

It is pertinent to note that in the Audit Report (Commercial) for the year ending 31 March 2007, the CAG had pointed out (Paragraph No. 2.3.16) that during the period 2002-03 to 2006-07, the percentage of failure of DTs in excess of norms of 2 *per cent* was very high and ranged between 17.20 *per cent* to 21.27 *per cent.*

In reply (August 2021), the Management (DISCOMs) stated that transformer failure norm of two *per cent* appear to be arbitrary and very difficult to achieve. In these years, various remedial measures such as providing proper size HT/LT fuses, regular routine maintenance work, proper load balancing, reducing load on transformers by increasing capacity of transformers/installing additional transformers and curbing theft/illegal connections, etc., have been taken continuously to bring down the failure percentage. It was further stated that the above steps have helped to bring down the failure percentage year by year.

The reply of the Management is not acceptable as norms are fixed by their parent company (erstwhile UPSEB). The failure percentage remained very high and steps taken by the Management has failed to bring down the failure percentage within the prescribed norm.

Short retrieval of HV/LV coil

2.6.5.2 The UPPCL issued (6 March 2002) instructions for retrieval of HV/LV[80] coil. The instructions *inter-alia* provide that the recovery of coil should not be less than the weight as per the make supplied. In case, the weight of the coil is found less than the make supplied, the concerned Executive Engineer would investigate the same before approval.

During scrutiny of the records of all 20 Electricity Workshop Divisions (EWDs) of the four DISCOMs, Audit noticed that in 19 EWDs, there was short recovery of HV/LV coil from 4,92,246 damaged transformers of various

[80] In transformer, there are winding on two side of core *i.e.* High Voltage/Low Voltage (HV/LV) side of core.

capacities dismantled during April 2016 to March 2019. As per norms, 35,85,467 kg copper and 1,58,85,070 kg aluminium should have been recovered from these damaged transformers. However, the DISCOMs could recover only 35,13,237 kg copper (97.99 *per cent*) and 1,52,65,573 kg aluminium (96.10 *per cent*). Thus, there was marginal short recovery of 72,230 kg copper (2.01 *per cent*) and 6,19,497 kg aluminium (3.90 *per cent*) as summarised in **Table 2.7.**

Table 2.7: Statement showing short recovery of HV/LV coil

DISCOMs	No. of EWD	Total number of transformers damaged	Quantity to be recovered		Quantity recovered		Short recovery		Loss to the DISCOMs (₹ in crore)
			Copper	Aluminum	Copper	Aluminum	Copper (*per cent*)	Aluminum (*per cent*)	
MVVNL	05	1,61,797	14,66,310	51,83,101	14,61,917	50,91,951	4,393 (0.30)	91,150 (1.76)	0.96
PuVVNL	06	2,16,680	15,59,540	67,38,525	15,02,123	62,87,722	57,417 (3.68)	4,50,803 (6.69)	6.17
DVVNL	05	86,360	4,96,572	28,53,608	4,87,866	27,81,827	8,706 (1.75)	71,781 (2.52)	0.97
PVVNL	03	27,409	63,045	11,09,836	61,331	11,04,073	1,714 (2.72)	5,763 (0.52)	0.12
Total	**19**	**4,92,246**	**35,85,467**	**1,58,85,070**	**35,13,237**	**1,52,65,573**	**72,230 (2.01)**	**6,19,497 (3.90)**	**8.22**

Source: as per the information provided by the DISCOMs

Short recovery of aluminium and copper from the damaged transformers has resulted in loss of ₹ 8.22 crore[81] to the DISCOMs. Leakage of aluminium and copper during process of dismantling cannot be ruled out.

In reply (August 2021), MVVNL stated that during short circuit fault/heavy overloading, some transformers get badly damaged and some transformers catch fire. Due to these faults, HV/LV coil metal melts, breaks into small drops/pieces and float in transformer oil. Due to melting temperature of Aluminium (660.3^0 C) being lower than that of copper (1,085^0 C), more quantity of aluminium is lost than that of copper during course of severe fault. This is metal loss and cannot be eliminated completely. It was further stated that the data given to Audit was not complete and correct in case of EWD-Lucknow for the year 2016-17 and 2017-18 as the weight of HV/LV coils which were directly used in repairing without re-conditioning were not included in the received back quantity and aluminium recovery against transformer repaired for the year 2018-19 were also not mentioned by the Audit. It was further stated that accounting of recovery has been revised in view of the above facts.

PuVVNL and DVVNL stated (August 2021) re-conditioning of HV and LV coil of damage transformer in which aluminium or copper strip/wire is found in good condition is not considered for calculating recovery of aluminium and copper.

PVVNL stated (August 2021) that in case of minor repair of damaged transformer, HV/LV Coil were not changed. After adjusting minor repaired transformer from total damaged transformer, recovery of HV/LV Coil were excess over norms.

[81] 72,230 kg copper x ₹ 400/kg *plus* 6,19,497 kg aluminium x ₹ 86/kg.

The reply of Management may be viewed in the light of the fact that recovery of HV/LV coil was not made as per the norms laid down by their parent company i.e. UPPCL.

Short retrieval of burnt/damaged transformer oil

2.6.5.3 UPPCL fixed (June 2006) the norm (60 *per cent* of tank capacity) for recovery of the burnt oil from damaged transformers received by Electricity Workshop Divisions.

In the CAG's Audit Report (Commercial) for the year ending 31 March 2007, it was pointed out (Paragraph no. 2.3.24) that during February 2002 to March 2007, the percentage of recovery of burnt oil in five Electricity Workshop Divisions (EWDs) was below the norms resulting in short retrieval of 5,631.084 KL of transformer oil valuing ₹ 10.78 crore.

During scrutiny of records of all 20 EWDs of the four DISCOMs during the current audit, it was noticed that there was short retrieval of burnt transformer oil from 4,94,119 damaged transformers of various capacities in 15 EWDs during April 2016 to March 2019 as detailed in **Table 2.8**.

Table 2.8: Statement showing short recovery of transformer oil

DISCOMs	No. of EWD	Total T/Fs	Tank Capacity (in ltr)	60 *per cent* of capacity (in ltr)	Oil Received back (in ltr)	Short Retrieval (ltr)	Average rate[82] (₹ per ltr)	Value of trans former oil short received (₹ in crore)
MVVNL	04	1,60,439	1,57,05,755	94,23,453	81,32,280	12,91,173	30	3.87
PuVVNL	05	1,80,616	1,67,58,185	1,00,54,911	94,94,499	5,60,412	30	1.68
DVVNL	02	32,875	31,01,995	18,61,197	9,00,620	9,60,577	30	2.88
PVVNL	04	1,20,189	1,57,08,920	94,25,352	87,63,625	6,61,727	30	1.99
Total	**15**	**4,94,119**	**5,12,74,855**	**3,07,64,913**	**2,72,91,024**	**34,73,889**		**10.42**

Source: as per the information provided by the DISCOMs

It can be seen that there was short recovery of oil of 11 *per cent*. Short retrieval of burnt transformer oil resulted in loss of ₹ 10.42 crore to the DISCOMs.

In reply (August 2021), the Management (DISCOMs) stated that the reasons for low oil recovery are leakage from radiator due to ageing, corrosion and falling of transformer from poles in storms, theft of oil, overloading and overheating of installed transformers etc. Further, MVVNL also stated that Audit has not taken the data of EUWD- LESA for 2016-17 to 2018-19 and data of EWD-Bareilly for 2018-19. MVVNL and PuVVNL also stated that there were cases of receipt of transformers in the workshop with nil oil.

The reply of the Management is not acceptable as norms by their holding company must have been fixed after considering all the factors, hence, minimum 60 *per cent* recovery should have been achieved by the DISCOMs. Further, actual oil recovered in case of EUWD- LESA for 2016-17 to 2018-19 and EWD-Bareilly for 2018-19 under MVVNL was more than norms. The same was not included as Audit pointed out only cases of short recovery against norms.

Conclusion

Many deficiencies were observed by Audit in the procurement of transformers by DISCOMs. Provisions contained in the bid specifications and Procurement Manual of GoUP were violated, resulting in award of contracts to ineligible

[82] As per rate of DISCOMs.

firms and without ensuring competitive prices. Quality assurance was compromised due to failure to send samples for testing. The number of failed transformers was much higher than the norm and recovery of burnt transformer oil and Aluminium/Copper was below the laid down norms.

Audit Paragraphs

Dakshinanchal Vidyut Vitran Nigam Limited

2.7 Undue favour to Distribution Franchisee

DVVNL short recovered Regulatory Surcharge by ₹ 79.90 crore from Distribution Franchisee (Torrent Power Limited) and also suffered loss of interest of ₹ 29.97 crore on the short recovered amount.

Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL) executed (18 May 2009) a Distribution Franchisee Agreement (DFA) followed by a supplementary DFA (17 March 2010) with M/s Torrent Power Limited (TPL)[83] for supply and distribution of the electricity within the urban areas of Agra.

As per Article-7 (Billing and Payment) of DFA, the monthly revenue for input energy recoverable from TPL was to be worked out by multiplying the input energy[84], annualised input rate[85] and Tariff Indexation Ratio (TIR). The TIR was the ratio of average tariff rate (ATR)[86] for the respective billing period and ATR for the base year 2008-09. As per Annexure-A of the Supplementary DFA, except as mentioned elsewhere in the document, only the fixed and energy charges were to be considered and any other charges, both present and future would not be considered, for calculation of ATR.

The Uttar Pradesh Electricity Regulatory Commission (UPERC) introduced (May 2013) the Regulatory Surcharge (RSC) to be recovered from consumers through electricity bills at the rates prescribed by it from time to time. The RSC (in two parts *i.e.* RSC-1 and RSC-2)[87] was applicable from 10 June 2013 to 11 September 2019. The recovery of RSC was intended to meet the revenue gap of the power distribution companies (DISCOMs) in earlier years (2000-2001 to 2007-2008 and 2008-09 to 2011-12). UPERC directed the licensees[88] to depict the RSC distinctly in the electricity bills of consumers and to create separate accounting fields to capture the amounts collected as RSC in both its financial and commercial statements. This would enable the licensee to correctly report the amounts collected towards RSC.

Audit noticed (June 2020) that consequent upon introduction of RSC by UPERC, no amendment was made in DFA for providing recovery mechanism of RSC as intended by UPERC. Despite specific directions of UPERC on the issue, DVVNL adopted two contradictory modes viz. ad-hoc basis[89] and TIR mechanism for recovery of RSC from TPL. DVVNL recovered RSC-1 directly, *i.e.* without TIR mechanism during June 2013 to April 2015, whereas RSC-1 and RSC-2 for May 2015 to May 2016 and October 2014 to September 2019 respectively was recovered through TIR mechanism. Audit noticed that there was a short recovery of ₹ 79.90 crore by DVVNL from TPL against

[83] The selected Distribution Franchisee under the provisions of the Electricity Act, 2003.

[84] Input Energy means sum total of energy supplied through all Input Points which may feed energy to the Franchise Area.

[85] Input Rate means rupee per unit supplied by the DVVNL at input points as quoted in the Financial Proposal of the Bidder in Annexure-4 of DFA.

[86] ATR was to be calculated as sum product of total billed units and approved tariff in each consumer category divided by total billed units in all consumer categories.

[87] RSC-1 from 10 June 2013 to 18 April 2016 and RSC-2 from 12 October 2014 to 11 September 2019.

[88] DVVNL, MVVNL, PVVNL and PuVVNL.

[89] Recovery of Regulatory Surcharge directly without including the same in TIR mechanism.

RSC collected by TPL from its consumers as detailed in **Appendix-2.16** and **Appendix-2.17,** and summarised in the following **Table 2.10**.

Table 2.10: Recovery of RSC for the period from June 2013 to September 2019

(Amount in ₹ crore)

Particulars	RSC billed by TPL	RSC collected by TPL	RSC recovered by DVVNL	Short recovery of RSC against its collection
Direct (without TIR Mechanism)	43.21	39.93	34.76	5.17 (13 *per cent*)
Through TIR mechanism	251.64	245.35	170.62	74.73 (30 *per cent*)
Total	**294.85**	**285.28**	**205.38**	**79.90 (28 *per cent*)**

It is evident from the above table that recovery of RSC directly from TPL was 87 *per cent* and through TIR mechanism, it dipped to 70 *per cent* (overall 72 *per cent*) against the RSC collected by TPL. In this regard, it is also pertinent to mention that the project monitoring consultants (PMCs)[90] of DVVNL also reported time and again that RSC was billed and collected on behalf of DVVNL, hence, TPL was required to transfer the complete amount collected against RSC to DVVNL for further accounting and reporting the compliance to UPERC.

Further, in a meeting held (21 June 2017) between DVVNL (including the Managing Director of the Company) and TPL, it was decided that the inclusion/exclusion of RSC (1 and 2) in the ATR/TIR would be examined by the appropriate authority and the decision of the appropriate authority would be communicated to the concerned parties. However, despite an explicit advice by the PMCs, and directions of the UPERC, no decision was taken to secure the financial interest of DVVNL. Thus, it is evident that DVVNL extended undue favour to TPL and thereby made a short recovery of RSC, which was detrimental to the financial interest of DVVNL, as it has been facing cash crunch and meeting its working capital requirements through loans.

Resultantly, DVVNL short recovered RSC by ₹ 79.90 crore for the period June 2013 to September 2019 and also suffered loss of interest of ₹ 29.97 crore[91] **(Appendix-2.16)** on the short recovered amount.

While accepting the audit observation, the Management stated (March 2021) that a notice cum bill had already been issued (29 January 2021) to the TPL for paying the outstanding principal amount of RSC (₹ 80.29 crore) within 15 days. It further stated that, as pointed out by the Audit, interest of ₹ 31.55 crore on the principal amount till February 2021 was also included in the revised invoice and the same was issued (01 March 2021) to the TPL.

The recovery of outstanding amount of RSC along with interest was awaited (March 2021). Further, not recovering the RSC billed and collected by TPL and its recovery through TIR mechanism in violation of the directions of the UPERC was a serious lapse on the part of the concerned officer(s) of DVVNL. Therefore, besides recovery of the balance amount of RSC together with interest from TPL, responsibility may also be fixed on the defaulting officer(s) of DVVNL.

The matter was reported to the Government (February 2021). The reply is awaited (November 2021).

90 CRISIL Risk and Infrastructure Solutions Limited and Feedback Infra Pvt. Limited.

91 Calculated at the rate of 10.75 *per cent* per annum (rate applicable on working capital loan taken by DVVNL) for the period June 2013 to December 2020 on the unrecovered amount of RSC from TPL.

2.8 Excess payment due to incorrect determination of price variation

The Company's failure to ascertain the correct price variation for the extended delivery schedule of distribution transformers led to excess payment of ₹ 2.03 crore to the suppliers.

Dakshinanchal Vidyut Vitran Nigam Limited, Agra (Company) issued (August 2016 to September 2018) 18 Purchase Orders (POs) for supply of 23,280[92] distribution transformers (DTs) of various capacities ranging from 16 KVA to 10 MVA against seven tenders[93].

Clause 26 of Form B (General Conditions) read with Clause 21 of the POs issued to the suppliers provided that if supply was delayed by strikes, lockouts, fire, accidents, defective materials, delays in approval of drawings or any cause whatsoever beyond the reasonable control of the supplier, a reasonable extension of time would be granted.

Clause 2.0 of the aforesaid POs provided that the ex-works prices[94] shall be variable as per Indian Electricals & Electronics Manufacturers' Association (IEEMA) price variation (PV) formula during the currency of the contract. The price variation (PV) would be calculated with reference to the ex-works price of the base date as mentioned in the respective POs. Further, as per letters issued to suppliers by the Company communicating calculation of PV, in case of the amended delivery schedule, the PV was to be ascertained at minimum of the ex-works prices updated on the following three dates:

(a) Date of offer given by the supplier to inspect the material.
(b) Contractual delivery schedule for price variation purpose.
(c) Amended delivery schedule.

Suppliers were advised to raise their bills for payment to the Company as per the PV mentioned in the letter.

Audit noticed (September 2019) that in case of 23,280 DTs procured from 15 suppliers[95] by the Material Management (MM) Wing of the Company against 18 POs, the original delivery schedules in respect of 18,471 DTs[96] procured had been amended. However, the MM Wing did not ascertain the correct PV payable to the suppliers at the minimum of the ex-works prices updated on the basis of the aforesaid three criteria[97].

The updated ex-works prices of the DTs, worked out by Audit on the basis of the aforesaid three criteria, revealed that the MM Wing failed to ascertain the correct PV in case of 171 claims in respect of 15,742 DTs procured against above 18 POs. This resulted in an excess payment of ₹ 2.03 crore to the suppliers as detailed in the **Appendix-2.18.**

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92 149 DTs of 16 KVA, 19,820 DTs of 25 KVA, 1,010 DTs of 63 KVA, 2,216 DTs of 100 KVA and 85 DTs of 10 MVA.

93 Tender Specifications 1945/2016, 1946/2016, 1947/2016, 1948/2016, 1949/2016, 2092/2017 and 2197/2018.

94 Ex-works price is factory price and it excludes packaging, freight and insurance charges.

95 Six POs were awarded to three suppliers {M/s Swastik Copper (P) Limited, Jaipur (Two POs), M/s Marsons Energy Pvt. Limited, Jaipur (Two POs), M/s P.P. Industries Pvt. Limited, Punjab (Two POs)} and remaining 12 POs were awarded to 12 Suppliers.

96 149 DTs of 16 KVA, 15,016 DTs of 25 KVA, 1,010 DTs of 63 KVA, 2,216 DTs of 100 KVA and 80 DTs of 10 MVA.

97 Date of offer given by supplier to inspect the material, date of contractual delivery schedule and date of amended delivery schedule.

While accepting the audit observation, the Management stated (June 2021) that the condition regarding determination of PV in case of amended delivery schedule was not mentioned in Tender documents and in the agreements executed with the supplier. However, as per prevailing practice in the interest of DISCOM, the aforesaid condition was mentioned only in the letters issued to suppliers while calculating PV. All PV have been recalculated and excess payment comes to ₹ 2.03 crore. Out of which a sum of ₹ 1.31 crore has been adjusted from the pending bills of eight suppliers against 11 POs and the notices for recovery of balance amount of ₹ 0.72 crore have been issued to seven suppliers against seven POs. As soon as recovery of excess payment is made the same shall be intimated to the Audit.

The matter was reported to the Government (February 2021). The reply is awaited (November 2021).

2.9 Unwarranted procurement of SMC Boxes

Inflated assessment of requirement by DVVNL led to unwarranted procurement of Sheet Moulding Compound (SMC) boxes valuing ₹ 7.86 crore with a consequential loss of interest of ₹ 2.12 crore.

As per general principles of procurement, a realistic assessment of requirement should be made prior to initiating process for procurement of any material. In this regard, Para 7.2 read with Para 7.3 of Uttar Pradesh Procurement Manual (Procurement of Goods) 2016 also refers to the aforesaid intent that a procuring officer, who has to purchase goods for public service should estimate the requirements for a year so far as that can be foreseen. Any excess procurement involves the locking up of public money and is, therefore, not desirable.

Audit noticed (January 2020) that the Material Management (MM) Wing of Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL) procured 48,875 Sheet Moulding Compound (SMC) boxes of different types at a cost of ₹ 10.53 crore to meet the requirement for the year 2016-17. These were being directly procured[98] by DVVNL for the first time, although Turnkey Contractors used to install these SMC boxes under different Schemes. The status of utilisation of these SMC boxes as of January 2021 is given in the **Table 2.11** below.

Table 2.11: The status of utilisation of SMC boxes as of January 2021

Types of LT Distribution SMC Boxes	Tender No.	Actual procurement (Nos.)	Rate per SMC Box (in ₹)	Total value of procurement (₹ in crore)	Period of delivery SMC boxes	Utilised SMC boxes		Unutilised SMC boxes		Total value of unutilised boxes (₹ in crore)
						Period of utilisation	Nos.	Nos.	Percentage	
1 Phase for ABC[99]	MM-1565-2015 and 2012-2016	32,275	1,481	4.78	June 2016 to December 2016	March 2017 to January 2021	10,265	22,010	68.00	3.26
3 Phase for ABC	MM-2013-2016	6,600	2,295	1.51	October 2016 to January 2018	October 2016 to September 2020	4,970	1,630	24.70	0.37

[98] 8,550 SMC Single Phase LT Distribution Box for ABC cable were procured against the requirement of 2015-16.

[99] Aerial Bunched Conductor.

Types of LT Distribution SMC Boxes	Tender No.	Actual procur-ement (Nos.)	Rate per SMC Box (in ₹)	Total value of procur-ement (₹ in crore)	Period of delivery SMC boxes	Utilised SMC boxes		Unutilised SMC boxes		Total value of unutilised boxes (₹ in crore)
						Period of utilisation	Nos.	Nos.	Percentage	
10 & 16 KVA Transformers	MM-2014-2016	10,000	4,239	4.24	October 2016 to February 2017	September 2018	30	9,970	99.70	4.23
Total		**48,875**		**10.53**			**15,265**	**33,610**	**69**	**7.86**

It is evident from the Table that out of 48,875 boxes procured during 24 June 2016 to 11 January 2018[100], 33,610 SMC boxes (69 *per cent*) valuing ₹ 7.86 crore remained unutilised for three years from the last delivery (January 2018). The reasons for not utilising these SMC boxes as analysed by Audit were attributable to the inflated assessment of requirement by the Chief Engineers of Distribution Zones[101] of the Company. Further, the MM Wing of DVVNL, relying on requirements intimated by the aforesaid Chief Engineers of Distribution Zones, procured the aforesaid SMC boxes without ensuring the reasonability of their requirement.

Further, as provided in the tender specifications, the maintenance period of 12 months commencing upon installation of SMC boxes or 18 months from the date of receipt of equipment by the purchaser at site, whichever is earlier, also expired in July 2019 after the last delivery (January 2018). Therefore, the firm would not have any legal obligation to remedy the defects, if any, noticed after July 2019 in the SMC boxes lying unutilised.

Thus, the inflated assessment of requirement led to an unwarranted procurement of 33,610 SMC boxes valuing ₹ 7.86 crore which remained unutilised for the last three years. It also led to a consequential loss of interest of ₹ 2.12 crore[102].

The Management stated (December 2020) that unutilised SMC boxes were only 3.47 *per cent* of the total installed 9,84,854 SMC boxes[103] under different schemes viz. RGGVY, DDUGJY, IPDS, etc., and Business Plan. Storage of these boxes was necessary for replacement/maintenance of installed boxes.

The reply is not acceptable as 48,875 SMC boxes as pointed out by Audit were procured by DVVNL (and did not include boxes procured by turnkey contractors) to meet the requirement for the year 2016-17 exclusively under Private Tubewell, State Tubewell, Member of Parliament/Member of Legislative Assembly Funds, Business Plan, etc., and for the purpose of prevention of theft of energy. Not utilising 69 *per cent* of above boxes even after lapse of three years from the last delivery made in January 2018 confirms the Audit contention as 9,84,264 SMC boxes includes 9,69,619 boxes procured under turnkey contracts which were not part of these tenders.

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100 47,975 SMC boxes were received during 24 June 2016 to 03 February 2017 and only 900 SMC boxes were received on 11 January 2018.

101 Agra Zone, Aligarh Zone, Jhansi Zone, Kanpur Zone and Banda Zone.

102 Calculated at the rate of 9.00 *per cent* per annum (rate applicable on PFC loan taken by DVVNL) for the period January 2018 to December 2020.

103 34,200 SMC boxes were stated to be available as of December 2020 by the Management. However, as per document furnished (September 2021) to Audit, 33,610 SMC boxes were remaining unutilised as of January 2021.

The matter was reported to the Government (May 2021). The reply is awaited (November 2021).

Madhyanchal Vidyut Vitran Nigam Limited

2.10 Unwarranted procurement of material

Arbitrariness in assessment of requirement by Madhyanchal Vidyut Vitran Nigam Limited led to unwarranted procurement of transformer protection boxes valuing ₹ 7.25 crore which remained unutilised for over four years.

A reference is invited to general principles of procurement mentioned in Paragraph 2.9 which stipulates that a realistic assessment of requirement should be made prior to initiating process for procurement of any material.

Audit noticed (July/October 2019) that Madhyanchal Vidyut Vitran Nigam Limited (MVVNL) received supply (July 2016) of 875 transformer protection boxes (TPBs)[104] valuing ₹ 7.70 crore against an agreement executed (June 2016) with M/s Sintex Industries Limited, Kalol, Gujarat (the firm). These TPBs were intended for installation at transformers of different capacities[105] in the area of Lucknow Electricity Supply Administration (LESA) of MVVNL. The details of procurement and utilisation of the TPBs are given in the **Table 2.12** below.

Table 2.12: Details of procurement and utilisation of the TPBs

Types of TPBs	Procurement (Nos.)	Value (₹ in crore)	Issued from LESA Stores		Installed/utilised	
			Nos.	Period	Nos.	Period
100 KVA	25	0.10	23	September 2019 to September 2020	20	August 2020 to November 2020
160 KVA	150	0.76	149		10	
250 KVA	450	2.62	440		49	
400 KVA	250	4.22	225		2	
Total	**875**	**7.70**	**837**		**81**	

As can be seen from the Table, 875 TPBs procured were received in the LESA Stores, and of these, 837 (96 *per cent*) were issued to the 16 distribution divisions after a period of three to four years. Further, only 81 TPBs could be utilised/installed till November 2020. Thus, 794 (875 TPBs-81 TPBs) TPBs (91 *per cent*) valuing ₹ 7.25 crore[106] were lying unutilised in the Stores/Divisions, even after lapse of more than four years.

The reasons for not utilising TPBs as noticed in audit were attributable to an exaggerated assessment (December 2015) of requirement of 3,500 TPBs by the Superintending Engineer (SE); Electricity Urban Distribution Circle-VI; SE, Electricity Distribution Circle-IV and Chief Engineer, LESA without any indent, analysis and feedback from other distribution circles and user distribution divisions. The procurement process was, however, carried out by MVVNL for the reduced quantity of 875 TPBs (25 *per cent*) as per the approval of the Managing Director. Further, issue of 96 *per cent* TPBs from

[104] TPBs are meant to provide protection to transformers and are made of anticorrosive, dust proof, rust proof, vermin and water proof, ultra violet stabilised and flame retardant high grade sheet moulding compound (SMC) boxes having good mechanical strength.

[105] 100 KVA, 160 KVA, 250 KVA and 400 KVA.

[106] 05 TPBs of 100 KVA valuing ₹ 0.02 crore, 140 TPBs of 160 KVA valuing ₹ 0.71 crore, 401 TPBs of 250 KVA valuing ₹ 2.33 crore and 248 TPBs of 400 KVA valuing ₹ 4.19 crore.

the LESA Stores to 16 distribution divisions after a period of three to four years and utilisation/installation of only nine *per cent* TPBs, that too after being pointed out by Audit, confirms that the procurement made at initial stage was far in excess of requirement.

Further, as provided in the agreement, the warranty of 42 months for free repair/replacement of material from the date of its receipt by the purchaser at site i.e. July 2016 also expired in January 2020. Therefore, the firm would not have any legal obligation to remedy the defects, if any, noticed after January 2020 in the TPBs lying unutilised.

Thus, arbitrariness in assessment of requirement led to unwarranted procurement of TPBs, resulted in not utilising 794 TPBs together with locking of funds of ₹ 7.25 crore and a consequential loss of interest of ₹ 3.07 crore[107] for MVVNL, which has been incurring losses since inception (July 2003).

The Management stated (September/December 2020) that 97 *per cent* boxes had been issued after retaining three *per cent* in the Stores. It added that number of transformer damaged reduced by 167 in the year 2020-21 as compared to 2019-20 along with savings in repair cost of ₹ 15.65 lakh, due to installation of the transformer protection boxes.

The reply is not acceptable as the TPBs procured were issued after lapse of three to four years, only after being pointed out by Audit and only 81 out of 875 TPBs have been installed till November 2020. Further, reduction in damage of 167 transformers and savings in repair cost during 2020-21 as replied by the Management cannot be attributed to TPBs as 167 denotes reduction in damage of overall transformers installed (including transformers without Protection Boxes) on year to year basis. Thus, it does not provide any analysis on the reduction in damage of transformers due to installation of TPBs. Further it does not justify failure in utilising TPBs for a period of more than four years. The procurement without requirement indicated lack of due diligence by the concerned officer(s) resulting in idle expenditure of ₹ 7.25 crore.

Government may consider fixing responsibility on the officials involved in arbitrary assessment of requirement leading to subsequent not utilising the TPBs even after lapse of a period of more than four years.

The matter was reported to the Government (April 2021). The reply is awaited (November 2021).

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited

2.11 Avoidable payment of interest and consequential loss

Incorrect estimation of taxable profit by Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited led to avoidable payment of interest of ₹ 6.41 crore with a consequential loss to the same extent to the Company.

Section 210 (1) of the Income Tax Act, 1961 (the Act) provides that every person who is liable to pay advance tax under Section 208 shall, of his own accord, pay, on or before each of the due dates[108] specified in Section 211, the

[107] Calculated at the rate of 9.60 *per cent* per annum (rate applicable on PFC loan taken by MVVNL) for the period August 2016 to December 2020 (four years and five months) on the un-utilised TPBs valuing ₹ 7.25 crore.

[108] 15 June, 15 September, 15 December and 15 March.

appropriate percentage[109] specified in that Section, of the advance tax on his current income. Further, as per the Section 234 B/C of the Act, default/ deferment in payment of advance tax attracts payment of simple interest at the rate of one *per cent* for every month or part of the month from 1st day of April next following such financial year to the date of determination of total income or the date of regular assessment, on an amount equal to the assessed tax or the amount by which the advance tax paid falls short of the assessed tax.

Clause 9 (1) of Uttar Pradesh Electricity Regulatory Commission (Terms and Conditions of Generation Tariff) Regulations 2014 stipulates that tax on the income streams of the generating company from its core business, shall be computed as an expense and shall be permitted to be recovered from beneficiaries.

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) has its core business of generating power and bulk sales to Uttar Pradesh Power Corporation Limited (UPPCL). For the financial year 2015-16, UPRVUNL had projected loss in first three quarters and estimated a profit of ₹ 80.16 crore in the fourth quarter of the financial year. The Company paid (14 March 2016) an advance tax of ₹ 15.00 crore on the above estimated profit. As per the Income Tax Return (12 October 2016) for year 2015-16, the profit and tax liability stood at ₹ 360.75 crore and ₹ 76.99 crore respectively. The balance tax liability of ₹ 61.03 crore (₹ 76.99 crore - ₹ 15.00 crore - ₹ 0.96 crore[110]) was paid by UPRVUNL during June 2016 to September 2016, with an interest of ₹ 6.41 crore[111]. Further, UPRVUNL raised (31 August 2017) a bill to UPPCL for payment of various statutory dues including Income tax liability. UPPCL verified (05 October 2017) the statutory dues as payable without agreeing to the interest portion on the delayed payment of Income Tax.

Audit noticed (December 2018) that the estimated profit of ₹ 80.16 crore for the financial year 2015-16 was worked out after deducting the profit reducing impact of ₹ 215.87 crore of the final True up petition[112] (2011-12 to 2013-14) filed (06 July 2015) with the Uttar Pradesh Electricity Regulatory Commission (UPERC). Further, the taxable profit of ₹ 360.75 crore depicted an increase of 350 *per cent* from the estimated profit of ₹ 80.16 crore on account of impact of Tariff order[113] (29 April 2016) issued by UPERC. This indicated that while estimating the profit, UPRVUNL had not taken into account the expected profit increasing impact of tariff petition[114] filed with the UPERC on the same date (06 July 2015) of filing of True up petition. Thus, the profit for the financial year 2015-16 was incorrectly estimated by UPRVUNL, which led to default and deferment of payment of advance tax by the due dates and payment of an avoidable interest of ₹ 6.41 crore. Further, UPRVUNL also

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[109] 15 *per cent,* 45 *per cent,* 75 *per cent* and 100 *per cent.*

[110] Amount of TDS as shown in the Income Tax Return.

[111] ₹ 2.72 crore for default in payment of advance tax under section 234B *plus* ₹ 3.69 crore for deferment of advance tax payment under section 234C.

[112] The licensee (DISCOM) files the true up petition with the Electricity Regulatory Commission for reconciliation of difference between actual expenses & revenue on the basis of approved accounts and projected expenses & revenue considered at the time of tariff fixation for the concerned year. The gap between actuals and estimates is adjusted in the tariff fixed for the ensuing period.

[113] Multi-Year Tariff for the financial years 2014-15 to 2018-19.

[114] For determination of Multi-Year Tariff for the financial years 2014-15 to 2018-19.

suffered loss to this extent as claim for reimbursement of this amount was not admitted by the UPPCL.

The Management stated (July 2021) that after issuance of Tariff Order by UPERC (29 April 2016), profit of the Company was increased from ₹ 80.16 crore to ₹ 368.72 crore due to raising of bill for differential amount as per new Tariff Order which was not ascertainable at the time of calculating estimated profit to pay advance income tax as on 15 March 2016.

The reply of Management is not acceptable as while estimating the profit, UPRVUNL took into account the profit reducing impact of final true up petition of ₹ 215.87 crore but it did not take into account the expected profit increasing impact of Tariff petition, both filed with UPERC on the same date (06 July 2015). As interest of ₹ 6.41 crore was paid due to default in deposit of advance tax, the same was also not reimbursed by the UPPCL resulting in loss to UPRVUNL.

The matter was reported to the Government (May 2021). The reply is awaited (November 2021).