CHAPTER-II

Reviews relating to Government companies

2.1 Review on "Development of Industrial Infrastructures" by Uttar Pradesh State Industrial Development Corporation Limited

Highlights

The Uttar Pradesh State Industrial Development Corporation Limited (Company) was set up in March 1961 for promoting industrial development in the State in accordance with the State Industrial Policy. The Company failed to develop the requisite industrial infrastructure and ensure completion of industrial corridors, GCs, IIDCs, SEZ, EPIPs and Textile and Hosiery Parks in time; the intended socio-economic benefits of economic development and employment generation in the State could not be derived.

(Paragraphs 2.1.1, 2.1.7, 2.1.17 to 2.1.25)

Audit also noticed that:

- *The Company could not develop 5,557.656 acre of land despite investment of Rs.75.59 crore due to delay in depositing compensation, incorrect categorisation of land and purchase of unsuitable land, etc. which resulted in tardy pace of industrialisation in the State.*

(Paragraph 2.1.9)

- *The Company incurred excess expenditure of Rs.8.60 crore over the sanctioned cost for construction of infrastructure facilities in Export Promotion Industrial Park, Kasna which had not been approved by the Government of India though the scheme had since been closed.*

(Paragraph 2.1.24)

- *The Company could not commission its captive power plant thereby failing in its commitment to provide uninterrupted power supply for development of industrial areas, despite investment of Rs.25.28 crore.*

(Paragraph 2.1.26)

- *The Company did not make concerted efforts to get the 1,14,926.25 sq mtr of encroached industrial plots valuing Rs.31.41 crore vacated.*

(Paragraph 2.1.31)

- *The Company did not cancel the allotment of 64 plots in its two Very Fast Moving and three Fast Moving Industrial Areas despite its non-utilisation by allottees for more than five to 30 years resulting in delay in augmenting industrial growth in the region besides an additional revenue of Rs.5.33 crore could not be earned.*

(Paragraph 2.1.34)

- *The Company failed to realise transfer levy amounting to Rs.1.57 crore from the allottees.*

(Paragraph 2.1.35)

Introduction

2.1.1 The Uttar Pradesh State Industrial Development Corporation Limited (Company) was incorporated on 25 March 1961 as a wholly owned

Government company with the main objective of promoting industrial development in the State.

The Company undertakes the following stage wise activities for development of industrial areas and infrastructure projects within the ambit of the industrial policy of the State Government.

- Acquisition of land
- Infrastructure development
- Industrial area operations

The Management of the Company is vested in a Board of Directors consisting of 14 Directors including Managing Director (MD) and a part time Chairman appointed by the State Government. The Managing Director is the Chief Executive of the Company and looks after the day-to-day's affairs of the Company with the assistance of a Joint Managing Director, a General Manager, a Finance Controller, a Chief Engineer (Project) and a Chief Manager (Industrial Area) at the Headquarters.

During the last five years up to 2004-05, five officers held the post of MD of the Company with tenure of two to 38 months against the minimum tenure of three years as per Government directives (1979). The frequent changes of MDs did not provide adequate time for planning, execution and follow-up of the activities of the Company.

The last review on the performance of the Company was featured in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 1999 which has not been discussed by the Committee on Public Undertakings so far (September 2005).

Scope of audit

2.1.2 The present review conducted during December 2004 to April 2005 covers the performance of the Company regarding development of industrial areas and industrial infrastructures during the last five years up to 2004-05.

The Company has one Design and Planning Division, nine[1] Construction Divisions (CDs), two[2] Electrical Divisions (EDs) and 11[3] Regional Offices (ROs).

Audit examined the records at Corporate Office and seven[4] CDs, two[5] EDs and six[6] ROs.

Audit objectives

2.1.3 The major audit objective is to make an assessment of the extent to which the Company was able to accelerate the pace of industrialisation by developing industrial infrastructure in various parts of the State. Towards this goal, Audit analysed whether:

- the Company acquired land, developed infrastructure efficiently, economically and effectively;

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[1] Lucknow (2 divisions), Kanpur (2 divisions), Ghaziabad (2 divisions), Tronica Citiy (Ghaziabad), Moradabad, Agra.
[2] Kanpur and Tronica City (Ghaziabad).
[3] Kanpur, Lucknow, Tronica City (Ghazaibad), Ghaziabad, Surajpur, Meerut, Bareilly, Aligarh, Allahabad, Gorakhpur, Agra.
[4] Lucknow (two), Kanpur, Ghazaiabad (two), Tronica City and Moradabad.
[5] Kanpur and Tronica City.
[6] Ghaziabad, Tronica City at Ghaziabad, Surajpur at Gautam Budh Nagar, Kanpur, Gorakhpur and Allahabad.

- the provisions of Land Acquisition Act, 1894 and Land Acquisition (Karar Niyamawali, 1997) pertaining to the land acquisition were adhered to;
- the guidelines of the State Industrial Policy has been followed in infrastructure development;
- infrastructure projects were implemented by the Company according to the approved guidelines of the Government of India;
- socio-economic objectives were achieved.

Audit criteria

2.1.4 Audit criteria included examination and analysis of the following systems and procedures designed for infrastructure development in the State by the Company:

- Fixation of targets for land acquisition, development and its achievements there against;
- Development of internal and external infrastructure facilities in industrial areas;
- Development of infrastructure projects for achievement of the objectives of industrial growth and employment generation;
- Evaluation of marketing of developed industrial plots with reference to pace of industrialisation.

Audit methodology

2.1.5 The following methodology was employed for deriving Audit conclusions:

- Study of State Industrial Policy, Board of Directors' agenda and minutes, annual reports, construction and allotment manuals, project reports, physical and financial progress reports;
- Scrutiny of land acquisition records, layout plans of industrial areas, estimates, tenders, agreements and measurement books for execution of civil and electrical works;
- Examination of plot-wise registers, registers of allotment, restoration and transfer of plots at the Headquarters and field offices of the Company;
- Analysis of procedure to assess as to how far the Company achieved the objectives of infrastructure development and consequent employment generation and poverty alleviation in the State.

Audit findings

2.1.6 Audit findings, as a result of review on Development of Industrial Infrastructures by the Company were reported to Management/Government in May 2005 and were discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 25 July 2005. The Under Secretary, Government of Uttar Pradesh and Finance Controller of the Company attended the meeting. The Company also submitted detailed replies which have been taken into consideration during finalisation of the review.

The activity-wise Audit findings are discussed in the succeeding paragraphs:

State Industrial Policy

2.1.7 The State Industrial Policy, 1998 envisaged a three pronged strategy for infrastructure development:

- Development of infrastructure through private sector participation.
- Comprehensive and rapid development of selected geographical corridors with high quality infrastructure facilities.
- Upgradation of existing infrastructure facilities.

Audit analysis revealed that the Company, in spite of being a nodal agency for development of infrastructure, failed to comply with the aforesaid policy as:

- the Company did not involve private sector participation in development of infrastructure; and
- no industrial corridors have been established as of March 2005.

Acquisition of land

2.1.8 The Company acquires land from Gram Samaj and private landowners under the provisions of the Land Acquisition Act, 1894 (LAA) and U.P. Land Acquisition Karar Niyamawali, 1997 (LAKN).

The Company up to 31 March 2005, acquired 48,733 acre land against which 42,529 acre land was developed.

The table below indicates the land available for development at the beginning of the year, land acquired and developed during the year and land available for development at the end of each year during the last five years up to 2004-05:

(Land in acre)

Sl No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	Total
1	Land available for development at the beginning of the year	3638	4037	4826	6011	6227	24739
2.	Target fixed by the Company for the acquisition of land	800	1000	1000	1000	1100	4900
3	Land acquired during the year	928	1474	2038	1086	1002	6528
4	Total land available (1+3)	4566	5511	6864	7097	7229	31267
5	Land developed during the year	529	685	853	870	1025	3962
6	Land available for development at the end of the year (4-5)	4037	4826	6011	6227	6204	27305
7.	Percentage of acquisition of land to target fixed (3/2)	116	147	204	109	91	133
8.	Percentage of developed land to total land available for development (5/4)	12	12	12	12	14	13

Audit analysis revealed the following:

- The Company had acquired land ranging from 928 to 2,038 acre despite the fact that it had sufficient land ranging from 3,638 to 6,227 acre at the beginning of each year during the last five years up to 2004-05. The acquisition of land in excess of requirement not only blocked the Company's funds but also affected the pace of industrialisation in the State.
- The percentage of acquisition of land with reference to targets fixed varied from 91 to 204 *per cent* whereas the percentage of developed land to total land available ranged between 12 and 14 *per cent* during the five years up to 2004-05. This indicates that the targets were not fixed as per demand and requirement and the pace of industrialisation was not compatible with the acquisition of land.
- The Company did not update the land acquisition registers showing industrial area-wise land acquisition, compensation paid, date of

possession of land, date of final award made by District Collector and development made thereon.

Blockage of funds

2.1.9 The Company could not develop 5,557.656 acre of land (land acquired: 852.155 acre and land not acquired but payment for which was made: 4705.501 acre) despite investment of funds of Rs.75.59 crore. The reasons for non-development were non-submission of complete proposals for land acquisition as required under LAA, non-negotiation of rates of land with land owners under LAKN, delay in depositing amount of compensation, incorrect categorisation of land and purchase of unsuitable land, etc. This resulted in tardy pace of industrialisation in the State as discussed below:

Submission of incomplete proposals

In 11 districts 3,800.971 acre of land could not be acquired resulting in blockage of Rs.27.24 crore.

2.1.10 The Company did not submit the complete proposals to the concerned District Collectors (DCs) and fulfill the required formalities under Section 4 of LAA for acquisition of 3,800.971 acre land in 11 districts of the State as detailed in **Annexure-11**. As a result, preliminary notification under Section 4/17 of LAA for land acquisition could not be issued. The land could not be acquired as of March 2005 and there was a delay of three to 120 months beyond one year from the date of payment. This resulted in blockage of Rs.27.24 crore deposited by the Company for the acquisition of land during March 1994 to December 2003.

The Management stated (July 2005) that almost one year period was required to complete the required formalities. The reply is not acceptable in view of the fact that the period of one year has been taken in account while computing the delay.

2.1.11 The Company could not furnish the correct information to DC for acquisition of 384.57 acre land in Bodha village of Bulandshahr District to develop the Chola industrial area, and the preliminary notification under Section 4/17 for acquisition of land could be issued after a lapse of three years (July 2002). The Company, further, deposited Rs.3.01 crore in September 2003 but notification under Section 6/17 of the Act could be issued in April 2005. This led to delay in acquisition of land and the industrial area also could not be developed.

Negotiation with landowners

Possession of 519.96 acre land could not be taken resulting in idle investment of Rs.9.60 crore.

2.1.12 The Company deposited (July and October 2002) Rs.9.60 crore towards estimated compensation for the acquisition of 519.96 acre land to establish Special Economic Zone (SEZ), Bhadohi. The Company, however, could not fix the rate of compensation by negotiating with landowners as required under Section 2 of LAKN and did not submit the proposal to DC for final award. As a result, the possession of 519.96 acre land could not be taken as of March 2005 resulting in idle investment of Rs.9.60 crore and non-establishment of SEZ.

Delay in deposit of compensation

2.1.13 In Sahabajpur, Bulandsahar and Chandauli Districts, the Company did not deposit the full amount of land compensation with the concerned DCs for acquisition of 170.125 acre and 144.92 acre land respectively up to the date of possession (March/July 2002). Consequently, it had to incur interest liability of Rs.71.93 lakh under Section 34 of LAA.

The final award for land acquisition was also not made by DC leading to non-development of industrial areas and blocking of funds of Rs.4.75 crore paid by the Company as compensation.

Incorrect categorisation of land

Despite investment of Rs.21.68 crore, industrial area could not be developed.

2.1.14 The Company deposited Rs.21.68 crore with DC during October 1996 to April 2002 towards land compensation for acquisition of 199.86 acre land at Gulistanpur in Gautam Budha Nagar District for development of an industrial area. The Company executed agreements (April 2001) with landowners treating the entire land as *pustaini* land without categorising it into *pustaini* and *non-pustaini* and paid Rs.203.55 per sq yard for the entire land. Consequently, the extra payment made to the landowners could not be ascertained in audit. It was noticed that the industrial area had also not been developed despite an investment of Rs.21.68 crore.

Acquisition of unsuitable land

2.1.15 The Government approved (November 2001) the transfer of 155.70 acre land at a cost of Rs.7.03 crore to the Company from Central Dairy Farm (CDF), Aligarh with the condition that the land would not be allotted for slaughter house. Despite being fully aware of the said condition, the Company decided (December 2001) to set up an Agri Export Zone for promoting export of bovine meat on the said land and paid an amount of Rs.5.47 crore to CDF but took possession of 144.29 acre land only. The land had been lying unutilised as of March 2005 as the Company could not get the condition of non-setting up of slaughter house relaxed from the Government. Thus, the amount of Rs.5.47 crore remained blocked since March 2002 and Rs.40.18 lakh paid towards cost of excess land of 11.41 acre (155.70 acre *minus* 144.29 acre) also could not be obtained from CDF as of March 2005. Besides, the Company failed to establish the Agri Export Zone due to selection of unsuitable land.

The Management stated (July 2005) that the land was purchased in anticipation of lifting of ban by the Government and the matter had been taken up with the CDF for refund of excess amount of Rs.40.18 lakh. The contention of the Management is not acceptable because the decision of the Company to acquire unsuitable land was not judicious.

Extra expenditure of Rs.2.45 crore was incurred for purchase of unsuitable land besides blockage of funds of Rs.3.84 crore.

2.1.16 The Company purchased (March 1999) 95.40 acre land from Gujarat Ambuja Cement Limited (GACL) at a cost of Rs.2.07 crore which was higher by Rs.68 lakh as compared to the prevailing price of land. The land was acquired despite the observations of the officers of the Company that the land was unsuitable for development of an industrial area because of its non-connectivity with the main road and non-rectangular size. Further, the Company purchased (March 2004) additional 97.56 acre land at a cost of Rs.1.77 crore at the adjoining area of the said land to make the land suitable for development of an industrial area but could not acquire the same due to stay granted by the Court and the industrial area remained undeveloped as of March 2005. Thus, due to purchase of unsuitable private land for development of an industrial area, the Company incurred avoidable extra expenditure of Rs.2.45 crore. Besides, the investment of Rs.3.84 crore has continued to remain blocked for a period of over six years (September 2005).

Management stated (July 2005) that the land was purchased in compliance with a Government order (March 1998). The reply is not acceptable as the Company itself had proposed to purchase the land to which the Government

had accorded approval and the Company was not bound to purchase the land which was unsuitable for development of industrial area.

Infrastructure Development

2.1.17 Infrastructure plays a pivotal role in industrialisation. High quality infrastructure provides competitive edge to industry as it increases the productivity of capital and reduces the cost of production and marketing. The State Industrial Policy also emphasised the need for creation of high quality infrastructure facilities for attracting entrepreneurs to establish industries in the State. The prime objective of the policy was to ensure creation of employment generation and eradication of poverty.

Presently the Company is engaged in developing 155 industrial areas in the State including development of industrial infrastructure by establishment of four Growth Centres (GCs), seven Integrated Infrastructure Development Centres (IIDCs), one Special Economic Zone (SEZ), two Export Promotion Industrial Parks (EPIPs), and one Textile and Hosiery Park under the Central Government's sponsored schemes.

Infrastructure development includes construction of roads, drains, culverts, common facility centre and provision of electricity and water facilities, etc.

Target and achievement for land development

2.1.18 The table below indicates the targets fixed for land development and achievements their against during the last five years up to 2004-05:

Year	Development of land (in acre)		Excess (+)/ Shortfall (-) (in acre)	Allotment of developed land (in acre)	Percentage of allotment to developed land
	Target	Achievement			
2000-01	500	529	(+) 29	540.22	102.12
2001-02	680	685	(+) 5	157.07	22.93
2002-03	853	853	0	415.56	48.72
2003-04	840	870	(+) 30	461.20	53.01
2004-05	1102	1025	(-) 77	301.47	29.41
Total	**3975**	**3962**	**(-) 13**	**1875.52**	**47.34**

It would be seen from the above that although the Company achieved the target of land development in each year up to 2003-04, the percentage of allotment to developed land varied from 22.93 to 53.01 *per cent* during 2001-02 to 2004-05. This indicates that target for development of land was not fixed as per demand and requirement of industrial areas. The main reason for low demand of developed land was non-development of proper infrastructure and common facilities in industrial areas, as discussed in the succeeding paragraphs.

Establishment of Growth Centres

2.1.19 The Central Government decided (June 1988) to set up 100 GCs throughout the Country. These GCs were to act as magnets for attracting industries to backward areas with infrastructure facilities like power, water, telecommunication, banking, etc.

The Company undertook the development of five GCs at Bijauli, Sahajahanpur, Dibiyapur, Moradabad and Khurja. The Moradabad GC had been converted into SEZ and Khurja GC was shifted at Jainpur (Kanpur) in June 2003.

Delay in development of the Growth Centres

2.1.20 The physical and financial progress of all the four GCs up to March 2005 are given in the following table:

Sl. No.	Particulars	Bijauli	Shah-jahanpur	Jainpur	Dibiyapur	Total
1.	Date of sanction	23.3.93	17.2.93	27.6.03	18.2.98	
2.	Project cost (Rs. in crore)	18.85	16.22	18.99	19.50	73.56
	Financing pattern (Rs. in crore)					
3.	Central and State Government share	9.43	8.11	9.49	9.75	36.78
	Company's contribution	9.42	8.11	9.50	9.75	36.78
	Financial progress (Rs. in crore)					
4.	Fund received from Central/State Government	9.18	6.89	10.75	5.43	32.25
5.	Spent out of equity received	9.18	6.89	10.75	5.43	32.25
6.	Spent out of own fund	0.90	3.67	10.63	2.31	17.51
7.	Total expenditure	10.08	10.56	21.38	7.74	49.76
	Physical progress					
8.	Land to be acquired (in acre)	397.69	311.65	351.25	400.00	1460.59
9.	Land acquired (in acre)	385.04	310.92	331.07	331.58	1358.08
10.	Total plots to be developed (nos.)	276	339	936	208	1759
11.	Plots developed (nos.)	90	97	462	Nil	649
12.	Plots allotted (nos.)	21	43	293	Nil	357
13.	Plots utilised (nos.)	Nil	7	Nil	Nil	7

In this regard, the following were noticed during audit:

- According to the project reports prepared by the Company, these GCs were to be fully developed within four years from the date of sanction. The development in Bijauli, Sahajahanpur, and Dibiyapur GCs was very dismal even after a lapse of seven to 12 years.
- The Company did not analyse the reasons for non-completion of development work of GCs within the stipulated period. Audit analysis revealed that delay in award of work, non-completion of development work by the contractor within scheduled period and lack of monitoring the progress of work delayed the completion of work.

Poor allotment and non-setting up industrial units of allotted plots were due to non-development of internal and external infrastructure facilities.

- Only 649 plots could be developed till March 2005 against the projected development of 1,759 plots in all the four GCs, out of which only 357 plots were allotted. Among the allotted plots, only seven plots were utilised by allottees for setting up industrial units. The main reason for poor allotment as well as utilisation thereof was non-development of internal and external infrastructure facilities as envisaged in the Government's scheme as well as in the project reports.
- The Central and State Governments released only Rs.32.25 crore against their share of Rs.36.78 crore. The balance Rs.4.53 crore (Central Government: Rs.3.05 crore and State Government: Rs.1.48 crore) was not released by the Governments due to slow development work.
- The development work at Dibiyapur GC had been held up since 2003 due to resistance and hindrances by the landowners despite that the Company incurred Rs.67 lakh on widening and strengthening of road of Public Works Department up to January 2005 which was not provided in the estimated cost of the project. The common facility centre building and police out-post constructed at a cost of Rs.7.44 lakh and Rs.5.14 lakh respectively also remained unutilised since 2003.
- The Company incurred excess expenditure of Rs.5.15 crore over the sanctioned cost on the development work, as detailed below, for which the revised sanction has not been obtained (September 2005) from the Central Government:

(Rs. in crore)

Name of GC	Items of expenditure	Sanctioned cost	Actual expenditure	Excess expenditure
Sahajahanpur	Site development etc	7.07	9.10	2.03
Jainpur	Laying & joining of sewer lines	1.22	2.36	1.14
Dibiyapur	Acquisition of land	1.60	3.58	1.98
Total		**9.89**	**15.04**	**5.15**

Due to non-completion of internal and external infrastructure facilities, the establishment of GCs was inordinately delayed. Resultantly, the objective of the industrial development of backward regions as well as creation of employment generation to the people of the area could not be achieved and the investment of Rs.49.76 crore was rendered largely unproductive (only seven plots out of 649 developed were in use).

Development of Growth Centre, Khurja

Expenditure of Rs.2.10 crore incurred on disputed land rendered unfruitful.

2.1.21 The Central Government sanctioned (March 1993) a GC at Khurja at a projected cost of Rs.39.62 crore. The Company acquired (1994-95) 196.46 acre land at a cost of Rs.3.77 crore. Audit noticed that although there were hindrances due to disputes with the land owners regarding compensation, the Company started (May 1995) development work on the land and incurred Rs.2.10 crore up to March 2002. Later on in June 2003, the Central Government accorded approval for shifting of GC, Khurja to Jainpur in Kanpur District. Thus, due to ill-conceived planning to take up development work at a disputed site, the expenditure of Rs.2.10 crore was rendered unfruitful.

The Management stated (July 2005) that though the matter of land compensation of GC, Khurja was sub-judice, the development of GC, Khurja was taken up in anticipation of favourable decision of High Court. Due to higher rate of compensation awarded by the Court during 2001, the project became financially unviable and hence it was shifted to Jainpur. The reply is not tenable as when the matter of land compensation was sub-judice, the Company should not have started the land development work.

Establishment of Integrated Infrastructure Development Centres

2.1.22 Pursuant to policy measures for promoting and strengthening small, tiny and village enterprises, the Central Government announced (August 1991) the scheme of Integrated Infrastructure Development (IID) for small scale industries in rural and backward areas with the objectives to create employment opportunity and to promote export as well as linkage between agriculture and industry. Under the scheme, each IIDC was to be developed in 50 acre land at a cost of Rs.5 crore covering 250 plots of 200 sqm and 200 plots of 300 sqm each.

The Company had undertaken to establish seven* IIDCs in the State. Their progress up to March 2005 is given in the table below:

Sl. No.	Particulars	Baghpat	Etah	Kosi Kotwan	Banthar	Ram Nagar	Masauri Gulawati	Kursi Road
1	2	3	4	5	6	7	8	9
1.	Date of sanction	10.12.01	25.3.97	26.6.96	20.6.96	18.6.02	10.12.01	10.12.01
2.	Due date of completion	10.5.03	25.3.99	26.6.98	26.6.98	10.12.03	10.5.03	10.5.03
3.	Project cost (Rs. in crore)	5.48	5.01	7.00	5.50	5.67	5.09	5.06
4.	**Means of financing**							
(a)	Government grant (Rs. in crore)	2.00	1.80	2.00	2.00	2.00	2.00	2.00
(b)	Company's contribution (Rs. in crore)	3.48	3.21	5.00	3.50	3.67	3.09	3.06
5.	Grant received (Rs. in crore)	1.09	1.69	1.62	1.83	1.00	0.84	0.67
6.	Total expenditure (Rs. in crore)	6.84	4.92	6.72	6.10	0.01	4.03	5.02
7.	Land to be acquired (in acre)	50	50	50	50	50	50	50

* Baghpat, Etah, Kosi Kotwan, Banthar, Ram Nagar, Kursi Road and Masauri Gulawati.

1	2	3	4	5	6	7	8	9
8.	Land acquired (in acre)	67.20	50.00	50.60	NA	Nil	50.00	50.00
9.	Total plots to be developed (nos.)	450	450	450	450	450	450	450
10.	Plots developed (nos.)	249	353	444	264	Nil	135	123
11.	Plots allotted (nos.)	13	297	370	264	Nil	Nil	47
12.	Plots utilised (nos.)	Nil	Nil	1	Nil	Nil	Nil	Nil
13.	Present status	Under progress	Completed (June 2001)	Comple ted (June 2001)	Completed (January 2004)	Under progress	Under progress	Under progress

In this regard, the following points were noticed during audit:

- Under the scheme each IIDC was to be set up at a cost of Rs.five crore whereas the Company sanctioned the cost of each IIDC above Rs.five crore (ranging from Rs.5.01 crore to Rs.7 crore) for which no reasons were available on record.
- In Baghpat IIDC, the Company developed 249 plots of sizes ranging from 450 to 1,800 sqm in 67.20 acre land against the projected 450 plots of sizes ranging from 200 to 300 sqm in 50 acre land. There was no justification on record for excess development of 17.20 acre land valuing Rs.11.70 lakh. According to the project report, 396 units of food beverage and agriculture, cotton textile, wood products, hosiery, leather products etc. were to be set up having employment opportunities for approximately 5,000 peoples but no unit could be set up as of March 2005.
- The IIDCs at Etah, Kosi Kotwan and Banthar were completed after a delay of two to five years from the scheduled date of completion. The utilisation of plots was nil in all IIDCs except Kosi Kotwan for which the Company neither analysed reasons nor cancelled allotments wherever applicable.
- In IIDC Etah, although all the 353 plots were allotted to entrepreneurs during 2000-01, no unit could be set up. Out of these 353 plots, 56 plots were surrendered by the entrepreneurs till March 2005. The Company, however, did not analyse the reasons for non-establishment of units so as to take remedial measures.
- The Ram Nagar IIDC was to be completed by December 2003. Its progress was held up due to non-acquisition of land as of March 2005. Hence, the grant of Rs.one crore received from the Central Government also remained unutilised.
- In Masauri Gulawati IIDC, the Company developed 135 bigger size plots (450 to 1,000 sqm) against the prescribed size of 200 to 300 sqm. No plot could be allotted. Further, the Company could receive grant of Rs.84 lakh only against the sanctioned amount of Rs.two crore due to slow progress of the work.
- The Company incurred excess expenditure over the sanctioned cost, as detailed below, which has not been regularised so far (March 2005):

(Rs. in crore)

Name of IIDC	Item	Sanctioned cost	Actual expenditure	Excess expenditure
Baghpat	Site development etc.	3.20	4.05	0.85
Etah	Site development etc.	2.36	3.94	1.58
Kosi Kotwan	Frequent changes in layout plan	2.23	4.01	1.78
	Total	**7.79**	**12.00**	**4.21**

- The delay in establishment of IIDCs resulted in non-achievement of objectives of setting up of small scale industries in rural and backward areas for industrial growth and economic development. Besides, the

target of employment generation for about 47,000 persons as envisaged in the project report had not been achieved.

The non-establishment of aforesaid IIDCs was attributable to the following reasons:

- Development of bigger size plots against the norms of the scheme.
- Slow execution of development work.
- Non-establishment of common/commercial facilities.
- Non-acquisition of land.
- Lack of aggressive marketing.

The Management stated (July 2005) that time framework for development of IIDC mentioned in the project reports was only the estimated time. In IIDC Baghpat, the size of plots were developed on the basis of demand assessed at regional level and additional development of land within the estimated cost was not debarred by the Government of India. The excess expenditure was based on actual requirement and due to inflation which would be regularised in the State level meeting of the Government. The reply is not tenable as not only did the Company not adhere to the provisions of the guidelines as well as provisions mentioned in the project reports but also the allotment of plots in IIDC was low and there is virtually no utilisation.

Development of Special Economic Zone, Moradabad

2.1.23 The Special Economic Zone (SEZ) is a specifically delineated duty free enclave and is deemed to be foreign territory for the purpose of trade operation, duties and tariff. On the basis of pressing demand for establishment of a SEZ at Moradabad since 2002 by the industrialists, the Company proposed (September 2002) to the Central Government for conversion of Moradabad GC into SEZ at an estimated cost Rs.71.72 crore, covering an area of 468 acre land, which was approved by the Central Government in June 2003. Audit analysis revealed the following:

- Development of the SEZ was projected to be completed within a period of two years. The development work of SEZ could not be completed due to changes in layout plan four times during November 2001 to February 2005.

Higher premium rate and non-provision of the common facilities attributed to poor allotment in the SEZ.

- The Company developed 471 plots of the sizes ranging from 112.50 sqm to 20,500 sqm instead of 620 plots of the sizes ranging from 500 sqm to 8,000 sqm as provided in the project report. Out of 471 plots, 271 plots could be allotted, of which only one unit was under production (March 2005). The main reasons for poor allotment were attributable to the fixation of higher premium rate of the land (Rs.650 to Rs.825 per sqm against projected rate of Rs.600 per sqm) fixed by the Company and non-provision of the facilities like fire station, common effluent treatment plant, external drainage, etc.

Thus, due to delay in establishment of SEZ, the objective of export promotion and earning of foreign exchange as envisaged in the project report remained unfulfilled apart from non-fulfillment of the social objective of the employment generation for 13,000 persons.

The Management stated (July 2005) that SEZ had been developed in one and half years and the layout plan was changed as per mandatory requirement of SEZ and Customs, and the size of plots was changed as per demand. The reply of Management is not acceptable in view of fact that the layout plan of SEZ was finally approved in February 2005 and the allied infrastructure facilities like common effluent treatment plant, fire stations, external drainage, etc,

could not be created even up to September 2005. Besides, the development of plots having size of bigger than 8,000 sq mtr was not envisaged in the project report.

Establishment of Export Promotion Industrial Parks

2.1.24 In order to boost the performance of the Indian trade, the Central Government sponsored (March 1993) a scheme for establishment of Export Promotion Industrial Parks (EPIPs)* with a view to involve State Government in export efforts by providing financial assistance for building up infrastructural facilities of high standard and establishing export oriented units in these parks.

The Company undertook (December 1994 and January 2000) the establishment of two EPIPs at Kasna** (Greater Noida) and Agra. The progress in developing infrastructure of these EPIPs is given in the table below:

Sl. No.	Particulars	EPIP Kasna	EPIP Agra
1	Sanction of the project by the Central Government	December 1994	January 2000
2	Project cost (Rs. in crore)	28.22	21.02
3	Land to be developed (in acre)	193	101.89
	Plots to be developed (in nos.)	400	364
4	Land developed (in acre)	110	61.10
	Plots developed (in nos.)	418	266
5	No. of plots allotted	325	228
	No. of units allotted	270	114
6	Unit under production (nos.)	12	5

- As would be seen from the above table, only 12 units commenced production out of allotment made for 270 units in EPIP Kasna due to non-creation of the infrastructure facilities in the EPIPs.

Excess expenditure of Rs..8.60 crore was incurred over the sanctioned cost.

- The Company incurred excess expenditure of Rs.8.60 crore up to June 2004 over the sanctioned cost for construction of infrastructure facilities in EPIP Kasna which had not been got regularised by obtaining approval of the revised cost from the Central Government so far (March 2005). Meanwhile the EPIP scheme had been closed.
- In EPIP, Agra, out of 266 developed plots (61.10 acre), 228 plots were allotted for establishing 114 units but only five units could be set up as of March 2005 due to non-completion of approach road from the National Highway. Further, the Company failed to establish common facilities viz. shops, restaurant, bank, kiosks, common facility centre, commercial complex as envisaged in the project report.

The objective of establishing EPIPs for export promotion and employment generation for 9,770 persons could not be achieved.

The Management accepted the audit findings and stated (July 2005) that there existed no possibility of getting the excess expenditure regularised because the EPIP scheme had been closed.

Textile and Hosiery Park, Rooma, Kanpur

2.1.25 For augmenting textile export and promoting World class integrated textile and hosiery park and processing units, the Central Government approved (August 2003) establishment of a Textile and Hosiery Park having 271 small, medium and large units and 100 tiny units at Rooma, Kanpur for providing direct employment to about 48,000 persons.

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* A para on proposal stage of establishment of EPIP had featured in the AR (C) 1998-99.

** A para on fixation of higher price for the land in EPIP Kasna had featured in the AR (C) 1999-2000.

Industrial units could not be set up on the allotted plots for want of permission from UPPCB to install ETP.

According to the project report, the Park was to be completed at a cost of Rs.21 crore covering 150 acre land by August 2005. The Company developed 150 acre land at a cost of Rs.11.14 crore up to 31 March 2005. Audit noticed that although 158 plots were allotted to 147 units, but no unit could be established for want of permission from the Uttar Pradesh Pollution Control Board due to non-installation of effluent treatment plant. Further, the Company incurred excess expenditure of Rs.1.31 crore on site development and electrification works which had not been got regularised so far (September 2005).

The Management stated (July 2005) that 239 plots had been allotted to both polluting and non-polluting units and allottees might have their own reasons for delay in setting up of their units. To prevent encroachment in future by the local people, boundary wall was constructed, which increased the cost of site development. The reply is not acceptable because the Company whose main objective was to ensure industrialisation of the State should have ensured development of plots allotted and should have also ensured that requirements of the Pollution Control Board were met so that industries could be set up.

Power infrastructure

Providing uninterrupted power supply for industrial area development

Despite expenditure of Rs.25.28 crore, captive power plant could not be commissioned.

2.1.26 The Company with a view to provide uninterrupted power supply in its Tronica City industrial area, Ghaziabad decided (November 1998) to set up a Captive Power Generation and Distribution Plant of 25 MW capacity which was to be implemented in four phases. In the first phase, 11.45 MW power plant was to be set up and synchronised with the State grid. Bharat Heavy Electricals Limited completed the plant (11.45 MW) in September 2000 at a cost of Rs.24.56 crore. The plant could not be commissioned due to the following reasons as analysed in audit:

- The distribution network to feed the supply could not be completed by Uttar Pradesh Power Corporation Limited (UPPCL) as the Company belatedly paid (April 2004 and 2005) Rs.53.22 lakh for construction of evacuation bay, 33 KV bay at switchyard of power project and 33 KV bay at 132 KV sub-station, Loni.
- The 33 KV line from 132 KV sub-station of UPPCL to captive power plant which was constructed (February 2003) at a cost of Rs.19.32 lakh also remained unutlised (March 2005).
- The Power Purchase Agreement (PPA) was executed in October 2004 with UPPCL, which had not been approved by Uttar Pradesh Electricity Regulatory Commission (UPERC) so far (March 2005).

Thus, due to non-commissioning of the captive power plant, the Company failed to ensure uninterrupted power supply to industrial units of industrial area. This adversely affected the establishment of industrial units in the area and the investment of Rs.25.28 crore was rendered unfruitful.

The Management stated (July 2005) that the grid synchronisation network could be commenced only after execution of PPA with UPPCL, which was pending with UPERC. The reply is not tenable because the Company should have simultaneously initiated process of execution of PPA and award of work for construction of plant.

Industrial Area Operation

2.1.27 After development of infrastructure facilities in an industrial area, the concerned Regional Manager (RM) is provided an inventory of allottable plots

by the construction wing to take up allotment of the plots for setting up industrial units and recovery of premiums.

Marketing of plots

2.1.28 The table below indicates the position of development, allotment and utilisation of land and plots till the end of each year during the five years up to 2004-05:

(Area in acre and plots in nos.)

Sl. No.	Particulars		2000-01	2001-02	2002-03	2003-04	2004-05
1.	Land available for allotment	Area	32631.19	32564.59	32418.10	32578.63	32919.33
		Plots	25604	26349	26779	27325	28771
2.	Land allotted	Area	22955.80	23112.87	24528.47	24989.67	25291.14
		Plots	20816	21141	22186	22825	24411
		Units	17105	17243	17862	18339	19162
3.	Land not available for allotment due to earmarking/ litigation/ restoration	Area	488.50	397.35	379.80	446.66	466.64
		Plots	809	585	573	704	783
4.	Balance land available for allotment (1-2-3)	Area	9186.89	9054.37	7509.83	7142.30	7161.55
		Plots	3979	4623	4020	3796	3577
5.	Sick units	Area	2186.55	2246.65	2251.50	3719.23	3702.63
		Plots	2026	2029	2047	2232	2272
6.	Units under production[1]	Area	13680.91	13620.58	13891.36	13097.47	12804.80
		Units	4482	4424	4685	4768	4839
7.	Unutilised allotted land (2-6)	Area	9274.89	9492.29	10637.11	11892.20	12486.34
		Units	12623	12819	13177	13571	14323
8	Percentage of allotment to available land (2 to 1)		70.35	70.98	75.66	76.71	76.83
9.	Percentage of utilisation of land to allotted land (6 to 2)		59.60	58.93	56.63	52.41	50.63
10.	Percentage of land of sick units to allotted land (5 to 2)		9.53	9.72	9.18	14.88	14.64

In this regard, the following deserve mention:

- Though percentage of allotted land to land available for development increased from 70.35 in 2000-01 to 76.83 in 2004-05, the percentage of utilisation of allotted land (units under production) to total allotted land had decreased from 59.60 in 2000-01 to 50.63 in 2004-05. This indicated that industrial plots were being purchased by entrepreneurs who did not set up their units for production. The percentage of sick units to total allotments increased from 9.53 (2000-01) to 14.64 (2004-05). The Company did not analyse the reasons for the increasing trend of sick units.

228 plots valued at Rs.21.42 crore allotted to entrepreneurs remained unutuilised for more than five years.

- In eight industrial areas **(Annexure-12)**, the percentage of allotted land to land available for allotment ranged between nil and 48.53 *per cent.* Out of 1,192 plots (717.65 acre), 651 plots (608.08 acre) valued at Rs.22.52 crore remained un-allotted. Further, out of 14,323 unutilised plots, 228 plots (5,23,931.54 sq mtr) valued at Rs.21.42 crore allotted to entrepreneurs in 21 industrial areas remained unutilised even after a lapse of more than five to 31 years as detailed in **Annexure-13.** This is indicative of the fact that the Company developed these areas without assessing the demand for industrial plots. Besides, it did not take action to cancel the allotments of entrepreneurs who were not utilising the plots and re-allot the same to other entrepreneurs.
- The percentage of units in operation as compared to the allotted units in six[2] Very Fast Moving (VFM) industrial areas ranged between nil and 11.71 *per cent* and in eight[3] Fast Moving (FM) industrial areas, it ranged

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[1] Unit under production at the end of the year is arrived by the Company after addition of new units, surrendered, cancellation and sub-division of plots.

[2] Masauri Gulawati, Surajpur site IV and V, EPIP Kasna, Tronica City and Panki SiteV.

[3] EPIP Agra, IIDC Kosi Kotwan, Kosi-II, SEZ Moradabad, Sikandrabad, Banthar (Industrial), IIDC Bathar and Rooma.

between nil and 4.90 *per cent* only and in 16 out of 24 Slow Moving (SM) industrial areas, no unit was in operation (**Annexure-14).**

- Out of 783 developed plots (466.64 acre) lying un-allotted due to earmarking/litigation/restoration, 354 plots (289.63 acre) valued at Rs.154.04 crore remained un-allotted for more than five years **(Annexure-15)**. The Company, however, did not make concerted efforts to settle the disputes, so that the plots could be allotted for industrial operation.

The Management stated (July 2005) that as regards utilisation of plots, the figures had been arrived at after excluding sick units and proportion of utilised land was going down due to sizeable new allotment made since 2000-01. Further, substantial part of land under litigation happened to be in Mathura Site-A for which Company had made vigorous efforts but could not get the land cleared due to encroachment made by a religious organisation. The reply is not tenable as the Company should have planned its development of land and marketing strategies keeping in view the aforesaid factors to enhance the allotment and utilisation of plots in the industrial areas.

Non-observance of premium revision policy

2.1.29 The Board of Directors of the Company decided (June 1992) that the system of yearly review of revision of rate of premium in industrial area should be implemented keeping in view the land acquisition cost, demand and prevailing market rate, land rate in the vicinity and expenses incurred on extra development works etc. Accordingly, the Company classified its industrial areas into VFM, FM and SM.

The details of premium revision is depicted in **Annexure-16**. It would be seen from the annexure that the premium fixation policy was not adhered to as:

- the Management did not review the revision of premiums for two, three and four years in 18, four and one VFM industrial areas respectively;
- the premium rates for two, three, four and five years in 12,11,10 and four FM industrial areas respectively.

Management stated (July 2005) that revision of premium rates of industrial areas was considered annually and in between as well and it was revised keeping in view the demand of industrial land. As regards FM areas, the revision of rates was not found suitable for being increased due to sluggish demand. The contention of the management is not tenable in view of the fact that:

- the premium of all industrial area was to be reviewed annually and Board of Directors were to be appraised about it.
- the demand of FM areas can not be termed as sluggish as these industrial areas were categorised as FM areas on the basis of demand itself.

Non-revision of rates of plots in Leather Technology Park and Integrated Infastructure Development Centre, Banthar

Due to non-revision of premium rates the Company was deprived of revenue of Rs.2.15 crore.

2.1.30 The Company fixed (September 2000) the rates of premium for land in Leather Technology Park (LTP) and Integrated Infastructure Development Centre (IIDC), Banthar, Unnao for leather goods units at Rs.370 per sqm and Rs.460 per sq mtr for tannery units. These rates were valid up to June 2001. Audit noticed that, while issuing the said order to all RMs for implementation, no mention was made regarding validity period of rates. The Company revised

these rates to Rs.450 per sq mtr and Rs.550 per sq mtr after two years in November 2003 though both industrial areas were FM. In the mean time during July 2001 to October 2003, the Company allotted 212 plots at old rates. The Company could have earned Rs.2.15 crore if the rates were revised after expiry of the validity period.

The Management stated (July 2005) that the demand was quite sluggish in the initial stage up to 2001-02, and hence increase in rates at such time would have been counter productive. The reply is not tenable because no rate revision was done after expiry of the validity period (June 2001) inspite of sufficient demand for FM industrial areas.

Encroachment in industrial areas

2.1.31 Audit examination revealed that industrial plots covering 90,299 sq mtr, open space 98,130 sq mtr and road side 32,808 sq mtr had been occupied by local residents in nine industrial areas for four to 20 years as detailed in **Annexure-17.** The value of encroached industrial plots (90,299 sq mtr) worked out to Rs.26.74 crore. The local residents had constructed *pucca* houses and were operating shops, service stations, offices and schools, etc. The Company did not make concerted efforts to prevent encroachment; the encroached land could not be got vacated in co-ordination with the District Administration.

Industrial plots (measuring 90,299 sq mtr) valued at Rs.26.74 crore were encroached.

Further, Audit noticed (April 2005) that the Company failed to remove the encroachment of 24,627.25 sq mtr developed land valued at Rs.4.67 crore in Surajpur, Site-V industrial area, since 1987.

Management accepted (July 2005) the fact and stated that efforts were being made to get the encroached land vacated with the collaboration of District Administration and Nagar Nigam. The reply is not tenable because, had timely action been taken to safeguard the developed land, the encroachment of land could have been avoided.

Allotment and transfer of plots

2.1.32 The Company allotted (July 1988) a plot of 4,050 sqm at the rate of Rs.150 per sqm to Kanta Kumari in Surajpur industrial area for manufacturing frozen foods without submission of the required documents by the applicant. The plot was cancelled in June 2003 due to non-utilisation, but was restored in November 2003 on payment of restoration levy of Rs.2.98 lakh. The allottee again did not set up its project. The plot was, however, transferred (January 2005) on the request of the allottee on payment of transfer levy of Rs.6.91 lakh in favour of B.S. Nagar to set up a project for manufacturing readymade garments. Thus, the plot remained unutilised for more than 16 years. Had the plot been cancelled on the grounds of non-completion of formalities and its non-utilisation, the Company would have earned Rs.33.06 lakh by selling it to other units at the prevailing rate.

The Management while accepting the fact stated (July 2005) that the restoration/transfer of plot was done keeping in view the possibility of setting up of the unit by transferee. The reply is not tenable because the plot was restored/transferred again and again rendering it unutilised for more than 16 years.

Sale of developed land through auction

Auction of land at lower rate resulted in loss of Rs.1.05 crore.

2.1.33 The RM, Agra invited (September 2002) a bid for auction of eight developed industrial plots (10,400 sqm to 20,120 sqm) of Firozabad industrial area. On the basis of the offers obtained, the plots were allotted (September

2002) for Rs.81.52 lakh at different rates of Rs.64 to Rs.70 per sqm against the reserve price of Rs.60 per sqm. Audit noticed that Firozabad industrial area was developed mainly for glass industries and the premium of land for developed plots in the area was fixed by the Company at Rs.150 per sq mtr, but the Company fixed the reserve price of the said plot at Rs.60 per sq mtr for auction which resulted in lower bid offer of Rs.64 to Rs.70 per sq mtr, causing loss of revenue of Rs.1.05 crore, which could have been utilised for creation of infrastructure.

The Management stated (July 2005) that it decided (February 1998) to liquidate its non-performing assets based on net investment cost basis. Accordingly, the land was sold at Rs.64 to Rs.70 per sq mtr. The reply is not tenable as in the previous year (2000-01), out of 325.39 acre of developed plots, 209.07 acre of developed plots were allotted at the rate of Rs.150 per sq mtr.

Non-cancellation of unutilised plots

2.1.34 According to clause 4 (e) of the agreements, the allottees, were required to set up units on the allotted plots and start production within two years from the date of allotment failing which their plots were liable to be cancelled.

The Company was deprived of additional revenue of Rs.5.33 crore due to non-cancellation of unutilised plots.

Audit analysis revealed that allottees of 64 plots in two VFM areas and three FM industrial areas had not set up units for more than five to 30 years but their plots were not cancelled by the Company for which no reasons were available on record. These plots were, however, transferred to other units on the request of the allottees at a transfer levy of Rs.1.10 crore. Had the Company cancelled these plots immediately within stipulated time of two years and sold to other entrepreneurs, it could have provided opportunity to other entrepreneurs to establish their units for augmenting industrial growth in the region apart from earning additional revenue of Rs.5.33 crore as detailed in **Annexure-18.**

The Management stated (July 2005) that although there was a provision for utilisation of plots within two years of the allotment, the plots were not cancelled, considering problems faced by the allottees and that the Company was planning to revise its transfer policy. The reply is not acceptable as in terms of the existing agreements, the plots were required to be cancelled. Further, the Company neither stated the specific problems being faced by the allottees nor furnished documentary evidence in support of its statement.

Non/short recovery of transfer levy

2.1.35 According to the provisions of the operating manual of the Company, transfer/restoration of plot may be made at a transfer/restoration levy applicable from time to time at current rate of premium and the plot can be transferred by a company to its subsidiary provided the request is made within three years from the date of allotment. Audit noticed that the Company suffered loss of Rs.1.57 crore due to non/short realisation of transfer levy as discussed below:

Transfer levy of Rs.65.81 lakh was not charged from the allottee.

- The United Engineers India was allotted (June 1969) 25,070 sqm plot in Loni Road industrial area. The plot was transferred (1971) to United Wheels (Private) Limited which was reconstituted (1996) into a Public Limited Company named as United Wheels Limited (UWL). After a lapse of 30 years, the UWL requested (July 1999) the Company to transfer the plot in favour of Vivsun Exports Limited (VEL) stating that it was a subsidiary of UWL. The Company approved (February

2000) the transfer of plot in favour of VEL without imposing a transfer levy of Rs.65.81 lakh payable by the allottee as applicable, though VEL was not a subsidiary of UWL and the request was made after 30 years, instead of within three years of allotment as per provision of the manual. Thus, the transfer of plot without transfer levy of Rs.65.81 lakh caused loss to the Company.

The Management stated (July 2005) that VEL was a subsidiary of UWL. The reply is not tenable because as per documents furnished by UWL to Registrar of Companies, the VEL was not a subsidiary of UWL and the Company did not furnish any document to justify that VEL was a subsidiary of the UWL.

- Raymond Synthetics Limited was allotted 4,28,345.46 sqm land, (commercial: 134.46 sqm, industrial: 3,29,388 sqm and residential: 98,823 sqm) in Naini industrial area during June 1987 to September 1993. In July 2001, the allottee requested to accept its changed name as Raccon Synthetics Limited which was approved (January 2005) by the Company at a transfer levy of Rs.23.93 lakh worked out at the rate of 2.5 *per cent* for the entire category of land instead of at the rate of 2.5 *per cent* for industrial and 10 *per cent* for residential and commercial as applicable. This resulted in loss of Rs.22.23 lakh.

The Management stated (July 2005) that transfer levy was charged equally at the rate of 2.5 *per cent* on residential and industrial land in view of benefits to be accrued to the State due to operation of the unit. The reply is not tenable as it was against the policy of the Company and the benefit was given to a single allottee.

- The UP Excel Limited (a joint venture of The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited and the Company) transferred (October 2004) 4,59,901 sqm land allotted in Lalitpur industrial area in favour of Patel Herbal Research and Agro Limited. The Company levied a transfer levy of Rs.73 lakh on allottee at the rate of 7.5 *per cent* of old premium rate of the land instead of 7.5 *per cent* of the current prevailing premium rate as applicable. This resulted in short realisation of transfer levy amounting to Rs.68.99 lakh.

The Management stated (July 2005) that the rate of land was not fixed as it was sold at cost of acquisition *plus* overhead charges. The reply is not tenable because as per policy of the Company the transfer levy was to be realised at current premium rate of land of concerned industrial area (Lalitpur).

Allotment of bulk land at lower price

Loss of Rs.65.36 lakh occurred due to fixation of lower price for sale of bulk land.

2.1.36 The Company allotted (May and February 2003) bulk land 4,04,700 sqm to Hayat Agro Industries and 34,39,950 sqm to Mohan Meakins respectively at a rate of Rs.14.20 per sqm in Salempur industrial area. Audit scrutiny revealed that the costing made by the Company to fix the cost of these bulk lands at Rs.14.20 per sqm was not correct because the actual costing of the land worked out by Audit on the same basis was Rs.15.90 per sqm. Thus, due to fixation of lower price of Rs.1.70 per sqm for sale of bulk land, the Company suffered loss of Rs.65.36 lakh (38,44,650 sqm x Rs.1.70).

The Management stated (July 2005) that, in costing of land, the interest had been worked out by Audit at the rate of 18 *per cent* instead of 15 *per cent*. The reply is not acceptable because the rate of interest has been worked on the basis on which Company has worked out the rate of interest.

Allotment of plots at lower rate in Special Economic Zone, Moradabad

2.1.37 The Managing Director (MD) of the Company directed (December 2002) RM, Bareilly to stop the allotment of plots in Moradabad GC as it was under process of conversion into Special Economic Zone (SEZ) and the cost of land in SEZ would be higher. In disregard of the direction, the RM allotted (January 2003) 40 plots (1,97,965 sq mtr) at the rate of Rs.475 to Rs.515 per sqm applicable for growth centre plus Rs.50 per sqm towards higher cost of SEZ.

Allotment at the lower rate and waiver of interest resulted in loss of Rs.3.93 crore.

Audit noticed (April 2005) that the premium of the land in SEZ was fixed (November 2003) at Rs.650 per sqm. The allotment at the lower rate resulted in loss of Rs.2.14 crore to the Company. The Company, further, had to waive off the interest of Rs.1.79 crore on the basis of representation made by the allottees that the plots were not provided with infrastructure facilities of SEZ standard.

The Management while accepting the facts stated (July 2005) that the final rate of Rs.825 per sq mtr and Rs.775 per sq mtr from the old applicants was fixed by the Company for issuing allotment orders in March 2005. Further, only 75 *per cent* interest was waived as the allottees were not given possession of their plots due to dispute created by villagers for road crossing in the SEZ. The reply is not tenable as no justification was furnished for non-compliance to the order of the MD. As the Company had already recovered Rs.50 per sq mtr from old allottees towards additional infrastructure facilities in SEZ as such the Company was not in a position to recover any amount from the old allottees.

Non-recovery of service charges

2.1.38 Software Technology Park of India (STPI) was allotted (November 1997) a plot of 4,000 sqm free of cost, being an important service provider to IT industries to be set up in Surajpur industrial area. According to the terms of allotment order, the plot was to be utilised within two years from the date of allotment and service charges at the rate of Rs.50 per sqm per annum was to be charged. Audit noticed that the allottee neither utilised the plot nor executed any lease deed as of March 2005. The Company did not take any action to cancel the plot and failed to levy and realise service charges amounting to Rs.14.56 lakh from the allottee.

The Management stated (July 2005) that services of STPI are vital for exporters of Greater Noida Export Promotion Industrial Park and the matter regarding waiver of service charges is under active consideration. The reply is not tenable as the STPI failed to utilise the plot even after lapse of eight years and as per policy of the Company the service charges were realisable from the allottee.

Internal control/Internal audit

Internal control

2.1.39 Internal control is a process designed for providing reasonable assurance for efficiency of operation, reliability of financial reporting and compliance with applicable laws and statutes. Audit analysis of internal control procedures/mechanisms revealed the following deficiencies:

- The Company did not carry out any evaluation study or impact assessment regarding implementation of infrastructure projects.

- The Company did not maintain/update the land acquisition register showing industrial area-wise land acquired, compensation paid, date of possession of land and date of award by the DM.
- The project section did not have details of award of work, preparation of project reports showing the name of the agency, expenditure incurred on the work, scheduled date of completion of work, actual date of submission of project report, date of approval of project report by the Board of Directors of the Company.
- The plot -wise registers maintained by regional offices were not updated.
- The allottee -wise ledgers were not updated.
- After completion of the work, the executed estimates were not prepared by the construction divisions.
- The layout plan of industrial areas was changed again and again in some industrial areas.

Management Information System

2.1.40 The Company executed an agreement (October 2002) with Tata Consultancy Services Limited (TCS) at a cost of Rs.1.08 crore to develop software package in order to facilitate monitoring of land acquisition proceedings, preparation of estimates for the land development work, allotment of plots, recovery of premium from allottees etc., for Management's decision making.

The intended benefit could not be derived despite investment of Rs.1.08 crore on software development.

Audit analysis revealed that (April 2005) that TCS developed the specified software packages and handed over all the modules (January 2003) to the Company. The Company, however, did not manage availability of sufficient hardware and networking among the field offices. As a result, the intended benefit of the advanced Management Information System could not be derived inspite of investment of Rs.1.08 crore for software development, which adversely affected the dissemination of information between the field offices and Headquarters of the Company.

The Management stated (July 2005) that action was being taken to set up its networking with the help of National Informatics Centre and The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited. The reply is not tenable as the Company should have planned and set up its networking simultaneously with development of software packages by TCS.

Internal audit

2.1.41 Internal audit is a system designed to ensure proper functioning as well as effectiveness of the internal control system and detection of errors and frauds. The Company, however, did not have an internal audit wing to conduct the internal audit and firms of Chartered Accountants (CAs) were entrusted for this work. The Company failed to ensure compliance of audit findings submitted by CAs.

The above matters were reported to Management and the Government in May 2005; reply of the Government is awaited (September 2005).

Conclusion

The Company could not achieve the main objective of promoting industrial development and socio-economic objectives of employment generation and poverty alleviation as highlighted in the State Industrial Policy. It failed to develop the requisite industrial infrastructure and ensure completion of industrial corridors, GCs, IIDCs, SEZ, EPIPs and

Textile and Hosiery Parks in time. Despite huge investment in land acquisition, the Company could not develop industrial areas due to non-compliance with the provisions of land acquisition proceedings, purchase of unsuitable land and non-completion of internal and external infrastructure facilities. The industrial area operations of the Company were marked by its failure in implementing the premium revision policy, getting the industrial units established and allowing transfer of plots by allottees who had failed to set up their units even after a long period of allotment to other units at a nominal fee. Further, there was encroachment of land and lack of aggressive marketing.

Recommendations

- **The Company should accelerate the process of infrastructure development to achieve the socio-economic objectives of economic development and employment generation in the State.**
- **The Company should expedite its land acquisition process so that establishment of industrial units may be accelerated and the development of land should be made in accordance with matching demands from the prospective entrepreneurs.**
- **The Company should formulate a sound marketing policy and strengthen its monitoring mechanism so that the developed plots do not remain un-allotted/un-utilised.**
- **The company should strengthen its Internal control mechanism so that the deficiency perceived regarding infrastructure development activities may be rectified.**

2.2 Review on Upliftment of Scheduled Castes, Minorities and Women by Social Welfare Sector Companies

Highlights

The Government of Uttar Pradesh formed three companies viz. Uttar Pradesh Scheduled Castes Finance and Development Corporation Limited, Uttar Pradesh Alpsankhyak Vitta Avam Vikas Nigam Limited and Uttar Pradesh Mahila Kalyan Nigam Limited with the main objective of narrowing the socio-economic gap between the general level of economic and social development of society and that of Scheduled Castes, Minorities and Women in Uttar Pradesh. The Companies were not able to fully achieve these objectives as:

- *the Companies did not adhere to the procedures/guidelines in financing the projects and implementation of schemes.*
- *UPSFDC and UPAVVN provided low cost and economically unviable projects which defeated the objective of the scheme to provide income generating economically viable projects.*
- *the Companies failed to evaluate the schemes with respect to their objectives.*
- *the Companies failed to carry out physical verification of financed projects as per the provision of the scheme guidelines.*

(Paragraphs 2.2.1, 2.2.9, 2.2.11, 2.2.13, 2.2.18, 2.2.19, 2.2.26, 2.2.27, and 2.2.36)

Audit also noticed that:

- *UPSFDC provided economically unviable projects to 5,11,744 scheduled castes beneficiaries at an average cost of Rs.21,923 as against the average project cost of not less than Rs.25,000.*

(Paragraph 2.2.9)

- *Twenty four district offices financed 1,02,188 projects of a value below that considered as economically viable projects.*

(Paragraph 2.2.11)

- *'Statement of Accounts' from the banks in respect of 51,265 projects (53 per cent) valuing Rs.115.11 crore were not obtained.*

(Paragraph 2.2.14)

- *UPSFDC made repayment of loans amounting to Rs.29.64 crore to NSFDC (Rs.24.34 crore) and RSKVVN (Rs.5.30 crore) during the five years up to 2004-05 in excess of the amount of loan recovered from the beneficiaries.*

(Paragraph 2.2.17)

- *UPSFDC incurred unfruitful expenditure of Rs.24.66 crore due to imparting of non-qualitative computer training for unrecognised courses in unapproved institutes.*

(Paragraph 2.2.19)

- *The achievements (physical and financial) reported to the State Government by UPAVVN indicated excess reporting of Rs.6.76 crore in respect of 1,312 beneficiaries.*

(Paragraph 2.2.24)

- *The UPMKN did not devise any system of post-training evaluation to ascertain the number of women who could get employment on a sustained*

basis after completion of the training programme and earnings of each woman per month.

(Paragraph 2.2.43)

Introduction

2.2.1 The Government of Uttar Pradesh formed three companies viz. Uttar Pradesh Scheduled Castes Finance and Development Corporation Limited (UPSFDC) in March 1975, Uttar Pradesh Alpsankhyak Vitta Avam Vikas Nigam Limited (UPAVVN) in November 1984 and Uttar Pradesh Mahila Kalyan Nigam Limited (UPMKN) in March 1988. These companies operate various schemes to fulfill the following main objectives of narrowing the socio-economic gap between the general level of economic and social development of society and that of Scheduled Castes (SC), Minorities and Women in Uttar Pradesh:

- To implement Central and State Government sponsored schemes for the welfare of scheduled castes families living below the poverty line[*] (BPL) by improving their socio-economic status;
- To improve the socio-economic and educational status of the minorities (Muslims, Christians, Sikhs, Persian, Jains and Buddhists); and
- To provide assistance and promote literacy and entrepreneurship among the women for their socio-economic upliftment.

The performance of UPSFDC was reviewed and commented upon in the Report of the Comptroller and Auditor General of India (Commercial)-Government of Uttar Pradesh for the years ended 31 March 1986 and 1998. The first review was partially discussed in January 1999 (no Action Taken Note/Recommendation has been received so far) and the second is yet to be discussed by the Committee on Public Undertaking (COPU) as of September 2005.

Scope of audit

2.2.2 The present review conducted during December 2004 to May 2005 covers implementation of schemes by the three companies during 2000-01 to 2004-05. The records of the Head Offices of all the three Companies and district offices of UPSFDC (24 out of 70 district offices) and UPAVVN (12 out of 54 district offices) where the implementation process is decentralised were reviewed.

Audit objectives

2.2.3 The main objectives of the review are to ascertain:

- how far the objectives of the companies formulated for narrowing the socio-economic gap between the general level of economic and social development of society and that of scheduled castes, minorities and women in Uttar Pradesh were achieved and executed effectively with economy and efficiency;
- the procedures/guidelines/Government directives in financing the projects and implementation of schemes;
- the funds released by the Government of India/State Government and their utilisation in the best interest of the beneficiaries of the schemes so as to derive the intended benefits.

[*] Below the poverty line (BPL) up to 2003-04 meant scheduled castes families whose annual income was up to Rs.11,000 in rural areas and Rs.11,850 in urban areas. The unit of annual income for BPL was increased (July 2004) to Rs.19,884 for rural areas and Rs.25,546 for urban areas.

Audit criteria

2.2.4 The audit criteria includes examination and analysis of the following systems and procedures designed for achievement of ultimate socio-economic objectives of the schemes:

- Selection criteria of beneficiaries according to Government directives.
- Proper documentation of selected beneficiaries.
- Financing of projects to beneficiaries in accordance with guidelines.
- Correlation between physical and financial achievements of targets.
- Adequacy of physical verification of projects and follow up action.
- Impact assessment by monitoring cells.

Audit methodology

2.2.5 The methodologies adopted for attaining the audit objectives by comparing with reference to audit criteria were:

- Analysis of procedures/guidelines/annual action plans in respect of selection of beneficiaries, disbursement, utilisation and recovery of financial assistance provided by the companies to scheduled castes beneficiaries living below the poverty line (BPL) and double the poverty line, minorities living under double the poverty line and women. For this, Audit scrutinised minutes/agenda notes of the meetings of Board of Directors, guidelines issued by Government of India/State Government and the instructions issued by the companies from time to time, etc.
- Analysis of data in respect of disbursement, utilisation and recovery available with the companies. For this purpose, Audit scrutinised minutes of the District Selection Committee (DSC), loan registers, Special Component Plan-5 registers, financial assistance files of the beneficiaries, circulars issued by the Head Office, returns furnished from time to time by the district offices, etc.
- Formats on various aspects of the schemes seeking answers to various queries were given to the companies and the answers thereto were obtained from the Management.

Audit findings

Audit findings as a result of the review on upliftment of scheduled castes, minorities and women were reported to the Management/Government in June 2005 and were discussed in the meeting of Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 25 July 2005. The Under Secretary, Alpsankhyak and Waqf Department, Government of Uttar Pradesh, Managing Director of UPAVVN and representatives of UPSFDC and UPMKN attended the meeting. The replies of the Management/Government and views expressed by the members have been taken into consideration while finalising the review.

The audit findings are discussed in the succeeding paragraphs:

Identification of beneficiaries

2.2.6 The total population of the State as per 2001 census was 16.60 crore which included scheduled castes (3.40 crore) and women (7.86 crore). The data in respect of minorities was not available.

- The Government is notifying the list of castes in respect of scheduled castes, minorities and the number of women in the State. The Companies (UPSFDC and UPAVVN) invite applications through advertisements in newspapers and notice boards of these Companies to identify the eligible persons from the castes notified by the Government. The applications so received are scrutinised by the District Committee headed by the respective District Magistrate/Chief Development Officer and the eligible beneficiaries are selected.
- In respect of UPSFDC, the district-wise annual physical targets of scheduled castes beneficiaries to be benefited under Self Employment Programme (bankable scheme) are fixed by the State Government. As per the scheme guidelines, selection of beneficiaries in rural areas living below the poverty line was to be done in an open meeting of the Gram Sabha in the presence of Village Development Officer–Samaj Kalyan (VDO-SK)[*]. Similarly, in case of urban areas, selection of beneficiaries was to be done by the District Selection Committee (DSC). To maintain transparency and impartial selection, as far as possible, the presence of Additional District Development Officers (ADDOs)[*] and Block Development Officers (BDOs) was also to be ensured in the meeting. In test check of 24 district offices of UPSFDC, records relating to selection of beneficiaries were not put up to Audit and as such eligibility of beneficiaries benefited under SEP (bankable scheme) could not be vouchsafed in audit.
- In the case of schemes implemented through UPMKN, the selection of beneficiaries was to be made from amongst the socio-econimically weaker women by Non-Government Organisations (NGOs) and UPMKN worked as the nodal agency.

Implementation of schemes

2.2.7 The review of the schemes implemented by the Companies revealed that:

- physical verification of projects was deficient in UPSFDC, besides failure in obtaining "Statement of Accounts" from the banks in support of disbursement of loans, non-providing of margin money loan on agriculture projects, lack of follow up of schemes guidelines issued by National Scheduled Castes Finance and Development Corporation Limited (NSFDC) and Rashtriya Safai Karmchari Vitta Avam Vikas Nigam Limited (RSKVVN), irregular financing for construction of shops in rural areas, failure of the objective to provide employment/self employment to the trained beneficiaries under Kaushal Vridhi Yojna, etc;
- irregularities in sanctioning projects under margin money loan, irregular sanction of automobile projects under term loan scheme, etc. were noticed in UPAVVN, besides non-adherence to scheme guidelines in financing projects and deficient physical verification,
- UPMKN failed to safeguard the interest of Government as well as of women trainees,

[*] For implementation of the schemes at district level, the Additional District Development Officer (ADDO) of the Samaj Kalyan Department of the State Government works as ex-officio designated District Managers of UPSFDC. At block level, the ADDO is assisted by Assistant Development Officer (ADO) for three blocks and Village Development Officer (VDO) in each block.

The Company wise audit findings are discussed in the succeeding paragraphs:

U.P. Scheduled Castes Finance and Development Corporation Limited

2.2.8 With a view to accelerating overall development of scheduled castes families living below the poverty line, the Company implemented various schemes sponsored by the Central/State Governments under Special Component Plan (SCP). The review covers examination of the following schemes:

- Self Employment Programme (SEP).
  - Projects financed by banks.
  - Projects financed by National Scheduled Castes Finance and Development Corporation Limited (NSFDC).
- Schemes financed by Rashtriya Safai Karmchari Vitta Avam Vikas Nigam Limited [{RSKVVN} {other than Special Component Plan}].
- Scheme for construction of shops in urban areas.
- Kaushal Vridhi Yojna – Computer Training.

Self Employment Programme

The Company continued to finance low cost projects to the beneficiaries and failed to improve their economic status.

2.2.9 The objective of the scheme was to provide income generating economically viable projects in order to improve the socio-economic status of the beneficiaries living below the poverty line/double the poverty line.

The State Government, while analysing the economic viability of the projects financed under the scheme, observed (June 2000) that low cost projects financed earlier to beneficiaries had failed to improve their economic status. It was, therefore, emphasised that projects should be financed at an average cost of not less than Rs.25,000 per beneficiary from 2001 onwards.

Audit analysis revealed that the average cost of the projects financed by the Company remained at Rs.0.22 lakh (Rs.21,923) per beneficiary during the last five years ending 31 March 2005 as indicated in the following table:

Year	Physical (No. of beneficiaries)		Financial (Rupees in crore)						Average project cost (Rupees in lakh)
			Subsidy		Margin Money		Bank Loan		
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement	
2000-2001	90,865	96,265	54.52	54.52	56.79	19.69	115.85	107.52	0.19
2001-2002	1,25,000	93,370	125.00	86.46	42.97	11.85	144.53	110.42	0.22
2002-2003	1,25,000	1,13,766	125.00	105.26	30.00	11.92	157.50	135.28	0.22
2003-2004	1,25,000	98,803	125.00	96.70	30.00	9.62	157.50	119.20	0.23
2004-2005	1,25,000	1,09,540	125.00	105.64	30.00	11.65	157.50	136.18	0.23
	590865	**511744**	**554.52**	**448.58**	**189.76**	**64.73**	**732.88**	**608.60**	**0.22**

In this regard, the following deserve mention:

- Financing low cost projects defeated the objective of the scheme to improve economic status of the beneficiaries.
- The physical and financial achievements shown above were based on remittances of subsidy and margin money loans to the banks only; the actual disbursement by banks was even much less. Audit analysis further revealed that out of the amount of Rs448.58 crore shown as subsidy disbursed to the beneficiaries, an amount of Rs.43.31 crore

was refunded by the banks to the Company. Similarly, out of the amount of Rs.64.73 crore shown as margin money disbursed to beneficiaries, an amount of Rs.5.85 crore was refunded by the banks to the Company. This deprived atleast 43,310 beneficiaries with the financial assistance during the above period.

The Management/Government stated (July/August 2005) that the average project cost per beneficiary was affected due to inclusion of low cost projects financed by NSFDC viz., rickshaw thela, sewing machines, etc. The reply is not acceptable as in terms of Government directives the average cost of the project was not to be less than Rs.25,000 per beneficiary. Financing of low cost projects was, thus, contrary to the Government directives.

Projects financed by banks

2.2.10 Under the scheme financed by banks, 1,25,000 families every year, living below the poverty line and not benefited earlier, were to be provided financial assistance, ranging from Rs.0.10 lakh to Rs.7 lakh, for setting up income generating projects. Against the annual physical target fixed by the State Government, beneficiaries were to be selected from rural and urban areas in the ratio of 85:15 including 40 *per cent* women. Project mix of 55:45 was to be covered under agriculture and non-agriculture sectors.

The project cost was to be funded as under:

- Subsidy of Rs.10,000 or 50 *per cent* of the project cost whichever was less,
- Margin money loan of 25 *per cent* of the project cost at concessional rate of interest of four *per cent* per annum where the project cost exceeded Rs.10,000 in agriculture sector and Rs.25,000 in non-agriculture sector,
- Remaining cost of the project by arranging bank loans.

Test check of records of 24 out of 70 district offices of the Company for the period 2002-03 to 2004-05 revealed various shortcomings and failures, as discussed in the succeeding paragraphs.

Financing low cost and economically unviable projects

2.2.11 The Company was to finance projects with monetary value of not less than Rs.25,000 per project so that the project did not become economically unviable. Even then, 24 out of 70 district offices financed 1,02,188 (out of 1,28,923) projects (representing 79 *per cent*) of value less than Rs.25,000 per beneficiary during the last three years up to 2004-05 (December 2004). Details of these projects are in **Annexure-19.**

Land Development Bank financed the projects at higher rates resulting in additional burden to the beneficiaries.

2.2.12 The Company remits the subsidy to banks for disbursement of total project cost (including bank share) to the beneficiaries. It was noticed that out of the above unviable projects, more than 60 *per cent* projects had been financed by Uttar Pradesh Land Development Bank (LDB) comparatively at higher rate of interest (11 to 13 *per cent* per annum) than the other nationalised banks (nine to 11 *per cent* per annum) causing additional burden of interest to the beneficiaries. It was also noticed that the LDB in most of the cases while sanctioning loans to the beneficiaries under SEP, treated the entire project cost of Rs.20,000 per beneficiary (including subsidy of Rs.10,000) as bank loan and sanctioned loan to the beneficiaries without adjusting subsidy. This was highly irregular and led to chances of misappropriation of subsidy released by the Company for disbursement amongst the beneficiaries.

Further, the Banks were required to disburse the entire amount of project cost to the beneficiaries only after obtaining the subsidy from the District Managers (ADDOs). In Aligarh district, LDB disbursed (2003-04 and 2004-05) loans in 42 cases, four to six months prior to release of subsidy by District Managers (ADDOs).

The Company failed to check the gross irregularities in sanctioning the loans by LDB before release of subsidy to the bank.

Physical verification of projects

2.2.13 For successful operation of the schemes and improvement in socio-economic status of the beneficiaries and to ensure availability of the projects with income generation, cent percent physical verification of the projects was to be carried out within 30 days from the date of remittance of subsidy and Margin Money loans (MM) to the banks and subsequently at regular intervals.

Only 8.65 *per cent* projects were physically verified against the requirement of 100 *per cent*.

Examination of records of 18, out of 70 district offices, revealed that of 1,71,884 projects financed during five years up to 2004-05 (December 2004), the district offices carried out physical verification of 14,867 projects only (8.65 *per cent*). Among the verified projects, 287 projects were not found existing at the sites **(Annexure-20)**. Thus, the chances of subsidy of Rs.28.70 lakh released against these projects being utilised by the beneficiaries for other purposes could not be ruled out. The remaining 1,57,017 projects valuing Rs.345.44 crore (valued at average project cost of Rs.22,000) remained unverified (March 2005).

The Management/Government stated (July/August 2005) that target of physical verification had been allotted to District Managers (ADDOs). The reply is not acceptable in view of the fact that the Company failed to monitor the physical verification of projects.

Failure to obtain 'Statement of Accounts' from the banks

2.2.14 In terms of the guidelines, banks were required to disburse the total cost of the project (including amount of subsidy) to the beneficiaries within 30 days from the date of remittance of subsidy. In order to ensure disbursement of the total project cost by the banks within the stipulated period, the District Managers (ADDOs) in rural areas and Asstt. Managers in urban areas were required to collect 'Statement of Accounts' from the respective banks and submit the same to the Company's headquarters by the second of every month. Based on the 'Statement of Accounts', the physical and financial achievements were to be reported upon.

Examination of records of 21, out of 70 district offices, for the last three years up to 2004-05 revealed that the district offices collected 'Statement of Accounts' in 47 *per cent* cases only. The physical and financial achievements, however, were reported upon by the district offices as cent *per cent* through monthly progress reports though 'Statement of Accounts' in 51,265 projects (53 *per cent*) valuing Rs.115.11 crore were not collected from the banks (**Annexure-21**).

Thus, non-collection/delay in collection of 'Statement of Accounts' adversely affected the basic objective of the scheme. The Management failed to monitor it efficiently and effectively at all levels.

The Management/Government stated (July/August 2005) that directives had been issued to District Managers (ADDOs) for obtaining 'Statement of Accounts' at the earliest wherever these were not received. The Management's

reply is not tenable as the provisions relating to collection of accounts were already existing in the scheme guidelines but were not ensured by close monitoring.

Providing margin money loan on agriculture projects

2.2.15 According to the scheme guidelines, the Company was to provide margin money (MM) loan of 25 *per cent* of the project cost at four *per cent* concessional rate of interest where the project cost exceeded Rs.10,000 in agriculture sector and Rs.25,000 in non-agriculture sector. Audit noticed that:

- the 24 district offices failed to provide MM loan against 77,851 projects (average cost of Rs.20,000 each) financed during last three years up to 2004-05 in agriculture sector. As a result, beneficiaries were deprived of availing the concessional rate of interest on MM loan and had to bear additional interest burden of Rs.6.81 crore (worked out at the rate of Rs.875* per project).
- In Agra and Gonda district offices, 935 and 721 projects in the agriculture sector respectively (cost ranging between Rs.25,000 to Rs.55,000) were financed by banks without MM loan. The beneficiaries had to bear additional burden of interest of Rs.40.98 lakh.

The Management/Government stated (July/August 2005) that beneficiaries were interested in taking bank loan to the extent of 50 *per cent* of the project cost. Therefore, MM loan was not utilised. The reply is not tenable as it was against the provisions of the guidelines and financial interest of the beneficiaries leading to failure of the objective of the scheme.

Schemes financed by National Scheduled Castes Finance and Development Corporation Limited (NSFDC) and Rashtriya Safai Karmachari Vitta Avam Vikas Nigam Limited (RSKVVN)

2.2.16 The Company (UPSFDC) had been working as channelising agency for implementation of the schemes financed by NSFDC and RSKVVN. The financing and disbursement pattern of these schemes was as follows:

- NSFDC provided loan to the Company at the interest rate of three *per cent* per annum for onward disbursement to the beneficiaries at six *per cent* per annum for providing economically viable projects to the beneficiaries living below double the poverty line. The schemes covered financing the projects in transport and business sectors.
- RSKVVN provided loan to the Company at the interest rate of three *per cent* per annum for onward disbursement to the beneficiaries at six *per cent* per annum. In the case of non-utilisation of loan fund released by RSKVVN, the Company was to pay non-utilisation charges to RSKVVN at the rate of 3 *per cent* per annum on unutilised funds in addition to normal rate of interest.

Arrangement of loan fund

2.2.17 NSFDC released loan fund for the sanctioned projects on submission of list of selected applicants by the Company. The Company was required to make repayment of loan quarterly to NSFDC irrespective of actual recovery from beneficiaries. Thus, the Company was required to devise and strengthen the system for recovery of the loan from beneficiaries so as to make repayments to NSFDC out of the recovered amount.

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* Worked out at differential rate of interest between rate of interest charged by the bank (11 *per cent*) and on MM loan of Company amounting to Rs.5,000 per project (at four *per cent*) refundable in 36 monthly instalments.

RSKVVN financed income generating projects for Safai Karmacharis (including scavengers) and their dependents with no caste bar and income ceiling.

The Company was required to identify and formulate technically feasible and economically viable schemes and submit them to RSKVVN for financing. The potential beneficiaries were to be identified out of the list of Safai Karmcharis identified in 2002-03 by District Urban Development Authority (DUDA), a Government agency.

The year-wise position of loan fund received, disbursed, recovery made from beneficiaries and repayment made to NSFDC and RSKVVN during five years up to 2004-05 is given in **Annexure-22**:

The analysis of the Annexure would reveal the following:

NSFDC loan funds

An amount of Rs.20.42 crore was refunded to NSFDC as the Company could not identify interested beneficiaries.

- During the last five years up to 2004-05, the Company disbursed only Rs.76.89 crore (68 *per cent*) and refunded Rs.20.42 crore (18 *per cent*) of the total fund received from NSFDC. An amount of Rs.16.40 crore (14 *per cent*) of the loan received remained undisbursed at the end of 2004-05. Audit analysis further revealed that the Company had obtained loan fund without identifying the interested beneficiaries. As a result, an amount of Rs.20.42 crore was not utilised and refunded to NSFDC. This is indicative of improper planning by the Company.

Due to poor recovery of loan from beneficiaries the Company repaid its loan of Rs.24.34 crore to NSFDC out of its own resources.

- The Company made repayment of an amount of Rs.53.99 crore to NSFDC during the five years up to 2004-05, whereas only an amount of Rs.29.65 crore was recovered from the beneficiaries. The repayment of the amount of Rs.24.34 crore in excess of recovery was met out by the Company from its own sources. Consequently, it adversely affected the financial health of the Company.

RSKVVN loan funds

- The Company, acting as State Channelising Agency, was required to make repayment of loan fund to RSKVVN as well as to save its margin out of the amount recovered from beneficiaries. It, however, recovered only Rs.2.20 crore from beneficiaries but had to repay the loan of Rs.7.50 crore to RSKVVN. The excess amount of repayment of Rs.5.30 crore was met out by the Company from its own sources which put additional financial burden on the resources of the Company.
- The Company could not utilise entire fund of Rs.32.99 crore released by RSKVVN and refunded Rs.6.58 crore (20 *per cent* of the total fund received) during the year 2002-03 and 2003-04 mainly due to non-identification of beneficiaries before submitting the proposals for release of fund.
- The Company was also put to loss of Rs.85.17 lakh due to its liability towards non-utilisation charges demanded by RSKVVN (at the rate of 3 *per cent* above the normal rates on the unutilised funds).

The Management/Government while admitting the audit findings stated (July/August 2005) that the beneficiaries (NSFDC sponsored scheme) had to repay installment of the principal amount of loan along with interest simultaneously with the cost of their livelihood from the income of the projects. In such circumstances *cent per cent* recovery from the beneficiaries

was not made. Therefore, repayment of loan to NSFDC/RSKVVN out of recovery was not possible.

The fact remains that repayment of loans from its own sources put additional financial burden on the resources of the Company.

Implementation of schemes/Projects financed by NSFDC/RSKVVN

2.2.18 The details of the projects and audit observations on implementation of schemes are given in the **Annexure-23**. The deficiencies noticed in implementation of schemes were in the following areas:

- The guidelines of these schemes were not followed.
- Beneficiaries were allowed to draw the money for purchase of assets and for their own use instead of issuance of cheques/drafts in favour of the supplier of the assets.
- The District Managers (ADDOs) failed to arrange the purchase of assets under their supervision.
- Insurance covers were not obtained for assets created.
- Beneficiaries used the financed vehicles for private purposes in violation of the scheme guidelines.
- Registration certificates, permits of the vehicles for commercial use were not obtained.
- Vehicles were registered in other States.
- Income certificate required as proof of eligibility of loan were not obtained.
- Potential beneficiaries (Safai Karmacharis/scavengers) were identified from the old survey list in violation of the guidelines.

Other schemes

2.2.19 In addition to the above schemes, Audit also reviewed the schemes relating to 'Construction of Shops in Urban Areas' and 'Kaushal Vridhi Yojna-Computer Training Programme'. The details of the schemes and audit observations on the implementation are detailed in **Annexure-24**. The Company provided financial assistance of Rs.27.98 crore to 7,527 beneficiaries for construction of shops in the State during 2000-01 to 2004-05. The Company was required to provide working capital assistance to the beneficiaries which it failed to do so. The guidelines of the schemes for providing interest free loans for construction of shops were not followed, as a result of which the objective of the scheme of improving the economic status of the beneficiaries was defeated.

Expenditure of Rs.24.66 crore proved unfruitful due to imparting non-qualitative and unrecognised course of computer training.

During the last five years up to 2004-05 computer training programmes were arranged in three phases through various institutes and an amount of Rs.24.66 crore (including liability of Rs.4.59 crore) was incurred on training of 20,556 beneficiaries. This proved unfruitful as training was provided for unrecognised courses. The other deficiencies noticed in the implementation of these schemes were as follows:

- The fees charged for training courses was at variance with the fees fixed by the State Government.
- Training in unapproved institutes was provided
- The District Managers (ADDOs) failed to ascertain whether the qualitative training was provided to the beneficiaries.

Internal control/Internal audit

Evaluation and monitoring

2.2.20 As an internal control measure, the Company has set up a Monitoring Cell. The Monitoring cell was entrusted with the preparation of Annual Action Plan and guidelines, data compilation through Monthly Progress Reports and analysis to ensure that schemes were implemented in accordance with scheme guidelines. Impact assessment of the schemes was also to be carried out by it. Audit scrutiny revealed that although the cell compiled the data received from district offices, no analysis and impact assessment of implementation of schemes was done to ensure that beneficiaries were actually benefited from these schemes.

Internal Audit

The Internal Audit Cell of the Company was required to conduct audit of district offices to verify whether the schemes were being implemented according to schemes guidelines/Government directives efficiently and effectively. Audit, however, noticed that the cell undertook the work of compilation of accounts and preparation of trial balance etc., which could be done by Chartered Accountants.

Uttar Pradesh Alp Sankhyak Vitta Avam Vikas Nigam Limited

2.2.21 The Company was implementing various schemes *viz.* Term Loan, Margin Money Loan, Pre-examination Coaching and Training and Development schemes for the welfare of minority communities of the State.

Up to 2001-02, schemes were implemented from the Headquarters of the Company. From the year 2002-03 the Company decided (June 2002) to implement the schemes at District levels through District Minority Welfare Officers (DMWOs) who were authorised to implement the term loan and margin money loan schemes at their own level. After decentralisation, the annual financial targets set for the district offices under term loan and margin money loan schemes were to be met out of loan and interest amount recovered from the beneficiaries by the respective district offices.

The records of 12, out of 54 district offices, of the Company relating to implementation of the schemes were examined in audit. The shortcomings in implementation of the schemes are discussed in succeeding paragraphs:

Selection criteria

Application registers were not maintained.

2.2.22 Applications in duplicate were to be collected from the beneficiaries and enlisted in the application register maintained at the district offices. The applications with registers were to be put up before the District Selection Committee (DSC) within 30 days from the last day of receipt of applications. The DMWOs were required to intimate the Headquarters of the Company with the details of selected beneficiaries alongwith the list of rejected applications stating reasons thereof.

Audit noticed that application registers were not maintained in 11district offices, whereas in Bulandshahar, application registers were not signed by the DMWO. The lists of rejected applications alongwith reasons thereof were neither available in the district offices nor submitted to the Headquarters of the Company. As such, transparency in selection of beneficiaries could not be ascertained in audit.

Term Loan Scheme

2.2.23 The GOI launched (1994) a scheme for providing Term Loan to the beneficiaries to be funded by National Minorities Development Finance Corporation Limited (NMDFC) for socio-economic upliftment of minorities of the State. Under the scheme, minorities living below double the poverty line* were to be provided loans for setting up of new projects or for expansion of the old projects to be financed in the ratio of 85:10:5 by NMDFC, the Company and the beneficiary respectively.

Targets and achievements

2.2.24 Targets and achievements regarding disbursement of loans during the last five years up to 2004-05 under the Term Loan scheme are given below:

Years	Target		Achievement		Percentage of shortfall	
	Physical (No)	Financial (Rs. in crore)	Physical (No)	Financial (Rs. in crore)	Physical	Financial
2000-01	6000	15.00	3464	8.28	42.27	44.80
2001-02	5600	25.00	3741	11.19	33.20	55.24
2002-03	5600	20.00	4677	20.06	16.48	(+) 0.30
2003-04	2600	10.00	3050	10.77	(+) 17.31	(+) 7.70
2004-05	2600	10.00	2311	8.21	11.12	17.90

In this regard, the following deserve mention:

- There had been shortfall in physical achievements ranging between 11.12 and 42.27 *per cent* during the five years up to 2004-05 except in 2003-04; shortfall in financial achievements ranged between 17.90 and 55.24 *per cent* in 2000-01, 2001-02 and 2004-05.

The Management stated (July 2005) that the reasons for shortfall in achievement of targets were mainly due to delayed receipt of funds from NMDFC and non-completion of formalities by the beneficiaries. The reply is not tenable as in terms of scheme guidelines, all the formalities were to be got completed by the Company before demanding loan funds from the NMDFC.

- Test check of 12 district offices revealed that physical and financial achievements for the years 2002-03 and 2003-04 reported to the Government were in excess to the extent of Rs.6.76 crore in 1312 cases, as detailed below:

Year	As reported to the Government		Actual as pr district office records		Difference (excess reporting)	
	Number	Amount	Number	Amount	Number	Amount
2002-03	1376	6.65	284	0.96	1092	5.69
2003-04	1110	3.77	890	2.70	220	1.07
Total	**2486**	**10.42**	**1174**	**3.66**	**1312**	**6.76**

The Management stated (July 2005) that achievements were reported to the Government on the basis of information received from the district offices. The reply is not tenable as the achievements reported to the Government were at variance with the actual figures of disbursements as verified from records of the district offices.

Arrangement of loan funds

2.2.25 The year wise position of loan funds received from NMDFC, its disbursement to beneficiaries, lying unutilised at the end of each year, recovery made from beneficiaries and repayment made to NMDFC during the five years up to 2004-05 is depicted in the following table:

* Rs.42,000 per annum for urban areas and Rs.32,000 per annum for rural areas.

(Rs. in crore)

Sl. No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	Total
1	Opening balance of fund	1.98	9.16	6.10	(-)0.02	1.59	
2	Fund received	15.00	7.50	12.82	11.78	12.94	60.04
3	Available for disbursement	16.98	16.66	18.92	11.76	14.53	
4	Disbursed to beneficiaries (NMDFC's share)	7.82	10.56	18.94	10.17	7.75	55.24
5	Closing balance	9.16	6.10	(-) 0.02	1.59	6.78	
6	Repayment to NMDFC	7.42	9.69	8.13	13.25	15.90	54.39
7	Recovered from beneficiaries	7.06	6.90	7.35	8.09	4.21	33.61
8	Excess repayment to NMDFC over recovery from beneficiaries	0.36	2.79	0.78	5.16	11.69	20.78

In this regard, the following deserve mention:

- The funding pattern of the scheme was changed to 90:10 (NMDFC/Company and beneficiary) as against the ratio of 85:10:5 without approval of NMDFC. This resulted in additional financial burden of 5 *per cent* on beneficiaries to the extent of Rs.3.25 crore during five years up to 2004-05.
- During the five years, the Company recovered Rs.33.61 crore from beneficiaries whereas it made repayments of Rs.54.39 crore to NMDFC. The excess repayment of Rs.20.78 crore was met by direct adjustment of Rs.7.15 crore by NMDFC while releasing the fund in 2004-05 and the remaining amount of Rs.13.63 crore was met by the Company out of its own funds.

The Management in reply (July 2005) had confirmed the facts.

Financing economically unviable projects of low cost

2.2.26 The beneficiaries were to be financed for taking up economically viable projects with stipulation to cover 40 *per cent* projects having financial limit up to Rs.30,000 and 60 *per cent* projects up to Rs.50,000. No automobile projects were to be provided during 2003-04 and 2004-05.

Financing of low cost projects did not serve the objective of providing economically viable projects.

All the district offices, in contravention of the scheme guidelines, provided more than 50 *per cent* low cost projects ranging from Rs.22,500 to Rs.27,000 only to achieve the physical targets. The District Selection Committee while finalising the list of projects to be financed abruptly reduced the project costs to Rs.22,500/Rs.27,000 irrespective of the proposed project costs. This did not serve the objective of providing economically viable projects under the scheme.

It was also observed that despite ban, eight automobile projects valuing Rs.11.98 lakh were financed in Barabanki (two) and Rampur (six) district offices during 2003-04.

Physical verification of projects

Only 57.4 *per cent* projects were physically verified against requirement of 100 *per cent* verification.

2.2.27 Physical verification of projects was to be carried out by DMWOs within 45 days from the date of disbursement of the loans and thereafter, at regular intervals.

Audit analysis revealed that out of 24,631 projects financed during 1996 to 2002-03, only 14,143 projects representing 57.4 *per cent* were verified during September to November 2003 in 54 districts. Out of the verified projects, 3,137 projects valuing Rs.10.04 crore were not found existing at site. Remaining 42.6 *per cent* projects were not verified as of March 2005. Apart from above, test check in 12 districts revealed that out of 1,810 projects financed during 2003-04 and 2004-05, physical verification of only 88 projects (loan of Rs.0.29 crore) was conducted. The remaining 1,722 projects valuing Rs.5.19 crore remained unverified as of March 2005.

Physical verification of automobile projects had also not been carried out by DMWOs. As such, the expenditure incurred thereon could not be vouched safe.

Insurance of the project

2.2.28 Rule 9.4 of the Term Loan Manual provided that beneficiaries had to insure the assets of the projects within 30 days from the date of disbursement of loan and submit the policy bond in favour of the Company. The DMWOs of all the 12 district offices failed to ensure that projects were insured as required in the term loan manual in respect of all cases of loans.

Obtaining post dated cheques from the beneficiaries

2.2.29 As prescribed in the guidelines, the DMWOs were required to obtain post-dated cheques from the beneficiaries against the instalments of the recoveries before disbursement of the loans and present the same to the bankers for collection on the scheduled dates. Audit noticed that the DMWOs of all district offices were flouting the prescribed rules as loans were disbursed to beneficiaries without obtaining the post dated cheques from them. This adversely affected the recovery of loans.

Accountal of recovered amount of loan and interest

2.2.30 As required in the guidelines, the details of recovery should contain the Identification Code (ID) allotted to the beneficiaries. Audit noticed that ID number of beneficiaries were not mentioned on the receipts in case of 16,760 transactions. Consequently, recovery of Rs.9.79 crore during five years up to 2004-05 remained un-posted in the respective beneficiaries' accounts causing inconvenience in settlement/reconciliation of their accounts.

The Management while accepting the audit observation stated (July 2005) that remedial action would be taken in respect of all the above mentioned cases.

Margin Money Loan Scheme

2.2.31 The Company introduced (1986) Margin Money Loan scheme funded by the State Government for providing loan to beneficiaries for establishing industries/business and agriculture projects. The scheme was funded by the State Government up to 2002-03 and, thereafter, by NMDFC. Under the scheme, loan was available to the beneficiaries up to project cost of Rs.5 lakh to be financed in the ratio of 30:65:5 by the NMDFC/Company, bank and the beneficiary respectively.

Targets and Achievements

2.2.32 Targets and achievements of disbursement of loans during the five years up to 2004-05 under the Margin Money Loan scheme are given below:

Years	Target		Achievement		Percentage of shortfall	
	Physical (No)	Financial (Rs. in crore)	Physical (No)	Financial (Rs. in crore)	Physical	Financial
2000-01	200	0.50	125	0.28	37.5	44
2001-02	400	1.00	104	0.28	74	72
2002-03	400	1.00	134	0.29	66.5	71
2003-04	400	4.00	170	0.61	57.5	84.75
2004-05	400	4.00	NA	NA	NA	NA

It would be seen from the above table that there had been shortfall in physical and financial achievements ranging between 37.5 and 74 *per cent* and 44 to 84.75 *per cent* respectively during the four years up to 2003-04. The main reasons for shortfall in achievements, as analysed by Audit, were:

- non-sanction of projects by banks due to routine type of project reports forwarded by DMWOs without proper evaluation of viability of the projects, and

- non-follow up of the loan applications sent to bank for sanction.

The Management accepted the audit observation (July 2005).

During scrutiny of records of 12 district offices, the following shortcomings were noticed in respect of 185 beneficiaries to whom margin money loan of Rs.67.49 lakh was disbursed during three years up to 2004-05:

Lack of transparency in selection of beneficiaries

2.2.33 The district offices were to maintain application registers for record of the applications received from beneficiaries and their disposal. These applications were to be sent to the banks for onward sanction of loan. Audit noticed that application registers were not maintained in all the 12 district offices except in two district offices (Lucknow and Bulandsahar). Wherever it was maintained, disposal of applications were not regularly monitored to ensure transparency in selection of beneficiaries.

Evaluation of projects' viability

2.2.34 Forward and backward linkages (supply of raw materials and marketing of finished products) were to be made in project reports by DMWOs so as to assess viability of the projects. Audit noticed that forward and backward linkages, which were an important ingredient for success of the projects, were not evaluated in project reports by DMWOs. It was further observed that 14 projects were financed in two districts without project reports.

Documentation

2.2.35 Audit noticed that the district offices either did not adhere to or deviated from the provisions of the scheme guidelines regarding proper documentation, as discussed below:

- Income certificates were to be obtained from the beneficiaries as proof of their eligibility for loans. It was seen that, in 54 cases of 5 districts, income certificates were not obtained during the years 2003-04 and 2004-05. In Barabanki district, a beneficiary having income above double the ceiling of poverty line was financed for a Bolero jeep which was contrary to the scheme guidelines.

Income certificates, second charge over the assets, post dated cheques, ownership documents were not obtained from the beneficiaries.

- Consent for second charge over the assets created from loan was to be obtained from the concerned banks. It was seen that, in 15 cases of Meerut district, loan was disbursed without obtaining consent for second charge from the banks.
- Post-dated cheques (PDC) were to be obtained from the beneficiaries before disbursement of loan. It was noticed that PDCs were not obtained from beneficiaries before disbursement of loan in all the 12 district offices. In Faizabad district, one blank and uncrossed PDC each were obtained from beneficiaries but were neither presented to Bank nor were available with the Company. Under the circumstances, possibility of misappropriation of PDCs could not be ruled out.
- In order to ensure existence of business premises, either ownership document or tenancy agreement or rent receipts were to be obtained. It was seen that, in 176 cases, no documentary proofs were obtained to ensure the existence of business premises.
- Nine projects under transport sector were financed without obtaining any documents of the vehicle. In two cases of Bareilly district, a mini truck was financed against driving licence of motorcycle and a three-wheeler was financed against the driving licence of LMV (T).

Physical verification

2.2.36 The DMWOs were required to carry out *cent per cent* physical verification of the projects within 45 days of the disbursement of the loans and place the report in project files failing which DMWOs as well as beneficiaries were deemed to be responsible for misappropriation of loan money.

Audit noticed that during physical verification (September to November 2003) margin money loan of Rs.65 lakh disbursed for 461 projects in 54 district offices was deemed to have been misappropriated as the projects were not existing at the sites.

Test check of 12 district offices in audit revealed that physical verification was not carried out by DMWOs in any of the cases.

Insurance of assets

2.2.37 The loan was to be disbursed after withholding requisite amount for obtaining insurance cover for five years on the assets to be created out of the loan fund. Audit noticed that, in all the 12 districts, DMWOs neither withheld any amount for insurance cover nor did they obtain insurance cover from beneficiaries after creation of assets.

Follow-up of loan disbursements

2.2.38 Banks were required to disburse bank loan alongwith margin money received from the Company. Audit, however, noticed that DMWOs did not ensure disbursement of bank loan in 183 cases. In two cases, bank loans were disbursed before disbursement of margin money by the Company. In 14 cases of Bulandshahar District, cheques of Rs.2.82 lakh for margin money were issued in the name of banks instead of beneficiaries' name and hence, its actual disbursement to the beneficiaries could not be ascertained in audit.

Accountal of recovered amount

2.2.39 For proper accountal of the recovered amount recording of ID code in recovery slips was to be made. Audit, however, noticed that due to non-mentioning of ID codes on recovery slips of the beneficiaries, loan of Rs.65 lakh against 1,527 transactions recovered during five years up to 2004-05 remained unposted in beneficiaries' accounts maintained at the Headquarters of the Company.

Pre-examination coaching scheme

2.2.40 The Company commenced (1998) pre-examination coaching scheme for economically backward candidates of minorities appearing in pre-medical and pre-engineering and central/provincial civil services examinations with the objective to upgrade them to the level of other aspiring candidates and to ensure their participation and success in these examinations. The scheme was to be funded by grants provided by the State Government. According to the criteria prescribed by the Company, selection of the candidates was to be made from the rural and urban areas in the ratio of 60:40 respectively.

The table below indicates physical targets and achievements of the scheme during five years up to 2004-05:

Sl. No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
1	Target (nos.)	350	350	350	470	800
2	Achievement (nos.)					
3	Rural	86	46	86	70	188
4	Urban	201	143	189	224	298
5	**Total**	**287**	**189**	**275**	**294**	**486**
6	Percentage of overall shortfall in achievement	18	46	21	37	39
7	Percentage of rural candidates to total	30	24	31	24	39

The following deserve mention:

Less number of candidates selected from rural background did not serve the purpose of the scheme.

- The overall shortfall in achievements of the targets ranged between 18 and 46 *per cent*. The percentage of rural candidates to total candidates ranged between 24 and 39 against the criteria that rural candidates were to be 60 *per cent* of the total candidates. Audit noticed that reasons for overall shortfall as well as less number of candidates from rural background, were lack of publicity and awareness amongst the rural candidates about the scheme and non-availability of accommodation facilities.
- In the absence of register of applications received from the candidates at the District level, transparency in selection of candidates from rural background below the required number was unascertainable in audit.

Enrolment of 54 candidates was found to be fake.

- In an inspection (August 2001) made by a team of the Head Office of the Company, enrolment of 54 candidates was found to be fake (Mirzapur: 34, Meerut: 10, Gorakhpur: 6 and Faizabad: 4). This indicated lack of monitoring and evaluation of the coaching scheme at the District level.

Apart from above, it was noticed that no system was devised for post coaching awareness about success of the candidates so as to ascertain the extent of success of the scheme thereby defeating the very purpose of the scheme.

Internal control

2.2.41 The evaluation and monitoring system of the schemes was highly deficient as the Company failed to adhere to the scheme guidelines. The Company also failed to maintain proper books of accounts (cash book, bank book, register of printed documents, beneficiary loan ledger etc.) both at Headquarters and district offices.

Uttar Pradesh Mahila Kalyan Nigam Limited

2.2.42 The Company implemented two schemes, viz. Women's Economic Programme (WEP) and Swaymsiddha Scheme during five years up to 2004-05. The deficiencies in implementing these schemes are discussed below:

Women's Economic Programme

2.2.43 The Government of India (GOI) entrusted (August 1998) the implementation of WEP to the Company to provide income-oriented training to socio-economically weaker women for their self-dependence through Non-Government Organisations (NGOs) with the assistance of Norwegian Agency for International Development (NORAD). Under the scheme, the proposals of NGOs were to be submitted to GOI through the Company and grant was to be received from GOI and disbursed to NGOs. The Company worked as a nodal agency and disbursed funds to NGOs and had no administrative control over the functioning of NGOs.

During the period 1996-97 to 2002-03 (up to December 2002), 406 projects involving an outlay of Rs.11.13 crore were sanctioned by GOI against which the Company received Rs.8.21 crore and released Rs.7.75 crore to various NGOs for implementation of various projects. The scheme was withdrawn by the Government from the Company in December 2002 and was entrusted to the Social Welfare Advisory Board. As of December 2002, 20,555 women were imparted training in traditional and non-traditional trades.

Audit scrutiny of the records of nine NGOs revealed that:

- vouchers relating to purchase of fixed assets and materials were not complete as these did not bear trade tax registration number, brand name of assets purchased, etc;

The Company did not get return of equipment of Rs.1.17 crore from NGOs.

- documentary proof for sustained employment had not been obtained in majority of the cases as envisaged in the guidelines of the scheme;
- in terms of the directives (January 2001) of GOI, the NGOs were required to train at least three batches using the equipment provided under the project. Audit noticed that 153 NGOs received non-recurring grants of Rs.1.17 crore for purchase of equipment for 153 projects. They did not complete three batches of training as required under the guidelines. The Company, however, did not ensure return of the equipment from these NGOs and thereby extended undue benefit to them to the extent of Rs.1.17 crore as detailed below:

(Rs. in lakh)

Sl. No	Particulars of training	Nos. of Projects	Non-recurring grant per project	Total non-recurring grant
(i)	Computer	63	0.95	59.85
(ii)	Type and Shorthand	36	0.525	18.90
(iii)	Readymade Garments	23	0.37	8.51
(iv)	Weaving	14	0.95	13.30
(v)	Artificial Diamond Cutting	04	2.58	10.32
(vi)	Rexine Bag	03	0.29	0.87
(vii)	Zari Patch Work	02	0.40	0.80
(viii)	Embroidery	08	0.56	4.48
	Total	**153**		**117.03**

It is evident from the above that the Company failed to safeguard the interest of the Government as well as of the women trainees. The Company had also not devised any system of post training evaluation to ascertain the number of women who could get employment on a sustained basis after completion of training programme and earnings of each woman per month.

The Management/Government stated (July/August 2005) that approval for training for second and subsequent batches and release of funds by the GOI was self-indicative of satisfactory performance in respect of placement of trainees. Regarding non-return of equipment from the NGOs, directions had been sought from the GOI.

The reply is not tenable as the Company, being the nodal agency, did not obtain status of placements of the trainees from NGOs as envisaged in the scheme guidelines. As regards return of equipment from NGOs, the GOI had already issued instructions in January 2001.

Swayamsiddha Scheme

2.2.44 The Central Government sponsored scheme 'Swayamsiddha' (Integrated Women Empowerment Programme) was to be implemented through NGOs nominated as Project Implementation Agency (PIA) in 94 blocks of 54 districts in the State. The Company was nominated as the nodal agency for implementation of the scheme.

The objective of the scheme was, all round socio-economic empowerment of women of the State by ensuring their direct access to and control over resources through a sustained process of mobilisation and convergence of all the on-going sectoral programmes. The scheme was to be implemented in four phases during a span of five years with effect from October 2002 (starting of the project in Uttar Pradesh) .

For implementation of the scheme, the Company selected (October 2002) 94 PIAs in 94 blocks of 54 districts of the State. Among these, 59 PIAs were declared disqualified (November 2004) by the State Government, one had not started the work till March 2005 and 34 PIAs continued to perform their assignments. The 34 PIAs formed 3,397 Swayam Siddha Groups (SSGs) consisting of 43,827 women covering 1,863 villages.

Belated re-association of 59 NGOs led to serious set back to the scheme.

An examination of records revealed that the Company invited (December 2001) proposals from NGOs to appoint them as PIA. Their proposals were to be evaluated with reference to 10 points criteria bearing 100 marks and the highest scorers were to be selected as PIA. The Company evaluated the proposals and selected 94 NGOs as PIAs for 94 blocks. The agreements were entered (October 2002) with the NGOs and they started their working. Subsequently, the State Government found (July 2004) that 59 PIAs were selected irregularly as these had scored lesser marks than the others and, therefore, ordered the Company to terminate their contracts. The Company terminated their contracts in November 2004. The GOI, however, directed (December 2004) the State Government not to disassociate the NGOs at that stage as it would be extremely detrimental to the programme in view of special training being imparted to the NGOs for implementation of Swayamsiddha Scheme. The State Government belatedly re-associated the NGOs in June 2005 in compliance with the directions of GOI. As a result, money of Rs.1.26 crore (paid & payable) spent in the process of empowerment of women in 59 blocks did not yield the intended benefit during December 2004 to June 2005 due to initial irregular selection of NGOs.

The above matters were reported to the Management/Government (June 2005); the reply of the Government is awaited for the matters related to UPAVVN.

Conclusion

The Companies were incorporated with the main objective of narrowing the socio-economic gap between the general level of economic and social development of society and that of Scheduled Castes, Minorities and Women in Uttar Pradesh. The Companies have not been able to fully achieve the objectives of the schemes as:

- **the Companies did not adhere to the procedures/guidelines in financing the projects and implementation of schemes.**
- **UPSFDC and UPAVVN financed low cost and economically unviable projects despite provisions contained in the guidelines.**
- **the Companies failed to evaluate the schemes with respect to their objective.**
- **the Companies failed to carry out physical verification of financed projects as per the provision of the scheme guidelines.**

UPMKN did not devise any system of post training evaluation to ascertain the number of women who could get employment on a sustained basis after completion of training programme and earnings of each woman per month. The Company also failed to safeguard the interest of the Government as well as women trainees.

Recommendations

- **The companies should follow scheme guidelines strictly for utilisation and disbursement of grants/loans to the beneficiaries.**
- **The companies should make efforts to gear-up recovery performance for enhancing the revenue generating capacity of the companies.**
- **The companies should finance economically viable projects.**

- **The companies should carry out physical verification of projects financed by them regularly in *cent per cent* cases.**
- **The companies should monitor and study the performance of the schemes and their impact on socio-economic status of the Scheduled Castes, Minorities and Women.**

2.3 Review on Extra High Tension Lines and connected Sub-stations in Uttar Pradesh Power Corporation Limited

Highlights

The Company came into existence (January 2000) after unbundling of the erstwhile Uttar Pradesh State Electricity Board. The main function of the Company was to transmit power purchased from Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, Uttar Pradesh Jal Vidyut Nigam Limited and Central Pool to the distribution Companies through its extra high tension (EHT) lines and connected sub-stations. It failed to achieve the targets for additions in transformation capacity and erection of EHT lines. There was shortfall in grid and primary capacity of 1619 MVA and 4331 MVA respectively at the end of March 2005; the Company was unable to meet the demand at secondary sub-stations. There was mismatch between transformation capacity created and erection of EHT lines. The Company suffered a loss of Rs.346.82 crore on account of energy loss of 2317.30 MU in excess of the CEA norms.

(Paragraphs 2.3.1, 2.3.7, 2.3.8, 2.3.11 to 2.3.17, 2.3.19 to 2.3.23 and 2.3.25)

Audit also noticed that:

- *Construction of 17 sub-stations was delayed by four to 232 months which resulted in cost overrun of Rs.55.48 crore; the construction of 32 EHT lines (2017.824 ckt kms) was delayed by five to 152 months resulting in extra burden of Rs.461.37 crore.*

(Paragraph 2.3.9)

- *Construction of 400 KV sub-station, Gorakhpur could not be completed in 10 years even after incurring of an expenditure of Rs.34.81 crore against the project cost of Rs.15.80 crore; as a result the 400 KV line from Azamgarh to Gorakhpur erected in 1996 at a cost of Rs.24.66 crore was lying unutilised.*

(Paragraph 2.3.11)

- *An 800 KV single circuit Anpara-Unnao line of 409 ckt kms erected at a cost of Rs.472.64 crore was energized and continues to be operated at 400 KV leading to gross under utilisation of capacity.*

(Paragraph 2.3.21)

- *Trippings in EHT lines caused a generation loss of 70.76 MU valuing Rs.10.62 crore; an amount of Rs.10.70 crore was paid as penalty on account of excess drawl of reactive power during 2002-03 and 2003-04.*

(Paragraphs 2.3.26 and 2.3.27)

Introduction

2.3.1 On unbundling of the erstwhile Uttar Pradesh State Electricity Board (UPSEB) on 14 January 2000, generation of power in the State of Uttar Pradesh was entrusted to Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) and Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL) for Thermal and Hydro energy generation respectively. The transmission and

distribution of energy was entrusted to Uttar Pradesh Power Corporation Limited (UPPCL). The objective of the Company with regard to grid and primary transmission system was to ensure that extra high tension lines and connected sub-stations function in such a way so as to provide reliable power supply from the system to various regions of the State.

The main function of UPPCL was to transmit power purchased from UPRVUNL, UPJVNL and the Central Pool[1] to distribution companies through its transmission network consisting of Extra High Tension (EHT) lines (132 KV lines and above) and sub-stations having design voltage of 400 KV, 220 KV and 132 KV.

At the end of March 2005, the existing network of transmission system consisted of 254 sub-stations[2] having transformation capacity of 32,218 MVA and 21,756 ckt kms EHT lines in the State. The Company transmits power through its network of 400 KV, 220 KV and 132 KV sub-stations to five distribution companies[3] for distribution of energy to end consumers.

UPPCL is headed by a Chairman-cum-Managing Director. Director (Transmission) is the executive head of the transmission wing of the Company. He is assisted by six General Managers (GMs) to look after the work of design of sub-stations, procurement of material, execution of projects and maintenance of transmission lines and sub-stations. Execution of work in field is done by Executive Engineers under the supervision of Deputy General Manager (DGMs). Civil works are carried out under the supervision of General Manager (Civil), who is assisted by DGM (Civil Transmission) and Executive Engineers. There is a fabrication unit at Naini, which fabricates tower parts for transmission lines.

A review on the growth of the transmission system of the erstwhile UPSEB was featured in the Report of the Comptroller and Auditor General (Commercial), Government of Uttar Pradesh, for the year ended 31 March 1995. The review has not been discussed by the Committee on Public Undertakings (COPU) so far (September 2005).

Scope of audit

2.3.2 The present review conducted during October 2004 to March 2005 covers growth of the transmission network, construction, augmentation of sub-stations, erection of extra high tension lines and their maintenance for the period 2000-01 to 2004-05. The Company's records at Headquarters of the Company and six divisions, out of 76 divisions and five circles, out of 22 circles were examined.

Audit objectives

2.3.3 Audit was conducted with a view to ascertain whether:

- the Company was able to make available reliable power supply from the system to various regions of the State, keeping pace with demands of industrial development and population growth;

[1] National Thermal Power Corporation (NTPCL), Power Grid Corporation of India Limited (PGCIL), National Hydro Power Corporation (NHPC), Northern Region Electricity Board (NREB), Rajasthan State Electricity Board (RSEB) and Narora Atomic Power Plant (NAPP).

[2] 400 KV sub-stations-11, 220 KV sub-stations-43, 132 KV sub-stations-200.

[3] Kanpur Electric Supply Company Limited, Kanpur; Madhyanchal Vidyut Vitaran Nigam Limited, Lucknow; Poorvanchal Vidyut Vitaran Nigam Limited, Varanasi; Paschimanchal Vidyut Vitaran Nigam Limited, Meerut and Dakshinanchal Vidyut Vitaran Nigam Limited, Agra.

- the network of extra high tension lines and sub-stations was adequate; and
- the performance of the Company in implementing the schemes of construction/augmentation of sub-stations and erection of high tension lines was as per the State Plan.

Audit criteria

2.3.4 Audit criteria considered for assessing the achievement of audit objectives were to evaluate:

- the State Plan so far as it related to energy sector.
- follow up of instructions of Central Electricity Authority and Uttar Pradesh Electricity Regulatory Commission.
- implementation of schemes of the Power Finance Corporation (PFC) and the World Bank.
- adequacy of the capacitor banks.
- procurement of equipment and line materials.

Audit methodology

2.3.5 The methodology adopted for attaining audit objectives with reference to audit criteria were examination of:

- State and Annual Plan.
- Transmission works approval Committee's Minutes.
- Statistical information & Physical and Financial Progress Reports.
- PFC and World Bank loans.
- Construction of 800 KV, 400 KV, 220 KV and 132 KV lines and sub-station.
- Capacitor banks and fabrication unit.

Audit findings

Audit findings, as a result of the review on Extra High Tension lines and connected sub-stations in UPPCL were reported to the Company/State Government in May 2005 and were discussed in the meeting of Audit Review Committee for State Public Sector Enterprises held on 26 July 2005. The meeting was attended by the Executive Director (Transmission) of the Company. The representative of the State Government did not attend the meeting. The views expressed by the members and also detailed written replies submitted by the Company; have been taken into consideration while finalising the review.

The Audit findings are discussed in the succeeding paragraphs:

Financial outlay

2.3.6 The Company prepares an annual budget for execution of various transmission works based on the physical targets fixed in annual plans formulated by the Company.

The following table indicates budgeted (Original/Revised estimates) and actual expenditure for transmission works during 1999-2004*:

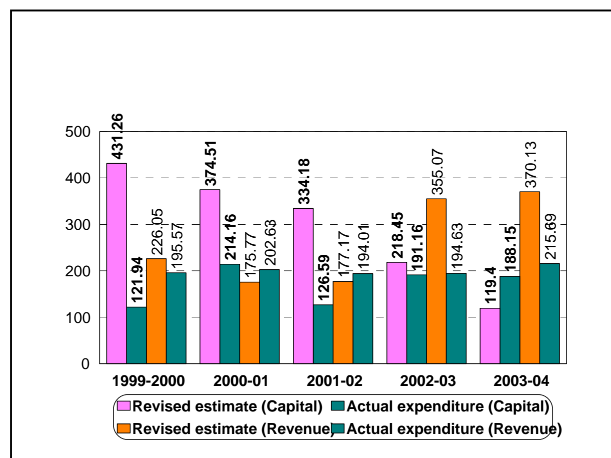
* Figures for the year 2004-05 were not available due to non-preparation of annual accounts.

(Rupees in crore)

Year	Budget Estimates				Actual expenditure		Percentage of actual expenditure to revised estimates	
	Capital expenditure		Revenue expenditure					
	Original estimates	Revised estimates	Original estimates	Revised estimates	Capital	Revenue	Capital	Revenue
1999-2000	450.86	431.26	225.11	226.05	121.94	195.57	28.28	86.52
2000-01	374.51	374.51	246.67	175.77	214.16	202.63	57.18	115.28
2001-02	427.80	334.18	216.10	177.17	126.59	194.01	37.88	109.50
2002-03	362.74	218.45	226.83	355.07	191.16	194.63	87.51	54.81
2003-04	380.13	119.40	315.67	370.13	188.15	215.69	157.58	58.27

It would be seen from the above table that:

- Actual capital expenditure was low every year (except 2003-04) and ranged between 28.28 and 87.51 *per cent* as compared to the revised estimates during the period 1999-2000 to 2003-04.



- Actual revenue expenditure was also low (except 2000-01 and 2001-02) and ranged between 54.81 and 86.52 *per cent* as compared to revised estimates during the period 1999-2000 to 2003-04.

The actual capital and revenue expenditure less than budget indicated low capital work in progress and poor maintenance of the lines and sub-stations.

Transmission Network

2.3.7 The Company has two sources of power viz. purchase from UPRVUNL and UPJVNL in the State and the Central Pool. Uttar Pradesh is a large state having its major hydro generating projects in the North West and thermal power projects in the extreme South East.

Energy generated at power stations flows to the consumers end as per flow chart given in **Annexure-25**. To maintain uninterrupted flow of energy, the transformation capacity of the secondary sub-stations should be 90 *per cent* of the capacity of the connected load. Similarly, the capacity of the transmission system should be 90 *per cent* taking into effect working of transformers at ±10 *per cent* of its capacity.

The table given below indicates the position of connected load, capacity of secondary sub-stations, available and required capacity of primary sub-stations (132 KV) and capacity of grid sub-stations (400 and 220 KV) feeding primary sub-stations for the last five years as at 31 March of each year:

(In MVA)

Year	Connected load to consumers	Required transformation capacity of secondary sub-stations (90 *per cent* of connected load)	Required transformation capacity (diversion factor of 0.9)		Transformation capacity available (grid sub-stations)	Transformation capacity available (primary sub-stations)	Shortfall in capacity of grid sub-stations (4-6)	Shortfall in capacity of primary sub-stations (5-7)
			Grid sub-station	Primary sub-station				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2000-01	22,236	20,012	18,011	18,011	15,010	12,443	3,001	5,568
2001-02	22,460	20,214	18,193	18,193	15,735	12,808	2,458	5,385
2002-03	23,134	20,821	18,739	18,739	16,195	13,498	2,544	5,241
2003-04	22,802	20,522	18,470	18,470	16,745	14,010	1,725	4,460
2004-05	23,560	21,204	19,084	19,084	17,465	14,753	1,619	4,331

Capacity of grid sub-stations as well as of primary sub-stations was lower than the required capacity.

The table would reveal that the capacity of grid sub-stations as well as of primary sub-stations was lower than the required capacity. Thus, there was shortfall in grid and primary capacity of 1,619 MVA and 4,331 MVA respectively at the end of March 2005. This shows that the transmission network was inadequate to that extent. This resulted in over loading at grid and primary sub-stations. Consequently, the Company was unable to meet the demand at secondary sub-stations and demand of consumers.

Uttar Pradesh Electricity Regulatory Commission observed (November 2004) that proposed additions were just sufficient to meet the immediate needs. It would be necessary to review transformation capacities of the primary sub-stations so as to relocate the transformers by replacing existing ones with higher capacity transformers available elsewhere or by procurement.

Despite plan projections to provide uninterrupted power supply to consumers, the Company failed to achieve targets as discussed in the succeeding paragraphs.

Targets and achievements

2.3.8 The targets projected in the State Plan 1997-98 to 2001-02 (9th Five-Year Plan) and 2002-03 to 2006-07 (10th Five-Year Plan) envisaged construction of 51 new sub-stations (400/220, 220/132 and 132/33 KV) and augmentation of existing 184 sub-stations to create additional capacity of 9,297.5 MVA (Capacity of new and augmented sub-stations) and construction of 3,735.91 Ckt kms during 2000-01 to 2004-05.

The Company failed to achieve the targets for addition in transformation capacity and construction of lines.

The Company had been drawing up its transmission work programme according to the State Plan in their annual plans, by fixing the physical targets for construction of new sub-stations, erection of lines besides augmentation of existing sub-stations. The targets and achievements in physical terms during 2000-05 are given in **Annexure-26.** It would be seen from the Annexure that the Company failed to achieve the targets for addition in transformation capacity in 2000-01, 2001-02 and 2003-04. The Company also failed to achieve targets in case of erection of transmission lines for all the years up to 2003-04. The percentage of shortfall during the period 2000-01 to 2004-05 ranged between 28.64 and 67.36 in respect of transformation capacity and between 32 and 72.56 in respect of transmission lines. The shortfall was due to delay in execution of work.

The Management did not analyse the reasons for delay in completion of the projects. These targets, as analysed in audit, could not be achieved due to inadequate finance, poor planning, non availability of requisite drawings in time, delay in pursuance of Court cases and delay in acquisition of land within reasonable time for construction of lines and setting up of sub-stations.

Execution of Transmission Schemes

2.3.9 Transmission Schemes include construction of sub-station/augmentation of existing sub-stations and erection of transmission lines. Proposal for these schemes are prepared by Chief General Manager (Transmission) in consultation with General Manager (Transmission Design) and sent to the Planning Wing for submission to Transmission Works Approval Committee. After being approved, these proposals are submitted to the Board of Directors (BOD)/CMD for administrative approval. Then these schemes are included in the Annual Programme indicating the budget allocation for each scheme. In case of projects whose cost exceeds Rs.one

crore, prior approval of Uttar Pradesh Electricity Regulatory Commission (UPERC) is to be obtained. Implementation of these schemes are done by the field units after sanction of estimates by the competent authority. After execution of work, the executed estimates are sanctioned indicating the variance in quantities.

The work of construction of sub-stations and erection of lines should both be completed simultaneously within the scheduled period to avoid cost overrun and to avail of the desired results of the scheme. During the period 2000-01 to 2004-05, construction of 25 new sub-stations (capacity 1,642.5 MVA), augmentation of 148 sub-stations (capacity 4,440 MVA) and erection of 2,267.604 ckt kms. EHT lines were completed and expenditure of Rs.333.90 crore was incurred (**Annexure-26**) during the same period. Audit analysis revealed that:

- the Company failed to coordinate execution activities effectively leading to cost and time overrun.
- out of 25 sub-stations constructed during 2000-01 to 2004-05, construction of 17 sub-stations was delayed by four to 232 months. The delay resulted in cost overrun of Rs.55.48 crore (**Annexure-27**).
- In case of augmentation of five sub-stations there was delay ranging from 12 to 16 months and cost overrun was of Rs.2.39 crore (**Annexure-27**).
- Out of 49 lines (route length 2,267.604 Ckt kms) constructed during 2000-05, construction of 32 lines (2,017.824 Ckt kms) was delayed by five to 152 months resulting in extra burden of Rs.461.37 crore (**Annexure-28**).

The delay, as analysed in audit, was mainly on account of delayed acquisition of land, delay in allotment of contracts, delay in allotment of materials, delay in allocation of funds by Headquarters office to the executing units, defective supply of materials and improper pursuance of Court cases.

Cases noticed during test check of units are discussed in the succeeding paragraphs.

Construction and augmentation of sub-stations

Financing of transmission schemes

2.3.10 During 2000-05, the Company got financed 37 transmission schemes, 36 from PFC and one from the World Bank; of these, 37 schemes involving construction/augmentation of 85 sub-stations (40 new sub-stations and augmentation of 45 sub-stations) alongwith 62 lines associated to these sub-stations were to be completed during this period. Targets and achievements under these schemes are as under:

Source of finance No. of schemes)	Estimated cost	Loan sanctioned	Loan drawn	No. of sub-stations (Capacity in MVA)						No. of lines (Ckt kms)	
	(Rs. In crore)			400 KV		220 KV		132 KV			
				Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
PFC (36)	976.08	748.39	345.06	2 (675)	Nil (Nil)	12 (1460)	6 (500)	53 (1185)	26 (510)	45 (1746.595)	13 (359.305)
World Bank (1)	261.16	195.33	164.14	1 (630)	Nil (Nil)	5 (1180)	4 (820)	12 (340)	12 (340)	17 (376.852)	15 (333.962)
Total (37)	**1237.24**	**943.72**	**509.20**	**3 (1305)**	**Nil (Nil)**	**17 (2640)**	**10 (1320)**	**65 (1525)**	**38 (850)**	**62 (2123.447)**	**28 (693.267)**

The Company could utilise only 53.96 *per cent* of the loan sanctioned. Due to slow pace of work, the Company could construct 18 sub-stations against the target of 40 new sub-stations and augmented 30 sub-stations against the target of 45 sub-stations. As a result, 2,170 MVA (39.67 *per cent*) additional capacity against the target of 5,470 MVA could be created. The Company could erect 693.267 ckt kms (32.65 *per cent*) of transmission lines against the target of 2,123.447 ckt kms of lines.

Power Finance Corporation financed schemes

400 KV Sub-Station Gorakhpur

2.3.11 The Eastern region, especially Gorakhpur Commissionary has only one 220 KV sub-station (capacity 2 X 100 MVA) to cater to the needs of the consumers. The erstwhile UPSEB proposed one 400 KV sub-station (capacity 1 X 315 MVA) and associated 400 KV line from Azamgarh to Gorakhpur to reduce the transmission losses, making available the power for gross industrial development of eastern region and stabilisation of the power supply. This proposal was approved by CEA and Techno Economic Clearance under VII Five Year Plan was accorded in March 1988.

Construction of 400 KV sub-station, Gorakhpur could not be completed in 10 years even after incurring an expenditure of Rs.34.81 crore against the estimated cost of Rs.15.80 crore.

Audit noticed (March 2005) that the construction of 400 KV sub-station and associated line was started in April 1991 with the scheduled date of completion of November 1994. The line was completed in January 1996 at a cost of Rs.24.66 crore and energised at 220 KV due to non-completion of the proposed sub-station. Construction of sub-station could not be completed even up to March 2005 i.e. for a period of more than 10 years from the scheduled date of completion, due to failure in monitoring of funds, non-receipt of design inputs in time, non-allotment of material for structures and non-picking up of work by the contractor. An expenditure of Rs.34.81 crore was incurred up to March 2005 against the project cost of Rs.15.80 crore. The 400 KV line though energised at 220 KV could not be used due to non-completion of the sub-station simultaneously for transmission of power. The line has not been utilised for the last ten years. The purpose of meeting the power demand of consumers of the Eastern region was defeated and the Company was deprived of anticipated sale of additional power of 75.69 MU valued at Rs.13.02 crore per annum.

The Management while accepting the facts of non-utilisation of the 400 KV line stated (July 2005) that since the 400 KV sub-station, Gorakhpur was to be commissioned, there remained no alternative with the Company but to charge the line at 220 KV to avoid theft of the line assets and, after arranging financial linkage, construction of the sub-station had been restarted, equipment had been overhauled and commissioning was expected by November 2005. The fact, however, remains that the sub-station is yet to be completed and transmission lines remained unutilised even after 10 years.

220 KV Sub-station Hardoi

2.3.12 Construction of 220 KV sub-station, Hardoi and associated 220 KV double circuit (DC) line from Hardoi to Shahjahanpur and its associated work was included in the approved work plan of the erstwhile UPSEB for the year 1998-99. The target date of completion was December 1999. The total project cost was Rs.21.59 crore. The project envisaged annual benefit of Rs.24.28 crore (additional sale of energy Rs.13.06 crore and saving in losses of 38.90 MU valuing Rs.11.22 crore).

The work of construction of the sub-station was started in October 1998 without obtaining administrative approval and sanction of estimates. The work was stopped (May 2001) due to paucity of funds after incurring an expenditure of Rs.2.64 crore (Rs.1.80 crore on civil work and Rs.0.84 crore on procurement of equipments and materials). PFC sanctioned (June 2001) a loan of Rs.15.30 crore for the whole scheme; the Company was further required to manage Rs.6.29 crore from its own sources. The work of the sub-station was rescheduled to be completed by September 2004. No work was, however, executed during June 2001 to December 2004. The work was again started in January 2005. An expenditure of Rs.4.12 crore has been incurred on the construction of the sub-station so far (March 2005).

The work of 220 KV DC Hardoi-Shahjahanpur line which was to be taken up simultaneously with the sub-station in October 1998 was, however, taken up in December 2000 and was to be completed by March 2002. Though an amount of Rs.7.57 crore was incurred up to March 2005 on this work, the line could not be completed. The main reason for non-completion of the line was faulty survey as the route of the EHT line was so designed that it was to pass over a constructed structure viz. Todarmal Revenue Record Training Centre, Hardoi.

Survey of route of line was not done properly. This resulted in non-completion of line.

EHT lines should not pass over a constructed structure. The fact that the line would pass through Training Centre was known to the Company during the survey of the line and feasibility of construction of line should have accordingly been worked out. This is indicative that survey of the route of the line was not done properly.

The Management stated (July 2005) that the project could not be completed due to delay in clearance of the project by UPERC; funds flow could not be started and work was stopped. It was further stated that matter relating to falling of three towers in the premises of the training center had also been resolved with the intervention of the Government and the line would be completed by December 2005. The reply is not tenable in view of the fact that proper survey/planning was not done prior to the commencement of the work which resulted in non-completion of the project and blockage of funds of Rs.11.69 crore. Besides, the Company was deprived of annual benefit of Rs.24.28 crore from the project.

220 KV sub-station Ghazipur

2.3.13 The capacity of the 220 KV sub-station, Ghazipur was 100 MVA and it was not running at full capacity. With a view to release load of 10 MVA to Railway Traction, TAC approved (July 1996) a proposal to increase the capacity of the sub-station by installing another transformer of 100 MVA. The work was to be completed by June 1999 at a cost of Rs.2.52 crore but was completed in March 2003 at a cost of Rs.3.61 crore.

Installation of 100 MVA transformer at the sub-station without requirement resulted in avoidable expenditure of Rs.3.61 crore.

Audit noticed (February 2005) that after installation of this transformer, the maximum load on each transformer was 50 MVA only. This indicates that installation of this 100 MVA transformer was not necessary, and resulted in avoidable expenditure of Rs.3.61 crore.

The Management accepted (July 2005) that 100 MVA transformer was sufficient to cater to the need of consumers (including Railway) but stated that the second transformer was installed for reliability of supply to the Railway. The reply is not tenable as uninterrupted power supply could have been made by taking appropriate preventive measures for up keep and maintenance of the transformer.

132 KV sub-station Khaga

2.3.14 To cater to the need of local area and to make uninterrupted power supply, construction of 132 KV sub-station Khaga (capacity 20 MVA) alongwith six 33 KV bay and 132 KV SC Fatehpur-Khaga line (41.803 Ckt kms) was started in April 2001 and June 2001 respectively at an estimated cost of Rs.1.74 crore and Rs.1.79 crore respectively. Annual benefit of Rs.11.28 crore was envisaged after completion of the project.

Due to lack of co-ordination between Company and Distribution Company, the Company was deprived of the annual benefit of Rs.11.28 crore.

The sub-station and associated lines were completed in November 2003 (except five 33 KV bay) at a cost of Rs.2.30 crore and Rs.4.50 crore respectively. Due to non-construction of 33 KV lines by the Distribution Company for evacuation of power and non-connection of the proposed secondary sub-station, the 132 KV sub-station could not be put on commercial load (February 2005).

The Management stated (July 2005) that three secondary sub-stations had been connected and at present the 20 MVA transformer was running on full load. The fact, however, remains that the investment of Rs.6.80 crore remained blocked for a period of almost two years and annual benefit of Rs.11.28 crore could not be availed of during this period.

132 KV Sub-station Bilhaur

2.3.15 33 KV line emanating from 220 KV Sub-station Panki to 33 KV sub-stations (total capacity 32 MVA) was running overloaded. To avoid rostering of Bilhaur area and to feed three new sub-stations at Kakwan, Rasulabad and Shivrajpur (capacity 5 MVA each), a proposal for construction of 132 KV sub-station (2 X 20 MVA capacity) Bilhaur and its associated line (48 Ckt kms. 132 KV line Panki to Bilhaur) was included in the work plan of the Company during 2001-02. Subsequently, PFC sanctioned (December 2002) a loan of Rs.7.01 crore against the estimated cost of Rs.10.50 crore. The construction of sub-station and line was to be completed by March 2004. An annual benefit of Rs.9.52 crore (Rs.5.25 crore on additional sale of energy and Rs.4.27 crore on account of saving in loss of energy) was anticipated after completion of the project.

Due to delay in start of work, Company was deprived of an annual benefit of Rs.9.52 crore.

Scrutiny of records (February 2005) revealed that estimates amounting to Rs.3.25 crore and Rs.5.14 crore were sanctioned (September 2002) for construction of sub-station with 2 x 20 MVA capacity and line respectively, but inspite of availability of funds the work could not be started (February2005). Reasons for not starting of work were non-receipt of administrative approval, delay in acquisition of land, approval of site by the Bhoomi Chayan Samiti and delay in sanction of layout plan. Thus, owing to delay in start of the work, the Company was deprived of an annual benefit of Rs.9.52 crore and the problem of rostering of supply to the area remained unsolved.

The Management while accepting (July 2005) the audit observation stated that the construction of sub-station and associated work had been started and completion of sub-station was expected by June 2006.

132 KV Sub-station Pukharayan

2.3.16 PFC sanctioned (September 2002) a loan of Rs.1.68 crore for increasing the capacity of 132 KV sub-station Pukharayan from 1 X 20 MVA to 2X20 MVA. The work of augmentation was to be completed by November 2003. The work of sub-station was started in September 2002. Inspite of availability of funds, Electricity Sub-station Design Circle (ESDC) did not

plan for procurement of a 20 MVA transformer for the sub-station. The Headquarter office allotted/diverted an old 20 MVA transformer (procured in 1965) from 132 KV sub-station Bah to this sub-station. As it was over aged and having heavy weight, the executing division did not agree to install the transformer. GM (Transmission), Kanpur requested (November 2003) Director (T) to allot a fresh 20 MVA transformer. Instead of arranging a transformer of 20 MVA, the Company decided to install 10 MVA transformer. The 10 MVA transformer was received (June 2004) and erected in January 2005 at a cost of Rs.50.80 lakh, but could not be put on commercial load till March 2005 due to non-shifting of 33 KV feeder of 33/11 KV sub-station, Rania.

Due to non-procurement of 20 MVA transformer, augmentation of sub-station could not be done.

Thus, due to failure of the Headquarters in procurement/allotment of 20 MVA transformer till March 2005, inspite of the availability of funds, the augmentation of the sub-station could not be done to the required level and the purpose of the loan to provide un-interrupted supply to the area was defeated.

The Management stated (July 2005) that the Company was not purchasing 20 MVA transformers as these were spared due to increasing the capacity from 20 MVA to 40 MVA. The reply is not tenable as the Company could not provide a 20 MVA transformer in working condition. The loan from PFC included Rs.1.47 crore towards cost of a 20 MVA transformer, which could not be fully utilised. Further, 39 repairable transformers of 20 MVA (valuing Rs.25.35 crore) damaged during May 1999 to December 2003 were lying un-repaired (March 2005). These could have been utilised after repairs.

World Bank financed schemes

400 KV Sub Station Muzaffar Nagar

2.3.17 The Company awarded (January 2001) a contract to BSES, Noida (firm) for construction of a 400 KV sub-station at Muzaffar Nagar for Rs.4.94 crore against World Bank loan. The work of the sub-station was scheduled to be completed by June 2002. The inputs (drawing, design and layouts) of the sub-station were required to be provided by the Company, (400 KV sub-station, Design Circle Wing) by July 2001. The Design Circle failed to provide the inputs within the stipulated period and the inputs were made available during March 2002 to May 2005. Due to non-availability of inputs, the firm could not complete the work of the sub-station within the scheduled period. Till the scheduled date of completion (June 2002) the firm had completed works amounting to Rs.4.56 crore and refused to work beyond the scheduled date on the agreed rates. The Company decided to terminate the contract of the firm. The remaining work was allotted to another contractor at an estimated cost of Rs.1.94 crore. The sub-station could not be completed (July 2005). Thus, delay in providing inputs to the contractor resulted in extra expenditure of Rs.1.56 crore {Rs.1.94 crore – (Rs.4.94 crore – Rs.4.56 crore)} on completion of left over work by the previous contractor.

Delay in providing inputs to the contractor resulted in extra expenditure of Rs.1.56 crore.

The Management accepted (July 2005) that it was not possible to provide all the inputs in time to BSES.

400 KV Sub-station Rewa Road

2.3.18 The Company without obtaining financial linkage from World Bank for construction of 400 KV sub-station, Rewa Road, Allahabad acquired (August 1990) 23.75 acre land for Rs.25 lakh. After acquisition of land, the Company partially executed earth-mat work, barbed wire fencing, security

Due to acquisition of land and start of work without ensuring release of loans from the World Bank, company's funds to the tune of Rs.55 lakh remained blocked.

trenches, boundary wall, etc., up to July 1991 at a cost of Rs.30 lakh. World Bank finances are made on the review of physical and financial progress of the project. The request for review and further release of finances by World Bank was sent by the executing division to Headquarters of the Company but World Bank finances could not be resumed.

In December 2001, Power Grid Corporation of India (PGCIL) constructed a 400/220 KV sub-station at a distance of five kms from the above incomplete sub-station, due to which the Company decided (December 2001) not to construct the sub-station and dispose off the land. Thus, due to acquisition of land and start of work without ensuring release of loans from the World Bank, the Company's funds to the tune of Rs.55 lakh remained blocked since September 1990 as the land has not been disposed off so far (July 2005).

The Management stated (July 2005) that cost of land had appreciated substantially, so utlisation of funds did not have any adverse effect. The reply is not tenable as the Company is not supposed to invest funds in land not required and is also not free to dispose off the land without the permission of State Government under Section 44 A of the Land Acquisition Act, 1894. The fact remains that Company's funds amounting to Rs.55 lakh remained blocked.

220 KV sub-station Cantt. Allahabad

2.3.19 The work for upgradation of Cantt. sub-station Allahabad from 132 KV to 220 KV was included in the list of works (April 2000) to be done under the U.P. Power Sector Reforms Project with the financial assistance from World Bank.

On the instructions of the World Bank, UPPCL invited sealed bids (December 2000) for construction of 220 KV sub-station Cantt. Allahabad. Preliminary/detailed estimates were not prepared. An agreement for Rs.1.04 crore was executed (April2001) with Gupta Brothers, Naini Construction Limited (the lowest bidder) for construction of 220 KV sub-station Cantt. Allahabad with due date of completion of civil work by October 2002.

Audit noticed (March 2005) that although the division had incurred expenditure of Rs.1.04 crore (November 2002), which was equal to the amount sanctioned, yet only 62.35 *per cent* of the total work could be completed.

Due to delay in execution of work, the Company incurred excess expenditure of Rs.57 lakh.

The reasons for delay as analysed in audit were delay in sanction of estimate, finalisation of tender for remaining work on the basis of tentative quantity, delay in finalisation of design of switch yard and cable trenches, frequent changes in status of work and delay in invitation/finalisation of fresh bid for unexecuted works.

The work was completed in October 2004 and commissioned in December 2004 at a total cost of Rs.1.61 crore. Thus, due to delay in execution of work, the Company incurred excess expenditure of Rs.57 lakh.

The Management accepted (July 2005) the facts and intimated that the agreement for 220 KV sub-station Cantt for Rs.1.04 crore was based on tentative quantities and as per final drawings the quantum of work at the sub-station also increased considerably.

Erection of transmission lines

2.3.20 As per procedure followed by the Company for erection and maintenance of an EHT Line, the Corporation while making survey should ensure trouble free right of way for the line passing through that particular route. Proper planning relating to acquisition of land, availability of funds and allotment of agency for execution of work should be done to ensure completion of work as per targetted plan.

Failure to observe the prescribed procedures resulting in delay in erection of EHT Line and losses due to poor maintenance are discussed in the succeeding paragraphs.

800 KV Anpara -Unnao line

2.3.21 A proposal of 800 KV transmission system was conceived (1993) for transmission of power generated from Anpara 'A' and 'B' power stations located in Sonebhadra District to utility centres. This system was not only to evacuate power from Anpara project but was also to improve the evacuation of power from power stations Obra, Singrauli, Rihand, etc. In addition to this, 800 KV sub-station at Unnao costing to Rs.294.10 crore was proposed in the IXth Plan with the assistance of Overseas Economy Co-operation Funds (OECF), Japan. The completion of this sub-station was to match with the commissioning of proposed Anpara'C' thermal project (1000 MW) and the proposed 800 KV line was to be initially operated on 400 KV. Accordingly, 800 KV transmission line for 409 Ckt kms was got constructed (July 2000) in two parts (i) 800 KV single circuit (SC) Anpara-Jhunsi and (ii) 800 KV SC Jhunsi, - Unnao. The work of construction of 800 KV Anpara-Jhunsi line was allotted to Hyundai Engineering and Construction Company Limited, South Korea in association with Jyoti Structures Limited for Rs 64.39 crore and the work of Jhunsi-Unnao line was awarded to SAE (I) Limited (now known as R.P.G Transmission Limited) for Rs 63.82 crore. As per agreement, work was to commence in the third week of December 1995 and was to be completed by the third week of September 1997. The work was, however, completed and the line was energised (July 2000) on 400 KV after a delay of three years. An amount of Rs 472.64 crore was incurred on 800 KV line.

800 KV line energised on 400 KV and connected with 400 KV sub-station due to non-construction of 800 KV sub-station. Thus, 800 KV line was being under utilised.

It was noticed during audit (October 2004) that neither had the 800 KV terminal at Anpara 'C' site nor had the 800 KV sub-station at Unnao been constructed. Consequently, 800 KV line which had been energised on 400 KV continued to be operated on 400 KV only till date (November 2005). Consequently, this line was being under utilised. Had the Company constructed 400 KV (SC) line, an amount of Rs.280.78 crore could have been saved.

The Management stated (July 2005) that as per system studies it was envisaged that 800 KV Anpara-Unnao line would be operated initially at 400 KV for evacuation of power from Anpara 'B'. The operation of the above line at 800 KV was linked with the construction of 800 KV sub-station at Unnao for evacuating additional power consequent upon commissioning of 1,000 MW Anpara 'C'. The Management further intimated (November 2005) that 800 KV Unnao sub-station would be needed along with commissioning of Anpara 'C' which was expected in the year 2010. This shows defective planning of operation of the 800 KV system as the Company will not be able to operate 800 KV system up to the year 2010 and the 800 KV line constructed in July 2000 would be under utilised for 10 years.

Loop In Loop Out line at Obra TPS

2.3.22 Work of erection of 400 KV bays at Obra Thermal Power Station (TPS) was allotted (February 1999) to INCAB. The work of erection was started in the same month and a sum of Rs.9 crore was spent during the period 1999-2000. Due to some discrepancy in drawing, the length of structures of pantograph isolators was found (July 2004) mismatching due to which it was not possible to align the pipe bus with isolators and complete erection of bay could not be done. For dismantling and re-fixing the modified structure, its alignment and commissioning for two bays, INCAB submitted (May 2004) its

offer amounting to Rs.1.20 lakh. The offer was, however, not finalised by Electricity Sub-station Design Circle, Lucknow and the work could not be completed.

The Management intimated (July 2005) that Alstom (who had prepared some drawings of the project) had resubmitted the drawings in July 2005 after discussion with Obra authorities and the work would be completed by December 2005. The fact, however, remains that due to delay in finalisation of offer of INCAB and lack of co-ordination with the Obra authorities an amount of Rs.9 crore remained blocked for more than five years.

Loss due to non-seeking Right of Way

Company had to incur expenditure of Rs.94.70 lakh due to non-seeking right of way at the time of allotment of land by MDA for the sub-station.

2.3.23 Right of way to feed a sub-station is decided at the time of planning of a project and is provided free of cost to the Company along with land by the Development Authorities. In 1996 a piece of land measuring 12 acre was provided by Meerut Development authority (MDA) free of cost to the Company for constructing 220 KV sub-station at Shatabdinagar, Meerut as major portion of load of Sub-station was to be used to feed the schemes developed by MDA.

At the time of allotment of land, the Company did not demand right of way from MDA. The Company demanded right of way in January 2002. In response to it, MDA refused to provide right of way free of cost on the grounds that it was not demanded at the time of allotment of land for the sub-station. Further MDA informed that now lines would pass over a saleable land, hence Company would have to make a payment of Rs.94.70 lakh. The Company made a payment of Rs.30 lakh as first installment.

The Management while accepting (July 2005) the facts stated that prediction of route of a line at such an advanced stage was not possible. The reply of the Management is not tenable as the route of a line is decided at the time of planning of the project.

Construction of lines at higher cost

Estimates of 17 EHT transmission lines were prepared on higher side to the extent of Rs.5.97 crore.

2.3.24 The Company every year used to fix yardstick for construction of EHT transmission lines, which was known as rate schedule. Construction cost of an EHT line should not exceed the cost mentioned in rate schedule. Estimates for the works were to be prepared on the basis of rate schedules applicable to the period.

Under World Bank loan, 17 EHT transmission lines were got constructed. It was noticed in audit that estimates prepared for these lines were on the higher side in respect of 12 lines to the extent of Rs 5.97 crore. (Based on rate schedule for the year 2001) **Annexure-29**.

Details of actual expenditure incurred was not available, as the same were not booked on the projects.

The Management stated (July 2005) that estimated cost of World Bank projects was on a slightly higher side due to special works like river crossing and abnormal price hike, if, any, in future. The Management further stated that actual cost of each line would be worked out after completion of the project. The reply is not tenable as the aspects mentioned by the Management were duly considered at the time of preparation of the rate schedule. The work on almost all the lines had already been completed by the end of December 2004 but line-wise expenditure was not worked out by the Company.

Growth of transmission system and transmission losses

2.3.25 The following table indicates the transmission system built up vis-à-vis power availability for sale during 2000-2005:

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	Total
Addition of transmission lines during the year (ckt kms)	1,247.19	106.36	192.00	343.00	379.054	2,267.604
Addition of transformation capacity during the year (MVA)	1,317.50	1,090.00	1,150.00	1,062.50	1,462.50	6,082.50
Total energy purchased for sale (MU)	*	39,867.783	36,338.137	40,570.193	42,031.326	
Energy sold (MU)	*	37,715.907	34,225.315	38,306.404	39,890.220	
Transmission losses (MU)	*	2,151.876	2,112.822	2,263.789	2,141.106	
Percentage of losses	*	5.40	5.81	5.58	5.09	

Company suffered loss of Rs.346.82 crore on account of energy loss in excess of the prescribed norms.

During the last five years ending 31 March 2005 there was an addition of 2,267.604 ckt kms lines and 6082.50 MVA transformation capacity. Inspite of this growth the transmission losses during the same period ranged between 5.09 and 5.81 *per cent*; it was lowest in 2004-05 at 5.09 *per cent*. The losses were above the norm of four *per cent* fixed by the Central Electricity Authority (CEA). The Company suffered loss of Rs.346.82 crore on account of energy loss of 2,317.296 MU (in excess of four *per cent*).

Maintenance of sub-stations and lines

Poor maintenance of sub-stations and lines

2.3.26 In connection with the major grid disturbance on 2 January 2001, CEA had pointed out (January 2001) that UPPCL had failed in carrying out the required preventive maintenance of lines and also in ensuring proper testing and operation of circuit breakers and protection system. According to their recommendation, UPPCL was required to carry out maintenance of its various 400 KV and 220 KV lines and sub-stations including washing of the line insulators, replacement of insulator strings in the portion of transmission lines passing through high pollution areas. Thereafter, preventive maintenance was carried out in 400 KV EHT lines (Panki – Muradanagar, Agra-Muradnagar, Obra-Panki and Unnao-Agra) and four 400 KV sub-stations (Unnao, Agra, Panki and Muradnagar). It was, however, observed that even after the above maintenance, EHT lines tripped 12 times during January 2001 to January 2005 and UPRVUNL had to shut down some units of Anpara and Obra TPS. This resulted in generation loss of 70.76 MU valuing Rs.10.62 crore.

Besides, the instances of poor maintenance of lines as detailed below were also noticed during audit:

Sl. No.	Particulars	Loss (Rs. in lakh)	Audit observation	Management's reply
1	2	3	4	5
1.	132 KV SC Pipri-Obra line	25.00	Tower parts of the line stolen on 19 January 2001 were not replaced. Due to this four towers collapsed (16 October 2002) and 4.5 ckt kms conductor was stolen. Company had to incur an expenditure of Rs.25 lakh on replacement of these towers.	Management stated that arrangement of required tower parts was in process and in the meantime towers collapsed. The reply is not tenable as the missing tower parts should have been arranged immediately to avoid collapse of towers.

[*] Figures not made available by the Management.

1	2	3	4	5
2.	220 KV DC Sahupuri-Obra line	16.51	Due to failure in proper patrolling, rusting of all four legs of a tower of the line could not be noticed in time. This resulted in collapse of tower during June 2004. Company had to incur an expenditure of Rs.16.51 lakh on replacement of tower.	Management stated that the stubs were rusted due to continuous process of oxidation because of water logging and soil accumulation on stubs during 36 years. The reply is not tenable as the old lines require through checking till they are replaced.
3.	400 KV Agra-Muradnagar line	77.63	To avoid trippings of the line proper earthing of the towers was required but the Company instead of earthing the towers installed (April 2003) disc insulators and bird guards at a cost of Rs.77.63 lakh but no improvement was observed. Position of supply, however, could be improved only after earthing of tower at a cost of Rs.5.40 lakh. Had earthing of towers been done earlier, expenditure amounting to Rs.77.63 lakh incurred on installation of disc insulators could have been avoided.	Management while accepting the fact intimated that as a result of measures taken by the Company, the trippings were considerably reduced but not totally stopped. The reply is not tenable as even after installation of disc insulators, the desired reduction in trippings was not observed.

Defective capacitor banks

2.3.27 Reactive power flows on 220 KV and 132 KV lines from generating stations to load centers. This results in steep drop in system voltage profile and excessive system losses. Installation of capacitor banks is required to improve power factor to the desired level. Capacitor banks have added advantage of increasing load carrying capacity of the system and reduction of technical losses.

The table below indicates the capacity and condition of capacitor banks installed during 2001 to 2004:

(Capacity in MVAR)

Year	Installed	Working	Defective	Percentage of defective capacitor banks
2001-02	3277.328	2535.439	741.889	22.64
2002-03	3557.328	2725.249	832.079	23.39
2003-04	3707.328	2843.201	864.127	23.31

It would be seen from the above table that:

- the percentage of defective capacitor banks ranged between 22.64 and 23.39 *per cent* but Management did not take corrective measures to remove defects in the defective capacitor banks to bring them in working condition to avoid technical losses.
- non-working of capacitor banks resulted in non-reduction of technical losses to the extent of 120.82 MU valued at Rs.20.30 crore.

- with the implementation of Availability Based Tariff (ABT) since 1 December 2002, the flow of reactive power is also recorded, monitored and billed by the Northern Region Electricity Board (NREB) under high voltage and low voltage conditions. If the voltage of the import/export point varies by more than ± 3 *per cent* then the State is penalised for exporting reactive power during high voltage condition and for importing reactive power during low voltage condition. Audit noticed (January 2005) that the Company failed to keep a close watch on import and export of reactive power due to non-availability of sufficient working capacity of capacitor banks and had to pay penalty of Rs.10.70 crore to NREB during 2002-03 and 2003-04.

Management stated (July 2005) that the excess payment made on account of drawal of reactive power was not mainly due to defective capacity of the installed capacitor banks; the fact was that most of the defective capacitor banks were put in service and in due course of time running capacitor banks also break down which was a natural process; efforts were being made to increase further capacity. The reply is not tenable as the percentage of defective capacitor banks was static and this should have been reduced to control technical losses.

Procurement of material

2.3.28 The Company is required to procure material for the implementation of transmission schemes and maintenance purposes. The material is purchased centrally at Headquarters through a purchase committee. Irregularities noticed in procurement are discussed in the succeeding paragraphs.

Procurement of transformers at higher rates

2.3.29 The Company invited tender specification no. ESD-123 for procurement of 18 transformers of 40 MVA capacity on 11 October 1999 with the condition of ± 50 *per cent* variation in the specified quantity (Clause 2.20 of general requirement of specification of the tender). After finalisation of the tender, purchase order for supply of 25 transformers of 40 MVA capacity was placed (July/August 2000) at the computed price of Rs.2.33 crore per transformer by taking the Indian Electrical and Electronics Manufacturers' Association (IEEMA) base price of 01 September 1999. Details of Suppliers/quantity offered by them/Quantity ordered were as under.

Sl. No.	Name of Supplier	Quantity offered	Quantity ordered	Balance quantity which could be ordered
1.	Alstom	18	10	8
2.	Emco	18	9	9
3.	Bharat Bijli Limited (BBL)	18	1	17
4.	ABB	18	3	15
5.	Crompton Greaves	18	2	16

In order to meet the requirement for the year 2000-01 the Company floated (March 2001) another tender (specification No. ESD-143) to purchase 15 transformers of 40 MVA capacity. Part-I (technical bid) of this tender was opened in March 2001 while Part-II (financial bid) of the tender was opened after five months (August 2001). The lowest rate approved (September 2001) was Rs.2.29 crore by taking the IEEMA base price of 01 February 2001. Four suppliers were ordered to supply one transformer each and three firms were ordered to supply 12 transformers (five, six and one transformer). These three firms refused to supply at the rate of Rs.2.29 crore per transformer, instead they made an offer to supply the transformer at the rate of Rs.2.40 crore per transformer.

The Company incurred extra expenditure of Rs.84 lakh on procurement of 12 transformers at higher rates.

Audit noticed (December 2004) that the period of validity of previous tender (ESD-123) was up to June 2001. Since part-II of the other tender (ESD-143) was opened after June 2001, the Company could not avail of the benefit of the lower rate of Rs.2.33 crore (offered in the earlier order) by invoking clause 2.20 of the old tender. Subsequently, the Company purchased 12 transformers at the rate of Rs.2.40 crore per transformer. This resulted in extra expenditure of Rs.84 lakh on procurement of 12 transformers at the differential rate of Rs.7 lakh (Rs.2.40 crore – Rs.2.33 crore) per transformer.

Management stated (July 2005) that requirement was increased from 18 to 25 transformers against tender No. ESD-123; as such further invoking of clause 2.20 for purchase of additional 15 transformers was not contractually admissible. The reply is not tenable as the Company did not place orders for the additional quantity offered by the suppliers against the earlier tender. Management did not offer any comment on opening of part-II of the tender (ESD-143) after the expiry of the validity period of the earlier tender (ESD-123) and after a period of five months from the date of opening of part-I of the tender.

Procurement of Electronic Trivector meters at higher rates

2.3.30 Procurement of meters was to be financed from the World Bank. No custom duty was payable on imports against World Bank loan. Global tenders were invited (February 2002) for supply of 1200 0.2S class energy meters against specification no TR-26. The tenders were opened on 5 March 2002. One Indian and two foreign firms belonging to Group A[*] and C[**] respectively quoted their rates. The computed rates of these firms were as under:

Name of Firms	Category of the firms	Computed cost (Rs in crore)
Secure Meters Ltd.	Group A	21.49
PML Canada	Group C (supplied directly)	20.37
P.I. Industries	Group C (supplied through agents)	26.17

Company incurred extra expenditure of Rs.1.12 crore on procurement of electronic trivector meters at higher rates.

Clause 27.3 and Clause 27.4 stipulate the method of comparison of rates amongst the firms falling under different groups. In case the rate of the firm of a group (Group C) which is exempt from payment of import duty, etc. is found to be the lowest then the rate of such a firm was to be loaded with the custom duty of 15 *per cent*, etc., which the non-exempt firm (Group A) was required to pay.

Audit noticed that as it was an import against World Bank loan, no custom duty was payable. As such, there was no need to load the rates of a firm (Group C) which was exempt from payment of customs duty. Even then the rate of a firm which was exempt from payment of custom duty was loaded with 15 *per cent* on the offered rate; hence loading of 15 *per cent* on offered rate of group 'C' firm was irregular. After undue loading on the group ‘C’ firm, the computed cost of domestic firm i.e. Secure Meters, became lowest.

Had the loading of 15 *per cent* not been done on group ‘C’ firms, the total cost of purchase in respect of PM Limited would have been the lowest. The order was, however placed on Secure Meters instead on PM Limited. This resulted in extra expenditure of Rs.1.12 crore on purchase of meters.

Management accepted (July 2005) the facts that no custom duty was payable against World Bank loan in the event of placement of order on a foreign supplier

[*] Group “A” includes indigenous suppliers.
[**] Group “C” includes suppliers of goods supplied directly from abroad as well as through agents.

but loading was done by treating the importer as non-exempt. The contention of the Management is not correct as the loading of 15 *per cent* on offered cost on group-C price was irregular.

Procurement of material without requirement

Company procured 19 circuit breakers valuing Rs.2.37 crore without requirement.

2.3.31 The Company procured (February 2001 to October 2003) 51, 245 KV SF-6 gas based circuit breakers (CBs) from Transformers and Electricals, Kerala Limited at a cost of Rs.6.37 crore. As per provisions of the contract, the equipments should have been commissioned within two to three months from the date of supply. Audit noticed (December 2004) that out of 51 CBs, 32 CBs only were installed up to April 2005 and 19 CBs valuing Rs.2.37 crore were lying uninstalled (April 2005) due to non-completion of sub-station.

Management stated (July 2005) that these equipments would be installed in due course as and when required.

2.3.32 The 400 KV sub-station division, Agra procured (December 2002) one 420 KV SF-6 circuit breaker from ABB Limited at a cost of Rs.31.65 lakh. The circuit breaker was lying unused so far (July 2005).

Management stated (July 2005) that it would be installed at 400 KV sub-station, Muzaffar Nagar.

Surplus material awaiting disposal

Surplus store material valuing Rs.6.89 crore have been lying unutilised for more than five years.

2.3.33 The erstwhile Board formulated (June 1981) a policy to dispose off surplus material by constituting a committee headed by the Additional Chief Engineer. The Committee was to make recommendations on the mode of disposal of surplus materials. The disposal of such material which are recommended by the Committee was to be made only after obtaining approval of the Board of Directors. Audit noticed that number of items consisting of tower parts, conductors, equipment of sub-station and other store items valuing Rs.6.89 crore were lying unutilised for more than five years and no action was taken to dispose off the same.

Management stated (July 2005) that these equipment had been kept to meet eventualities. The reply is not tenable as this inventory had not been utilised for more than five years.

Performance of Electricity Fabrication Unit, Allahabad

2.3.34 Electricity Fabrication Unit, Allahabad was established (August 1975) at a cost of Rs.25 lakh for minimising delay in construction of lines and sub-stations due to delayed supply of galvanised tower parts and required sub-station structures. The workshop had an installed capacity of fabricating and galvanising 200 MT steel structures per month (maximum capacity utilisation being 110 MT per month during last six years up to 2004-05). Various types of towers and structures are fabricated in the unit as per allotment received from Transmission Design Organisation of the Company.

Audit noticed (April 2005) that during the last six years up to 2004-05, the installed capacity of the workshop could never be utilised and capacity utilisation ranged between 47.10 and 88.26 *per cent* with reference to maximum capacity utilisation of 110 MT per month.

The Company has not fixed norms for realisable wastage in the shape of scrap for this fabrication unit. The erstwhile Board allowed (1977) five *per cent* as scrap, for fabrication got done through private contractors. The table given below indicates the quantity of steel received for fabrication, fabricated,

identified as scrap and excess scrap in the workshop over the norms of five *per cent* during six years up to 2004-05.

Year	Raw steel used for fabrication (MT)	Quantity fabricated (MT)	Scrap generated (MT)	Percentage of scrap to quantity of raw steel	Quantity of scrap as per norms (MT)	Excess quantity of scrap generated over permissible limit (MT)
1999-2000	928.811	829.563	99.248	10.69	46.441	52.807
2000-01	718.321	621.832	96.489	13.43	35.916	60.573
2001-02	1044.056	913.277	130.779	12.53	52.203	78.576
2002-03	1254.957	1165.031	89.926	7.17	62.748	27.178
2003-04	1202.008	1074.263	127.745	10.63	60.100	67.645
2004-05	1111.749	914.791	196.958	17.72	55.587	141.371
Total	**6259.902**	**5518.757**	**741.145**		**312.995**	**428.150**

It would be seen from the above table that the percentage of scrap recovered ranged between 7.17 and 17.72 *per cent* which was much higher due to substandard length and size of raw steel. This resulted in loss of Rs.61.03 lakh.

The Management stated (July 2005) that higher percentage of scrap may be due to dumping of scrap of other divisions into the fabrication unit.

The above matters were reported to the Government (May 2005); reply is awaited (September 2005).

Conclusion

The main function of the Company was to transmit power to the distribution companies through its transmission network by providing reliable power supply from the system to various regions of the State. The Company could not achieve its targets for addition in transformation capacity and erection of transmission lines. There was mismatch between transformation capacity created and lines erected. Delay in implementation of transmission schemes/works resulted in cost overruns and the transmission system could not grow as scheduled to derive the anticipated benefits from the investment. The transmission lines added in the system were being energised and utilised at low voltage. The maintenance of sub-stations and lines was poor. Defective capacitor banks contributed towards non-reduction of transmission losses and payment of penalty on account of excess drawal of reactive power. The fabrication unit of the Company was marred by low capacity utilisation.

Recommendations

- **The Company should ensure that all the schemes are implemented as per schedules.**
- **The completion of sub-stations and EHT lines should match with each other to have desired results of the schemes.**
- **The maintenance and upkeep of the transmission system need to be strengthened to ensure uninterrupted power supply to the consumers.**
- **Efforts need to be made to enhance the capacity utilisation of the fabrication unit.**

2.4 Review on Fuel Management in Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited

Highlights

The Company was established (August 1980) as a power generating Company and was required to manage efficiently the integration of planning, procurement, transportation, storage and utilisation of fuel to achieve the generation targets. There was shortfall in achievement in generation target by 1,326 MU valued at Rs.211.85 crore, mainly due to short procurement of coal from coal companies.

(Paragraphs 2.4.1 and 2.4.6)

Audit also noticed that:

Obra, Anpara and Harduaganj TPSs consumed 29.36 lakh MT of coal valued at Rs.297.65 crore in excess of norms during the five years up to 2004-05.

(Paragraph 2.4.17)

Low thermal efficiency resulted in consumption of excess heat valued at Rs.394.62 crore compared to regressed heat rate adopted by UPERC in Obra, Anpara and Harduaganj TPSs during the five years up to 2004-05.

(Paragraph 2.4.25)

Obra, Anpara and Harduaganj TPSs had consumed 37,271 KL excess fuel oil valued at Rs.49.13 crore against the norms recommended by UPERC during the five years up to 2004-05.

(Paragraph 2.4.23)

The Management did not maintain minimum stock of coal and fuel oil according to CEA norms, leading to forced shut down of units of Obra, Anpara and Harduaganj, which resulted in generation loss. of 255.333 MU valued at Rs.15.67 crore.

(Paragraph 2.4.27)

The Company could not settle its claims for Rs.10.35 crore with Railways, Coal and Oil Companies.

(Paragraphs 2.4.13 and 2.4.31)

Extra cost of Rs.90.99 lakh was incurred on procurement of fuel oil at higher rates.

(Paragraphs 2.4.20 and 2.4.31)

Introduction

2.4.1 Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (Company) was established in August 1980 as a power generating Company under the Companies Act, 1956 having only the Feroz Gandhi Unchhahar Thermal Power Project. The project was taken over (13 February 1992) by the State Government and the same was handed over to NTPC against the liabilities of the erstwhile Uttar Pradesh State Electricity Board (UPSEB).

Prior to 14 January 2000, there were five thermal power stations (TPS) having an aggregate derated installed capacity of 3,941 MW under UPSEB. Under Section 23 of Uttar Pradesh Electricity Reform and Transfer Scheme (1999), the State Government transferred (14 January 2000) all five TPS of erstwhile

UPSEB to the Company. The details relating to the year of commissioning of the different units at each TPSs, derated installed capacity, generation as per derated installed capacity and actual generation during the period 2000-01 to 2004-05 are mentioned below:

Name of TPSs	Year of commissioning	Derated commercial capacity (MW)	Derated installed generating capacity* (MU)	Actual generation (MU)
Obra	1967-68 to 1981-82	1442	63,159.600	29,943.296
Panki	1967-68 to 1976-77	274**	10,599.600	4,932.376
Harduaganj	1967-68 to 1977-78	375	16,425.000	3,517.448
Parichha	1983-84 to 1984-85	220	9,636.000	4,199.498
Anpara	1985-86 to 1994-95	1630	71,394.000	58,787.190
Total		**3941**	**1,71,214.200**	**1,01,379.808**

It would be evident from the table that none of the TPSs have achieved generation to the extent of their derated installed generating capacity during the period 2000-01 to 2004-05. Reasons for shortfall in generation as analysed were shortage of oil, coal and non-availability of coal in coal bunkers, as discussed in paragraph 2.4.27 *infra.*

Fuel, primarily coal and oil are critical inputs in coal based electricity generating plants. Fuel management involves the integration of planning, procurement, transportation, storage and utilisation of fuel. Efficient management is, therefore, important to enhance the thermal efficiency of electricity generating plants.

Oil procurement is done at TPS level whereas General Manager (Fuel) stationed at Headquarter, Lucknow coordinates with the Standing Linkage Committee for allotment, procurement, movement and overall monitoring for timely supplies of coal. He works under the overall supervision of Director (Technical). Each TPS is headed by the Chief General Manager/General Manager who is responsible for efficient and economical use of fuel in the TPS. He is assisted by Deputy General Manager, Executive Engineers and a Deputy Chief Accounts Officer.

Presently, the cost of fuel is Rs.1.13 per unit, which accounts for 69 *per cent* of the total cost of generation of Rs.1.64 per unit.

The Fuel Management in Harduaganj and Panki TPSs and Obra (A&B) TPS of the erstwhile UPSEB was reviewed and commented upon in the Reports of the Comptroller and Auditor General of India (Commercial), Government of Uttar Pradesh for the years ended 31 March 1991 and 1992 respectively. The reviews have not been discussed by the Committee on Public Undertakings (COPU) so far (September 2005).

Scope of audit

2.4.2 The present review conducted during October 2004 to March 2005 covers the linkage, procurement and transportation including loading, unloading, shortage and consumption of coal and fuel oil for the period from 2000-01 to 2004-05. Out of five TPSs, this review covers three TPSs at Anpara, Obra and Harduaganj, having 88.18 *per cent* of total derated installed

* Units to be generated = capacity of machine x number of hours available/1000.

** Including one unit of 32 MW already excluded from the capacity (August 1999) by the Central Electricity Authority.

capacity and 91 *per cent* of the total generation of the Company. For statistical comparison, the operational figures of other two TPSs have also been included.

Audit objectives

2.4.3 Audit was conducted with a view to ascertain how efficiently the Company was able to:

- integrate planning, procurement, transportation, storage and utilisation of fuel so that thermal efficiency of the electricity generating plants is enhanced;
- procure, transport, maintain quality, handle and consume coal and fuel oil;
- maintain thermal efficiency of the plants;
- maintain inventory of coal and fuel oil.

Audit criteria

2.4.4 Audit criteria considered for assessing the achievement of audit objectives were to evaluate whether the Company was able to:

- procure the quantity of coal fixed by the Standing Linkage Committee;
- procure the proper quality of coal with right weighment in time and that the coal was properly handled at TPSs;
- consumption of coal and fuel oil was within norms;
- procurement of fuel oil was made at best possible rates within the minimum time;
- proper and adequate storage of coal and fuel oil was done; and
- the disputes relating to transportation of coal and fuel oil with coal companies and Railways were settled in the best interest of the Company.

Audit methodology

2.4.5 The following methodologies were adopted for attaining audit objectives with reference to the audit criteria:

- The operational performance and plant efficiency were analysed from the data pertaining to coal linkages, procurement, payments made for procurement of coal, oil and Railway freight at Headquarter of the Company.
- The records relating to purchase of fuel oil, reconciliation with oil companies, Railways, coal companies and of statistical/efficiency divisions were examined at the TPSs.
- The analysis of procurement and maintenance of fuel stock was based on the guidelines of CEA.

Audit findings

Audit findings, as a result of the review on Fuel Management were reported to the Management/Government in May 2005 and were discussed in the meeting of Audit Review Committee for State Public Enterprises (ARCPSE) held on 26 July 2005. The meeting was attended by the Managing Director of the Company. The views expressed by the Members and also the written replies received (September 2005) from the Management were considered while finalising the review.

Audit findings are discussed in the succeeding paragraphs:

Coal

Procurement of coal

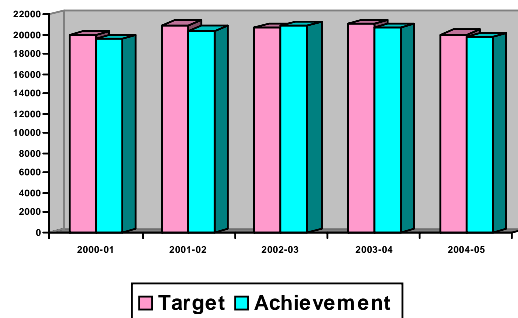
2.4.6 The Central Electricity Authority (CEA) fixes power generation targets for TPSs considering capacity of the plant, average plant load factor and its past performance. The Company works out coal requirement on the basis of targets so fixed and past coal consumption trends of its TPSs. The coal requirement so assessed is conveyed to the Standing Linkage Committee (SLC) of the Ministry of Energy (MOE), Government of India, which decides the source and quantity of coal supply to TPSs on quarterly basis.

The position of coal linkages fixed, coal received, generation targets prescribed and actual generation achieved during the period from 2000-01 to 2004-05 by all five TPSs of the Company was as under:

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	Total
Coal Linkage fixed (MT)	169,35,000	167,60,000	175,35,000	177,60,000	171,75,000	861,65,000
Quantity of coal received (MT)	146,10,803	158,03,945	161,27,023	158,97,663	157,79,304	782,18,738
Generation targets (MU)	19,950	20,960	20,687	21,060	20,050	1,02,707
Actual generation achieved (MU)	19,583	20,464	20,949	20,681	19,704	1,01,381
Shortfall in generation targets (MU)	367	496	(-) 262	379	346	1,326

Short receipt of 79.46 MT of coal resulted in shortfall in achievement of the prescribed generation targets by 1326 MU valued at Rs.211.85 crore.

It would be seen from the above that the total linkage of coal during the five years fixed by the SLC was 861.65 lakh MT for the Company. Against this, only 782.19 lakh MT of coal was received, resulting in short receipt of 79.46 lakh MT (9.22 *per cent*) of coal which resulted in shortfall in achievement of the prescribed generation targets by 1,326 MU in all five TPSs valued at Rs.211.85 crore (at the rate of Rs.1.48 to Rs.1.60 per unit during above period). In the absence of any agreement with the coal companies the Management failed to procure allotted quantity of coal.



Management stated (August 2005) that the coal linkages were purely tentative based on certain assumptions and generation targets were also similarly estimated. There was no generation loss due to non-availability of coal. It was further stated that inspite of efforts made, coal companies were not supplying coal as per linkage. The reply is not tenable as the Company failed to assess the actual requirement of coal against the targetted generation and had to intermittently shutdown generating units of Anpara, Obra and Harduaganj due to shortage of coal/usable coal as discussed in paragraph 2.4.27 *infra*.

Transportation of coal

2.4.7 The coal is transported from the colliery to the TPS's yard through Railway rakes on owner's risk. After receiving the coal, the concerned TPS verifies Railway's freight bills from their own records.

Excess adjustment/payment of Railway freight

2.4.8 Prior to unbundling of UPSEB, the UPSEB used to centrally adjust Railway freight bills (payable to Railways) against traction energy bills

(receivable from Railways) of the Railways. After unbundling in January 2000, transmission/distribution of power was transferred to Uttar Pradesh Power Corporation Limited (UPPCL). The same procedure for payment/adjustment of freight bills continued. According to the procedure adopted, Railway freight bills payable by the Company were adjusted with the revenue receivable from UPPCL (for energy sold to UPPCL), which in turn adjusted the same with the traction energy bills receivable from Railways.

Adjustment of Rs.728.97 crore was done in revenue receivable from UPPCL against liability of Rs.721.64 crore of freight bills payable to Railways.

Audit noticed that during the period 2000-01 to 2004-05, adjustment of Rs.728.97 crore was carried out in revenue receivable from UPPCL against liability of Rs.721.64 crore of freight bills payable to the Railways. This had an impact of giving excess credit to the Railways by an amount of Rs.7.33 crore, and gave undue benefit of Rs.7.33 crore to the Railways as the amount of payment to be made to the Railways on account of freight bills was less compared to the amount which was receivable from the Railways on account of energy consumed by it for which bills were raised by UPPCL.

The Management while furnishing (August 2005) the details of freight charges and adjustment/payment made in respect of all the five TPSs indicated an amount of Rs.0.39 crore as payable to the Railways. Audit analysis (September 2005) of figures furnished by the Management revealed that it was not correctly worked out; the fact also remains that an excess credit of Rs.7.33 crore was passed on to the Railways during the period 2000-01 to 2004-05.

Weighment of coal

2.4.9 According to the decision (December 1986) of the Ministry of Energy (Government of India):

- when wagons are electronically weighed at loading point, the weighment printouts were binding on all concerned and transit shortages were to be borne by the TPS;
- when wagons were only weighed at TPS end, transit shortages were recoverable from coal companies; and
- where no weighment facilities exist at both loading and receiving ends, weighment on volumetric basis was to be considered.

Anpara did not have any weighment facility since 1995, and a weigh-bridge was commissioned only in May 2005. Out of three weigh-bridges at Obra TPS, two weigh-bridges were functioning.

Due to absence of any weighment facility at Anpara TPS and failure to weigh the coal at Obra TPS, transit loss remained un-assessed.

In the absence of any weighment facility at Anpara TPS and failure to weigh the coal at Obra TPS, quantity of coal received was accounted for on the basis of weight recorded in invoices in respect of linked wagons and on the basis of carrying capacity in respect of diverted wagons. Hence transit loss, if any, sustained by Anpara and Obra TPSs during the period 2000-01 to 2004-05 could not be assessed.

Shortage of Coal

2.4.10 Harduaganj is a non-pithead* power station and is receiving coal through rail rakes from different mines of Central Coal Field Limited (CCL) and Bharat Coking Coal Limited (BCCL). The power station is having in-motion weigh-bridge. The weigh-bridge started functioning from February 2001. Prior to February 2001, quantity of coal received was ascertained on volumetric basis and shortages found were deducted from the gross bill quantity as well as consumption. During the years 2001-02 and 2002-03 weight

* Non-pithead power station denotes a power station which is not situated near the colliery.

of coal wagons was taken on random basis. TPS did not record weighment of coal received after 2002-03. Reasons for not recording weight of coal at TPS after 2002-03 were not on record. This defeated the purpose of the weigh-bridge for recording correct weight to be taken for consumption and to control shortages.

Harduaganj TPS did not investigate the reasons for shortages of coal in weighment during 2001-02 to 2002-03.

According to Para 447 of Financial Hand Book Vol. VI, norm for transit loss was fixed at 5 *per cent*. Audit analysis revealed that during the year 2000-01 there was transit loss of 39,670.37 MT coal (5.30 *per cent*) valuing Rs.5.37 crore. During the year 2001-02 and 2002-03 there was transit loss of 31,521.85 MT (3.94 *per cent*) and 24,133.52 MT (3.15 *per cent*) coal valuing Rs.4.99 crore and Rs.3.94 crore respectively. The transit loss was within the permissible limit. The shortages were, however, not investigated for taking remedial action to minimise the losses.

The Company failed to install gravimetric feeders on the coal mill at each TPS as suggested by UPERC. As a result actual consumption shortages and losses of coal remained un-assessed.

2.4.11 At Anpara, Obra and Harduaganj TPS, there was no system of weighment of coal actually consumed in operation. Consumption of coal was determined on presumptive weight of coal basis. During 2003-04, the UPERC issued guidelines to the Company for installation of gravimetric feeders on the coal mill at each TPSs to know the exact quantity of coal fed to the boiler for generation. The guidelines of the UPERC have not been implemented so far (May 2005). As a result, actual consumption of coal, shortages, wastages and loss etc., could not be assessed in audit.

Management while accepting the audit observations stated (August 2005) that the power stations were very old and the weighment systems were not installed for measuring actual coal consumption. Further, the specific coal consumption varied depending upon quality of coal received at the TPSs and at the time of physical verification of coal stock the figure of coal consumption is adjusted.

Quality of Coal

2.4.12 The coal companies supply un-washed coal to TPSs of different grades categorised on the basis of its calorific value. The boilers of the Company's plants installed at Obra, Harduaganj and Anpara TPS are designed for D and E grade of coal. During the five years, the Company generally received coal of the grade 'D' and 'E'. The Company had not executed any agreement with the coal companies during the last five years. Terms and conditions for adjustment of grade slippage, over size stone supplied with coal and penalty for overloading, etc., are decided by the representative of both the companies in the joint meeting held from time to time. In the absence of agreement, the Company failed to adjust/recover the grade slippage, claim of oversize stone, etc.

In the absence of agreement with coal companies, the Company failed to adjust/recover the grade slippage, claim of oversize stone etc.

The Management while admitting (August 2005) the audit observation stated that the agreement could not be signed as no consensus could be reached on some of the clauses.

Non-receipt of claim for oversize stones

2.4.13 Coal received includes shales, stone and other foreign materials. Private contractors are engaged for picking and disposal of the same to dump yard of the TPS. The claims for oversize stones (+200 mm) are lodged with concerned coal companies and are settled on the basis of joint verification by the representatives of coal companies and TPS concerned.

Obra TPS received coal from different collieries of Northern Coal Field Limited (NCL) and Central Coal Field Limited (CCL) and stacked at one

Due to non-stacking of oversize stone separately for NCL and CCL, the claim of Rs. 9.94 crore remained unaccepted.

place (either at hopper or at stockyard). In the meeting between the officers of Company, CCL and representative of Coal India Limited (CIL), it was decided (August 2004) that the claims of over size stones (+200 mm) be settled at 0.43 *per cent* of the billed value. The Obra TPS was required to claim for oversize stones received (during April 2000 to September 2004) with coal from coal companies (NCL and CCL) for Rs.9.94 crore. The NCL did not accept the claim of the Company on the ground that the stacking of oversize stones was not separately done; whereas CCL though accepted the claims but did not give any credit.

Management stated (August 2005) that the maximum claims for total quantity of stone worked out to Rs.6.51 crore and out of this an amount of Rs.2.47 crore had been adjusted from the coal companies. Reply is not tenable as NCL did not accept the claim of the Company on the ground that the stacking of oversize stones was not done separately.

Handling of Coal

2.4.14 The coal is unloaded at hoppers or stacked at primary coal yard. The coal in the hopper is transported to the Ball/Bowl mills through conveyors. The Ball/Bowl mills use steel balls as grinding media for pulverisation of coal. The mill pulverised the coal in the shape of powder. During pulverisation of coal, mill rejects the coal which is not crushed. These rejects are called Coal Mill Rejects (CMR). From the mill the coal is sent to coal bunkers for being fed to the boilers. Shortcomings noticed during audit are discussed in the succeeding paragraphs:

Consumption of steel balls for crushing coal

The consumption of steel balls depends upon the quality/quantity of coal crushed, condition of mills and also on the quality of balls. An analysis of consumption of steel balls revealed that though quality of coal received was generally constant during the last five years, the consumption of steel balls was varying widely. The consumption pattern of the steels balls is given in the table below, indicating the total quantity of steel balls consumed, consumption rate (consumption of steel balls in Gms. against crushing of coal per MT) and excess consumption of steel balls at Obra 'A' and Harduaganj TPS for the period from 2000-01 to 2004-05.

Year	Harduaganj[1]				
	Coal consumed (MT)	Quantity of forged /chrome steel balls consumed (MT)	Consumption rate (Gms/ MT) ($3/2X10^3$)	Excess consumption[2] (Gms/ MT)	Excess consumption of forged/chrome steel balls (MT) ($2X5/10^3$)
1	2	3	4	5	6
2000-01	774016	345.844	446.82	-	-
2001-02	732122	414.039	565.53	118.71	86.91
2002-03	805825	432.114	536.24	89.42	72.06
2003-04	787194	529.996	673.27	226.45	178.26
2004-05	639452	524.513	820.25	373.43	238.79
Total					**576.02**
	Obra 'A'[3]				
2000-01	901064	171.81	190.67	30.41	27.40
2001-02	834111	342.81	410.99	250.73	209.14
2002-03	1002228	255.944	255.38	95.12	95.33
2003-04	742747	119.03	160.26	-	-
2004-05	238776	73.47	307.69	147.43	35.20
Total					**367.07**

As the consumption norms were not fixed by the Company and the wear rate not prescribed by the manufacturer, considering the minimum achieved

1 Up to January 2005.
2 Excess consumption = Actual consumption rate achieved –minimum consumption rate achieved during last five years.
3 Up to September 2004.

TPS Management did not analyse the reasons for excess consumption of steel balls at Harduaganj and Obra A TPS.

consumption rate at Harduaganj (446.82 gms) and Obra 'A' (160.26 gms), the excess consumption of steel balls worked out to 943.09 MT (at Harduaganj 576.02 MT, at Obra 'A' 367.07 MT) valuing Rs.2.83 crore (Harduaganj Rs.1.73 crore, Obra 'A' Rs.1.10 crore) during 2000-01 to 2004-05. TPS Management did not analyse the reasons for excess consumption with a view to take remedial action; one of the possible reasons as analysed in audit was poor quality of steel balls.

Management stated (August 2005) that the grinding mills at times had to run with reduced sized balls and used balls due to shortage of grinding media steel balls. Thus, the consumption rate of steel balls might be reduced and the contention of Audit that there had been excess steel ball consumption was not true. The reply is not tenable as the consumption shown by Audit was for fresh steel balls consumed in ball/bowl mills and if the consumption of used balls is also considered, the consumption of steel balls would further increase.

Disposal of Coal Mill Rejects

2.4.15 Coal when fed into Bowl mill is crushed and goes into coal bunker for being fed to boiler for generation. The quantity of coal, not properly crushed, comes out from hopper as coal mill rejects (CMR). The CMR collected in front of each mill is disposed off in primary yard by engaging contractors' for disposal through their truck/trolley and labour.

Despite having milling system relatively new, Anpara TPS generated more coal mill rejects in comparison to Obra TPS. The excess quantity of CMR worked out to 356961 MT.

The Management did not maintain the records indicating the actual quantity of CMR carted. Test check of payment records of Anpara TPS revealed that during 2000-01 to 2004-05 (up to September 2004) disposal of 5,29,769 cum (4,41,474 MT) CMR was done. It is pertinent to mention that CGM, Obra TPS calculated the percentage of CMR in total coal consumed at 0.57 *per cent*. The milling system of Anpara TPS being relatively new, in better running condition and their maintenance being done regularly, the percentage of CMR at Anpara should not have been at a rate higher than the percentage of CMR achieved at Obra TPS milling system as both the TPSs received coal of the same quality from the same collieries. CMR of 4,41,474 MT was against the quantity of 1,48,27,007 MT of coal consumed during 2000-01 to 2004-05 (up to September 2004). This quantity ranged between 1.72 and 3.87 *per cent* as against 0.57 *per cent* at Obra TPS. Based on the percentage of 0.57 *per cent* excess quantity of CMR worked out to 3,56,961 MT for which payment of Rs.38.24 lakh was made to the contractor.

Management stated (August 2005) that the coal at Anpara TPS was received from mines other than the mines which supply coal to Obra TPS and this coal had got less calorific value, therefore, the performance of the Anpara mills could not be compared with Obra mills. It was also stated that the grinding rolls and bullring segments have been replaced with centrifugally cast incarted grinding and high chrome bullring segments to improve the mill performance and reduce the quantity of CMR. The reply is not tenable as coal is received at both the power stations from the same collieries of NCL, which are fully mechanized and calorific value of coal at Anpara was better than the calorific value of coal received at Obra TPS.

Delay in unloading of coal wagons

2.4.16 Railways allow the TPS free time of 12 hours per rake for unloading. If rakes are detained beyond free time, demurrage is payable to Railways.

The Railways claimed Rs.9.47 crore on the detention of coal rakes beyond the free time allowed during the period 2000-01 to 2004-05. The Company did

not make the payment for this amount and the settlement of claims was under correspondence with Railways (September 2005).

Consumption of coal

2.4.17 The consumption of coal depends on its calorific value (heat generating potential of coal). Coal has its calorific value, which is equivalent to heat produced in Kcal by complete combustion of one Kg. Coal.

The details of coal consumed, total power generated and average coal consumption per unit during the period 2000-01 to 2004-05 for all the TPSs are given in the **Annexure-30**. The summary of average coal consumption per unit during the period 2000-01 to 2004-05 for all the TPSs is given in the following table:

Name of the Thermal Power Station	2000-01	2001-02	2002-03	2003-04	2004-05
Anpara 'A'	0.77	0.77	0.76	0.77	0.79
Anpara 'B'	0.65	0.64	0.65	0.66	0.69
Obra 'A'	0.91	0.90	0.95	0.98	1.00
Obra 'B'	0.83	0.80	0.83	0.85	0.84
Panki	0.84	0.85	0.89	0.90	0.88
Parichha	0.89	0.89	0.89	0.90	0.90
Harduaganj	1.10	1.08	1.05	1.07	1.06

Coal consumption increased in the year 2004-05 as compared to the year 2000-01.

It would be seen from the table that the average coal consumption in four TPSs had increased in the year 2004-05 as compared to the year 2000-01 (except Harduaganj TPS).

Audit analysed the consumption of coal by Anpara, Harduaganj and Obra TPSs. In the case of Anpara and Harduaganj TPSs the analysis was based on norms fixed by the Management and in the case of Obra TPS analysis was based on the regressed[1] heat rate approved by UPERC due to non-availability of plant wise norms. In this regard the following deserve mention:

Obra Thermal Power Station

Due to non-achievement of heat rate prescribed by UPERC there was excess consumption of coal valued at Rs. 162.34 crore at Obra (A & B) TPS.

UPERC recommended heat rate of 3,028 (Kcal/Kwh) and 2,916 (Kcal.Kwh) for Obra 'A' and 'B' TPS respectively during the financial year 2002-03 for tariff purposes. The Obra 'A' and 'B' TPS, however, achieved heat rate of 3,060 (Kcal/Kwh) and 2916 (Kcal/Kwh) respectively. Taking into account heat rate of 3,060 in case of 'A'TPS and 2,916 in case of 'B' TPS for the period 2000-01 to 2004-05 alongwith weighted average of calorific value of coal (Kcal/Kg.) for the respective years, excess consumption of coal works out to 14,93,613 MT valued at Rs.162.34 crore as per details given in **Annexure-31**.

Harduaganj and Anpara Thermal Power Station

The consumption of coal in excess of the norm fixed by the Management works out to 14,42,685 MT valued at Rs. 135.31 crore.

According to Operation Review Technique Reports (ORT) of Anpara and Harduaganj TPS, the Management fixed the norm for consumption of coal at 0.74 Kg per Kwh for Anpara 'A' TPS (3x210 MW plants), 0.64 Kg per Kwh for Anpara 'B' TPS (2x500 MW plants) and 1.04 Kg per Kwh for Harduaganj (2x55 MW and 1x105 MW). Both the power stations consumed coal with calorific value ranging between 3,252 and 4,497 Kcal per Kg (Anpara A & B 3,535, 3,986 Kcal/Kg and Harduaganj 3,252, 4,497 Kcal/Kg). It would be seen from the **Annexure-32** that against the norm of 0.74 Kg/Kwh, specific coal consumption in Anpara 'A' TPS ranged between 0.76 Kg and 0.79

[1] Regression means the analysis to identify relationship of various operational parameters with size, make, repair and maintenance status and coal consumption of generating units over lifecycle of the machine.

Kg/Kwh and against norm of 0.64 Kg/Kwh, specific coal consumption in Anpara 'B'TPS ranged between 0.64 Kg and 0.69 Kg per Kwh and in Harduaganj against norms of 1.04 Kg/Kwh it ranged between 1.05 Kg/Kwh to 1.10 Kg/Kwh during last five years up to 2004-05 (September 2004). Further, 'B' TPS Anpara achieved the norm of specific coal consumption in the year 2001-02. The consumption of coal in excess of the norm during the last five years up to 2004-05 worked out to 14,42,685 MT valued at Rs.135.31 crore. Audit analysed that excess consumption of coal was due to excessive boiler tube leakages and issue of coal without weighment for consumption. This indicates inefficiencies in the consumption of coal.

Management stated (August 2005) that the consumption of coal mainly depends upon the quality of coal being used and conditions of the machine for which this coal was being used. The machines at Obra, Harduaganj, Panki and Parichha had almost completed their useful life and required major overhauling from time to time which could not be carried out. The reply is not tenable as the UPERC recommended regressed heat rate for Obra TPS taking into consideration the actual heat rate of the power station and in case of Anpara and Harduaganj, Management fixed the norms knowing the conditions of their power stations.

Fuel Oil

2.4.18 The TPSs use Light Diesel Oil (LDO), Furnace Oil (FO) and High Speed Diesel Oil (HSD) during starting up and flame stabilisation of the boilers. The oil is procured at TPS level on limited quotation basis from Government Oil Companies. The Company has not maintained stock of fuel oil as per norms prescribed by CEA. This affected the smooth running of the plants, resulting in cases of emergent purchase of fuel oil. The Management has also not evolved a system/schedule to procure fuel oil when there is fast changing prices of fuel oil. In this connection the following observations are made:

Procurement of LDO without requirement

2.4.19 CEA in tariff notification (1992) specified norms for maintaining 60 days stock of secondary fuel oil for all TPSs. Anpara TPS having average consumption of 20 KL per day of LDO is required to maintain stock of 1,200 KL of LDO.

Procurement of LDO without requirement resulted in blockage of funds of Rs. 3.46 crore.

Test check of records revealed that TPS was having 2,050.968 KL of LDO in balance as on 13 October 2004. TPS authorities, however, procured (19 October 2004) 1,576.230 KL LDO at the rate of Rs.21,930.34 per KL. The procurement of LDO without immediate requirement resulted in blockage of Company's fund to the extent of Rs.3.46 crore.

Management stated (August 2005) that they purchased LDO during October 2004 as a precautionary measure against any generation loss and increase in price of LDO. The reply is not tenable as the Anpara TPS management procured the next rake of LDO in January 2005 i.e. after three months.

Avoidable payment of excess cost on procurement of Furnace Oil through road tankers

2.4.20 Obra TPS procures furnace oil (FO) every month from Government oil companies on quotation basis for regular consumption as secondary fuel through rail rakes. In the event of emergent requirement arising due to critical oil balance, the FO is purchased in piecemeal through road tankers. Test

The Company procured 2205.647 KL FO through road tankers in place of rail rakes and incurred extra cost of Rs. 44.57 lakh.

check of records revealed that 2,205.647 KL FO was procured through road tankers from the nearby depots of the oil companies through 15 purchase orders at the landed cost of Rs.2.80 crore during the last five years up to August 2004. The landed cost of the same quantity procured through rail rakes worked out to Rs.2.35 crore. This had resulted in payment of extra cost of Rs.44.57 lakh.

Had the Obra TPS observed the guidelines of the CEA for maintaining minimum 60 days stock or maintained their own minimum/reordering level of fuel oil, the extra cost incurred could have been avoided.

Management stated (August 2005) that emergent procurement of oil had to be made due to sudden heavy consumption of FO, for smooth running of the power station and intimated that procurement of oil through road tankers was being discouraged continuously. The reply is not tenable as the Management did not specify the sudden heavy consumption of FO and they were required to maintain desired inventory level to avoid such emergent purchases.

Delay in unloading of oil wagons

Due to detention of oil rakes beyond free time, Railway claimed Rs. 42.77 lakh as demurrage charges.

2.4.21 Railways allow the TPS free time of 12 hours per rake for unloading. If rakes are detained beyond free time, demurrage is payable to Railways.

Test check of records of Obra TPS revealed that the Railways claimed Rs.42.77 lakh on detention of oil rakes beyond free times during the period 2000-01 to 2004-05. It was further noticed that after verification of bills, Obra TPS returned it to Railway's for waiver but Railway did not intimate any waiver till date (September 2005).

Moreover, Company/TPS authority did not create any liability in this regard so far (September 2005).

Consumption of Oil

2.4.22 The details of oil consumed, total power generated and average oil consumption per unit during the period 2000-01 to 2004-05 for all the TPSs are given in **Annexure-33**.

The UPERC on the basis of ageing factor of the TPSs recommended per unit rate of specific fuel oil consumption during 2002-03 for tariff purposes for each TPSs of the Company. In absence of consumption norms for the year 2000-01 and 2001-02, the specific oil consumption norms for the year 2002-03 have been taken into account for comparison purposes for these years.

The table below indicates recommended/projected specific oil consumption, actual specific oil consumption for Obra, Anpara and Harduaganj TPSs during the period 2000-01 to 2004-05:

Name of the TPSs	Recommended fuel oil consumption		Average specific fuel oil consumed (ml/kwh)				
	2000-01 to 2003-04	2004-05	2000-01	2001-02	2002-03	2003-04	2004-05
Obra 'A'	5.52	5.20	9.05	10.48	9.52	9.70	12.87
Obra 'B'	2.94	2.70	3.59	3.04	2.06	2.03	3.21
Anpara 'A'	1.10	2.00	1.57	1.04	1.07	1.21	1.53
Anpara 'B'	0.30	2.00	0.37	0.27	0.31	0.24	0.26
Harduaganj	5.73	5.50	7.58	6.61	5.59	9.11	11.41

Oil consumption in Obra A and Harduaganj TPS had increased as compared to other TPS of the Company.

It would be evident from the table above that the average oil consumption in Obra 'A' and Harduaganj TPSs had increased and in respect of other TPSs, it had decreased in the year 2004-05 compared to the year 2000-01. In this regard the following deserve mention:

Non-achievement of projected consumption during last five years resulted in excess consumption of 37,271 KL fuel oil valued at Rs. 49.13 crore.

2.4.23 Annexure-34 indicates consumption of fuel oil as per norm, actual fuel oil consumed and excess consumption of fuel oil in Obra, Anpara and Harduaganj TPSs during the last five years up to 2004-05. It would be seen that non-achievement of projected consumption during last five years resulted in excess consumption of 37,271 KL fuel oil valued at Rs.49.13 crore as detailed below:

Name of the TPS	Excess consumption of fuel oil (in KL)	Value (Rs. in crore)
Obra 'A'	19,800	24.71
Obra 'B'	6,250	8.52
Anpara 'A'	2,451	3.56
Anpara 'B'	659	0.95
Harduaganj	8,111	11.39
Total	**37,271**	**49.13**

This shows that Management could not utilise fuel oil efficiently.

Management stated (August 2005) that the present norms were generally being achieved at Anpara TPS having relatively new machines but it had not been possible at Obra and Harduaganj TPSs due to ageing of machines. The schemes for refurbishment of power stations were being undertaken. Thereafter oil consumption level was expected to improve. The reply is not tenable as the UPERC recommended the specific oil consumption considering the aging factors of the each TPS.

Thermal efficiency

2.4.24 The consumption of coal and oil can be controlled by improving thermal efficiency of the plant to achieve economy in cost of generation. The Thermal efficiency of a power station is an index, which measures the efficiency of conversion of thermal energy to electrical energy denoted as a percentage of heat energy contained in the fuel used in generation. The guaranteed thermal efficiency of Obra 'A'TPS was 28.66 *per cent* and Obra 'B'TPS was 32.62 *per cent*. The guaranteed thermal efficiency could not be achieved in any of the years during the five years ended 2004-05. The guaranteed thermal efficiency as well as achieved thermal efficiency of other power stations was not available. The heat rate as recommended by UPERC was used to arrive at excess heat consumed in terms of coal due to non-achievement of guaranteed thermal efficiency. The analysis of thermal efficiency revealed the following:

Excess consumption of heat

2.4.25 Owing to wide variation in design and achieved heat rate by the various power stations of the Company, the UPERC, taking into account aging factor of the power station adopted regressed values of heat rate for the financial year 2002-03 for tariff purposes. In the absence of regressed/projected heat rate for the year 2000-01 and 2001-02, projected heat rate for the year 2002-03 has been taken into account for comparison purposes.

The table given below indicates regressed value of heat rate and projected heat rate for the three Power Stations.

Name of the TPS	Regressed value of heat rate during 2000-01 to 2004-05	Projected heat rate	
		2000-01 to 2003-04	2004-05
Obra A	3060	3028	3000
Obra B	2916	2916	2900
Anpara A	2549	2549	2500
Anpara B	2549	2549	2500
Harduaganj	3480	3480	3450

Non-achievement of regressed heat rate during 2000-01 to 2004-05 resulted in excess consumption of heat valued at Rs. 394.62 crore.

Annexure-35 indicates the actual heat rate achieved/regressed heat rate and excess consumption of heat in Obra, Anpara and Harduaganj TPSs during the last five years up to 2004-05. It would be seen that non achievement of regressed heat rate during the last five years resulted in excess consumption of heat valued at Rs 394.62 crore as detailed below:

Name of TPS	Excess consumption of heat (in MKcal/Kwh)	Excess heat in terms of coal (in MT)	Value (Rs. in crore)
Obra A	333377	91186	10.79
Obra B	2855836	777497	86.22
Anpara A	8409693	2142464	172.72
Anpara B	2504450	628427	65.19
Harduaganj	1581216	379511	59.70
Total	**15684572**	**4019085**	**394.62**

Management attributed (August 2005) the following reasons for excess consumption of heat:

- Machines installed at TPSs were aged ones;
- Maintenance schedules were not being adhered to on account of shortage of power;
- The boilers running at designed pressure and temperatures of steam used to lead to frequent boiler tube leakages with several damage of tubes;
- HP heaters develop leakages and there had to be by-passed leading to reduction of feed water temperature.

Management further intimated that efforts were being made for refurbishment and R&M activities of the machines in near future and the deteriorated heat rate would improve.

Inventory of Fuel

Stock of Coal

2.4.26 According to tariff notification (1992) of the Central Electricity Authority the pithead thermal power stations are required to keep a stock of coal for 15 days and thermal power stations without pithead are required to keep a stock of coal of 30 days.

In this regard following deserve mention:

- The Company neither adhered to CEA guidelines nor evolved its own inventory policy on past experiences or on seasonal analysis.
- Obra and Harduaganj TPSs being non-pithead power stations held stock required for four days to 22 days and nine hours to 75 days respectively. Anpara TPS being a pithead power station held stock from three days to 18 days consumption. As per norms prescribed by CEA there was shortfall in stock of coal at different TPSs, resulting in lower inventory level at the power stations.

The Company kept lower level of inventory coal and oil as compared to the norms prescribed by CEA at Obra, Harduaganj and Anpara TPS.

Management stated (August 2005) that the distribution of coal was daily monitored and regulated by CEA. Thus, the power station authorities had got very little role to play. At times constraints were being faced due to non - payment of coal bills in time due to paucity of funds. Reply is not tenable as the inventory of coal was to be maintained by the concerned TPS authorities as directed by the CEA and arrangement of funds was the responsibility of the Company.

Stock of Oil

CEA in a tariff notification (1992) also specified norms for maintaining stock of sixty days of secondary fuel oil for thermal power stations.

A review of stock of fuel oil held by the Obra, Harduaganj and Anpara TPSs for the five years up to 2004-05 revealed that:

- Obra held stock required for 12 hours to 92 days; whereas Harduaganj held stock for 17 to 93 days and Anpara held stock for 35 to 141 days consumption.

Loss of generation due to inadequate fuel stock

The different units of Obra, Anpara and Haduaganj TPSs fell under forced shut down during the years 2001-02, 2002-03 and 2004-05 due to shortage of coal and oil, resulting in loss of generation aggregating to 255.333 MU valued at Rs. 15.67 crore.

2.4.27 The minimum fuel stock was not maintained at TPSs and the Management faced problems of shortage of fuel from time to time. Test check of records relating to outages of plants revealed that the different units of Obra, Anpara and Harduaganj TPSs fell under forced shutdown during the year 2001-02, 2002-03 and 2004-05 due to shortage of oil, Coal and non-availability of coal in coal bunkers, resulting in loss of generation aggregating to 255.333 MU valued at Rs.15.67 crore as given in **Annexure-36**.

This indicated, defective planning in arranging supply of oil, availability of coal and proper monitoring in feeding coal to coal bunkers.

Management stated (August 2005) that the above generation loss occurred due to some local maintenance/operational trouble at the TPSs and the generation loss was never caused due to non-availability of coal/fuel oil. Reply is evasive as specific reasons for generation loss have not been given by the Management. Moreover, the report submitted to higher authorities by the Local Management indicated that the loss occurred due to non-availability of coal, shortage of coal in coalbunkers and shortage of fuel oil.

Cost of fuel

Cost of fuel per unit to cost of generation per unit increased from 53 per cent in 2000-01 to 69 per cent in 2004-05.

2.4.28 Annexure-37 indicates the cost of generation and cost of fuel for all the five TPSs as well as for the Company during the period 2000-01 to 2004-05 (up to January 2005). It would be seen that the Company failed to control its fuel cost as the percentage of cost of fuel per unit to cost of generation per unit increased from 53 *per cent* in 2000-01 to 69 *per cent* in 2004-05.

Management stated (August 2005) that the cost of fuel in comparison to cost of generation was mainly due to increase in cost of coal, fuel oil and other inputs. The reply is not acceptable as increase in cost of fuel was controllable by maintaining coal and fuel oil consumption as per norms fixed by UPERC who had considered the ageing factor of the plants while fixing the norms and tariff.

Settlement of claims

Coal wagons

2.4.29 The Company makes payment towards cost of coal to coal companies. Coal rakes originally consigned to the Company are sometimes diverted subsequently these are considered as missing. Similarly, the receipts of rakes of other consignees are reckoned as unconnected wagons and the same are adjusted against missing wagons. Actual position of wagons booked by the coal companies and received at different TPSs are reconciled with Railways periodically.

Audit analysis revealed that at the end of March 2000, 12,021 coal wagons were missing. During 2000-01 to 2004-05 (up to February 2005), another 41,868 coal wagons were missing. The Company received 50,628

unconnected coal wagons against the 53,889 missing wagons during the above period as detailed below:

Name of TPS	Closing balance as on 31 March 2000	2000-01		2001-02		2002-03		2003-04		2004-05		Total	
		M*	U**	M	U	M	U	M	U	M	U	M	U
Harduaganj	10418	1277	6726	3181	2949	6545	1104	1517	1787	601	1220	23539	13786
Panki	(-) 9303	4331	8373	4558	2436	1408	4662	2139	2298	1330	2207	4463	19976
Anpara	(-) 3545	-	-	1	-	-	-	-	-	-	-	(-) 3544	-
Obra	(-) 2535	921	987	180	236	804	391	138	187	1012	97	520	1898
Parichha	2518	2105	5457	2784	2935	2972	3631	1857	1495	2207	1450	14443	14968
Closed powerhouses	14468	-	-	-	-	-	-	-	-	-	-	14468	-
Total	**12021**	**8634**	**21543**	**10704**	**8556**	**11729**	**9788**	**5651**	**5767**	**5150**	**4974**	**53889**	**50628**

The Company could not receive 3261 wagons of coal containing 1,89,138 MT of coal till February 2005.

Thus, 3,261 wagons of coal (1,89,138 MT at the rate of 58 MT per wagons) were yet to be received by the Company as on February 2005. These wagons have not been received for a period of one to five years.

Management stated (August 2005) that Railways were being pursued for previously missing wagons.

The Company could not get its claim of Rs. 94.36 lakh, replenished or adjusted by Railway in respect of 53 missing oil wagons pertaining to the period 1986 to 2004.

Fuel Oil Wagons

2.4.30 Test check of records of Anpara TPS revealed that 50 oil wagons were missing during the period 1986 to 1999-2000 another three wagons were reported missing up to September 2004. Accordingly, TPS authorities lodged claims worth Rs.94.36 lakh with Railways for 1,244. 510 KL of LDO. But the Railways have neither replenished nor allowed the adjustment till date (February 2005).

Management stated (August 2005) that the matter was being pursued with the Railways for early settlement.

Internal control/Internal audit

Internal Control

2.4.31 Internal Control is a management tool used to provide reasonable assurance that Management objectives are being achieved in an efficient, effective and adequate manner. The Company neither prepared its Fuel Management Manual nor did it fix its consumption norms. The weigh-bridge in the TPSs generally remained out of order; hence quantity of coal received could not be correctly assessed.

In the absence of proper internal control systems, cases of delayed procurement of fuel oil were noticed during the period 2003-05 for which an extra expenditure of Rs.46.42 lakh had to be incurred by the Company for its TPSs at Anpara (Rs.8.32 lakh) and Obra (Rs.38.10 lakh).

The Company also failed to carry out reconciliation with the oil companies on a regular basis, as a result of which the Company was yet (September 2005) to recover an amount of Rs.40.94 lakh (Rs.34.20 lakh up to March 1993 and Rs.6.74 lakh for the period April 1993 to December 2002) from Indian Oil Corporation. The last reconciliation was done in the month of December 2002.

Internal audit

Internal Audit is a part of internal control which is used to detect irregularities, frauds, manipulation and embezzlement etc. and to see whether rules and instructions issued from time to time are being followed or not. The Company was not having its own internal audit system. The internal audit was being

* M stands for missing wagons.

** U stands for unconnected wagons.

done by engaging firms of Chartered Accountants. The overall coverage of operations of the Company was not adequate, satisfactory and commensurate with the size of the Company, which was being pointed out by the Statutory Auditors. Internal audit could also not detect the irregularities in payment of oil incentives without approval of the Board of Directors of the Company.

The above matters were reported to the Management/Government (May 2005); the reply of the Government is awaited (September 2005).

Conclusion

The Company was established as a power generating Company and was required to manage efficiently the integration of planning, procurement, transportation, storage and utilisation of fuel to achieve the generation targets. These could not be achieved by the Company, as the coal companies did not supply the allotted quantity of coal due to failure of the Company to enter into any agreement with them. There was excess consumption of coal and fuel oil; low thermal efficiency of the plants resulted in consumption of excess heat in the generation process. The Management could not maintain inventory of fuel at the desired level as suggested by CEA, and consequently it suffered loss of generation.

Recommendations

- **The Company needs to make more realistic assessments of coal requirement and generation targets;**
- **The Company should enter into an agreement with coal companies so as to receive the allotted quantities;**
- **Level of efficiency in utilisation of coal and oil should be improved/ensured;**
- **The inventory level should be adhered to, as suggested by CEA, to avoid generation loss;**
- **The Company should prepare its fuel management manual, its consumption norms and set up its own internal audit system.**