CHAPTER-II

2. Reviews relating to Government Companies

2A. The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited

HIGHLIGHTS

The Corporation was established on 29 March 1972 with a view to promote and develop industries in the State by providing financial assistance to medium and large scale industrial units. The paid-up capital of the Corporation as on 31 March 1999 was Rs. 110.58 crore which had been completely eroded by its accumulated loss of Rs. 112.54 crore.

(Paragraph 2A.1 & 2A.5.2)

Despite huge cancellation of sanctions (Rs. 249.34 crore) in 1997-98, sanctions pending disbursement as on 31 March 1999 aggregated Rs. 155.20 crore representing 52.5 per cent of the total disbursable loans.

(Paragraph 2A.6.2)

The Corporation disbursed term loans to two units without ascertaining viability of the projects which resulted in non-recovery of dues of Rs. 5.67 crore.

(Paragraph 2A.7.1.1 & 2A.7.1.5)

The loanee unit instead of making payment of One Time Settlement (OTS) proposal, claimed compensation of Rs. 2.00 crore for missing items of machinery during possession of the Corporation resulting in non-recovery of dues of Rs. 3.70 crore.

(Paragraph 2A.7.1.2)

Irregular release of bridge loan to a loanee unit by relaxing all pre-disbursement conditions of loan (including title deed of land and building plan) led to loss of Rs. 4.40 crore.

(Paragraph2A.7.1.3)

The Corporation disbursed term loan to a unit against submission of false pre-disbursement report on utilisation of loans and arrival of machines at the site which led to loss of Rs. 3.37 crore.

(Paragraph 2A.7.1.4)

The Corporation suffered loss of Rs. 21.82 crore due to disbursal of term loans to seven companies with one main promoter/guarantor by relaxing all pre-disbursement conditions of loans and without ensuring the availability of hypothecated assets and first charge certificate from Registrar of Companies.

(Paragraph 2A.7.1.6)

The Corporation sanctioned Short Term Loans (STL) to one unit ignoring eligibility criterion and relaxing all the basic conditions of STL which resulted in non-recovery of dues of Rs. 12.90 crore due to non-commissioning of project and insufficient security against personal guarantee of promoter.

(Paragraph2A.7.2.1)

Disbursal of STL to two units against the fake certification of hypothecated assets by the Chartered Accountants led to loss of Rs. 5.25 crore.

(Paragraph 2A.7.2.2 & 2A.7.2.3)

Sanction of STL to a unit on the basis of inflated turnover and profits certified by Chartered Accountant and disbursement without ensuring credentials of the unit and details of hypothecated assets resulted in loss of Rs. 2.09 crore.

(Paragraph 2A.7.2.4)

Sanction of Working Capital Term Loan and Equipment Refinance Scheme to two units despite heavy recession in paper industry and not fulfilling the eligibility criterion, resulted in non-recovery of dues of Rs. 8.71 crore.

(Paragraph 2A.7.3.1 & 2A.7.3.2)

The Corporation was deprived of potential profit of Rs. 29.89 crore and had to suffer extra burden of interest on borrowings amounting to Rs. 17.00 crore during 1994-95 to 1998-99 due to non dis-investment of its share holding in Indo-Gulf Fertilizer and Chemicals Limited.

(Paragraph 2A.7.4.1.1)

The Corporation did not disinvest its share holdings in India Polyfibres Limited despite poor performance of this unit which subsequently led to capital loss of Rs. 6.43 crore due to reduction of capital of this unit under revival package of BIFR.

(Paragraph 2A.7.4.1.4)

Sanction of lease assistance to one unit without verifying the credentials of supplier of machines resulted in locking up of funds amounting to Rs. 2.18 crore apart from interest loss of Rs. 0.98 crore up to April 1999.

(Paragraph 2A.7.5.2)

Owing to heavy defaults in repayment of loans and interest, non-performing assets (NPAs) of the Corporation increased to 58.5 per cent of the total loan assets as on 31 March 1999.

(Paragraph 2A.8.2)

2A.1 Introduction

The Pradeshiya Industrial & Investment Corporation of Uttar Pradesh Limited (Corporation) was incorporated in March 1972 as a wholly owned Government Company with the main objective of promoting and developing industries in the State by providing financial assistance to medium and large scale industries already set up or proposed to be set up.

2A.2 Objectives

The main objectives of the Corporation are:

(i) to carry on the business of an investment Company for providing finance to new/existing industrial enterprises in the State;

(ii) to buy, underwrite, invest, acquire and hold shares, stock, debentures, bonds, obligation and securities by original subscription, participation in syndicates, etc.;

(iii) to carry on the business of Merchant Banking in all its aspects and to act as managers to issues and offers; and

(iv) to provide financial assistance on lease and to carry on business of providing investment and financial services in all its aspects.

The present activities of the Corporation are mainly confined to providing financial assistance to new/existing industrial concerns through term loans, short term loans, working capital term loans, lease assistance and equity contribution.

2A.3 Organisational set-up

As on 31 March 1999, the Management of the Corporation was vested in a Board of Directors consisting of a part time Chairman, a Managing Director and nine other Directors, (including Joint Managing Director). The Managing

Director is the executive head of the Corporation who is assisted by a Joint Managing Director, two Chief General Managers (Finance and Technical), two General Managers, three Deputy General Managers and a Company Secretary in the day to day affairs of the Corporation at the Corporate office and a Deputy General Manager and three Senior Regional Managers at its four regional offices.

During the last five years up to 1998-99, frequent changes in the incumbency of Managing Directors (MDs) were noticed and tenure of all the MDs during this period varied from five to 23 months. The frequent changes in incumbency of MDs had adversely affected the Management of affairs of the Corporation.

2A.4 Scope of Audit

A sectoral review on "Recovery Performance" of the Corporation with other similar companies was published in the Report of the Comptroller and Auditor General of India for the year 1988-89 (Commercial), Government of Uttar Pradesh which was yet to be discussed by the Committee on Public Undertakings. The present review covers performance of the Corporation during five years up to 31st March 1999. Out of total 391 cases, cases of attached saleable units (58), units sold by the Corporation after attachment (32), loss assets (28) and defaulter units (273), 105 cases were test checked in audit from all categories, conducted during November 1999 to April 2000, results of which are discussed in succeeding paragraphs:

2A.5 Financial position and working results

2A.5.1 Financial Position

The financial position of the Corporation at the end of the last five years up to 31st March 1999, as given in Annexure-9, indicates that the Corporation resorted to heavy borrowings which increased from Rs. 403.49 crore in 1994-95 to Rs. 708.63 crore in 1998-99. This increase was mainly because of (i) non availability of resources from disinvestment of joint sector investment, (ii) locking up of funds in secondary market operations, and (iii) poor recovery of the loans granted to loanees.

The funds so borrowed were utilised for extending financial assistance to medium and large scale industries through various schemes of the Corporation, refund of secured loans and also to meet out revenue expenditure like payment of interest. The accumulated loss of the Corporation as at 31 March 1999, had completely eroded its paid-up capital.

2A.5.2 Working results

The working results of the Corporation for each of the five years up to 1998-99 as summarised in Annexure-10 bring out the following facts:

Accumulated loss had completely eroded the net worth

- From the year 1996-97 and onwards Corporation started incurring loss and its accumulated loss at the end of March 1999 stood at Rs. 112.54 crore which had completely eroded its paid-up capital of Rs. 110.58 crore. The accumulated loss at the end of 31 March 1999 was further understated by Rs. 3.85 crore on account of short provision for non-performing assets (NPAs). The increase in loss was mainly attributable to substantial increase in financial expenses in the shape of interest outgo on market borrowings, shortfall in recovery of interest on loans given against various schemes and increase in provisions for non-performing assets (NPAs).

- Till March 1996, the Corporation was accounting interest income on cash basis and rest of income and expenditure on accrual basis. However, in compliance to the amendment of section 145 of Income Tax Act, 1961, the Corporation changed its earlier method of accounting and adopted 'Accrual Method' of accounting w.e.f. 1 April 1996. Due to such change in the system of accounting the loss of the Corporation for the year 1996-97 was reduced by Rs. 13.85 crore.

- Payment of interest far exceeded the total income of the Corporation during the year 1997-98 and 1998-99 which was 107.81 *per cent* and 133.69 *per cent*, respectively. This clearly indicates funding of revenue expenditures through borrowings.

Sanctions and disbursement of loans

2A.6.1 Scheme-wise performance

The table give below indicates the scheme-wise position of sanction and disbursement of loans for each of the last five years up to 1998-99.

(Rupees in crore)

		1994-95		1995-96		1996-97		1997-98		1998-99	
Sl. No.	**Particulars**	**Sanction for the year**	**Disburse-ment for the year**	**Sanction for the year**	**Disburse-ment for the year**	**Sanction for the year**	**Disburse-ment for the year**	**Sanction for the year**	**Disburse-ment for the year**	**Sanction for the year**	**Disburse-ment for the year**
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
A.	**Loan disbursement**										
(i)	Term loan (including ERS, EFS, ECS)	138.88	90.61 (87.18)[25]	151.50	71.62 (71.55)[25]	173.65	112.86 (88.65)[25]	236.09	117.59 (80.27)[25]	95.24	66.27 (75.41)[25]
(ii)	Short term loan	30.50	14.47	11.50	21.56	8.25	7.17	13.50	8.08	1.00	5.41
(iii)	Working capital term loan	--	--	18.65	6.92	8.80	7.28	15.30	15.40	2.80	3.92

[25] Figures in bracket indicates percentage to total loan disbursed.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(iv)	Bill discounting	--	--	--	--	--	--	4.50	5.43	4.50	12.28
	Total loan (A)	**169.38**	**105.08**	**181.65**	**100.10**	**190.70**	**127.31**	**269.39**	**146.50**	**103.54**	**87.88**
B.	Investment in Joint assisted sector/ projects/ FCD.	4.86	2.19	24.64	11.20	2.53	4.36	15.18	10.95	6.48	9.26
C.	Purchase of equipment for leasing	0.16	0.09	7.84	2.92	2.23	5.05	7.75	5.48	--	--
	Total (A)+(B)+ (C)	**174.40**	**107.36** **(61.5)**	**214.13**	**114.22** **(53.3)**	**195.46**	**136.72** **(69.9)**	**292.32**	**162.93** **(57.7)**	**110.02**	**97.14** **(88.3)**

(ERS = Equipment Refinance Scheme, EFS = Equipment Finance Scheme, ECS = Equipment Credit Scheme, FCD= Fully Convertible Debenture)

It was noticed that sanctions of total loan assistance declined to Rs. 110.02 crore during the year 1998-99 as compared to Rs. 292.32 crore in 1997-98. Simultaneously, disbursement of loan assistance declined from Rs. 162.93 crore in 1997-98 to Rs. 97.14 crore only at the end of 31st March 1999 which, as attributed by the Management, was mainly due to recessionary trend in the industrial sector as a whole. The percentage of disbursement to sanction ranged between 53.3 and 88.3 during five years up to March 1999 mainly due to non-fulfillment of legal formalities and non-availment of loan during currency period of sanction.

2A.6.2 Un-disbursed sanctions

The position of sanction of loans pending for disbursement during five years up to 31st March 1999, is detailed below:

(Rupees in crore)

Particulars	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99**
Sanction cases pending disbursement at the beginning of the year	258.68	241.69	288.66	305.49	185.54
Add: Sanctions during the year	174.40	214.13	195.47	292.33	110.02
Total disbursable amount	**433.08**	**455.82**	**484.13**	**597.82**	**295.56**
Less: Cancelled during the year	84.02	52.93	41.92	249.34	43.21
Less: Disbursement during the year	107.37	114.24	136.72	162.94	97.15
Sanction cases pending disbursement at the end of the year	241.69	288.65	305.49	185.54	155.20
Percentage of undisbursed sanctions to disbursable sanctions	55.80	63.32	63.10	31.03	52.51

It was noticed in audit that:

- substantial amount of un-disbursed sanctions ranging between Rs. 155.20 crore and Rs. 305.49 crore was pending at the end of each of the five years up to 1998-99;

Huge amount of sanctioned loans were pending for disbursement

- as on 31st March 1999, sanctions pending disbursement amounted to Rs. 155.20 crore which included Rs. 33.61 crore in 18 cases which were more than two years old. No action had been taken by the Management either to cancel or disburse the same to the loanees so far; and

- during the year 1997-98 huge amount of sanctioned loan of Rs. 249.34 crore was cancelled by the Management mainly due to non-fulfilment of pre-sanction's conditions viz. NOC from Pollution Control Board, sanction of working capital loans from banks, availability of entrepreneurs contribution etc. within the currency period of sanction, by the entrepreneurs which were initially unwarrantedly relaxed by the Management.

2A.7 Activities

The Corporation during five years up to 31st March 1999, extended financial assistance and services for setting up new medium and large scale industries as well as for modernisation, expansion and diversification of existing units through a comprehensive range of schemes detailed below:

The applications for financial assistance under various schemes of PICUP are duly analysed and put in a prescribed format before the Registration Committee (headed by MD/Joint MD) for registration of the case. If the case is registered, the detailed appraisal activity is taken up by a team of technical and financial officers from project division and the appraisal note is put up before the Advisory Committee headed by MD/Joint MD and also expert members from outside PICUP. Thereafter, the case is recommended by the Advisory Committee for sanction of financial assistance by the Board/MD.

2A.7.1 Term loan scheme

Financing through term loan scheme is a major activity of the Corporation and 70 to 80 *per cent* of the total loan disbursed during five years up to 31st March 1999 was through Term loan scheme only. The Corporation disbursed Term loan (including Equipment Finance Scheme, Equipment Refinance Scheme and Equipment Credit Scheme) of Rs. 458.96 crore (80.96 *per cent*) out of the total loan disbursed (Rs. 566.89 crore) during five years up to 1998-99.

Corporation could not recover dues of Rs. 75.25 crore from 21 units

Test check of the term loan cases revealed lapses on the part of the Management like incorrect appraisal, submission of false inspection reports by its own officers, relaxation of conditions of pre-disbursement, insufficient security against personal guarantee (PG), non-invocation of PG, non-verification of hypothecated assets after disbursement of loan at periodical intervals, delayed action for attachment of defaulting units and disposal of their assets, and non-follow-up action for recovery of dues etc., leading to non recovery of dues to the tune of Rs. 75.25 crore as on March 2000 from 21 loanee units as given in Annexure-11.

Some of the cases indicating serious lapses on the part of the Management are discussed below:

2A.7.1.1 G.S. Products (P) Ltd.

The Corporation sanctioned (March 1989) a term loan of Rs. 90.00 lakh to G.S. Rubber (P) Ltd. (changed to G.S. Products (P) Ltd. in 1992), promoted by Sri S.P. Sharma, to set up a project for manufacture of PU coated synthetic leather cloth at Bazpur, District Nainital which was subsequently shifted to Sikandrabad, District Bulandshahar. Entire sanctioned loan was disbursed to the Company between April 1990 and November 1991 secured against joint equitable mortgage[26] of assets.

The unit failed in repayment of dues since inception i.e. June 1990 and four notices under Section 29 of State Financial Corporations (SFC) Act, 1951 were issued by the Corporation between March 1993 and May 1994 for recovery of dues failing which the assets of the unit were taken over on 13 June 1994 by the Corporation and sold (June 1995) to Tohfil India (P) Ltd. for Rs. 1.12 crore (including Corporation's share of Rs. 87.30 lakh) with the condition of making down payment of Rs. 28.00 lakh (subsequently increased to Rs. 33.00 lakh in June 1997) and balance in 12 quarterly instalments at 18.5 *per cent* rate of interest with moratorium period of one year of transfer of assets. Management also decided (June 1995) to invoke personal guarantee of old promoters for the difference amount of Rs. 43.16 lakh which is yet to be recovered (July 2000).

Tohfil India (P) Limited obtained possession of the unit but defaulted in payment of balance amount of sale consideration (Rs. 79.00 lakh) for which Recovery Certificate for Rs. 1.13 crore including interest of Rs. 33.89 lakh (up to July 1999) was issued on 11 October, 1999 but no recovery could be initiated so far (July 2000).

Sanction of loan to a non-viable project resulted in loss of Rs. 1.56 crore

The Corporation suffered loss of Rs. 1.56 crore, the reasons for which were mainly (a) failure of the Management to review the viability of the project at the time of shifting from Bazpur to Sikandrabad, (b) non invoking the personal guarantees of old promoters, (c) failure to recover dues and delay of around three years in issue of notice under Section 29 of SFC Act for attachment of unit; and (d) failure to reattach the unit after new promoter's default in payment of balance amount of sale consideration. No action had been taken against the officer sanctioning the loan so far (July 2000).

2A.7.1.2 Hunter Foods (P) Ltd.

The Corporation sanctioned and disbursed (August 1987) a term loan of Rs. 90.00 lakh to Hunter Foods (P) Limited promoted by Sri B.B. Chopra and Smt. H. Chopra for setting up a project for manufacture of potato chips at Dehradun with second hand imported machines. However, the details of personal guarantees given by the promoters were not verified by the

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[26] Joint equitable mortgage means mortgage of immovable assets which can be effected by mere delivery of title deeds of assets.

Corporation. The project was put to commercial production in December 1989 after a delay of 21 months over the envisaged implementation schedule.

The unit, defaulted in repayment of dues since February 1990 and failed to honour re-schedulement of overdue interest of Rs. 30.15 lakh to be paid from May 1992 to April 1993 at the rate of Rs. 2.50 lakh per month. Therefore, the unit was attached on 22 March, 1993 but was not handed over to the promoter even after deposit of Rs. 5.83 lakh as per decision of the Recovery Review Committee (May 1993). The unit was handed over to a security agency of Dehradun which was withdrawn and handed over to another security agency of Nainital in December 1997.

Interest overdues of Rs. 2.57 crore were waived off under OTS

However, 'One Time Settlement' (OTS) proposal of the unit was agreed to (December 1998) by the Corporation for Rs. 1.27 crore (Principal: Rs. 90.00 lakh and simple interest with interest tax up to 22.03.1993: Rs. 37.41 lakh) with the condition of making down payment of Rs. 14.02 lakh (Net Rs. 8.19 lakh after adjusting Rs. 5.83 lakh already paid) and balance Rs. 1.13 crore in nine equal monthly instalments commencing after three months from the date of approval of OTS. On this arrangement the Corporation had to waive off interest overdues of Rs. 2.57 crore (simple interest Rs. 63.19 lakh and compound & penal interest Rs. 1.94 crore).

Loanee unit instead of making payment of OTS, claimed compensation of Rs. 2.00 crore

The unit after down payment of Rs. 14.02 lakh was handed over to the promoter on 28 January 1999 but instead of making further payment of OTS dues the promoters alleged (29 January 1999) missing items of machinery worth Rs. 2.00 crore during the possession of assets with the Corporation and claimed compensation for the same. The Corporation, however, decided (December 1999) to cancel the OTS and invoke personal guarantee of promoters but no recovery could be made till date (July 2000).

The Corporation, however, neither lodged FIR with the police for missing items nor did the inspecting officers recommend any action for recovery of value of missing machinery from the former security agency.

Chances of recovery of Rs. 3.70 crore were doubtful

The chances of recovery of over dues of Rs. 3.70 crore were remote due to non-availability of property in the name of promoters and except possession of unlisted shares with zero value.

2A.7.1.3 Renuka Resorts Ltd.

Loan was disbursed without compliance of pre-disbursement conditions

The Corporation sanctioned (August 1997) a term loan of Rs. 9.00 crore to Renuka Resorts Pvt. Ltd. for setting up a three star hotel at Lucknow to be promoted by Sri Sanjeev Sharma, Pioneer Finest Ltd., New Delhi and Goldmine Securities, Calcutta. Against the aforesaid sanctioned term loan, a bridge loan of Rs. 5.00 crore was sanctioned and a sum of a Rs. 3.00 crore was disbursed by the Corporation to the unit in September 1997 by relaxing all the conditions, by the Managing Director, which were precedent to disbursement viz. sanction of power load, approval of building plan, title deed of the land, banker's report and credit worthiness of promoters, 100 *per cent* raising of promoter's contribution and tie up of balance term loan of Rs. 1.80 crore.

Subsequently, owing to an inspection carried out in November 1997 which revealed improper utilisation of disbursed loan, unjustifiable expenditure incurred on the project and Hon'ble High Court's order (October 1997) quashing conversion of lease hold land into free hold land, the Corporation cancelled (December 1997) the balance undisbursed loan of Rs. 6.00 crore and recalled (January 1998) the loan of Rs. 3.00 crore already disbursed to the unit.

Chances of recovery of Rs. 4.40 crore were remote

The Corporation invoked the personal guarantees of the promoters through Recovery Certificates (R.C.) issued for Rs. 3.99 crore in September 1999 but the R.C. was received back with the remark of DM, Nainital regarding non-availability of immovable/movable property in the name of Sri Sanjeev Sharma from which the dues could be realised. In respect of other two R.Cs. issued against the Corporate companies (viz. Pioneer Finest Ltd., New Delhi and Goldmine Securities, Calcutta), nothing was intimated from the concerned authorities so far (July 2000). Amount recoverable up to January 2000 mounted to Rs. 4.40 crore, the chances of recovery of which had become quite remote. The Management decided (April 2000) to hand over the case to Vigilance Department.

No responsibility had been fixed by the Corporation against its own officers/officials responsible for lapses at various level.

2A.7.1.4 Ganga Industries Ltd.

Disbursed bridge loan was misappropriated

A term loan of Rs. 1.50 crore was sanctioned in December 1990 to Ganga Industries Limited promoted by Sri Jai Narain Goel, for setting up a plant for manufacturing particle board at Motiganj, District Mainpuri against which a bridge loan of Rs. 1.12 crore was disbursed (March 1991) after pre-disbursement inspection of the unit and was converted into term loan in September 1991 after execution of legal documentation. The Management, however, stopped (December 1991) disbursement of further instalments of term loan (Rs. 37.50 lakh) due to misappropriation of disbursed term loan noticed by the Management and finally cancelled (September 1994) the same reducing the term loan to Rs. 1.12 crore only.

Unit misled the Corporation as the assets mentioned in affidavits were not in the name of promoters

Consequent upon the continued default in repayment of dues, the unit was attached on 16th April 1996 followed by an FIR lodged with the Police at Mainpuri on the same day indicating therein about the non-availability of any assets at the site and a Recovery Certificate for Rs. 2.98 crore (including interest calculated up to 15.10.1998) was issued against the promoters in November 1998 which was returned (March 1999) by the Collector, Mainpuri with the remark that the movable and immovable properties mentioned in affidavits were not in the name of promoters and therefore, nothing could be recovered from them.

Corporation was put to a loss of Rs. 3.37 crore due to various pre and post disbursement irregularities

The Corporation advertised for sale of attached unit and the highest negotiated offer was obtained (October 1999) for Rs. 8.00 lakh against the total assets of the Company (land & building only) valued at Rs. 5.50 lakh available at the site. However, no action had been taken to dispose of assets so far (March 2000). Thus, the Corporation was put to loss of Rs. 3.37 crore (interest calculated up to 31.01.2000) which was mainly due to submission of false inspection reports by Corporation's own officers regarding utilisation of loan, promoter's contribution and arrival of machines at site, failure to follow up the procedures formulated for pre-disbursement inspection and inadequacy of the promoter/director's movable and immovable properties mentioned in affidavits and belated decision for attachment of unit and relaxation of other conditions precedent to pre-disbursement of loan etc.

No responsibility had been fixed by the Management against its own officers responsible for the lapses which caused loss to the Corporation.

2A.7.1.5 L.R. Brothers Indo Flora Ltd. (LRB)

A term loan of Rs. 2.50 crore was sanctioned to L.R. Brothers Indo Flora Ltd. promoted by Sri V.K Garg in July 1996 for setting up a 100 *per cent* export oriented unit for production of 11.83 million roses per annum at Chakrata Road, Saharanpur. Out of this, the Corporation disbursed loan of Rs. 2.25 crore during the period from September 1996 to March 1997 against the equitable mortgage of assets with Industrial Development Bank of India and Industrial Investment Bank of India. The cash in-flow of the loanee unit was poor which resulted in default in repayment of principal and interest from the beginning. The Corporation issued notice under Section 29 of SFC Act, 1951 three times during September 1997 to February 1999 for attachment of the unit but was not attached till date (July 2000) for which no reasons were available on record. The Corporation had also issued demand show cause notices on 28.5.99 against the guarantors but these notices were returned unserved on 2.6.99 with the remark 'Addressee left`. The recovery certificates against the guarantors were also issued on 17.1.2000 for Rs. 4.11 crore (Rs. 2.25 crore principal and Rs. 1.86 crore interest up to 31.10.1999) on the same address with no outcome.

Of the total project cost of Rs. 25.70 crore, Rs. 15.45 crore (60 *per cent* of project cost) was to be financed by financial institutions. Due to heavy size of debt burden and interest thereon, the project was not viable but this aspect was not considered at the time of appraisal/sanction of loan.

Sanction of loan for unviable project led to non-recovery of Rs. 4.11 crore

Thus, due to incorrect assessment regarding viability of the project, partial implementation of production capacity, non-attachment of unit inspite of issue of notices three times, and issue of Recovery Certificate to the guarantors at wrong address, the chances of recovery of Rs. 4.11 crore are remote.

2A.7.1.6 Manu group of companies

Loan was disbursed to seven units with one key promoter without ensuring his credentials

A sum of Rs. 6.30 crore (Rs. 90.00 lakh each) was sanctioned to seven[27] units promoted by Sri Sant Kumar between February 1988 and August 1990 against which a sum of Rs. 5.69 crore was disbursed between May 1988 and July 1991. None of the seven units could start commercial production and were in default since inception. Due to default, notices under Section 29 of SFC Act, 1951, were issued in April 1992 and accordingly units were attached in May 1992. At the time of attachment of units most of the plant and machineries valued at Rs. 1.45 crore were found missing. Hence, FIRs against the promoters/directors were lodged with the police on 16.07.1992 at Police Station, Gomti Nagar, Lucknow but neither the amount could be recovered nor were the promoters arrested so far (March 2000). The personal guarantees of promoters/directors were also invoked by issuing recovery certificates in December 1992 but no amount could be recovered so far. The assets of all the seven units viz. building and plant & machineries excluding land were sold by the Corporation for Rs. 29.62 lakh only in March 1997. The case is being investigated by the EOW[28] at present and the report is awaited (July 2000).

In this connection the following points were noticed by audit:

Loan was disbursed without compliance of pre-disbursement conditions

- The loan was disbursed after relaxing the pre-disbursement conditions of term loan by the Managing Director viz. (i) sanction of power; (ii) NOC from U.P. Pollution Control Board; (iii) appointment of technical person; (iv) charge certificate of hypothecated assets from Registrar of Companies; (v) sanction of working capital; (vi) submission of approved building plan, and (vii) submission of credit report from the bankers.

- The value of personal properties of the promoter of all the seven units was only Rs. 1.02 crore (including Rs. 54.60 lakh as share capital of four sold out companies) against guaranteed loan of Rs. 6.30 crore which was insufficient to cover the loan liability.

Belated disposal of assets resulted in loss of assets of Rs. 1.66 crore

- As against the value of building and plant & machineries of Rs. 1.96 crore as valued by approved valuer in August 1992, the Corporation could realise Rs. 29.62 lakh only from sale of all the assets of seven units during 1997. Thus, due to delay of about five years in disposal of assets, the realisation was very poor and the Corporation had to suffer loss in value of assets to the extent of Rs. 1.66 crore.

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27 (1) Kanpur Fats (P) Ltd, Kanpur Dehat, (2) Manu oils (P) Ltd., Kanpur Dehat, (3) Manu Agro (P) Ltd., Kanpur Dehat, (4) Manu Refinery (P) Ltd., Bazpur, (5) Parth Oils (P) Ltd., Bazpur (6) Naini Automotives (P) Ltd., Bazpur and (7) Hill Automotive Components (P) Ltd., Bazpur.

28 Economic Offences Wing of the State Government.

Insufficient guarantee of promoter made the recovery of dues doubtful

Thus, chances of recovery of overdues of Rs. 21.82 crore (including principal of Rs. 5.69 crore) outstanding against seven units as on February 2000, were quite remote for which no responsibility had been fixed so far (April 2000).

2A.7.2 Short term loan (STL)

The Corporation introduced (October 1994) a scheme of extending short term loan up to Rs. 1.50 crore at 4 to 7 *per cent* rate of interest over the lending rate of SBI for a period of three months which could be extended up to further three months at the discretion of the Managing Director to the units already engaged in manufacturing activities, for more than three years and also in profit during preceding two years with an immaculate payment/track record with Financial Institutions and Banks. The assistance was to be made available preferably for listed units against the pledge of actively traded shares. Leasing and finance units were kept outside the purview of the scheme.

The repayment of loan automatically becomes due on the same date after three months (in case of extension, after six months) failing which it leads to disposal of pledged shares on the seventh day of expiry of date.

Non-recovery of dues of Rs. 28.09 crore from seven companies

It was noticed that the Corporation disbursed STL of Rs. 56.69 crore to 35 units during five years up to 31 March 1999. Test check of some of the cases in audit revealed that the Corporation could not recover its dues amounting to Rs. 28.09 crore in seven cases mainly due to relaxation in many pre-disbursement conditions of STL, non-disposal of pledged shares on defaults, sanction of loan to ineligible units, disbursement of loan against Chartered Accountant's false certification of assets for hypothecation, delayed action in follow up of recovery resulting in registration with BIFR and sanction of loan against the pledged shares of non listed units etc. The details are tabulated in Annexure-12.

Some of the cases are discussed below:

2A.7.2.1 Anand Agrochem (P) Ltd.

Disbursal of loan without fulfilling conditions approved by the Board

Against the laid down policy of giving STL, the Corporation sanctioned and disbursed a short term loan (STL) of Rs. 5.00 crore to Anand Agrochem (P) Ltd. (a non-listed unit) promoted by Sri S.N. Chaturvedi between March and May 1995 for setting up of a newly incorporated sugar mill at Aligarh for a period of three months (extended to six months). STL was approved by the Board of the Corporation, subject to sanction of Term Loan by the ICICI. Though the sanction of ICICI loan was delayed, the Board approved release of loan in four instalments during March to May 1995 repayable in November 1995 against joint equitable mortgage of fixed assets and personal guarantee of promoter.

The unit defaulted in repayment of principal and interest and overdue principal and interest amounted to Rs. 12.90 crore (including interest of Rs. 7.90 crore) as on 30 November 1999. The project could not be started so far (March 2000).

Stay orders of Hon'ble court could not got vacated since December 1997

The Corporation issued notice under Section 29 of SFC Act, for attachment of unit in February 1996 and again in November 1997. Consequently, the unit was attached in January 1998 and the personal guarantee was invoked in March 1998 but no recovery could be made because the unit obtained (December 1997) stay order from Hon'ble High Court of Allahabad restraining the Corporation from its sale and non-availability of movable and immovable assets in the name of promoter. The Corporation could not get the stay orders vacated till date (July 2000). Recovery certificates issued to DM Mathura, and to DM (Urban) Mumbai through DM, Lucknow were returned unexecuted.

Delayed attachment of unit led to non-recovery of dues of Rs. 12.90 crore

In this connection Audit observed that the Management sanctioned STL without considering the eligibility criterion, the viability of the projects, non tie-up of means of financing with ICICI and availability of movable assets only in the form of shares of non-listed unit with nil value against personal guarantee bond.

The Management, thus, extended undue favour to the unit in sanctioning and disbursement of loan and delayed action of attachment of unit gave sufficient time to the Company to move for obtaining Court's stay order which could lead to loss to the Corporation to the extent of Rs. 12.90 crore.

2A.7.2.2 Yogi Pharmacy Ltd.

A short term loan (STL) of Rs. 1.50 crore was sanctioned (July 1997) and disbursed (August 1997) to Yogi Pharmacy Ltd. promoted by Sri Avinash Megan to meet out its working capital requirement, secured against personal guarantees of promoter directors, pledge of 40.00 lakh listed equity shares of Yogi Pharmacy Ltd. and first charge on the entire plant & machineries located at Haridwar valued at Rs. 2.42 crore. Due to non-payment of STL at the expiry of three months i.e. up to 14 November 1997, the STL was rolled over for another three months repayable on 14th February 1998.

All the machines hypothecated were found missing on attachment of the unit

The unit defaulted in payment of STL on due date as its post dated cheques were dishonoured by the bank on presentation. To recover the overdues a recovery certificate against guarantors was issued (June 1998) but no amount could be recovered as no other movable/immovable assets except shares of the unit were available. A notice under Section 29 of SFC Act was also issued (July 1999) against the unit and the assets were attached on 15th September 1999. At the time of attachment, none of the 15 machines hypothecated to the Corporation were found at the site and therefore, an FIR dated 15th September 1999 was lodged with Police Station Industrial Area, Haridwar regarding missing machineries worth Rs. 2.42 crore. It was further noticed that the loanee unit had applied for registration with BIFR for declaration as sick Company. The petition was dismissed as `non-maintainable' on the ground that the unit had come to BIFR with unclean hands manipulating the accounts and basic data and could not prove its bonafides.

In this connection Audit observed the following:

- The loan was disbursed on the basis of Chartered Accountant's certificate only without verifying the hypothecated assets which were found missing during inspection (January 1998).

Corporation failed to dispose of pledged shares in the market

- The Corporation did not dispose of 40.00 lakh pledged shares of the loanee unit in open market.

- The Corporation did not hold first charge on the entire plant and machineries as entire fixed assets were already pledged with Oriental Bank of Commerce. This fact was not verified from the Registrar of Companies at the time of disbursement of loan.

The chances of recovery of Rs. 2.65 crore (including principal of Rs. 1.50 crore) had become remote and the Corporation was put to loss to that extent. No responsibility had been fixed by the Corporation on its officers responsible for the loss.

2A.7.2.3 H-Lon Hosiery Ltd.

H-Lon Hosiery Ltd., New Delhi promoted by Sri Ratan Lal Garera and Smt. Gunjan Garera was sanctioned short term loan of Rs. 1.50 crore in July 1997 to meet out its working capital requirement for its unit at NOIDA against the exclusive first charge on machineries worth Rs. 6.73 crore of another unit located at Delhi duly certified by the Chartered Accountants along with personal guarantee of promoter directors. The Corporation disbursed the loan (4th August 1997) on the basis of reports of its Merchant Banking Division (MBD) Delhi and after fulfilling legal formalities viz. hypothecation deed, personal guarantee bond of promoter directors for a period of three months which was rolled over for another three months repayable by 3rd of February 1998. The Corporation, however, relaxed the condition of pledging of 40.00 lakh shares valued at Rs. 1.32 crore by the loanee unit which was an essential part of the conditions of sanction of loan.

The loanee unit defaulted in repayment of principal amount of Rs. 1.50 crore and interest thereon as its post dated cheques were dishonoured by the bank on presentation. The Corporation issued recovery certificates against the personal guarantors and the Company in May and August 1998 which were returned (October 1999) unexecuted with the remark that no property was available in the name of personal guarantors and that the unit was under liquidation.

Non-availability of any asset resulted in non-recovery of dues of Rs. 2.60 crore

Since the loanee unit has gone in liquidation and no property was available in the names of guarantors available for recovery, the chances of recovery of dues had become quite remote and the Corporation is expected to incur huge loss of Rs. 2.60 crore which could have been averted had the above lapses been avoided at various levels of the Management.

The following points deserve mention in regard to the above:

Incorrect assessment by MBD about liquidity and market intelligence of the unit

- MBD's report regarding liquidity and market intelligence proved incorrect in view of the fact that unit's earlier requests for lease assistance was also rejected by the Corporation in November 1996 on account of their severe financial crunch and defaults in honouring some commitments in the market.

False certification by the Chartered Accountants about the hypothecated assets

- The Management disbursed loan on an unauthenticated certificate of Chartered Accountants which was neither verified/valued by the officers of the Corporation nor its approved valuer. Further, the Chartered Accountants' certificates with respect to hypothecated assets was also not true as there was first charge for Rs. 1.40 crore on assets by State Bank of Patiala, Wazirpur, Delhi as per the records of Registrar of Companies, Delhi.

No responsibility had been fixed against the officers/officials of the Corporation responsible for the loss.

2A.7.2.4 Lunar Diamond Ltd. (LDL)

Loss due to non-availability of any asset for realisation of dues

The Corporation sanctioned and disbursed (September 1997) STL of Rs. 1.50 crore to Lunar Diamond Ltd. promoted by Sri S.L. Maloo**,** to augment working capital requirement for its unit located at NOIDA for a period of three months which was rolled over for another three months repayable on 23 March 1998. Two post dated cheques of Rs. 1.52 crore (including interest of Rs. 2.27 lakh) were dishonoured on presentation. The loanee unit had not made any payment so far (July 2000). Total amount of loan and interest due for repayment aggregated to Rs. 2.09 crore as on 31 March 1999.

Hypothecated assets were not available at the site

The loan was secured by way of hypothecation of plant & machineries of another group Company i.e. Teknik Digital System Pvt. Ltd. (TDSPL) located at NOIDA and the personal guarantee of promoter/directors. Inspection of designated sites of TDSPL on 7 April 1998 and 26 November 1998 revealed the non-existence of TDSPL and its hypothecated assets for which an FIR was lodged (28th November 1998) with the Police at NOIDA against the promoters for committing fraud.

Unit was registered with BIFR under SICA due to heavy losses

The loanee unit, failed to furnish new security to the Corporation as ordered (January 1999) by the Hon'ble High Court, Allahabad. The Corporation did not take any step to counter-file the complaint for non compliance of the orders of Hon'ble High Court, Allahabad regarding non-furnishing of security deposits by the loanee. Personal guarantees of promoters/directors were also not invoked. The loanee unit was registered with BIFR in March 1999 under Sick Industrial Companies (Special Provisions) Act, 1985 (SICA).

Thus, registration of loanee unit's with BIFR due to its deteriorating financial position, heavy outstanding of overdues against the foreign currency loan and interest on Non- Convertible Debentures of IDBI since February 1996 and non-existence of TDSPL and its hypothecated assets at both the designated sites, had reduced the chances of recovery of STL alongwith interest. This was facilitated because of the following lapses, on the part of the Corporation:

Disbursement of loan to an ineligible unit against submission of false statements

- The Corporation disbursed loan to an ineligible unit against submission of false financial statement and without compliance of pre-disbursement conditions of STL viz. pledging of actively traded shares, furnishing of collateral security against land & buildings.

- The hypothecated assets of TDSPL were not verified/valued by the officers of the Corporation at any stage at the time of legal documentation.

The loanee unit submitted financial statement duly certified by CAs with inflated turnover and profits

- The loanee unit furnished provisional financial statement for the year ended 31st March 1997 duly certified by the Chartered Accountants which indicated inflated turnover of Rs. 102.02 crore and false net profit of Rs. 6.01 crore as against the actual turnover of Rs. 16.16 crore and net loss of Rs. 34.57 crore as reported by IDBI. The Corporation did not verify the actual turnover and profit/loss of the unit before disbursement of loan.

No responsibility had been fixed by the Corporation on its own officers/ officials for lapses at various levels.

2A.7.3 Working capital term loan scheme (WCTL)

A WCTL scheme was introduced in August 1995 to provide financial assistance at 1 to 2 *per cent* higher rate of interest over the lending rate of SBI to the financed units of the Corporation which were engaged in manufacturing activities and were in operation for more than three years, which earned profits during preceding two years and were not in default to any Financial Institutions and Banks for more than 15 days during the last one year. Under the scheme, loan is sanctioned up to 75 *per cent* of net working capital requirement of the unit, subject to a minimum of Rs. 33.00 lakh and maximum of Rs. 2.00 crore or 200 *per cent* of net profit whichever is less. During five years up to 1998-99 Corporation disbursed WCTL of Rs. 33.53 crore in 34 cases.

Corporation could not recover Rs. 8.70 crore from two units

Test check of WCTL cases in audit revealed non recovery of dues amounting to Rs. 8.70 crore against two units due to non-adherence of eligibility criterion of these units, lack of monitoring of track records of repayment with other Financial Institutions and Banks and non-observance of WCTL to be disbursed by the banks etc. as narrated below:

2A.7.3.1 Sangal Papers Ltd. (SPL)

Sangal Papers Ltd., Meerut, promoted by Sri Himanshu Sangal, was sanctioned and disbursed, despite heavy recession in Paper Industry, WCTL of Rs. 2.00 crore in June 1997 after relaxing the major conditions of WCTL viz. condition of loanee unit not being in default during last one year, amount of WCTL being beyond the permissible limit (Rs. 20.76 lakh i.e. 200 *per cent* of net profit of Rs. 10.38 lakh of the unit for 1996-97) and condition of furnishing collateral security of land and buildings or shares of listed unit. The loan was secured by extending the charge on fixed assets, demand promissory note for a sum equivalent to WCTL and irrevocable personal guarantees of four directors followed by execution of loan agreement.

The loanee unit defaulted in repayment as result of which notice under Section 29 of SFC Act, 1951 was issued (April 1998) but neither the unit was attached nor any recovery made so far (July 2000).

The loanee unit on the basis of its deteriorating financial position got registered with BIFR on 6th July 1999 as a sick industry. BIFR appointed (January 2000) IFCI to enquire into the matter and submit detailed report on financial status of the unit which was awaited (July 2000).

Loan to a paper manufacturing unit was sanctioned despite heavy recession in Paper Industry

Thus, due to heavy recession in Paper Industry and relaxation of major eligibility criterion of WCTL of the loanee unit, paved the way to huge losses to the extent of Rs. 3.49 crore to the Corporation. Further, the Corporation had not taken any action for recovery of dues viz. attachment of unit, sale of assets, invoking of personal guarantee of promoters etc., except issuance of notice under Section 29 of SFC Act in April 1998 only, which provided sufficient time to the unit to manipulate the situation for registration with BIFR.

No responsibility for the lapses at various levels had been fixed by the Corporation.

2A.7.3.2 Rama Paper Mills Ltd. (RPML)

A loan of Rs. 1.50 crore, despite heavy recession in Paper Industry, was sanctioned to Rama Paper Mills Ltd., Bijnore, promoted by Sri Pramod Kumar, in November 1996 under `Equipment Re-finance Scheme' (ERS). The loan was disbursed during April/May 1997. Although the unit defaulted in repayment since inception, was further sanctioned and disbursed WCTL of Rs. 2.00 crore in September 1997 against the charge of entire fixed assets of its one branch unit at Najibabad. The charge was however, not created in favour of Corporation as assets were already pledged with ICICI and NOC from ICICI was not obtained and loan was disbursed on the basis of collateral security of Ram Fin Fortunes Pvt. Ltd. and against a post dated cheque of Rs. 2.00 crore. The valuation of collateral security was got done through two separate external valuers viz. Jitson and Associates in September 1997 and S.K. Ahuja and Associates in February 1998 for Rs. 2.03 crore and Rs. 2.02 crore respectively which was found erroneous and on higher side compared to valuation done by its own officers at Rs. 40.00 lakh only. Accordingly, to bridge the deficit in collateral security, the loanee unit was asked to provide additional security of Rs. 1.60 crore which it did not submit so far (May 2000). The post dated cheque of Rs. 2.00 crore also bounced for which a case under Section 138 of Negotiable Instrument Act was filed. Due to default in repayment, notices for attachment of the unit were issued three times during March 1998 to January 1999 but unit was not attached. The loanee unit was registered with BIFR in May 1999 due to which Corporation could not initiate any action for recovery of dues of Rs. 5.22 crore (Rs. 3.20 crore under WCTL and Rs. 2.02 crore under ERS) overdue for recovery in April 2000. Due to inaction on the part of the Corporation the chances of recovery of dues amounting to Rs. 5.22 crore had become remote.

In this connection Audit observed the following:

Chances of recovery of Rs. 5.22 crore were remote

- As per existing practice, this loanee unit was entitled for WCTL of Rs. 1.00 crore on current assets method but this condition was relaxed and WCTL of Rs. 2.00 crore sanctioned on the basis of net fixed assets/net profit method.

- Under WCTL scheme, the projected DSCR (Debt Service Coverage Ratio) including WCTL loan shall not be less than 2 whereas average DSCR was 1.40 only. This condition was also relaxed without assigning any reason.

Responsibilities for the above lapses were not fixed by the Corporation.

2A.7.4 Investment in equity shares

2A.7.4.1 Investment in joint/assisted sector

The Corporation had been investing in the shares of units by way of participation in joint/assisted sector or by way of equity participation with the twin objective of promotion of industries and capital appreciation. Total amount of equity investment in such joint/assisted sector units as on 31 March 1999 was Rs. 76.69 crore. The Corporation earned dividend of Rs 4.40 crore during the year 1998-99 against the total investment which represented 5.7 *per cent* of the investment. The Corporation from time to time disinvests these investments either by buy-back by promoters or through sale in open market.

In order to implement disinvestment decisions in an efficient way, the Board of Directors in September 1989 constituted a committee to identify the shares which could be disinvested, their quantum and also the floor price. As per policy of the Corporation the shares could be disinvested any time after commencement of commercial production. The Constitution of Committee itself was far from satisfactory since it did not contain any expert from stock market or any portfolio advisor to assist in identifying the securities, estimating the quantum of disinvestment and floor prices etc. As a result of lack of professional advice, the timing and floor price decisions taken by the Committee were not appropriate and disinvestment at most remunerative prices could not be achieved.

A few illustrative cases are discussed below where disinvestment though otherwise possible, was not made:

2A.7.4.1.1 Indo-Gulf Fertilizer & Chemicals Limited

The Corporation made investment of Rs. 18.15 crore at par in equity share capital of Indo-Gulf Fertilizer & Chemicals Limited, Jagdishpur, in the year 1985. Disinvestment committee of the Corporation decided in November 1994 to disinvest 20 *per cent* share holding (3623000 shares of Rs. 10/- each) of this unit to meet out the requirement of funds at an unrealistic floor price of Rs. 125/- per share, against which only UTI offered (December 1994) to purchase shares at the then prevailing market price of Rs. 92.50 (net of brokerage). As the offer was lower than the floor price fixed by Disinvestment Committee it was rejected (December 1994) without examining other relevant aspects.

Since the Corporation was badly in need of funds and the borrowings had reached an alarming level of more than Rs. 400 crore as at the end of 31 March 1995, on which annual outgo on account of interest alone was more than Rs. 60 crore, a professional approach should have been adopted by the Management for off-loading the shares at Rs. 92.50 per share in favour of UTI in 1994. The present value of shares of the unit have come down to Rs. 42 per share (26 May 2000).

Non dis-investment of share holding deprived the Corporation of profit and also put extra burden of interest on market borrowings

The Corporation was, thus, deprived of potential profits of Rs 29.89 crore on one hand and this also put an extra burden of interest of Rs. 17.00 crore on borrowings during four years up to 1998-99 which could had been avoided otherwise.

A more recent opportunity of disinvestment was available to the Corporation in the year 1999 when the price of the scrip started picking up in the month of July & August 1999 and reached its peak of Rs. 87.50 in January 2000. This too, could not be availed due to lack of professionalism and foresight of the Management.

2A.7.4.1.2 Pashupati Acrylon Limited

Loss of Rs. 2.36 crore due to non dis-investment of 'right issue shares'

The Corporation, out of total holdings of equity shares worth Rs. 4.98 crore of Pashupati Acrylon Ltd., Moradabad, failed to disinvest shares worth Rs. 73.26 lakh acquired by way of rights issue (which were not backed by any buy-back obligation by the promoters) during the year 1992. These shares, if disinvested during the same year at an average price of Rs. 42.25 per share, would have resulted in profits of Rs. 2.36 crore to the Corporation. In so far as originally allotted shares worth Rs. 4.25 crore (backed by buy-back obligations by the promoters) were concerned, the Management failed to prevail upon the promoters to honour their buy-back obligation due to deficiency in the agreement, entered into with them restricting the Corporation to disinvest the shares by off loading in favour of third party at a discount of not more than 10 *per cent* of the price quoted by promoters, thereby resulting in locking up of funds of Rs. 4.98 crore (including "right issue" investment of Rs. 73.26 lakh) and substantial erosion in their values as the market value of these shares had gone down to Rs. 2 as on 8 August 2000. The Corporation was, thus, deprived of anticipated profits of Rs. 2.36 crore due to failure of Management in disposal of rights shares.

2A.7.4.1.3 National Switchgear Limited

Loss of Rs. 1.43 crore due to non disposal of shares

In spite of Disinvestment Committee's recommendation in April 1992 and co-promoters refusal to buy back the same in June 1992, the Corporation failed to disinvest the shares of National Switchgear Ltd., Raebareli, in the market. The main reason adduced for non disposal of shares was the failure of the Corporation in getting the odd lot share certificates (each share certificate of 10,000 shares) converted into marketable lot (each share certificate of 100 shares), despite the fact that the officers of the Corporation themselves were on the Board of Directors of this unit. The shares, if disinvested in the market at an average prevailing price of Rs. 65 during the year 1992 (June 1992 to August 1992), would have resulted in profit of Rs. 1.43 crore at the rate of Rs. 55 per share.

On account of continued unviable operation, the entire net worth of the unit had been eroded and the Corporation had given its consent for winding up of the unit in May 1999. Thus, there was no possibility of realising any return out of the said investment and the Corporation was put to loss of potential profit Rs. 1.43 crore apart from capital loss of Rs. 25.99 lakh.

2A.7.4.1.4 India Polyfibres Limited

The Corporation, inspite of poor performance of India Polyfibres Limited, Barabanki, since inception coupled with execution of defective agreement with co-promoters, as a result of which the buy back of shares was left entirely to the discretion of private co-promoters, failed to disinvest 8032500 equity shares worth Rs. 8.03 crore at prices ranging from Rs. 10 to Rs. 27.50 during the period from January 1994 to June 1995.

Corporation suffered capital loss of Rs. 6.43 crore due to reduction in capital

On account of continued poor performance, the unit became sick and was referred to BIFR who vide their finally approved package of July 1999 consented upon by all the parties, reduced the equity capital of the unit by 80 *per cent* thereby reducing the value of investment to Rs. 1.61 crore.

Thus, due to inaction on the part of Management in disposing of these shares, the Corporation was put to capital loss of Rs. 6.43 crore.

2A.7.5 Lease finance

The Corporation started the scheme of leasing of equipment since the year 1983 in which items of plant and machinery required by the lessee were provided to them for use on payment of monthly specified lease rental with responsibility of maintenance and insurance lying with them. However, ownership of the machinery so provided was to remain with the Corporation alongwith the benefit of charging depreciation on assets.

The position of sanction, disbursement of lease assistance vis-à-vis recovery and outstanding position of lease rental is given in the Annexure-13.

It was noticed in audit that recovery of lease rental remained poor in all those five years period ending 31st March 1999. The percentage of recovery declined from a peak of 43.94 *per cent* in 1994-95 to 10.74 *per cent* in 1998-99. On account of non-recovery of lease rental from a large number of cases, provision for non performing assets amounting to Rs. 1.88 crore had to be made on 31st March 1999 in respect of outstanding lease rental of Rs. 8.50 crore. No significant steps were taken to realise the dues or to take back the possession of leased assets despite the fact that ownership of the machines leased vested with the Corporation.

Some of the interesting cases of defaults committed by lessees are enumerated below:

2A.7.5.1 Premier International Ltd., Delhi

The above unit was sanctioned (April 1997) lease assistance amounting to Rs. 4.00 crore (later reduced to Rs. 2.00 crore) out of which a sum of Rs. 2.00 crore was disbursed to the supplier on 31.5.97 for procurement of Copper Engraved Printing Rolls from Vidiani Engineers Ltd., the manufacturer of the equipment. In order to secure the amount of lease assistance, the collateral security in the form of personal guarantee of directors, corporate guarantee of Primer Vinyl Floorings Ltd. (an associate company of lessee) and mortgage of immovable property equivalent to lease assistance were required to be submitted.

Lessee submitted forged documents

The documents of immovable property as well as attestation of signature of owner of the property by bank turned out to be fake on verification by Chief Legal Advisor of the Corporation on 2.6.97 as the person concerned had died several years back. In spite of this, no efforts were made by the Management to cancel the assistance and initiate criminal proceedings against the lessee for taking back the moneys advanced in June 1997 itself.

The chances of recovery of the amount were remote since the personal guarantee of the directors was not backed by any immovable properties and address of one of the directors was found fake on verification and other directors had already left their residences long back. The corporate guarantee of the group Company also could not be invoked for which no reasons were on record.

In such circumstances, recovery of principal and interest (up to January 2000) amounting to Rs. 3.54 crore was unlikely. No responsibility had been fixed by the Corporation so far (March 2000).

2A.7.5.2 Mideast India Limited, Delhi

Disbursal of lease assistance without verifying credentials and entity of machine supplier

The above unit, despite facing severe liquidity crunch was sanctioned (May 1997) lease assistance of Rs. 2.91 crore, against the policies of the Corporation formulated in this behalf, for procurement of machineries for manufacture of shoe lasts. Out of sanctioned amount, a sum of Rs. 2.18 crore was disbursed to the supplier of equipment (Cougar International (P) Limited) on 28.06.1997 without verifying their credentials who on subsequent enquiry proved to be a non-existent entity.

As a result, the machineries sanctioned on lease never reached the lessee and the Corporation's funds to the tune of Rs. 2.18 crore were thereby put in jeopardy apart from loss of interest amounting to Rs. 98.41 lakh up to April 1999.

The chances of recovery of the amount were remote since (i) the unit on account of various defaults in payment obligation was facing numerous winding up petitions, (ii) the shares submitted as security were not accompanied by transfer deeds, and (iii) the details of immovable properties with recovery certificate had not been confirmed by the Management and was yet to be executed. No responsibility in the matter had been fixed by the Management so far (July 2000).

2A.7.6 Merchant Banking

The Corporation, as part of merchant banking scheme started the scheme of investment in equity shares out of public issues of equity shares of the units in the year 1994-95 which was discontinued w.e.f. 1996-97. Initially the scheme was restricted to investment in AAA/AA rated units with maximum investment of Rs. 25.00 lakh in each unit. The limit was later enhanced to Rs. 50.00 lakh and the condition of investment in AAA/AA rated units only was relaxed in November 1994.

The market value of investment in 16 units was reduced to 24 *per cent* of acquisition price

Accordingly, investment to the tune of Rs. 7.80 crore was made in 16 units as detailed in Annexure-14 during the period from 1994-95 to 1997-98 out of which disinvestment to the tune of Rs. 65.85 lakh only (1 issue full and partial disinvestment in three issues) could be made at a small profit of Rs. 38.92 lakh. The value of equity shares so invested were quoting at substantial discount compared to their acquisition prices and market value of these investment had gone down to Rs. 1.74 crore as on 31st March 1999 as against their acquisition price of Rs. 7.14 crore (net of disinvestment).

The main reason for investing in poor quality stock was lack of formulation of any investment policy and strategy and also the decision of the Management to relax the condition of investment in AAA/AA rated units only, as a result of which investment in unrated units was made at hefty premium which was unjustified and risky. The quality of investment was so poor that these could not be disinvested even at loss as there were only a few transactions taking place on the stock exchanges. Besides diminution in the value of investment, there had been significant loss of interest amounting to Rs. 3.31 crore also, calculated on the simple average rate of borrowings of the Corporation since all these investments had been made with the help of borrowed funds.

2A.8 Poor recovery performance of loans

The position of total loan asset, amount due for recovery and recovery thereagainst at the end of each of last five years up to March 1999 is given in the table below:

(Rupees in crore)

Particulars	**1994-95**		**1995-96**		**1996-97**		**1997-98**		**1998-99**	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
Total loan assets	470.79		475.00		545.88		607.73		617.37	
Amount due for recovery										
1. Arrears at the beginning of the year	40.09	36.59	41.97	42.51	36.17	43.76	49.76	51.81	61.39	74.83
2. Current dues	66.18	63.83	61.69	61.54	94.82	87.41	102.81	86.22	82.27	62.46
TOTAL (A)	**106.26**	**100.42**	**103.66**	**104.05**	**130.99**	**111.17**	**152.57**	**138.03**	**143.56**	**137.29**
RECOVERY										
1. Out of arrears	1.82	1.73	7.27	4.66	7.20	3.60	4.99	4.87	3.82	1.98
2. Out of current dues	62.48	56.19	60.22	55.63	74.03	55.76	86.20	58.32	69.17	48.75
TOTAL (B)	**64.30**	**57.92**	**67.49**	**60.29**	**81.23**	**59/36**	**91.19**	**63.19**	**72.99**	**50.73**
Outstanding dues at the end of the year (C)	41.97	42.51	36.17	43.76	49.76	51.81	61.39	74.83	70.65	86.57
Percentage of B(1) to A(1)	4.53 (4.6)	4.72	17.32 (14.2)	10.97	19.91 (14.1)	8.22	10.02 (9.7)	9.40	6.23 (4.4)	2.64
Percentage of B(2) to A(2)	94.41	88.03	97.61	90.38	78.07	82.73	83.84	67.65	84.09	78.04
Percentage of B to A	60.50	57.67	65.10	57.94	62.01	53.40	59.77	45.79	50.82	36.95
		(58.3)		**(61.5)**		**(57.7)**		**(52.78)**		**(43.88)**

(Note : Figures in bracket indicate combined percentage of recovery of principal and interest during each year).

The analysis of above table revealed the following:

2A.8.1 Recovery of dues

Poor recovery performance of loans and declining trend of recovery of dues during five years up to 31st March 1999 from 61.5 *per cent* in 1995-96 to 43.9 *per cent* during 1998-99. The above further includes abnormally low percentage of recovery out of arrears which ranged between 4.4 and 14.2 *per cent*.

2A.8.2 Non-Performing Assets (NPAs)

In terms of IDBI guidelines of May 1993, as modified from time to time, the loan portfolio of the Corporation is being classified as standard assets or performing assets (PA) and non-performing assets (NPA) for the purpose of income recognition and provisioning. A standard loan asset becomes an NPA as and when it exceeds period of one year from the date of default which is further sub-classified into four categories viz. (i) Sub-standard assets: loan assets that are NPAs for more than one year and not exceeding two years (ii) Doubtful assets(a): a loan assets which remained NPAs for more than two years and up to five years. (iii) Doubtful assets (b): NPAs for more than five years and (iv) Loss assets: a loss asset is one where losses are identified but not written off wholly or partly. Taking into account the time gap between the account becoming doubtful for recovery, an adequate provision of ten, twenty five, fifty and hundred *per cent*, respectively, is required to be made against the loan assets classified as NPAs under each head.

However, it was observed in audit that the Corporation had not developed any system of regular review of loan portfolios by top Management. System review on a case to case basis with regard to factors affecting performance, prospects of recovery, assets backing etc. is also not done for management of NPAs at regular intervals. In addition, the borrower's balance sheet and profit & loss account are not analysed and information relating to arrears position with other institutions, quality of management and relevant technological issues are not kept up to date to enable the Corporation to have a complete picture of the risk profile of its assets. In addition, close monitoring which is required to be done to prevent new cases from slipping into NPA category is not efficiently undertaken.

NPAs increased up to 58.5 *per cent*

The classification of loan assets of the Corporation for the last five years up to 31st March 1999 as summarised in Annexure-15 indicates continuous slippage of standard assets to NPAs which increased up to 58.5 *per cent* of total loan assets at the end of 31 March 1999 reflecting an adverse situation. The comparative percentage of NPAs to total loan assets in Industrial Credit and Investment Corporation of India and Industrial Financial Corporation of India ranged between 6.7 and 8.1 & 14 and 21 respectively, during the above period.

Poor recovery of loan as discussed in para 2A.8.1 (*supra*) resulted in abnormal increase in NPAs up to 58.5 *per cent* at the end of March 1999 as analysed by audit was mainly attributable to:

- incorrect appraisal of projects (para 2A.7.1.1, 2A.7.1.5, 2A.7.2.1, 2A.7.2.3, 2A.7.3.1, 2A.7.3.2 *supra and Annexure-11 Sl. No. 15,16,19 & Annexure-12 Sl. No. 6)*;

- sanction of loan against false certification of value of assets for hypothecation by the Chartered Accountants and false inspection reports by its own officers (para 2A.7.1.4, 2A.7.2.2, 2A.7.2.3, 2A.7.2.4 *supra and Annexure-11 Sl. No. 13*);

- unwarranted relaxation in compliance of conditions precedent to disbursement (para 2A.7.1.3, 2A.7.1.6, 2A.7.2.1 *supra*);

- lack of action to recover value of missing assets (para 2A.7.1.2);

- non-verification of hypothecated assets and personal assets against personal guarantee (PG) before execution of the legal documents (para 2A.7.1.4, 2A.7.1.6, 2A.7.2.2 and Annexure-11 Sl. No. 18);

- poor recovery of dues due to ineffective follow-up action for recovery of dues(para 2A.7.1.6 and Annexure-12 Sl. No. 5,7);

- belated action for attachment of units on default which facilitated removal of assets from the site (para 2A.7.1.1, 2A.7.1.4, 2A.7.1.6 *supra* and Annexure-11 Sl. No. 14,17); and

- Non-pursuance of recovery certificates (para 2A.8.3*infra*).

2A.8.3 Non-pursuance of recovery certificates (RC)

117 RCs for Rs. 172.72 crore were still pending for recovery with District Authorities

The position of RCs issued and pending during five years up to 31st March 1999 as given in Annexure-16 indicated that the Corporation had issued 95 RCs valued at Rs. 156.97 crore during five years up to 31st March 1999, out of which seven RCs valued at Rs. 4.89 crore were withdrawn/returned unexecuted and 117 RCs valued at Rs. 172.72 crore were pending with District authorities. No amount could be recovered against the RCs issued during five years up to 31st March 1999 which is one of the important reasons for poor recovery of dues.

It was further noticed that 29 RCs valuing Rs. 20.66 crore had been pending for more than five years which had neither been returned nor recovery effected thereagainst. This shows lack of monitoring and follow-up at the Management level although Legal Cell at the Head Office and the Regional Offices were responsible to ensure recovery against RCs.

2A.9 One time settlement (OTS) of dues

In order to accelerate recovery of dues from defaulting assisted units from whom chances of recovery were quite remote, the Corporation evolved (January 1987) a policy of going in for one time settlement (OTS) from these chronic defaulters.

Interest of Rs. 39.55 crore was waived of f under OTS

The position of OTS settlement and the amount of interest waived off thereagainst during five years up to 31st March 1999, as given in Annexure-17, indicated that the OTS proposals were generally not honoured by the defaulting units and the Corporation instead of taking any strict action for recovery, accepted requests for OTS/extension of time for OTS payment, whenever such requests were made by these units subsequently. During five years up to 31st March 1999, out of 92 cases of OTS approved by the Corporation, only 57 cases (62 *per cent*) were fully honoured and 35 cases (38 *per cent*) of OTS were either partially honoured or cancelled due to non-payment of OTS dues. In this way, the Corporation waived off interest overdues of Rs. 39.55 crore (including simple interest of Rs. 8.09 crore).

Conclusion

The Corporation incurred losses from 1996-97 onwards and the accumulated losses aggregated Rs. 112.54 crore at the end of 31st March 1999 which had completely eroded the net worth of the Corporation. The poor performance of the Corporation was mainly due to:

- **inadequacy of its appraisal system in identifying viable and non-viable projects resulting in sanction of loan to non-viable projects;**

- **unwarranted relaxation in compliance of pre-disbursement conditions resulting in sanction of loans to ineligible entrepreneurs leading to non-recovery of dues;**

- **inadequate system of valuation and verification of hypothecated assets and immovable/movable assets against personal guarantee on legal documentation;**

- **lack of monitoring and physical verification of assisted units and delayed attachment of units on default resulted in removal of assets from the sites;**

- **failure of its recovery system in identification of revivable/non-revivable units and willful defaulters and initiation of strict, effective and timely recovery action coupled with liberal settlement of dues under OTS scheme; and**

- **lack of professionalism in dealing with equity participation, lease financing and merchant banking.**

The Corporation needs to review its system of pre-sanction appraisal, sanction and disbursement of loans and financial assistance, reduce NPAs, improve the recovery performance and take judicious decisions in investment and dis-investment.

These matters were reported to the Corporation and the Government (May 2000); their replies had not been received (July 2000).

2B. Procurement, Performance, Maintenance and Repair of Transformers in Uttar Pradesh Power Corporation Limited (Erstwhile Uttar Pradesh State Electricity Board

HIGHLIGHTS

In Uttar Pradesh Power Corporation Limited (erstwhile Uttar Pradesh State Electricity Board) the growth of sub-power transformation capacity was not matching with the growth of distribution transformation capacity and connected load which resulted in overloading. The overall distribution transformation capacity per MW of connected load also ranged between 0.92 and 0.99 MW during last four years up to 1998-99.

(Paragraph 2B.4)

As there was no scientific assessment of requirement of transformers, 7239 transformers valued at Rs. 19.86 crore remained un-utilised for one year during 1999-2000.

(Paragraph 2B.5)

Procurement of one 315 MVA transformer in excess of requirement at 400 KV sub-station, Unnao (October 1999) resulted in not only unfruitful expenditure of Rs. 4.01 crore but the Company also sustained loss of 6.43 million units of energy (value Rs. 1.14 crore) due to dissipation in guaranteed load loss and no load loss.

(Paragraph 2B.5.4.1)

The damage rate of distribution transformers was abnormally high ranging between 16.2 and 22.5 per cent against the norm of 2 per cent fixed by the Company itself. Due to this, the Company had to bear a heavy financial burden of Rs. 325.28 crore on repair of 232341 distribution transformers which failed in excess of the norm during the period of five years up to 1999-2000.

(Paragraph 2B.6.2)

Due to change in technical specifications of repaired transformers, the Company allowed higher tolerance in load loss and no load loss over and above the guaranteed loss prescribed for procurement of new transformers. Due to this, the Company not only accepted inferior quality of repaired transformers from outside agencies but also suffered energy loss of 130.16 MU (value Rs. 20.96 crore) in repair of 177983 distribution transformers during five years up to 1999-2000.

(Paragraph 2B.7.2.1)

2B.1 Introduction

Transformer is a static equipment installed for stepping up or stepping down voltage in transmission and distribution of electricity. Power is usually generated at very low voltage (11 KV to 15.75 KV) and thereafter it is stepped up (132 KV, 220 KV and 400 KV) through power transformers for transmission to load centres, where it is stepped down (132 KV, 66 KV, 33 KV, 11 KV, 0.400 KV) for supplying electricity to various consumers. Power is distributed to the consumers through transmission and distribution lines having voltage ranging from 440 volts to 132 kilo volts (KV).

2B.2 Organisational set-up

The procurement of power transformers of transmission net work is done by two sub-station design circles, each headed by a Superintending Engineer under overall charge of Member (Transmission) whereas the procurement of distribution transformers is done by Electricity Stores Procurement Circle I (ESPC-I) headed by a Superintending Engineer under the overall charge of Member (Distribution) of Uttar Pradesh Power Corporation Limited {erstwhile Uttar Pradesh State Electricity Board (UPSEB)}. The receipt of transformers and their issue to user Divisions is controlled by the Chief Engineer and Controller of Stores (CE, COS) who is assisted by four Electricity Stores Circles (ESCs) each headed by a Superintending Engineer and thirteen Store Divisions under the charge of Executive Engineer. The damaged transformers are got repaired by the Company in its own workshops spread over thirteen Workshop Divisions as well as by outside agencies at rate contract finalised by ESPC-I.

2B.3 Scope of Audit

A review on the “Repair of transformers in distribution organisation” was included in the Report of the Comptroller and Auditor General of India (Commercial) 1985-86, Government of Uttar Pradesh, which had not been discussed by the Committee on Public Undertakings so far (April 2000).

The present review conducted during October 1999 to March 2000 covers procurement, performance, maintenance and repair of power and distribution transformers in Company, based on test check of ESPC-I, and nine Divisions of store and workshop for the period from 1995-96 to 1999-2000.

2B.4 Growth of transformation capacity

The table given on the next page indicates the growth of transformation capacity detailing the number of power and distribution transformers installed, vis-a-vis connected load thereagainst during five years up to 1998-1999:

Sl. No.	Particulars	1995-96	1996-97	1997-98	1998-99
1.	Grid power transformation capacity (132 KV and above)				
	MW	18619	18847	19319	21322
	MVA	21905	22173	22728	25085
	(Nos.)	(569)	(575)	(581)	(604)
2.	Sub power transformation capacity (66 KV to 33 KV)				
	MW	8844	9133	9440	10400
	MVA	10405	10745	11106	12236
	(Nos.)	(2559)	(2622)	(2681)	(2878)
3.	Distribution transformation capacity (11/0.4 KV)				
	MVA	14492	16352	16818	17458
	MW	12318	13899	14295	14839
	(Nos.)	(273989)	(296494)	(303366)	(314501)
4.	Percentage of distribution transformation capacity in excess of sub power transformation capacity (2 to 3)	39.3	52.2	51.4	42.7
5.	Connected load				
	MVA	15747	16416	17058	18407
	MW	13385	13954	14499	15646
6.	(a) Connected load in excess of distribution capacity [5–3]				
	MW	1067	55	204	807
	(b) Percentage of excess load	8.7	0.5	1.4	5.4
7.	Sub Power transformation capacity per MVA of connected load MVA	0.66	0.65	0.65	0.78
8.	Distribution transformation capacity per MW of connected load MW	0.92	0.99	0.99	0.95

There was mismatch of growth of power transformation capacity, distribution transformation capacity and connected load

It would be seen from the table above that the increase in power transformation capacity, distribution transformation capacity and connected load were not commensurate with each other during all the four years up to 1998-1999. The mismatch among power transformation capacity, distribution transformation capacity and connected load had resulted in load shedding and overloading of transformers.

In this connection, the following audit observations are made:

(i) During the period of four years up to 1998-99 the growth of sub power transformation capacity was 1831 MVA which was much lower than the growth of 2966 MVA of distribution transformation capacity and

2660 MVA of connected load which resulted in overloading of sub power transformation capacity.

(ii) Though the overall distribution transformation capacity per MW of connected load ranged between 0.92 and 0.99 MW during the last four years up to 1998-1999, yet in divisions of seven districts viz. Dehradun, Nainital, Lucknow, Allahabad, Kanpur, Jhansi and Gorakhpur, it was only 0.52, 0.61, 0.69, 0.74, 0.84, 0.87 and 0.93 MW respectively in 1998-99 requiring augmentation of distribution capacity to meet the demand and to avoid damage of transformers.

2B.5 Procurement of transformers

There was no scientific method of assessment of requirement by the field units and no guidelines in this regard had been issued by the Company.

Power and distribution transformers are procured on the recommendations of Superintending Engineers of Sub-Station Design Circles and Electricity Store Procurement Circle-I. The purchases are finalised by three committees of the Company viz. Chief Engineer Committee (for orders up to Rs. 50.00 lakh), Member Committee (above Rs. 50.00 lakh up to 1.50 crore) and Central Store Purchase Committee (CSPC) headed by Chairman (exceeding Rs. 1.50 crore).

No scientific method for assessment of requirement adopted

The annual requirement of transformers are assessed by Chief Engineer and Controller of Stores (CECOS) tentatively considering the requirement of the annual plan for Rural Electrification (RE) works and for non-RE works on the basis of past consumption which are further revised as per actual requirement conveyed by field units and budget provisions.

Further, the system of assessment of requirement was deficient as it failed:

(i) to assess correct requirements by field units as no guidelines in this regard have been issued to them by the Company;

(ii) to fix the minimum and maximum limit of stock of distribution transformers;

(iii) to link the availability of funds to adhere to the delivery schedule of various orders as per requirements of field units;

(iv) to standardise the design of transformer to facilitate quick and competitive procurement of transformers as well as its spares; and

(v) to evolve vendor rating system.

Year-wise requirement of distribution and power transformers, quantity ordered and value of the order placed for last five years up to 1999-2000 is given in the table as follows:

Year	Distribution transformer (Capacity ranging from 25 KVA to 630 KVA)			Power transformer (Capacity ranging from 1 MVA to 100 MVA)		
	Requirement (Nos.)	Ordered (Nos.)	Value (Rupees in lakh)	Requirement (Nos.)	Ordered (Nos.)	Value (Rupees in lakh)
1995-96	15477	8680 (1869) [29]	2855.14	79	100	2235.98
1996-97	21185	13000 (3160)[29]	3464.39	201	98	4219.34
1997-98	22750	22852 (9) [29]	6239.73	102	162	3003.39
1998-99	22250	19776 (10) [29]	6312.17	249	124	2860.74
1999-2000	23500	6000 (7239) [29]	2238.00	191	120	2867.41
Total	**105162**	**70308**	**21109.43**	**822**	**604**	**15186.86**

7239 transformers remained unutilised for one year due to improper assessment of requirement

Despite requests, the year-wise details of receipt and installation of transformers were not furnished to Audit. However, it would be seen from the above table that the orders were placed much below the requirement in almost every year (except in 1997-98). The wide variation in requirement and placement of orders was due to ad-hoc placement of requirement by the field units which subsequently went on changing till the finalisation of tenders. Further, it was noticed that the ad-hoc assessment of requirement of transformers led to purchase of 7239 transformers valued at Rs. 19.86 crore which remained unutilised for one year during 1999-2000.

The system deficiencies resulting in incorrect assessment of requirement leading to excess/short procurement, frequent extension in delivery schedule of purchase orders causing extra expenditure in procurement of transformers as discussed in succeeding paragraphs.

2B.5.1 Lack of vendor rating system

The Company could not evolve vendor rating system due to non-maintenance of history cards to assess the accurate performance of transformers. As a result, the company was forced to finalise the tenders at lowest FOR destination price basis only irrespective of their performance.

In audit, it was however, noticed that as regards design of transformers, the supplier were free to adopt any design and the Company only laid down critical technical parameters and requirements of transformers in each tender specification. Tenders were finalised on the basis of lowest offered FOR destination rates received from technically suitable tenderers, without taking

[29] Figures in brackets represent stock of transformers at the beginning of the year.

cognizance of main inputs utilised in the transformers, its weight and value, which resulted in procurement of transformers having varied weights at the same price without having corresponding deduction in price of the transformer in lieu of the lesser quantity of main inputs used.

Scrutiny of the purchase of 291 nos. 5 MVA (33/11 KV) transformers revealed that the orders were placed on various firms for supply of tendered quantity of transformers inspite of the fact that the weight of transformers offered by these firms varied between 10580 Kg and 13400 kg on account of variation in the quantity of main inputs viz. core, HV/LV coils, tank fittings, transformer oil etc. The value of inputs less used by these firms ranged between Rs. 38700 and Rs. 141960 per transformer.

Non-standardisation of design of transformers led to acceptance of transformers having lesser inputs

Thus, due to non-standardisation of design of transformers, the Company had to accept 273 nos. of 5 MVA transformers developed and designed by the firms having lesser input thereby extending undue favour to the firms for Rs. 227.47 lakh during the period from 1994-95 to 1998-99.

2B.5.2 Extra expenditure on pre-despatch inspection and testing of new transformers

In order to ensure the quality of the transformers purchased, pre-despatch inspection and routine test of 10 *per cent* of quantity offered by the suppliers were being carried out by the officers of the Company at manufacturer’s/supplier’s works. The variable cost of such inspection and testing, as worked out by the Company, was 0.31 *per cent* of the cost of transformer.

Pre-despatch inspection ordered to outside agencies entailed extra expenditure of Rs. 0.25 crore

During test check (November 1999) of the records of Electricity Store Procurement Circle-I, it was noticed that in a meeting (December 1997) the Hon'ble Energy Minister stressed the need of pre-despatch inspection and routine test to be got done by third party to ensure the quality of new transformer supplied and to arrest the continued increase of damages of new transformers. Accordingly, the Company placed an order for pre-despatch inspection of 3300 transformers on Lloyds and RITES, New Delhi for Rs. 66 lakh in April 1998.

However, the Company, without considering the performance of outside agencies and the percentage of damages of new transformers against above orders, placed (September 1999) repeat orders for pre-despatch inspection on three agencies viz. Lloyd's, RITES and Director General of Supplies and Disposals (DGS&D), New Delhi for 3000 transformers at total cost of Rs. 47.22 lakh. The cost of inspection and routine test by outside agencies worked out to 0.65 *per cent* as against 0.31 *per cent* variable cost of inspection by Company. Thus, the Company incurred extra expenditure of Rs. 24.72 lakh for undertaking the routine test of 3000 transformers during the period 1999-2000.

The Superintending Engineer ESPC-I stated (April 2000) that the third party inspection was carried out as per decision taken in the meeting held in December 1997 under the Chairmanship of Hon'ble Energy Minister. However, the Company had a specialised wing for such inspection since its inception which was capable of carrying out inspection at a much lower cost. Moreover, performance of new transformers were not monitored by the Company to analyse the benefits of third party inspection.

2B.5.3 Irregular waiver of type test

An order was placed (November 1997) on Mirzapur Electrical Industries Limited for supply of six nos., 8 MVA (33/11 KV) power transformers against specification no. ESPC-I/282/96 at FOR destination price of Rs. 16.62 lakh each. In April 1998, the firm requested for waiver of type test in this order as 8 MVA transformer of similar design had already been got type tested at Central Power Research Institute (CPRI), Bhopal against tender specification no. ESPC-I/233/93. In response, the Chief Engineer (MM) accorded waiver from type test.

Irregular waiver of type test was granted

Scrutiny of tender specification no. 233/93 revealed that the weight of copper used in each 8 MVA transformer supplied thereagainst was 3190 Kgs and maximum load loss and no load loss was 47 KW and 5 KW respectively, whereas as per approved design of the transformer against tender specification no. 282/96, the weight of copper was only 2500 kg i.e. less by 690 kgs and maximum load loss and no load loss were 48 KW and 7 KW respectively. Thus, the waiver of type test was not regular as the design of the transformers were not identical. This resulted in award of undue benefit to supplier to the extent of Rs. 9.58 [30] lakh.

The Chief Engineer (MM) stated (August 1999), that parameters such as flux density and current density were similar to the design already type tested. As regards reduction in weight of copper, it was due to changes in requirement of the transformers to be supplied against specification no. 282/96 in which load loss and no load loss was 48 KW and 7 KW respectively. The statement is not acceptable as the designs of the transformer were not identical.

2B.5.4 Power transformers

2B.5.4.1 Procurement of transformers in excess of requirement

Transformer was installed without requisite load which resulted in dissipation of energy

In test audit of records of 400 KV sub-station Construction Division, Unnao (October 1999), it was revealed that two nos. 315 MVA transformer (400/220/33 KV) valued at Rs. 8.03 crore procured from BHEL against contract no. OECF/6 dated 25.2.94 were received in March 1995 and commissioned in November/December 1998 at 400 KV sub-station Sonik district Unnao. Further, from scrutiny of the load log-sheet of the transformers, it was observed that total maximum load on both the transformers ranged between 120 MVA and 240 MVA only since their

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[30] Cost of copper less used (690 x 6 = 4140 x 130 = 538200 say Rs. 5.38 lakh) and type test charges Rs. 4.20 lakh.

installation. This indicates that installation of one no. 315 MVA transformer and absence of load resulted in not only unfruitful expenditure of Rs. 4.01 crore but the Company also incurred interest liability to the extent of Rs. 55.19 lakh (at the rate of 2.75 *per cent* per annum during five years up to March 2000). Besides this, due to energisation of transformer without sufficient load, the Company had to sustain loss of Rs. 1.14 crore due to dissipation of 6.43 MUs of energy from January 1999 to March 2000 on account of guaranteed load loss and no load loss.

2B.5.5 Distribution transformers

2B.5.5.1 Extra expenditure due to incorrect calculation of ex-works price

FOR destination rates were incorrectly evaluated

(a) For arriving at lowest comparative FOR destination rate, the rates quoted by the technically suitable tenderers in respect of ex-works price, excise duty, freight, sales tax/trade tax, testing charges, load loss and no load loss etc. are required to be considered. Scrutiny of records in respect of tender specification no. 237/94 and 223/93 for supply of 135 nos. 5 MVA transformers revealed that while evaluating lowest FOR destination rate, the element of trade tax quoted by tenderers had not been taken into account, due to which the ex-works price awarded to nine firms were higher. This resulted in avoidable extra expenditure of Rs. 7.35 lakh in the purchase of 95 nos. 5 MVA transformers against tender specification no. 237/94 (52 nos. transformers) and 223/93 (43 nos. transformers).

(b) Similarly, against tender specification no. 225/93 for purchase of 18000 nos. 25 KVA transformers, 17 out of 24 firms demanded testing charges at Rs. 350 to Rs. 850 per transformer in addition to their FOR destination rates. The Central Stores Purchase Committee (CSPC), however, decided (December 1993) to place orders on 24 firms on lowest quoted FOR destination price of Rs. 0.20 lakh per transformer offered by lowest firm but while calculating ex-works price in respect of these firms who had demanded testing charges extra, the ESPC-I did not reduce the amount of testing charges to arrive at their ex-works price, so as to keep the lowest FOR destination price at par. Thus, due to inclusion of testing charges in ex-works price in case of 17 firms, instead of showing them separately in purchase order, the Company incurred avoidable extra expenditure of Rs. 14.64 lakh on excise duty (Rs. 7.16 lakh) and trade tax (Rs. 7.48 lakh) in purchase of 17140 nos. 25 KVA transformers.

2B.6 Performance of transformers

According to Schedule VII of the Electricity (Supply) Act, 1948, the working life of a transformer having capacity of 100 KVA and above is 35 years whereas for others it is 25 years.

The maintenance of History Card containing full particulars for each transformer is necessary to watch its performance and to ascertain its working life. The history cards are required to contain name of supplier, capacity and voltage ratio, date of issue, date of installation, date of energisation, date of failure, date of expiry of guarantee/warranty period and normal life of transformers.

However, in absence of such history cards it could not be ascertained whether the transformers have achieved the normal life of 25/35 years and what was the age-wise incidence of failure. It could also not be ascertained whether the transformers failed within guarantee period. Further, the frequency of damages due to manufacturing defects, poor quality of repair and failure due to other inherent flaws were not susceptible of audit checks.

2B.6.1 Quality assurance of transformers

With a view to ensuring quality of transformer, the company provides in its specifications for purchase of transformers that the supplier would manufacture a proto type transformer against each order to conduct short circuit test, impulse test to verify losses from CPRI/BHEL/Government Test House in presence of a representative of the company. Besides the routine test, inspection by random sampling is also conducted before issue of despatch instructions. Further, the company also reserves the right to get type test conducted on any piece of transformer during currency of contract and in such cases type test charges are reimbursed to supplier. The deficiencies noticed in this regard are discussed in preceding paragraphs at 2B.5.1, 2B.5.2 and 2B.5.3. In absence of non-provision of clause of joint inspection of transformer damaged during guarantee period in the contract description of materials provided by the supplier in transformers damaged was not available with the company and as such not susceptible to audit check.

2B.6.2 Maintenance of transformers

The Company had fixed (May 1982) that permissible limit for failure of transformers as only two *per cent* of transformers installed. To achieve this, the Company envisaged to:

(i) carry out detailed monitoring including ascertaining reasons of damages;

(ii) maintain history cards in respect of each transformer;

(iii) use drop out fuses at 11 KVA rating;

(iv) connect LT terminals with crimping tools and copper lugs; and

(v) avoid overloading of LT terminals etc.

Further, the Central Corporation of Irrigation and Power (CCIP) in their Technical Report (July 1974) had recommended that Insulation Resistance (IR) value of distribution transformers should be measured half yearly so as to avoid damage of transformer on account of defective insulation.

Transformers failed in excess of norm due to non-adherence of preventive maintenance

Test check of records of Distribution Divisions revealed that no regular and preventive maintenance of transformers and other measures as recommended by CCIP are being done due to which the percentage of damage always exceeded the norms and ranged between 16.2 and 22.5 *per cent* during last five years up to 1999-2000 as given in the table as under:

Year	Distribution Transformers (In Numbers)				Percentage of total failure
	Installed at the beginning of the year	**Total failure**	**Failure as per norm**	**Failure in excess of norm**	
1995-96	254237	41472	5085	36387	16.3
1996-97	266771	43272	5335	37937	16.2
1997-98	277783	50549	5556	44993	18.2
1998-99	288748	64844	5775	59069	22.5
1999-2000	307306	60101	6146	53955	19.6
Total		**260238**	**27897**	**232341**	

This indicates that in the absence of regular and preventive maintenance damages of transformers were much in excess of the norm on which Company had to bear a heavy financial burden of Rs. 325.28 crore (worked out at the average repairing cost of Rs. 0.14 lakh per transformer) on repair and replacement of 232341 distribution transformers which failed in excess of the norms during the period of five years up to 1999-2000.

The Company neither analysed the reasons for excessive failure nor took any remedial measures to bring the same within norm. However, as analysed in audit, non-installation of adequate protection system at HV and LV side, non-adherence of preventive maintenance and over loading of distribution transformers were the main reasons for excessive damage of transformers.

2B.6.3 Loss due to non-maintenance of protection equipment

Transformer failed due to improper maintenance of protection equipment

One 5 MVA (33/11 KV) transformer (Sl. No. TS-345/101142), was repaired by Mirzapur Electrical Industries Limited, Mirzapur against specification no. ESPC-I/205/91 and installed at 33/11 KV sub-station, Teliarganj, Allahabad on 5 September 1996. The transformer was damaged on 6 August 1997, within the guarantee period and was sent to the firm in October 1998 for repair free of cost.

The firm, however, refused (September 1998) to accept the guarantee clause as the transformer protection equipment installed at site did not work during heavy rains and lightening due to which transformer failed (August 1997). Though the cable burst, the transformer could not be isolated from the system due to non-operation of the breakers. The transformer valued at Rs. 15.20 lakh was still (March 2000) lying with the firm without repair for want of joint inspection.

2B.7 Repair of transformers

The work of repair of damaged transformers is generally carried out in the 13 departmental Transformer Repair Workshops (TRW), earlier attached with the Distribution Division and now with Workshop Division (from 1987-88) of the Company. Later on, due to rapid progress of electrification in the state and consequential increase in the number of distribution transformers and also due to non-strengthening of TRWs adequately, the Company decided (May 1974) to get the repair of damaged transformers done through outside agencies also. Since then, the repair of transformers is being carried out both by the departmental workshops as well as by outside agencies.

2B.7.1 Repair through departmental workshops

Repair cost of transformer at TRW, Allahabad and Bareilly were excess in comparison to cost incurred on outside repair

Although the TRWs were established since inception of the erstwhile UPSEB, the installed capacity or annual targets of repair by these workshops have not been fixed by the Company to have an effective control over its performance. The Board had not fixed any time limit for repair of transformer in the workshop nor it monitored the time taken for repair. Scrutiny of records revealed that out of 260238 nos. damaged transformers received in the departmental workshops, only 57813 transformers (22.2 *per cent*) could be got repaired in departmental workshops during last five years up to 1999-2000. Test audit of five workshop Divisions, further revealed that the cost of repair in two workshop Divisions viz. Allahabad and Bareilly was in excess as compared to the maximum repair charges payable to outside agencies, which resulted in extra expenditure amounting to Rs. 3.62 crore on repair of 4908 transformers during last five years up to 1999-2000.

2B.7.2 Repair from outside agencies

On the basis of rate contract finalised by ESPC-I, the damaged transformers are being got repaired by the field units. The salient points noticed during test check are discussed in the succeeding paragraphs:

2B.7.2.1 Loss due to change in technical specifications of repaired transformers

Prior to March 1993, technical specification of repaired transformers (25 KVA to 1000 KVA) were the same as of newly procured transformers, which provided maximum guaranteed load loss and no load loss. Transformers having higher tolerances over and above the maximum guaranteed load loss and no load loss, were rejected altogether.

Quality of repaired transformers was lowered down by changing technical specification

In March 1993, the Company decided to change technical specification of repair from outside agency and allowed plus tolerance at 10 *per cent* in no load loss and 5 *per cent* in load loss over and above the guaranteed loss to avoid large scale rejections after repair. Reasons for change in technical specification was attributed to deterioration of core in few transformers due to their ageing. The Company, instead of weeding out of transformers having deteriorated/ unhealthy core at the time of handing over for repair to out side agencies, changed the technical specification and allowed plus tolerance in all transformers repairable by out side agencies.

Thus, by allowing plus tolerance in no-load and load loss, the Company not only accepted inferior quality of repaired transformers but also incurred avoidable energy loss to the extent of plus tolerance allowed in repaired transformers over and above the guaranteed losses. The total energy loss during the last five years up to 1999-2000 worked out to 130.16 MU (value: Rs. 20.96 crore) in repair of 177983 transformers (25 KVA to 1000 KVA) by outside agencies.

2B.7.2.2 Repair of transformers at higher rate

The rate contract against tender specification no. ESPC-I/305/98 were finalised (April 1999) by ESPC-I for repair of distribution transformers (25 KVA to 250 KVA) which are applicable till date (April 2000). It was further noticed that the Workshop divisions are also, after inviting tenders, finalising rates for repair of damaged distribution transformers (25 KVA to 250 KVA) in departmental workshops.

Repair of transformers were got done at higher rate by outside agencies

Scrutiny of records of Workshop Division, Meerut revealed that the rates of repair of damaged distribution transformers (25 KVA to 250 KVA) finalised (March to July 1999) was much lower than the rates finalised by ESPC-I against tender specification no. 305/98 as detailed below:

(In Rupees)

Sl. No.	Name of items	Rates of Meerut Workshop Division	Rates of ESPC-I	Difference in rates
1.	H.V. Bushing	58.62	85	26.38
2.	L.V. Bushing	8.85	20	11.15
3.	H.V. Bushing rod	24.05	75	50.95
4.	L.V. Bushing rod	24.69	60	35.31
6.	Labour charges (per transformer)	624.50	2000	1375.50
		740.71	**2240**	**1499.29**

From the above, it may be seen that the rates of ESPC-I were on the higher side as compared to rates of Workshop Division, Meerut. This indicated that the rates were finalised without analysing the reasonability thereof. Thus, due to award of higher rate, the Company incurred extra expenditure of Rs. 5.72 crore on repair of 38134 distribution transformers during the period from April 1999 to March 2000 through outside repairers.

2B.7.2.3 Non-adoption of revised repair procedure

To cope with the problem of poor progress in repair, manipulation of HV/LV coils, its weight etc, the Chief Engineer, Material Management (MM), after getting approval from Member (Distribution) set up a Committee (March 1995) to review the existing procedure in vogue and the procedure relating to "core and tank type repair" followed in Punjab and erstwhile Haryana Electricity Board. On receipt of report, the Chief Engineer (MM) proposed (October 1997) before Management Committee of the Company to switch over to new type of repair (i.e. by giving only core and tank to repairer) after taking out old coils (HV/LV) etc. which could either be used in repair of transformer in departmental workshop or be sold as scrap. The Management Committee of the Company, however, decided (March 1998) to postpone/defer the change in repair procedure without any reasons on record.

In November 1998, the ESPC-I invited tenders against specification no. 305/98 for both type of repair of transformers having capacity of 25 KVA to 250 KVA and on the basis thereof, it was found that the repair of damaged transformer by giving only core and tank was cheaper than conventional type of repair, besides the quality of such repair would be as good as new transformer. However, the decision of the Company to switch over to new procedure was still awaited (April 2000).

Core and tank type repair, even cheaper one, was not adopted by Company

Scrutiny of tenders, however, revealed that effective rate of repair in both types are the same except that about 50 *per cent* transformers being repaired after reconditioning of LV coils (Rs. 450 to Rs. 2400 per transformer), in which case the cost of repair would be lower than the repair cost of new type of repair. However, taking of scrap value of LV coils being received extra in new type of repair and variable cost of joint inspection of transformer (Rs. 750 per transformer) being not required in core and tank type repair, the new type of repair, besides its quality, was cheaper than the conventional type of repair. In addition, expenditure on carriage of transformer declared uneconomical at firm’s works would also not to be incurred. Thus, due to non-switching over to new type of repair, the Company incurred an avoidable extra expenditure of Rs. 2.05 crore on repair of 84468 transformers (25 KVA to 250 KVA) during April 1998 to March 2000.

2B.7.2.4 Non-repair of transformers failed within guarantee period

Scrutiny of damaged (failed) transformer collection registers revealed that 55 to 61 *per cent* failed transformers were received without the requisite name plate bearing the name of manufacturer/repairer by whom supplied/repaired. In its absence, the Company could not avail the opportunity to get the transformers repaired free of cost which failed during the guarantee period of one year.

It was further noticed that the failed transformers were handed over to repairer without ensuring return of repaired transformers against earlier allotments within stipulated period of two months or deduction of the amount equivalent to the value of new transformers in case of non-return of repaired transformers. Irregularities noticed in audit are discussed in succeeding paragraphs:

(a) Non-return of transformers by the repairers

Failed transformers handed over to outside agency for repair were taken back only after lapse of 12 years and were in rusted condition

Scrutiny of the records of Electricity Store Division, Kanpur revealed that 326 failed transformers of 25 KVA to 1.5 MVA capacities, valued at Rs. 1.26 crore (November 1992) were handed over during March 1984 to September 1986 by 11 Distribution Divisions to Transtel Electronics, Kanpur for repair against rate contract finalised (August 1984) by ESPC-I under specification no. ESPC-I/40/83/SP/RC-242/84. Though, the contractor was required to return the repaired transformers within two months from the date of receipt, the Stores Division made no efforts to ensure the return of the repaired transformers during the intervening period up to April 1987 i.e. more than 3 years. In the mean time, the firm was closed and it went under liquidation as per order (July 1987) of the Hon'ble High Court. However, after intervention of the court (January 1996), the Stores Division could get (May 1998), 259 nos. (out of 326 nos.) transformers only as scrap having value of Rs. 2.13 lakh (assessed by the Division) since all the transformers were found rusted/unfit due to long storage of more than 12 years.

This resulted in loss of assets of the Company to the extent of Rs. 1.24 crore (Rs. 1.26 crore – Rs.0.02 crore). Further, the Company had not fixed any responsibility against defaulting staff so far (April 2000).

(b) Loss due to non-repair of transformers failed within guarantee period

Transformers failed within guarantee period remained un-repaired even after lapse of 11 to 14 years

Scrutiny of records of Electricity Workshop Division, Bareilly revealed that 65 nos. transformers of 25 KVA to 3 MVA capacities, valued at Rs. 28.04 lakh (repaired against orders placed by the ESPC-I), failed within guarantee period during 1984 to 1989 were lying unrepaired (April 2000) at Bareilly (14 nos.) and Pilibhit (51 nos.) workshop centre respectively even after lapse of 11 to 14 years.

The Company, however, failed to take any action to get these transformers repaired free of cost from the repairer or to recover the cost of transformer from their pending bills and to get these transformers repaired by another agency. The Company suffered loss of Rs. 28.04 lakh as all these transformers became rusted and unfit for repair due to passage of time.

In 1997-98, 34 nos. repaired transformers (25 KVA to 400 KVA), valued at Rs. 13.19 lakh and two nos. 63 KVA new transformers, valued at Rs. 0.75 lakh failed within guarantee period and were lying unrepaired with the Store Divisions, Bareilly and Haldwani till date (March 2000). The Store Division, Haldwani, however, recovered a sum of Rs. 1.00 lakh only leaving a balance of Rs. 12.94 lakh. The recovery thereof was still awaited (April 2000).

(c) Non-return/repair of transformers

Cost of transformers not recovered from defaulting contractors

77 nos. transformers (25 KVA to 400 KVA capacities) valued at Rs. 24.20 lakh pertaining to 15 suppliers failed within guarantee period at Electricity Distribution Division, Meerut during June 1996 to May 1999, but the same were not repaired/replaced by the suppliers till March 2000. Despite contractual provisions, the Company also had not recovered the cost of transformer from pending bills of the contractors. As such the Company's fund to the extent of Rs. 24.20 lakh remained locked up in the failed transformers.

2B.7.2.5 Idle transformer

Power transformer procured in 1984 remained idle for 13 years

One 20 MVA, 132/6.6 KV power transformer (Sl. No. B-25346) was purchased by the Company in 1984 against order dated 31.5.1983 (specification no. SD-296) from General Electric Company, Allahabad for 132 KV sub-station, Sone Pump Canal, Mirzapur. The transformer, however, remained unutilised up to June 1989.

During test check in audit (December 1999), it was noticed that during commissioning of the transformer in July 1989, the Divisional Officer found that the commissioning was not possible as top cover of all the three numbers of 132 KV bushings were not fitted in, as a result of which water entered inside the transformer and it became inoperative. The fact was also confirmed by GEC during joint inspection in the same month.

Further, after lapse of more than five years, the Electricity Transmission Division, Mirzapur carried out repairs (October 1995) at a cost of Rs. 5.77 lakh and incurred Rs. 1.60 lakh on its cartage and testing. The transformer was energised in February 1997.

Thus, due to non-erection/commissioning of new transformer for a period of 13 years, the power transformer remained inoperative and the Company had to incur avoidable expenditure of Rs. 7.37 lakh on its repair, cartage and testing. This also indicated careless and improper storage of the transformer.

2B.8 Scrapping and disposal of unusable transformer/ transformer oil

2B.8.1 Non-dismantling of damaged transformers

According to the Company order (June 1986), the dismantling of burnt, damaged and uneconomical transformers, was to be carried out by Store Divisions for their disposal as scrap.

445 nos. unusable transformers were lying in workshop divisions for 5 to 13 years for want of its disposal

Scrutiny of records of eight Workshop Divisions revealed that 445 nos. damaged/uneconomical transformers of 0.30 MVA to 7.5 MVA capacity having scrap value of Rs. 1.98 crore being 20 *per cent* of their original cost were lying at Workshop Divisions for last 5 to 13 years, but no action had been taken for their transfer to Store Divisions for dismantling and disposal. Thus, due to failure on the part of Workshop Divisions for non-transfer to Store Divisions, the Company's fund to the extent of Rs. 1.98 crore remained locked up during the aforesaid period resulting in loss on account of avoidable inventory carrying cost of Rs. 35.60 lakh per annum worked out at the rate of 18 *per cent* per annum.

2B.8.2 Non-disposal of burnt transformer oil

According to the Company's order (November 1988) followed by subsequent instructions, all the damaged transformers are handed over by the Distribution Divisions to the Damaged Transformer Collection Centres (DTC) under the Workshop Divisions, where burnt transformer oil is drained out. Transformer oil recovered therefrom is reused by the Workshop Divisions in the transformers repaired by it after reclamation. Burnt transformer oil is required to be sent to the Store Division for its reclamation/disposal to avoid locking up of funds besides pilferage and seepage of oil etc.

Burnt transformer oil was lying in store and workshop divisions for want of reclamation/ disposal

Scrutiny of the records of four Workshop Divisions and Monthly Inventory Statement (MIS) for the last five years up to 1999-2000 revealed that the Workshop and Store Divisions did not transfer/send the transformer oil to the respective Store Divisions for reclamation/disposal. As a result, huge quantity of transformer oil ranging from 404.04 KL to 1529.37 KL remained unreclaimed/undisposed of during the period from1995-96 to 1999-2000, leading to locking up of Company's fund ranging from Rs. 72.73 lakh to Rs. 10.70 crore. This could have been avoided had the Company made efforts to make use of reclaimed oil instead of fresh oil in the distribution transformers repaired through outside agencies as was done by Kanpur Electricity Supply Administration (KESA), a unit of the company (December 1999) without affecting the performance of the transformers.

2B.8.3 Short retrieval of burnt transformer oil

Recovery of burnt/dirty transformer oil from damaged transformers was far below than the norm

As per norms fixed (September 1995) by the Company, recovery of burnt and dirty transformer oil from the damaged transformers brought to the DTC centres, should not be less than 70 *per cent* of the oil tank capacity of the transformer. In case, the recovery of oil falls below the prescribed norms, the reasons for shortage should be recorded and investigated for taking action against the defaulting official/officer to avoid loss to the Company.

During scrutiny of the records of four workshop divisions at Varanasi, Allahabad, Kanpur and Bareilly for the last five years up to 1999-2000, it was observed that recovery of burnt and dirty transformer oil was much less than the norms and ranged from 26.5 to 58 *per cent* only during the said period, resulting in short recovery of 1162.34 KL transformer oil valued at Rs. 2.09 crore (at the rate of Rs. 18 per litre) from 55906 damaged transformers as per Annexure-18. Reasons for short recovery and remedial action taken were not on record.

2B.8.4 Loss due to sale of burnt transformer oil

Test check of the records of Store Division, Kanpur and Lucknow revealed that Divisions sold (March 2000) 145.00 KL and 21.00 KL burnt transformer oil respectively at the rate of Rs. 9.80 per litre to Jay Pee Lube Chemical Industries, New Delhi against letter of intent (November 1999) issued by the Superintending Engineer, Store Circle, Kanpur. The transformer oil was sold knowing fully that the same could have been got reclaimed from Mineral Oil Corporation, Kanpur at a total cost of Rs. 4.25 per litre as was being done by the Workshop Division, Kanpur and KESA. In absence of reclaimed oil, Store Division, Kanpur had to purchase 57.68 KL fresh oil during the period January 1996 to February 1999 at a cost of Rs. 23.40 to Rs. 26.90 per litre.

Thus, the Company could have saved Rs. 21.33 lakh on sale of 166.00 KL oil being the difference in the cost of fresh oil and reclaimed oil.

Conclusion

The procurement and performance of transformers of the Company was marked by mismatch of transformation capacity, non-standardisation of designs leading to acceptance of lower input transformers, poor quality of repaired transformers, excessive damages due to non-adherence of preventive maintenance and inability to obtain free repairs of transformers damaged within guarantee period due to non-maintenance of history cards. Absence of targets for Transformer Repair Workshops led to underutilisation of workshops and dependence on outside repair at higher rates. This calls for streamlining the systems of preventive maintenance, standardisation of designs and meticulous monitoring and strengthening control mechanisms.

The matters were reported to the Company and Government (May 2000); the replies were awaited (July 2000).

2C. Electrification of Taj Trapezium Area by Uttar Pradesh Power Corporation Limited (erstwhile Uttar Pradesh State Electricity Board)

HIGHLIGHTS

For undertaking environmental protection of Taj Trapezium Area (TTA), a project at an estimated cost of Rs. 189.64 crore was conceived by Uttar Pradesh Power Corporation Limited (erstwhile Uttar Pradesh State Electricity Board) to maintain un-interrupted power supply in TTA.

(Paragraph 2C.1 & 2C.4.1)

The Company incurred avoidable expenditure of Rs. 0.14 crore on re-transportation of materials due to improper despatch instructions to the suppliers.

(Paragraph 2C.5.2)

Electricity Transmission Divisions, Agra and Aligarh incurred an expenditure of Rs. 1.10 crore on works not covered in TT project.

(Paragraph 2C.5.3)

Estimates for construction of 16 nos. new 33/11 KV sub-station and associated lines were prepared on higher side by Rs. 2.47 crore due to which the Company had to bear an interest liability of Rs. 1.25 crore on excess drawal of loan fund.

(Paragraph 2C.5.5)

A.C.S.R. Panther Conductor (100.202 km) procured for the value of Rs. 0.77 crore (July 1999), remained unutilised.

(Paragraph 2C.6.1)

87 nos. transformers valued at Rs. 0.82 crore were procured in excess of requirement.

(Paragraph 2C.6.2.1)

Materials valued at Rs. 0.20 crore were issued against works which had already been completed.

(Paragraph 2C.7.2.1 & 2C.7.2.2)

Due to delay in matching construction works of transmission and distribution wings in a coordinated manner, the benefits could not be availed of by the consumers even after incurring the expenditure of Rs. 3.57 crore by the Company.

(Paragraph 2C.8.3.1 and 2C.8.3.2)

2C.1 Introduction

In a writ petition the Hon'ble Supreme Court directed (April 1996) Government of India and other agencies including Uttar Pradesh Power Corporation Limited for undertaking environmental protection of Taj Trapezium Zone covering almost entire district of Agra, part of Mathura, Hathras (Aligarh), Firozabad and Etah districts of the State. In view of above, Company was directed to maintain uninterrupted power supply in Taj Trapezium Area (TTA) to minimise emission of toxic fumes by use of diesel generating sets. For this purpose Company proposed to carry out improvement of existing system of Transmission and Distribution by constructing new sub-stations and lines and increasing the capacity of existing sub-stations and lines to be completed latest by April 1999.

2C.2 Organisational set-up

The State Government constituted (December 1996) a Committee comprising of Secretary (Power), Government of Uttar Pradesh, Member (Transmission), Member (Distribution), Member (Finance and Accounts) and Chief Engineer (Transmission) of Company to monitor the progress of works to be carried out in TTA. In addition to this, Chief Engineer (Transmission Design) was entrusted with coordination of material allocation and design details. At field level, Chief Zonal Engineer (CZE) Agra and Chief Engineer (Transmission West) Meerut were made responsible for execution of Distribution and Transmission works respectively. CZE, Agra was to act as Nodal Officer also for reporting compliance to Committee for Taj Trapezium (TT) Works.

2C.3 Scope of Audit

The review conducted between January 1999 to April 1999 and October 1999 to January 2000 covers the aspects relating to financing, planning, execution and commissioning of new sub-stations/lines and system improvement works in TTA. Records of 16 units out of 23 units were test checked, results of which are discussed in succeeding paragraphs:

2C.4 Project estimation and financing

2C.4.1 Project estimation

Company prepared a project report for improvement in transmission, transformation and distribution system at a estimated cost of Rs. 189.64 crore as a part of short, medium and long term measures

The Company prepared (1995-96) a Project Report for improvement in transmission, transformation and distribution system in TTA at an estimated cost of Rs. 189.64 crore. For ensuring the proposed improvement, the works were chalked out as a part of short, medium and long term measures. These measures envisaged uninterrupted supply of power in TTA. It was envisaged that on completion of short term and medium term measures in August 1996 and April 1998 there would be 30 *per cent* improvement in the power supply position of Agra Mahanagar and on completion of long term measures there would be 100 *per cent* uninterrupted supply in TTA.

2C.4.2 Physical and financial performance

The physical and financial performance against the above measures as given in Annexure-19, are indicated as under:

1. The short and medium term measures were completed by November 1998. The time overrun in medium term measures ranged from 6 to 21 months.

2. Against the estimated expenditure of Rs. 124.61 crore for medium term measures the actual expenditure incurred thereagainst was Rs. 100.82 crore thereby resulting in saving of Rs. 23.79 crore.

3. The physical achievement against long term measures ranged from 60 *per cent* to 100 *per cent* . Against the provision of Rs. 58.76 crore, the actual expenditure up to June 2000 was Rs. 55.33 crore.

The Company had not maintained any records to monitor the impact of short/medium term measures on improvement of power supply.

However, an analysis in audit revealed that although the short/medium term measures had been completed yet there had not been improvement in the power supply in Agra Mahanagar, area as envisaged in the project due to the following:

1. The percentage of damaged transformers prior to completion of short/medium term measures ranged between 16 *per cent* to 18 *per cent*. The incidence of failure after the completion of measures ranged between 16 *per cent* to 20 *per cent* which affected power supply.

2. The line losses of Agra Mahanagar which were 37 *per cent* prior to completion of measures, were to the tune of 45 *per cent* afterwards.

3. The consumption of power, which was 126 units per KW/month in 1996-97, was 133 units per KW/month in 1999-2000 showing marginal increase of 5.5 *per cent* against projected improvement of 30 *per cent*.

4. The saving in expenditure on medium term measures was indicative of the fact that the estimation was not done on realistic basis as discussed in para 2C.5.5 *infra*.

5. The average power supply hours per day in Agra Mahanagar during the period April 1999 to June 2000 i.e. after the completion of short and medium term measures ranged between 17 hours and 23:30 hours as noticed during test check of records of 5 nos. 33/11 KV sub-stations.

6. Test check in audit revealed that three nos. 33/11 KV sub-stations viz. Shaheed Nagar, Barrack Road and Hotel Complex were still over loaded by 10.6 *per cent* to 37.2 *per cent* of their capacity due to which frequent load sheddings, breakdowns and trippings were taking place.

2C.4.3 Project financing

As per project report, out of Rs. 189.64 crore, Rs. 90.10 crore was to be borne by Company from its own resources and the balance Rs. 99.54 crore by State Government through central assistance. The Government of India had agreed to provide Rs. 63.00 crore as loan bearing interest at the rate of 13 *per cent* per annum and Rs. 27.00 crore as grant to State Government which was disbursed (November 1996) to State Government on agreed terms and conditions. However, the State Government disbursed (December 1996) the total amount of Rs. 90.00 crore by way of loans to Company at an interest of 14.5 *per cent* per annum.

It may be mentioned in this connection that due to conversion of grant (Rs. 27.00 crore) into loan by the State Government, the Company has been burdened with the capital liability of Rs. 27.00 crore as well as interest liability of Rs. 3.91 crore per annum which was not envisaged in the project report. The Company, however, did not approach the State Government against the conversion of grant into loan.

2C.5 Expenditure

Out of estimated expenditure of Rs. 189.64 crore, the actual expenditure incurred by Company from its own resources and from loan funds up to June 2000 was Rs. 162.42 crore. In this connection, the following points were noticed:

2C.5.1 Inflating of TT expenditure

TT expenditure was inflated by Rs. 8.36 crore

The Committee for TT works in its meeting held on 21 February, 1997 decided that no percentage of establishment charge should be loaded in the estimates of work for TT as no separate infrastructure has to be developed by Company. It was however, noticed in audit, inspite of the fact that the estimates/packages for TT works were sanctioned without loading for establishment charges but in violation of the decision of the Committee, 12 Divisions added 31.5 *per cent* of the cost of work as establishment charges on the expenditure of TT works in the monthly account during the year 1997-98 and 1998-99. As a result the TT expenditure was inflated by Rs. 7.11 crore.

Similarly, in case of TT works, some old material were received back from site due to increasing capacity of the transformers, replacement of conductors and cables. However, the expenditure account of TT was not reduced with the value of old material received back. In test check of 160 sanctioned estimates/packages, the TT expenditure was inflated to the extent of Rs. 1.25 crore..

Thus, the expenditure on TT works was inflated by Rs. 8.36 crore due to loading of establishment charge (Rs. 7.11 crore) and non-deduction of value of old material received back from site (Rs. 1.25 crore).

2C.5.2 Avoidable expenditure on transportation of material

The rates of materials procured by CZE Agra and ESPC, Lucknow were FOR destination for any place in Uttar Pradesh. It was noticed during test check that the materials required for TT work at Mathura and Firozabad were first received at Agra and later on (December 1997 to December 1999) transported to Mathura and Firozabad by four Electricity Distribution Divisions by incurring an expenditure of Rs. 13.60 lakh on transportation. Had proper despatch instructions been given to the suppliers for supply of material at Electricity Stores Centres Mathura and Firozabad, the expenditure of Rs. 13.60 lakh on transportation could have been avoided.

2C.5.3 Expenditure on works not covered in TT project

An expenditure of Rs. 1.10 crore was incurred on works not covered in TT project

In order to ensure uninterrupted power supply in TT area, renewal and replacement (R&R) of existing old equipment were also proposed to be undertaken in TT project. A provision of Rs. 2.50 crore for R&R works in the Transmission wing was made. Scrutiny of records of Electricity Transmission Divisions (ETD), Agra and Aligarh revealed that an expenditure of Rs. 1.10 crore was incurred from TT funds for other than R&R works (referred to above) as discussed below:

(a) The Electricity Transmission Division (ETD) Agra incurred an expenditure of Rs. 84.77 lakh during November 1998 to December 1999 for carrying out miscellaneous works like lighting arrangement of switchyards, fire fighting arrangement at substations, civil works in switchyards, providing mulsifire system[31] and painting of equipment etc. not covered under TT project . As these works were not related to R&R of existing equipment, the expenditure of Rs. 84.77 lakh incurred by the division from TT funds was not regular.

(b) During test check of records of ETD Aligarh it was noticed that the division incurred an expenditure of Rs. 13.13 lakh during July to August

[31] It is a protective device.

1999 on replacement of existing conductor of 132 KV Gokul-Mathura line on Yamuna crossing which was not envisaged in TT project.

(c) Committee for TT works in its meeting held in August 1998 decided that loan funds would not be utilised for works other than TT works. Scrutiny of records of four Distribution Division/Circles, however, revealed that materials valued at Rs. 11.78 lakh required for operation and maintenance (O&M) of works in normal course were purchased using loan funds during the period from July 1997 to October 1999.

2C.5.4 Irregular replacement of equipment

Equipment not requiring replacement were replaced resulting in avoidable expenditure of Rs. 0.12 crore

The replacement of old equipment under TT project required approval of Circle Scrap Committee. The Committee approved (October 1998) for replacement of only one 132 KV minimum oil circuit breaker (MOCB) at 132/33 KV substation Mathura. However, apart from above replacement, two number 132 KV MOCB valued at Rs. 9.09 lakh and three number 145 KV current transformers (CT) 800/400/1 Amp valued at Rs. 2.84 lakh were also replaced by ETD Aligarh during April 1998 to July 1999. Thus, equipment not requiring replacement were replaced resulting in avoidable expenditure of Rs. 11.93 lakh

2C.5.5 Over estimation of expenditure

Estimates were higher by 23.4 *per cent* than the actual cost incurred on works

As per provision laid down under Para 317 of Financial Hand Book volume VI, the estimates should be prepared in such a manner so that overall deviations may not exceed (+)/(-) 10 *per cent* . It was, however, noticed that estimate for construction of 16 nos. new 33/11 KV sub-stations and associated lines were prepared for Rs. 10.54 crore (including cost of civil works). Against which the works were got completed by incurring expenditure of Rs. 8.07 crore. It is indicative of the fact that estimates were prepared on higher side by Rs. 2.47 crore (23.4 *per cent* higher) due to which the Company had to bear an interest liability of Rs. 1.25 crore on the excess drawal of loan fund at the rate of 14.5 *per cent* per annum for the period from January 1997 to June 2000.

2C.6 Procurement of material

Procurement of material was made on the basis of tentative requirement instead of assessing actual requirement

In order to achieve optimum utilisation of TT funds, CZE Agra and Chief Engineer (Transmission West) Meerut were required to exercise efficient control over the procurement of material for carrying out the works of their respective wings. Contrary to this, CZE Agra arranged materials on the basis of tentative requirements instead of assessing actual requirements for the targets to be achieved. Materials were procured from Stores Organisation of Company and also by placing supply orders on the basis of tenders finalised by Superintending Engineer of ESPC, Lucknow from time to time. The Divisional Officers were authorised to arrange non-centrally procured items at their own level by adhering to the procedure already laid down by Company.

System deficiencies led to purchases without requirements, excess procurement of material, defective supplies as discussed in subsequent paragraphs.

2C.6.1 Purchase without requirement

CZE Agra placed (May 1999) an order for supply of 100.202 kilometre ACSR Panther conductor on a Jaipur firm. Total quantity of ACSR Panther Conductor (100.202 kilometre) valued at Rs. 76.64 lakh received in July 1999 remained unutilised so far (December 1999), as the ACSR Panther Conductor was not required in project report for Distribution works.

It was further noticed that 22.187 kms ACSR Panther Conductor valued at Rs. 18.32 lakh procured in July 1997 from TT funds was already lying unutilised with Electricity Transmission Division, Agra at the time of placing above supply order (May 1999).

2C.6.2 Excess procurement of material

Test check of records of units revealed that material valued at Rs. 3.09 crore (Distribution wing : Rs. 2.75 crore, Transmission wing: Rs. 0.34 crore) procured from May 1997 onwards were lying unutilised (December 1999) in various Stores even after the completion of TT works.

In addition to this, following two cases of excess procurement were also noticed:

2C.6.2.1 As per project report, 205 nos. transformers were actually required for the construction of new/increasing capacity of existing sub-stations. Against this, CZE Agra procured 292 nos. transformers during May 1997 to December 1999 which resulted into excess procurement of 87 nos. transformers valued at Rs. 82 lakh. These transformers remained unutilized in TT works so far (December 1999).

2C.6.2.2 Against the requirement of 3 nos. 245 KV current transformers (CTs) for the construction work of 220 KV sub-station Gokul Mathura, the Executive Engineer Electricity Transmission Division, Aligarh procured (March 1998) 6 nos. 245 KV CTs at a cost of Rs. 12.79 lakh. 3 CTs valued at Rs. 6.39 lakh procured in excess were lying unutilised (January 2000).

2C.6.3 Non recovery of cost of defective switchgears

Replacement of defective equipment valued at Rs. 0.08 crore was not sought

CZE Agra placed (February 1998) an order for the supply of 7 nos. incoming and 21 nos. outgoing 11 KV switchgears at a cost of Rs. 46.85 lakh (excluding statutory duties) on Biecco Lawrie Limited, Madras. The whole quantity was received (March 1998). Out of which one incoming and three outgoing switchgears valued at Rs. 8.20 lakh were issued to the Electricity Urban Distribution Division II, Agra for installation at 33/11 KV substation, Sanjay Place, Agra. On installation (April 1999) these switchgears could not be energised due to manufacturing defects. Neither the defective switchgears have been got replaced nor the cost thereof recovered from the firm although the guarantee period expired in August 1999.

2C.7 Issue of material

Materials were not issued in accordance with provisions of the sanctioned estimates

To exercise control over the issue of materials for execution of works, the Company had prescribed (March 1986) that materials should be issued in accordance with the provision of sanctioned estimates. Contrary to this, Stores Superintendent (TT) issued material valued at Rs. 2.12 crore without estimates through 64 number invoices during the period from May 1997 to July 1999.

2C.7.1 Utilisation of material for other than TT works

Materials purchased for TT works were utilised for other than TT work

The Committee of TT works had decided in February/July 1997 that no material procured for TT works would be utilised for other than TT works. Scrutiny of records, however, revealed that materials valued at Rs. 38.64 lakh were issued and utilised against the works not covered under TT project and on works at places even beyond the TT area during the period from June 1997 to October 1999 while TT works were in progress.

2C.7.2 Issue of material against works completed earlier

Materials worth Rs. 0.20 crore procured from loan funds were issued against works already executed by Company from its own resources

As per project report, the work of increasing capacity of 33/11 KV sub-station water works, Agra and Shaheed Nagar have already been completed before start of the work of TT from Company's own resources. However, scrutiny of records revealed as under:

2C.7.2.1 At Electricity Urban Distribution Division (EUDD)-III, Agra it was noticed that material valued at Rs. 7.42 lakh procured from TT funds have been issued up to December 1999 against increasing capacity of 33/11 KV sub-station water works, Agra which had already been completed in August 1996.

2C.7.2.2 Increase in capacity of 33/11 KV sub-station Shaheed Nagar from 2 x 5 MVA to 3 x 5 MVA by installation of one number 5 MVA transformer was proposed to be carried out from Company's own resources. However, scrutiny of records revealed that one 5 MVA transformer valued at Rs. 13 lakh was issued (December 1999) against the construction of above sub-station which was already completed (August 1996).

Reasons for issue of material valued at Rs. 20.42 lakh as mentioned in paragraph 2C.7.2.1 and 2C.7.2.2 against already completed works were not on record.

2C.7.3 Completion Report of works

Para no. 339 of Financial Hand Book Vol. VI provides for preparation of completion report of each work as soon as it is completed so that actual consumption of material against particular work may be ascertained. During test check of records of ETD Agra, it was noticed that the work of five transmission lines was completed during October 1997 to August 1998 under phase I, and one 132 KV Double Circuit Agra-Shamsabad line under phase II was completed and energised in October 1999 but the line-wise completion report to ascertain the actual consumption of materials against the above lines had not been prepared so far (March 2000), due to which the quantities of material lying with the contractors after completion of lines could not be ascertained in audit. However, on the basis of constructed length of 132 KV DC Agra-Shamsabad line (27.540 kms),only 168.54 kms ACSR Panther Conductor was to be issued to the contractor against which 183.186 kms conductor was issued during April 1998 to October 1999. Neither the excess quantities of conductor (14.646 kms) valued at Rs. 12.09 lakh were received back from the contractor nor was justification for excess issue, found on record.

2C.8 Execution of works

The irregularities noticed in execution of work are discussed in succeeding paragraphs:

2C.8.1 Non/improper preparation of estimates

40 works valued at Rs. 3.10 crore were carried out without preparation of estimates

Para 375 of Financial Hand Book Vol. VI provides that no work should be taken up without preparing proper estimate and obtaining sanction from competent authority. In violation of the provisions, four Divisions carried out 40 works amounting to Rs. 3.10 crore without preparing and obtaining sanction of estimates during1997-98 to 1999-2000.

The wide variation in executed quantities were not got approved from competent authority

Further, the Electricity Civil Construction Division, Aligarh prepared an estimate of Rs. 32.38 lakh only for carrying out civil works at 400 KV sub-station, Agra. However, the work was actually completed at a cost of Rs. 72.09 lakh during the period from July 1997 to March 1999. Reasons for such heavy variations in quantities were neither on records nor variations have been got approved from the competent authority so far (October 1999).

2C.8.2 Expenditure in excess over the estimates

Expenditure exceeded the estimates

As per progress report of October 1998 of Electricity Distribution Division, Agra, all the targeted works of the Division were stated to have been completed by incurring expenditure of Rs. 4.99 crore against the estimated amount of Rs. 5.09 crore. Test check of records, however, revealed that the Division incurred expenditure of Rs. 73.11 lakh during November 1998 to August 1999 as per monthly account, against the remaining works for estimated amount of Rs. 10.33 lakh. No reason for the excess expenditure of Rs. 62.78 lakh over the estimates was found on record.

2C.8.3 Non execution of matching works

Transmission and Distribution works were not synchronised

The planning for execution of work relating to Transmission and Distribution Wings was to be done in such a manner that all the matching construction works in each wing should have been completed systematically and timely. However, it was noticed that due to lack of matching construction works in a co-ordinated manner, benefits could not be availed of by consumers even after incurring an expenditure of Rs. 3.57 crore as discussed below:

2C.8.3.1 Non utilisation of 33 KV bays

Four nos. 33 KV bays were constructed at 220 KV sub-station Firozabad and at 132 KV sub-station Kosikalan and Sadabad at a total cost of Rs. 34.11 lakh by the ETD Agra and Aligarh during the period from February 1998 to April 1999. These bays could not be used for evacuating energy for want of construction of respective 33/11 KV feeders to be constructed by Distribution wing.

2C.8.3.2 Non utilisation of 33/11 KV substation

In order to reduce the over loading of existing 33/11 KV substation in TT area, six nos. new 33/11 KV sub-stations (three in Firozabad, two in Mathura and one in Agra), along with their associated lines were constructed by Electricity Secondary Works Division, Agra at a total cost of Rs. 3.23 crore during the period from June 1998 to November 1999. For utilisation of these sub-stations, 11 KV feeders were to be constructed by the respective Distribution Divisions in IInd phase. During test check of records of EDD I Mathura and EDD Firozabad, it was noticed that the construction work of associated 11 KV feeders in respect of only two sub-stations (Mai and Narkhi) were taken up in April 1999 by the Divisions concerned but the work of construction of 11 KV feeders associated with the remaining four sub-stations could not be taken up so far (December 1999). Thus, neither the object of carrying out the work could be achieved nor the benefits to the consumers after incurring expenditure of Rs. 3.23 crore be passed on.

2C.8.4 Reporting of doubtful progress

Material valued at Rs. 0.81 crore were issued against works already completed

As per progress report of TT works the construction of Line In Line Out (LILO) of 132 KV Foundary Nagar- Sadabad (2 x 5 kms) line was completed (100 *per cent*) up to 30 April 1998 but on scrutiny of records of ETD, Agra it was noticed that material valued at Rs. 80.71 lakh were issued against the construction of above line during May 1998 to September 1999. Issue of material up to September 1999 indicated that the reporting of the completion of the above line in April 1998 was not correct.

Conclusion

For the environmental protection of Taj Trapezium Area (TTA), a project for augmentation and strengthening the transmission and distribution system was conceived to ensure uninterrupted power supply in the TTA. This envisaged 30 *per cent* improvement in power supply in Agra Mahanagar after completion of short/medium term measures. Although these measures had been completed yet there was no perceptible improvement in power supply. Non-synchronisation of transmission and distribution works, various flaws in procurement and utilisation of material, execution of works and operational deficiencies led to non-completion of the project within stipulated period and thus the envisaged benefits could not be achieved. This requires immediate attention so that uninterrupted power supply in TTA could be ensured.

These matters were issued to the Company and Government (April 2000); the replies were awaited (July 2000).