

CHAPTER-IV

4. Miscellaneous topics of interest relating to Government companies and Statutory corporations

4A. Government companies

Uttar Pradesh State Yarn Company Limited

4A.1 Infructuous expenditure

An expenditure of Rs. 0.43 crore on a dye house was rendered infructuous as it could not be used even for a single day.

The Company incurred expenditure amounting to Rs. 0.43 crore on construction of dye house at Rasra (Ballia) unit

The Company was referred to Board for Industrial and Financial Reconstruction (BIFR) in 1992 under the Sick Industrial Companies (Special Provisions) Act, 1985. The Company submitted a package to BIFR in 1992 which did not include the provision for installation of dye house. However, the Company placed an order for supply of one number Dalal make H.T.H.P. vertical dyeing plant valuing Rs. 23.80 lakh (January 1998) on Associated Textile Engineers, New Delhi. This plant was originally meant for Banda Unit but the Management decided (December 1997) to install it at Rasra (Ballia) unit of the Company. The plant was supplied by the firm in March 1998. Besides, the boiler required for the operation of dyeing plant was purchased at a cost of Rs. 11.44 lakh and an expenditure of Rs. 7.80 lakh was incurred on its installation, registration, commissioning and approval from Director of Boilers, U.P. and U.P. Pollution Control Board. Thus, a total expenditure of Rs. 43.04 lakh was incurred by the Company on the dye house at Rasra (Ballia) Unit.

BIFR did not grant permission to purchase dye house

It was noticed (January 2000) that the Company after placing of purchase order for dye plant and boiler in January 1998, applied to BIFR for granting permission for purchase of dye house. The BIFR did not grant the permission till date (April 2000). The Company could not use the dye house at Rasra even for a single day as this unit was running much below its capacity due to financial crisis and had been lying closed since March 1999. Thus, the expenditure on dye house was rendered infructuous.

In reply, the Management stated (June 2000) that the dye house could not be used due to shortage of working capital and subsequently the unit was closed.

The matter was reported to the Government (May 2000); the reply had not been received (July 2000).

4A.2 Loss on bonds issued through private placement

The Company invested fund raised for modernisation of its Mills through private placement of bonds in fixed deposits carrying lower rate of interest which resulted in loss of Rs.0. 64 crore.

With the object of modernising its various mills, the Company with the approval of Government raised fund to the tune of Rs. 35.08 crore through private placement of bonds carrying interest at the rate of 14.90 percent per annum during the period from April 1999 to November 1999.

The modernisation scheme could not be implemented and the funds raised were kept in FDRs with bank at lower rate of interest

It was noticed in audit (January 2000) that although the fund raised through private placement of bonds was required for modernisation of the mills of the Company, but the prior approval of the Government for the modernisation scheme was not obtained. Subsequently, the Government did not approve (October 1999) the modernisation scheme as three out of four mills of the Company were already closed during November 1998 to March 1999. As a result of non approval of the modernisation scheme by the Government, the funds raised could not be utilised for the envisaged purpose. Out of Rs. 35.08 crore, the Company invested Rs. 26.15 crore in fixed deposits carrying interest at an average rate of 9 percent per annum, utilised Rs. 8.85 crore for reducing outstanding liabilities and refunded Rs. 8.00 lakh refunded to the investors. Thus, Rs. 26.15 crore remained in fixed deposits up to April 2000 at lower rate of interest than that payable by the Company to the investors. This had resulted in interest loss of Rs. 64.00 lakh during December 1999 to April 2000.

The Management stated (June 2000) that to minimise losses there was no alternative except to keep fund in the form of fixed deposits. However, the fact remained that the intended purpose for which the fund was mobilised was not achieved.

The matter was reported to the Government (May 2000); the reply had not been received (July 2000).

Uttar Pradesh Small Industries Corporation Limited

4A.3 Improper financial planning by Management

Imprudent action to repay low interest bearing loan by withdrawing fund from high interest bearing cash credit account resulted in increase in liability by Rs. 1.33 crore.

The Company refunded loan along with interest to Government by withdrawing fund from cash credit account held with bank

The Company had a cash credit limit (Rs. 5.95 crore up to 10.01.93 and Rs. 8.00 crore w.e.f. 11.01.93) with the State Bank of India (SBI).

Test check of records of the Company revealed (August 1999) that out of a loan of Rs. 3.28 crore obtained during 1968-69 to 1985-86 from State Government, the Company refunded Rs. 5.27 crore between November 1990 to March 1991 (Rs. 2.42 crore being principal and Rs. 2.85 crore being interest up to the date of refund) by withdrawal of fund from cash credit limit available to it from bank. While the State Government loan carried interest at the rate of 10 to 13.5 *per cent* per annum, the same in the case of bank was between 17.85 *per cent* and 22.25 *per cent* per annum during the same period.

The Company had to borrow loan at higher rate of interest from Government itself to repay bank loan

Refund of loan of State Government from cash credit limit resulted in excessive debit balance in the cash credit account which could not be replenished and stood at Rs. 7.08 crore at the end of March 1996. The bank after protracted correspondence issued a legal notice for recovery of Rs. 11.71 crore (including up to date interest Rs. 4.63 crore) during August 1997. The bank also invoked bank guarantee given by the State Government simultaneously. The matter was settled for Rs. 7.60 crore (March 1999) under One Time Settlement Scheme (OTS). While Rs. 6.00 crore was paid by the State Government, the balance Rs. 1.60 crore was paid by the Company (March 1999) out of its own resources. The State Government converted (March 1999) the amount paid by it to the Company (Rs. 6.00 crore) as loan at the interest rate of 19.5 *per cent* (with rebate of 3.5 *per cent* for timely payment) per annum.

Thus, the imprudent action to repay low interest bearing loan by withdrawing funds from high interest bearing cash credit account without proper authorisation of Board of Directors resulted in extra liability on account of repayment of old loan by availing cash credit facility from Bank and loading of interest on the State Government loan amounting to Rs. 1.33 crore up to June 2000. No responsibility had been fixed by the Company (August 1999).

The matter was reported to the Management and the Government in March 2000; the reply had not been received (July 2000).

4A.4 Excess issue of steel

The Company issued steel worth Rs.0.50 crore against deposit of Rs. 0.25 crore which resulted in blocking up of Company's funds to the extent of Rs. 0.25 crore with consequential loss of interest amounting to Rs. 0.18 crore.

The Company issued steel worth Rs. 0.5 crore against deposit of Rs. 0.25 crore only

The Company engages co-ordinators for each of its areas for arranging the lifting of iron and steel from its depots to different Small Scale Industry (SSI) units. The Company executed Memorandum of Understanding (MOU) with a co-ordinator namely D. V. Steel Ghaziabad, for the period from January 1996 to March 1996 for looking after the work of Ghaziabad and Agra areas/depots.

During test check in audit it was noticed (April 2000) that Depot Manager, Ghaziabad allowed credit of Rs. 25 lakh while issuing the steel valued at Rs. 95.92 lakh on 31 March 1996 to one party (Hira Moti Udyog Sansthan) of the above co-ordinator based on the intimation given by Area Manager, Agra that a deposit of Rs. 25 lakh had already been given by the co-ordinator for this supply. It was further noticed that Depot Manager, Ghaziabad failed to link this transaction and again allowed credit of Rs. 25 lakh on the same intimation while issuing the material valued at Rs. 50.94 lakh to another party (Janta Gramodyog Sansthan) of the co-ordinator on the same date.

Thus, the Ghaziabad depot issued steel valued at Rs. 50.00 lakh on credit against the deposit of Rs. 25 lakh. It was further noticed that the payment of Rs. 25 lakh had not been realised from the co-ordinator/SSI units so far (April 2000). Non realisation of above payment had resulted in locking up of Rs. 25 lakh with consequential loss of interest of Rs. 18 lakh calculated at 18 *per cent* per annum for four years from 01 April 1996 to 31 March 2000.

The Area Manager stated (April 2000) that this discrepancy took place due to communication gap and further action is to be taken by their Headquarters.

The matter was reported to the Management and the Government (May 2000); the reply had not been received (July 2000).

4A.5 Loss due to non-inclusion of trade tax paid to SAIL in the sale price

Company suffered a loss of Rs. 1.53 crore due to non recovery of trade tax from its customers besides incurring further liability of Rs. 0.96 crore towards refund of trade tax.

The Company procures iron and steel material directly from the Steel Authority of India (SAIL) and sells it to Small Scale Industries (SSI) located in the State. As per the Government Notification (September 1981), sales tax under U.P. Sales Tax Act, 1948, in case of Iron and Steel was to be charged by the manufacturer at the point of sale effected by them. However, exception to this provision was made by the Government in the notification (June 1982) according to which where the sale was to be made by the manufacturer to the

Company, the sales tax was to be levied at the point of sale by the Company and not at the point of sale by the manufacturer to the Company. However, in the notification of May 1994, in which sales tax was replaced by trade tax, the exemption provided in earlier notification of June 1982 was withdrawn and the same was again restored in notification issued by the Government on 21 April 1995. Thus, the Company was not authorised to levy trade tax in respect of sale of iron and steel made by it during 01 June 1994 to 20 April 1995.

It was noticed (April 2000) in audit that the Company paid trade tax amounting to Rs. 1.53 crore on purchase of iron and steel from SAIL (manufacturer) during the above period of 1 June 1994 to 20 April 1995 in accordance with notification of May 1994. Since the Company had incurred this expenditure on procurement of iron and steel, it was required to increase its sale price and recover the same from its customers. However, it was noticed that the Company instead of increasing its sale price, continued levying trade tax arbitrarily on its customers during the above period and collected trade tax amounting to Rs. 96.35 lakh. Out of this amount, Company deposited Rs. 37.98 lakh with Trade Tax Department and retained the balance amount of Rs. 58.37 lakh with it. On the request (January 1998) of the Company to the Government for restoring the exemption of levy of trade tax by the Company from May 1994, the Government clarified that it was not possible to restore the position and further directed that the Company should refund the trade tax to its customers on whom it was levied during the above period. The Company had neither obtained the refund of Rs. 37.98 lakh deposited with the Trade Tax Department nor refunded the amount of trade tax to concerned customers so far (July 2000).

Thus, on one hand the Company became liable to refund Rs. 96.35 lakh to its customers and on other it had lost Rs. 1.53 crore due to non-recovery of the same from its customers by increasing the sales price.

The matter was reported to the Management and the Government (May 2000); the replies had not been received (July 2000).

4A.6 Loss of income due to defective agreement

As a result of defective agreement executed with client, the Company suffered a loss of Rs.0.09 crore.

The Company works as consignment agent of Hindustan Copper Ltd. (HCL) for distribution of non-ferrous items i.e. copper ingot and copper wire etc. to industrial/SSI Units since September 1994 from its Noida depot.

The Company executed defective agreement with client

Scrutiny of records of the Company revealed (April 2000) that Company executed agreement (26 July 1994) with HCL for a period of one year for distribution of non-ferrous copper items which was renewable on fresh terms and conditions as mutually agreed upon. As per clause 7 of the agreement the HCL was to pay godown rent at Rs. 5.10 per Sq. ft. for 5918 Sq. ft. plus 20 *per cent* as service charges. The godown rent was based on tariff of January 1992 of UP State Warehousing Corporation (UPSWC). However, no provision was made in the agreement to revise the godown rent on revision of tariff by UPSWC from time to time. The agreement was extended up to 25 October

1997 from time to time at the existing rates, terms and conditions. However, the UPSWC revised the tariff of rent at Rs. 8.20 per Sq. ft. from 11 December 1994 and at Rs. 10.66 per Sq. ft. from 16 May 1997, but in absence of any provision for revision of godown rent as revised by the UPSWC, the Company could not get the benefit of this revision. Thus, defective agreement resulted in loss of income of Rs. 8.51 lakh during 16 December 1994 to 25 October 1997 including service charges.

The matter was reported to the Management and the Government (May 2000); the replies had not been received (July 2000).

Uttar Pradesh State Industrial Development Corporation Limited

4A.7 Development of Export Promotion Industrial Park (EPIP)

Due to tardy progress of project and fixation of unreasonably higher rate of developed plots and flatted factories, the Company failed to attract entrepreneurs to establish export oriented units in EPIP defeating the very object of the scheme.

The Government of India (GOI) sponsored (March 1993) a scheme for development of Export Promotion Industrial Park (EPIP), with a view to involve State Governments in the export effort by providing financial assistance for building up infrastructural facilities of high standards like power, water, roads, sewerage, drainage and telecommunication etc. and establishing export oriented units in those park. The financial assistance from Central Government was available to the extent of 75 *per cent* of capital expenditure up to Rs. 10 crore (excluding cost of land) and the remaining 25 *per cent* was to be borne by the State Government. The Uttar Pradesh State Industrial Development Corporation Limited was appointed (December 1994) as Implementing Agency for the purpose who took up the development of EPIP at Surajpur Industrial Area, District Gautam Budh Nagar with a view to establish industrial units exporting 25 *per cent* (subsequently increased to 33 *per cent*) of their production in value terms.

The Company submitted (January 1994) a project report for development of EPIP at an estimated cost of Rs. 20.19 crore to GOI which was approved (December 1994) and subsequently revised (December 1995) to Rs. 28.22 crore but the revised estimate was not submitted to GOI for approval. The EPIP was proposed to be set up in 193 acres of land at Surajpur site under Greater NOIDA industrial area of the Company. The cost of land estimated at Rs. 1.69 crore was included in the estimated cost of the project while it was to be provided by the State Government free of cost. In addition to development of plots for export oriented industrial undertakings the Company also planned to construct flatted⁵⁴ factories for housing the smaller industrial units. An

⁵⁴ Flatted factories, three storied blocks each consisting of 4 units of 400 sq. meter for housing the smaller industrial units.

The Company without adjusting the central grant of Rs. 10 crore against the development expenditure, fixed unreasonably high rates as a result plots could not be sold out

expenditure of Rs. 20.56 crore (including expenditure of Rs. 2.67 crore against the estimated cost of Rs. 6.72 crore on flatted factories up to November 1999) was incurred on development of EPIP. Against this, grant of Rs. 10 crore was received from GOI. The main reason of increase in cost and delay in completion of the project, as analysed by audit, was delay in release of central grant of Rs. 10 crore (6 to 12 months) by the State Government to the Company which caused delay in finalising tenders for construction of cement concrete road (CC road), administrative building and flatted factories.

It was observed in audit (October 1999) that the project envisaged allotment of developed plots and flatted factories to entrepreneurs on yearly lease rent basis but the Company decided to allot the plots etc. on outright sale basis. The Company started marketing of developed plots since August 1996 at the rate of Rs. 700 per sq. meter which was subsequently increased (December 1996) to Rs. 1200 per sq. meter. Similarly the rate for space in flatted factories was fixed at Rs. 7000 per sq. meter in August 1996 which was subsequently increased (December 1996) to Rs. 12000 per sq. meter. These rates were fixed without adjusting Central grant of Rs. 10 crore against the development expenditure on EPIP. After taking into account grant of Rs. 10 crore and credit for interest on investment made by the Company (Rs. 5.33 crore), the net development expenditure (excluding flatted factories cost) worked out to Rs. 13.22 crore on an area of 391831 sq. meter of developed plots i.e. Rs. 337 per sq. meter. Thus, the Company did not extend the benefit of Central grant to entrepreneurs and fixed the rates of plots at unreasonably higher premium. As a result, the Company could not attract the entrepreneurs and out of developed plots (391831 sq. meter), the Company could allot only 53 plots (80300 sq. meter) up to July 2000 (30 plots measuring 63300 sq. meter at the rate of Rs. 700 per sq. meter during August 1996 to March 1997 and 23 plots measuring 17000 sq. meter at the rate of Rs. 1200 per sq. meter during April 1997 to July 2000). The Company could not allot any flatted factory as no entrepreneur turned up for allotment of space. Thus, there was over recovery of Rs. 3.76 crore from 53 entrepreneurs defeating the very object of the scheme to provide plots at reasonable rates. The remaining plots could not be allotted for want of demand. Similarly, Management's decision of investment in construction of flatted factories with no demand resulted in unfruitful expenditure of Rs. 2.67 crore.

It was further observed in audit that:

- (i) the total capital expenditure incurred on infrastructural facilities (excluding cost of land) worked out to Rs. 8.40 crore which should have been subsidised by utilisation of grants up to 75 per cent of cost i.e. Rs. 6.30 crore while the Company had sent utilisation certificate for Rs. 10 crore, resulting thereby, in inflating the actual utilisation of Central assistance to the extent of Rs. 3.70 crore; and
- (ii) the Company incurred an additional expenditure of Rs. 2.61 crore on construction of CC road in the park which was neither included in the original/revised estimate nor approved by the GOI (July 2000).

Thus, due to tardy progress of project and fixation of unreasonably higher rate of developed plots and factories, the State Government/Company failed in

establishing export oriented units in EPIP even after receiving financial assistance of Rs. 10 crore from GOI. Apart from financial irregularities, the Management's injudicious decision in fixing of higher premium of plots and space in flatted factories, resulted in non-achievement of main objects of the scheme after incurring huge expenditure of Rs. 20.56 crore on development of EPIP.

The Management in its reply (August 2000) stated that since development of EPIP was in progress, the rates of plots and flatted factories were fixed provisionally and these could be fixed now on the basis of final costing. The reply is not tenable as the Company had not revised its earlier rates of developed plots so far (August 2000).

The matter was reported to the Government in June 2000; the reply was awaited (August 2000).

Uttar Pradesh State Sugar Corporation Limited

4A.8 Loss due to improper storage of sugar

Due to improper storage the Company suffered a loss of Rs. 0.51 crore on sale of moist sugar.

According to prescribed standards for storage of sugar packed in bags, the sugar bags are to be kept in the godown on the floor after spreading cane straw mat layer and covering it with polythene sheets.

The Company did not use cane straw mat layer below the polythene sheet in storage of sugar

During test check of records of Chandpur unit of the Company, it was noticed (August 1999) that the unit while storing the sugar bags did not use cane straw mat layer below the polythene sheet. As a result of this 89855 sugar bags pertaining to the years 1996-97 and 1997-98 became moist and had to be sold at lesser rate. Of the total 89855 sugar bags, only 81446 sugar bags could be sold at lesser rates and the remaining quantity of sugar bags was lying for reprocessing in store. This resulted in loss of revenue of Rs. 50.62 lakh on sale of 81446 bags of moist sugar.

In reply to initial audit enquiry, Management stated (March 2000) that due to heavy rains the sugar bags became moist. However, the fact remained that the sugar became moist due to improper storage of bags which could have been avoided had proper precaution been taken in storing sugar according to prescribed standards. The Management neither initiated any action against the godown manager nor fixed any responsibility for this loss.

The matter was reported to the Management and the Government in April 2000; the replies had not been received (July 2000).

4A.9 Blocking of fund

Due to delayed reconciliation of cash credit account with bank excess charging of interest amounting to Rs. 0.06 crore could not be detected leading to loss of interest of Rs. 0.07 crore.

Laxmiganj Unit of the Company had obtained cash credit facilities from the Central Bank of India (Padrauna branch) for meeting working capital requirements against pledge of sugar. As per the terms of the agreement, the bank was to charge interest as per Reserve Bank of India's (RBI) directives enforced from time to time. Thus, according to agreement with the bank, the Unit was required to verify the rate of interest charged by bank to ensure its accuracy.

Delayed reconciliation of accounts with banks resulted in excess payment of interest

During test check in audit (July 1999) it was noticed that the bank, while debiting the interest on the cash credit account of the unit, applied incorrect rates of interest during the period from July 1991 to June 1993. The Unit did not point out the discrepancy on account of interest in their account to the bank in the beginning due to delayed reconciliation of accounts. This resulted in excess payment of interest amounting to Rs. 6.03 lakh. The Unit could not get refund of Rs. 6.03 lakh from bank even after lapse of six years (March 2000) because of dispute with the bank over settlement of account. Thus, the Company's fund amounting to Rs. 6.03 lakh remained locked with the bank. The Company also suffered a loss of interest of Rs. 7.33 lakh at the average rate of 18 *per cent* per annum payable on cash credit account from July 1993 to March 2000.

The matter was reported to the Management and the Government in April 2000; the replies had not been received (July 2000).

Uttar Pradesh State Bridge Corporation Limited

4A.10 Loss due to non-utilisation of money lying with foreign bank

The non-utilisation of money lying with foreign bank resulted in loss to the tune of Rs. 0.96 crore.

The Company was established mainly for construction of bridges and other civil structures by expanding and diversifying its activities by securing contracts within and outside India. The Company was operating its branch at Baghdad in the last decade (1981-90) in order to accomplish Iraqi projects in hand. The Baghdad branch was closed by the Company in 1991 due to Gulf war and entire staff and work force came back to India.

Company failed to bring back the amount lying with bank in a foreign country

Scrutiny of records revealed (April 1999) that there was a non-repatriable balance of Iraqi Dinar (ID) 117,135.302 fils on 31 March 1992 as per the balance confirmation certificate issued by the Al-Rasheed Bank equivalent to Rs. 96.04 lakh.

It was noticed that the Company neither had done any transaction with this account nor got the balances confirmed from the bank since March 1992. The Company did not make any efforts to bring back this amount in India with the

assistance of Ministry of External Affairs, Government of India and utilise it on other works. This resulted in non utilisation of money lying with foreign bank since the last eight years.

The Management stated (June 2000) that the confirmation from Al-Rasheed Bank had been received (April 2000) and the practical value of the Iraqi Dinars in terms of acceptability was in negative since there was no trading done with Iraqi Dinars hence the translated amount in balance sheet at Rs. 96.04 lakh had virtually no standing. The reply is not tenable as the Company failed in taking the matter with Ministry of External Affairs timely and as a result of which the Company lost Rs. 96.04 lakh.

The matter was reported to the Government (May 2000); the reply had not been received (July 2000).

4A.11 Short levy of centage charges

The Company instead of charging centage on full amount of work, levied the same on the cost after deduction of cost of dismantled materials to be received back resulting into short levy of centage charges amounting to Rs. 0.27 crore.

According to the orders of the State Government (February 1997), the Government Company/Corporation engaged in construction activities shall be entitled to levy centage charges at the rate of 12.5 *per cent* on the total cost after deduction of five *per cent* for deposit work entrusted by the Government agency.

It was noticed in audit (September 1999) that Haridwar unit of U.P. State Bridge Corporation Limited (Company) while preparing the estimates for the construction of 7 nos. bridges during Kumbh Mela 1998 at Haridwar entrusted by U.P. Government, levied centage charges at the rate of 12.5 *per cent* on the cost derived after making deduction of 50 *per cent* of the cost of materials to be received back after dismantling instead of on total cost of the work after deducting five *per cent* as per Government order of February 1997. This resulted in short levy and realisation of centage charges amounting to Rs. 26.77 lakh.

In reply, the Management stated (June 2000) that the centage charges were levied on the actual expenditure incurred by the Company. The reply is not tenable as the centage charges are in the nature of supervision charges for the whole work done initially and not on the cost arrived at after dismantling of work and retrieval of materials.

The matter was reported to the Government (May 2000); the reply had not been received (July 2000).

4A.12 Loss due to failure of Company in providing security services

The Company suffered a loss of Rs. 0.18 crore due to mismanagement in providing security services.

Company failed to take timely action against guards/officers for theft

The Company had executed (November 1996) an agreement with Indian Oil Corporation Limited (IOC) for providing services in Indane Bottling Plant, Kanpur. As per provisions of Clause 4(c) of the agreement, the Company was liable to pay damages in case of any theft/loss of IOC's property/cylinders. The contract was extended up to March 2001.

The IOC had been reporting to the Company about the thefts occurred and also made deductions from the Company's bills on account of losses due to theft of cylinders from the Bottling Plant during the period from 1997-98 to 1999-2000. The deduction of damages during aforesaid three years aggregated to Rs. 18.09 lakh. It was observed in audit (December 1999) that the Company did not pay adequate attention to the thefts reported by the IOC and failed to take timely action against the guards/officers responsible for preventing the thefts.

Slackness in taking effective and timely action resulted in loss

In an inquiry conducted belatedly (January to March 1999) in the matter, some of the guards deployed by the Company at the plant were suspected to be involved in thefts but they absconded when an FIR was lodged. Thus, due to slackness in taking effective and timely action for preventing the thefts, the Company suffered a loss of Rs. 18.09 lakh.

The Management stated (June 2000) that the losses that took place at IOC had been viewed seriously by them. The reply was not tenable in view of the fact that neither any action was taken to prevent recurring thefts nor responsibility was fixed for slackness in taking timely action.

The matter was reported to the Government in May 2000; the reply had not been received (July 2000).

Uttar Pradesh Power Corporation Limited
{erstwhile Uttar Pradesh State Electricity Board (UPSEB)}

4A.13 Under assessment of revenue

Consumers were billed for assessed consumption of energy without considering MCG resulting in undercharge of revenue amounting to Rs. 22.80 lakh.

Billing at assessed consumption of energy without consideration of MCG resulted in under assessment of revenue

(a) The Company revised (June 1999) the rate schedule LMV-7 applicable to Public Water Work consumers. According to which the rate of charge was fixed to Rs. 2.60 per Kwh with the minimum consumption guarantee (MCG) charges at the rate of Rs. 450 per KW or part thereof per month.

Scrutiny of records of Electricity Distribution Division, Agra revealed (November 1999) that 171 nos. consumers of Uttar Pradesh Jal Nigam having 2088 BHP (1567 KW) connected load under rate schedule LMV-7 were billed for assessed consumption of energy during the period from July to November 1999 at the rate of 116956 unit per month without consideration of the MCG. This resulted into under assessment of revenue to the extent of Rs. 17.63 lakh worked out at the differential amount of M.C.G. charges and assessed energy charges during the period from July to November 1999. In June 2000, the Divisional Officer submitted a reply to General Manager at Agra that as pointed out by audit the difference of MCG for the period from July 1999 to February 2000 had been charged from the consumers in the month of April 2000, the recovery of which was awaited (July 2000).

(b) Clause 21 (iii) (a) and (b) of the Electricity Supply (Consumers) Regulations, 1984 inter-alia provides that if at any time a meter becomes defective or ceases to register correct consumption and no theft or malpractice is suspected, the electrical energy consumed by the consumer during the period the meter remained defective or stopped shall be determined on the basis of average consumption of the preceding three consecutive months.

Failure of the Company to raise assessment on the basis of average consumption recorded in preceding three months prior to meter being damaged resulted in short assessment amounting to Rs. 0.05 crore

During audit of the records of Electricity Distribution Division (EDD), Balrampur (September 1999), it was noticed that Indian Telephone Industries Ltd. Mankapur (Gonda) having contracted load of 2000 KVA for residential colony was billed under rate schedule LMV-1. According to meter reading slip dated 30.09.1997 one phase of P.T. fuse of the meter got damaged during the month and the consumption of electricity was not recorded correctly in the meter. The assessment, however, was made by the Division at 400000 units in September 1997 instead of assessing the same on the basis of average consumption of 636192 units recorded in the preceding three months (June 1997 to August 1997) when the meter was in order. Thus, the consumer was short assessed for 236192 units valued at Rs. 5.17 lakh.

The matter was reported to the Company and the Government in May 2000; the replies had not been received (July 2000).

4A.14 Undue favour to consumer

Undue favour to consumers resulted in mounting of dues to the extent of Rs. 11.45 crore.

(a) According to clause 19 of Electricity Supply (Consumers) Regulation 1984, if a consumer fails to deposit the electricity charges on due dates, his connection shall be disconnected after expiry of due date mentioned in the monthly bill and the dues may be recovered as arrears of land revenue by issuing notices under Section-3 and Section-5 of U.P. Government Undertakings (Dues Recovery) Act, 1958.

No recovery action was initiated against the consumer inspite of mounting of dues

A scrutiny (December 1999) of ledgers of large and heavy power consumers in EDD Hamirpur revealed that Rimjhim Ispat Hamirpur was given connection in March 1996 at a contracted load of 2500 KVA enhanced to 6000 KVA in April 1997. Although the consumer defaulted in payment of monthly bills since inception, the Division did not take any action by way of disconnection of their supply and issue of recovery notices. As a result the dues against the consumer mounted to Rs. 9.16 crore in March 2000 from Rs. 3.03 lakh in June 1996. Although the consumer was billed for monthly consumption of energy for the month of April, May and June 2000 but the arrears was not included in the bills.

Thus, due to undue favour given to the consumer, the dues against him mounted to Rs. 9.16 crore for which no recovery action was initiated inspite of the fact that the Company had been borrowing funds at cash credit from financial institutions at rate of interest ranging from 18 to 24 *per cent* per annum.

(b) Vishwa Ingot Private Limited, Haridwar was sanctioned a load of 2125 KVA in June 1994 for their Induction Furnace. The Electricity Distribution Division, Haridwar offered (September 1994) terms and conditions (TC) and asked the consumer to deposit Rs. 27.07 lakh towards service line charges (Rs. 6.88 lakh), system loading charges (Rs. 13.81 lakh) and service charges (Rs. 6.38 lakh).

Higher authorities of the Company accorded undue favour to the consumer

During test check in audit (April 1999), it was noticed that the consumer did not deposit the amount of Rs. 27.07 lakh. However, Member (Distribution) allowed (February 1995) the consumer to pay Rs. 6.88 lakh only towards service line charges as first instalment and balance amount in 12 instalments. The load was released on 30 October, 1995. The consumer defaulted in payment of electricity dues since inception. The connection of the consumer was disconnected six times by the Division but reconnected at the instance of higher authorities of the Company viz. Chief Engineer (Commercial), Zonal Chief Engineer, Secretary and Member (Distribution). As a result, the electricity dues mounted to Rs. 117.36 lakh in July 1997 from Rs. 21.74 lakh in January 1996 as detailed below:

Sl. No.	Electricity Dues (Rs. in lakh)	Date of Disconnection	Date of reconnection	Name of Authority ordering reconnection
1.	21.74	27.01.96	29.01.96	Sri B.P. Mittal, C.E. (Commercial)
2.	47.01	20.02.96	06.03.96	Sri B.P. Mittal, C.E. (Commercial)
3.	56.71	25.04.96	12.06.96	Sri R.D. Garg, C.Z.E.
4.	52.01	03.09.96	13.10.96	Sri K.S. Sharma, Joint Secretary
5.	113.06	24.05.97	29.06.97	Sri N.C. Rastogi, C.E. (Commercial)
6.	117.36	26.07.97	04.01.98	Sri B.P. Kureel, Member (Distribution)

As the consumer did not pay the electricity dues, a notice under Section-3 of Uttar Pradesh Government Undertakings (Dues Recovery) Act, 1958 followed by a recovery certificate (RC) were issued in August 1997 and October 1997, respectively for payment of dues of Rs. 1.32 crore. The consumer, however, did not pay the dues as a result of which the line was again disconnected on 6 March 1998 against the dues of Rs. 2.22 crore (up to January 1998). The consumer got stay order on 26.03.98 from Hon'ble High Court, Allahabad against recovery till finalisation of their case by the BIFR, New Delhi. In view of above, RC was returned by the District Magistrate, Haridwar on 23 July 1999. The BIFR, however, rejected the case of the consumer (August 1999). As a result, RC for recovery of Rs. 2.29 crore was again issued (August 1999) against the consumer, the recovery against which was pending (July 2000).

Thus, on account of undue favour given to the consumer in respect of depositing initial amount and reconnecting the supply again and again without getting deposited the electricity dues, the dues aggregated to Rs. 2.29 crore up to August 1999, the chances of recovery of which are remote.

The matter was reported to the Company and the Government in May 2000; the replies had not been received (July 2000).

4A.15 Short billing of demand charges

The Company in contravention of its own directives failed to revise and recover demand charges from consumers amounting to Rs. 0.44 crore.

(a) According to rate schedule HV-3 applicable to Railways for traction loads, the excess demand charges at the rate of Rs. 185 per KVA was chargeable in case actual demand exceeded the contracted demand.

Company's failure to realise excess demand charges over contracted demand resulted in short assessment of demand charges amounting to Rs. 0.34 crore

The Divisional Manager, Northern Railway, Allahabad executed (March 1997) an agreement with Electricity Distribution Division for release of 73000 KVA load at 132 KV for their track between Mughalsarai-Kanpur section. During test check in audit (December 1999) it was noticed that during June 1998 to August 1998 and in July 1999 the actual demand exceeded the contracted demand but the excess demand charges amounting to Rs. 34.10 lakh were not realised from the Railways as given below:

Month	Contracted demand (in KVA)	Actual demand (in KVA)	Excess demand (in KVA)	Excess demand charges @ Rs. 185 per KVA (Rs. in lakh)
June 1998	73000	73736.476	736.476	1.36
July 1998	73000	82936.294	9936.294	18.38
August 1998	73000	75736.476	2736.476	5.06
July 1999	73000	78022.648	5022.648	9.29
Total		310431.894	18431.894	34.09

The Divisional Officer stated (April 2000) that as per clause 8 of the agreement, in case of failure of power at any sub-station, the Railways shall be entitled to take supply from adjacent sub-station and increase in the maximum contracted demand under such situation will not be subject to any penalty. The reply is not tenable because in the said clause it had been maintained that if the total demand exceeded contracted demand of 73000 KVA, the penalty as provided in the tariff shall be levied.

Thus, due to non-realisation of excess demand charges, the Company suffered loss of Rs. 34.09 lakh.

The Company in contravention of its own directives failed to revise and recover demand charges for minimum 75 per cent of the contracted demand in respect of 11 consumers amounting to Rs. 0.10 crore

(b) According to rate schedule HV-2 of the Company, applicable to large and heavy power consumers, the billable demand shall be the actual maximum demand or 75 per cent of the contracted demand whichever is higher.

During test check in audit (November 1999) it was noticed that Electricity Distribution Division-II, Allahabad billed demand charges for actual demand aggregating 4415 KVA during Nov. 1997 to Feb. 1999, in case of 11 large and heavy power consumers having contracted load of 129 to 350 KVA. The demand charges billed were less than 75 per cent of their contracted loads aggregating 11287 KVA. This resulted in short billing of demand charges for 6872 KVA amounting to Rs. 10.31 lakh (Rs 150 per KVA) as given in the table below:

Sl. No.	Name of consumer	Contracted load (KVA)	Period	Total actual demands billed during the period (KVA)	Demand billable during the period (75 per cent of the contracted load) (KVA)	Short demand (KVA)	Short billed (Rs. in lakh)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Soraon cold Storage	260	12/97 to 2/98, 11/98 & 1/99 (5 Months)	524	975	451	0.68
2.	Pancham Cold Storage	176	12/97 to 3/98 & 11/98 (5 Months)	352	660	308	0.46
3.	Sangam Cold Storage	132	11/97 to 2/98 (4 Months)	300	396	96	0.14
4.	Kesharwani Cold Storage	300	12/97 to 3/98 & 12/98 to 2/99 (7 months)	710	1050	340	0.51
5.	Shitalaya Cold Storage	300	11/97 to 2/98 & 10/98 to 2/99 (9 months)	633	2025	1392	2.09
6.	Ganga Cold Storage	129	3/98	66	97	31	0.05
7.	Himalayan Cold Storage	211	11/97 to 2/98 & 10/98 to 2/99 (9 months)	343	1422	1079	1.62
8.	Mudit Refrigeration Cold Storage	150	12/97 to 3/98 (4 months)	154	452	298	0.45

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
9.	BJ Industries Cold Storage	200	11/97 to 2/98 & 12/98 to 2/99 (7 months)	370	1050	680	1.02
10.	Keharwani Cold Storage	350	11/97 to 2/98 & 11/98 to 2/99 (8 months)	762	2104	1342	2.01
11.	Sharad Shitalaya	176	11/97 to 2/98 & 11/98 to 2/98 (8 months)	201	1056	855	1.28
	Total	2384		4415	11287	6872	10.31

The Division billed demand charges for less than 75 per cent of the contracted demand on the ground that the consumers were billed for more than annual minimum consumption guarantee. This contravened not only the provisions of the tariff but also the Company's circular of 09.07.80 which required billing of demand charge for minimum 75 per cent of the contracted demand in addition to the amount falling short of minimum consumption guarantee.

The matter was reported to Company and the Government in March/May 2000; the replies had not been received (July 2000).

4A.16 Undue benefit to consumers due to short assessment for theft of energy

The Company in contravention of its own directives, failed to raise assessment amounting to Rs. 3.42 crore in eight cases of consumers found indulging in theft of energy.

According to para 7.2 of chapter VII of Commercial and Revenue Manual of the Company, in case of malpractice and theft of electricity, assessment is required to be made for the units to be worked out as per LFHD formula⁵⁵ at thrice the rate per unit of the tariff applicable to the consumers.

The Division raised assessment for lesser period instead of raising assessment from the date of installation of electronic meter

During test check in audit (September 1999) of Electricity Distribution Division Orai, it was noticed that a team of Chief Engineer, Central Zone, Lucknow inspected the premises of eight consumers of HV-1 category during the period from April to June 1998 and found them indulging in theft of energy through short circuit in CT's of their meter. The team in its report recommended for assessment according to Company's order i.e. from the date of installation of Secure make electronic meter. The Division, instead of assessing from the date of installation of electronic meter during January to April 1998 to the date of inspection as per provisions of Commercial and Revenue Manual, however, assessed arbitrarily for the lesser period. This resulted in short billing for 3691940 units valued at Rs. 3.42 crore (at thrice the rate) and short assessment of fuel and establishment surcharges (Estb) and Electricity Duty (ED) amounting to Rs. 105.75 lakh as given in the table on the next page:

⁵⁵ Connected load in KW X Factor applicable to consumer X Average number of hours of supply of electricity X Number of days for which pilferage took place.

Sl. No	Name of the consumer	Load	Assessment to be made	Assessment made	Short billing	Energy charges	Fuel/Estb/ED
		(KVA)	(Units in KWH)			(Rs. in lakh)	
1.	Ram Shree Steel (P) Ltd.	3200	367200	238270	128930	11.91	3.68
2.	Ganpati Steel & Industries (P) Ltd.	1110	598650	213211	385439	35.61	6.71
3.	Ram Charan Sttel (P) Ltd.	1600	1468800	816510	652290	60.27	18.69
4.	Vijay Ispat Ltd.	4200	2602530	1833758	768772	71.03	33.07
5.	Real Cement (P) Ltd.	1800	1280610	840750	439960	40.65	8.15
6.	Shivanshi Ferrous (P) Ltd.	1600	1762560	944641	817919	75.58	19.05
7.	Bundelkhand Alloys (P) Ltd.	1900	1002915	612733	390182	36.05	14.19
8.	Daksh Steel Ltd.	1700	156060	42612	113448	10.48	2.21
	Total				3696948	341.58	105.75

The matter was reported to the Company and the Government in April 2000; the replies had not been received (July 2000).

4A.17 Loss of revenue

Inaction on the part of Company in realisation of dues from consumer resulted in mounting of arrears and consequential loss of interest amounting to Rs. 1.95 crore.

(a) Para 19 (ix) of Conditions of Supply read with Company's circular (September 1997) stipulates that the payment of electricity bill by cheques is not to be accepted from the consumers whose earlier cheques had not been honoured.

Inaction on the part of the Company in realisation of dues from consumer resulted in mounting of arrears and consequential loss of interest amounting to Rs. 0.18 crore

During test check of records of Electricity Distribution Division, Fatehpur (August 1999), it was noticed that Frontier Alloy Steels having contracted load of 4500 KVA for their induction furnace were allowed to deposit energy bills through cheques in spite of repeated dishonour of their 91 cheques amounting to Rs. 4.37 crore during the period from March 1995 to April 1999. As a result, the arrears against the consumer increased to Rs. 1.68 crore at the end of June 1999. The consumer, however, applied for permanent disconnection from 1 June 1999 but was disconnected on 4th instant. The arrears after adjustment of security deposit (Rs. 43.98 lakh) worked out to Rs. 1.24 crore for which notice under Section 5 of Uttar Pradesh Government Undertakings (Dues Recovery) Act, 1958 was issued on 10 June 1999 which could not be served as the consumer obtained stay order on 11 June 1999 from Hon'ble High Court, Allahabad. The Court reduced the claim to Rs. 90 lakh and ordered that the consumer would pay the dues in four quarterly instalments, of which first instalment of Rs. 25 lakh would be deposited within one week and in the event of any further default, the Company could initiate recovery action against the consumer. The consumer deposited the instalment during 21 to 25 June 1999 and the balance of Rs. 65 lakh was not deposited but no recovery action was initiated by the Division. In October 1999, the Division, however, requested for permission to initiate recovery action against the consumer for balance dues of Rs. 99.36 lakh which was not disputed by the consumer, through Section 5 of above Act of 1958 with the Board for Industrial and Financial Reconstruction (BIFR), New Delhi in which the consumer filed the case for staying of recovery but the decision of BIFR was awaited (July 2000).

Thus, acceptance of cheques again and again from the consumer, despite the repeated dishonour of cheques in contravention of the Company's order

resulted in increase in arrears with consequential loss of interest Rs. 18.13 lakh (worked out for the period January 1999 to June 2000).

(b) According to clause 6 of rate schedule HV-1 applicable to Arc/Induction furnace consumers, the MCG will be chargeable at the rate of Rs. 400 per KVA per month up to December 1996 and Rs. 440 per KVA per month w.e.f. January 1997.

The Company's failure to raise the contracted load of the consumer according to capacity of the furnace, resulted in loss of revenue amounting to Rs. 1.77 crore

During test check of records of Chief Zonal Engineer (CZE), Allahabad in audit (August 1999) it was noticed that Chief Engineer (Raids) of the Company intimated (June 1997) to CZE, Allahabad that the raid party checked (November 1996) the premises of Frontier Alloys Ltd. Malwan, Fatehpur, an Arc/Induction furnace consumer of Electricity Distribution Division, Fatehpur and noticed that two furnaces of four Tonne and eight Tonne (Total twelve Tonnes) were installed and the contracted load of the consumer was 4500 KVA against the required load of 7570 KVA. In the said letter, it was directed that the loss of MCG due to release of lesser contracted load than the required, may be realised from the consumer and load may be increased according to the capacity of their furnaces. However, w.e.f. December 1997 the consumer reduced the capacity of their furnace to six Tonne and got their load reduced to 2250 KVA but the same was further increased (July 1998) to 3600 KVA (600 KVA per Tonne) in compliance to the Company's order of June 1998. But no assessment was made for the difference of MCG worked out at required load considering the Company's order of June 1998 for Rs. 177.12 lakh for the period from December 1996 to May 1998 as detailed below:

Month	Capacity of furnace in Tonne	Required load	Contracted load	Difference	Rate of MCG per KVA per month	Amount (Rs. in lakh)
Dec. 1996	12 Tonne	7200	4500	2700	400	10.80
Jan. 1997 to Nov. 1997 (11 months)	12 Tonne	7200	4500	2700	440	130.68
Dec. 1997 to May 1998 (6 months)	6 Tonne	3600	2250	1350	440	35.64
Total						177.12

Thus, the Company suffered loss of revenue to the extent of Rs. 1.77 crore on account of non-recovery of minimum consumption guarantee charges.

The matter was reported to the Company and the Government in May 2000; the replies had not been received (July 2000).

4A.18 Undercharge of revenue due to incorrect application of tariff

Incorrect application of tariff resulted in undercharge of revenue amounting to Rs. 1.60 crore.

(a) According to rate schedule LMV-1 applicable to domestic light & fan and LMV-2 applicable to commercial light and fan consumers revised from July 1994 and January 1997, flat rate of energy charge was applicable to consumers in villages/towns having population up to 15000 as per 1991 census. This limit was further reduced to 10000 as per 1991 census in the rate schedule revised in January 1999 and the consumers in villages/towns having population above 15000 and 10000 were to be billed for metered consumption at the unit rate from 16 July, 1994 and 25 January 1999, respectively.

The Company failed to recover minimum consumption guarantee of Rs. 0.88 crore

A test check of records of Electricity Distribution Division-I and II, Allahabad and Electricity Distribution Division-I, Ballia (August and December 1999) revealed that the consumers in towns/villages having population above 15000 and 10000 as per 1991 Census were billed at flat rates of Rs. 37 to Rs. 52 (LMV-1) and Rs. 42 to Rs. 80 (LMV-2) per month instead of unit rates of Rs. 1.25 to Rs. 1.80 (LMV-1) and Rs. 2.40 to Rs. 4.25 (LMV-2) during October 1996 to October 1999. Moreover, as meters were also not installed by the Company in respect of these consumers, they were chargeable at least for minimum consumption guarantee (MCG). The Company, however, did not charge them with MCG and this resulted into under charge of revenue of Rs. 87.73 lakh as detailed below:

Name of the Division	Name of the Towns/Villages	Period	No. of Consumers	Category	Amount of undercharge (Rupees in lakh)
(1)	(2)	(3)	(4)	(5)	(6)
EDD-I, Ballia	Bansdih Sahatwar Rewati Sikandarpur Manier	October, 1996 to July, 1999	5770 to 7043	LMV-1	53.98
EDD-I, Allahabad	Charwa Ajuha Sarain Akil	October, 1996 to October, 1999	1853 to 2993	LMV-I & LMV-2	24.80
EDD-II, Allahabad	Sewaith Lal Gopalganj	October, 1996 to September 1999	800	LMV-I LMV-2	8.95
Total					87.73

Incorrect application of tariff resulted in under charge of revenue amounting to Rs. 0.15 crore

(b) Rate Schedule LMV-5 of the Company's tariff is applicable to all power consumers getting supply as per rural schedule for private tubewells/pumping sets for irrigation purposes with effect from 16 July 1994. The energy charges to such consumers were Rs. 50 per BHP per month from 16 July 1994 and Rs. 40 per BHP per month from 1 August 1996 onward in case of unmetered supply. The private tubewell and pumping set consumers getting unmetered supply at other than rural schedule were to be billed at the rate of Rs. 95 per BHP per month from 16 July 1994, Rs. 105 per BHP per month from 25 January 1999 and Rs. 65 per BHP per month from 23 June 1999 onward under rate schedule LMV-6 which was applicable to small and medium power consumers having contracted load up to 100 BHP including tubewells and pumping sets.

Test check of records (March 2000) of Electricity Distribution Division, Banda revealed that 83 consumers of private tubewells having load of 376 BHP getting unmetered supply from other than rural feeder were billed under LMV-5 instead of LMV-6 resulting in under charge of revenue amounting to Rs. 15.17 lakh for the period from July 1994 to February 2000.

The Divisional Officer stated in reply (March 2000) that the billing under the correct tariff schedule would be done after installation of meters against the consumers.

(c) The Company sanctioned (December 1996) a load of 1085 KVA to Rungta Steel Limited, Jagdishpur for their Induction furnace to be released in two phases on 11 KV independent feeder. Accordingly, an agreement was executed (March 1997) for release of load of 600 KVA at once and 485 KVA in August 1997. The load of 600 KVA was released in May 1997 and out of 485 KVA, 50 KVA load was released in November 1998. The balance load of 435 KVA was surrendered (November 1998) by the consumer.

The Company, due to incorrect application of tariff failed to recover Rs. 0.22 crore from one consumer

During test check in audit (July 1999), it was noticed that the consumer was billed under rate schedule HV-2 since the release of load in May 1997 to October 1998 and thereafter under HV-1 applicable to Arc/induction furnace consumers on the grounds that from November 1998, induction furnace was started by the consumer. However, as per clause 7 (b) of the agreement, the supply was for continuous manufacturing process and as per bill of load form, the load of the consumer (600 KVA) was for furnace purposes. As such, the consumer should have been billed under HV-2 tariff since release of the load. Thus, billing of the consumer under HV-I instead of HV-2 tariff during May 1997 to October 1998 resulted in short billing to the extent of Rs. 21.66 lakh.

(d) According to Company's tariff effective from 25 January 1999, Kutir Jyoti and Janta Service Consumers were to be billed at fixed rate of Rs. 52 per connection per month under rates schedule LMV-1. Previously, these consumers were billed at the rate of Rs. 10 per connection per month under rate schedule LMV-4.

Non-application of appropriate tariff resulted in under charge of revenue amounting to Rs. 0.35 crore

During test check in audit (July 1999 and December 1999), it was noticed that Electricity Distribution Division (EDD) Ballia, neither recovered the monthly charges from above category of consumers under LMV-I from June 1998 to 24 January 1999 nor under LMV-4 from 25 January 1999 to July 1999. EDD, Bahraich, Balrampur and Khalilabad also did not recover monthly charges during February 1999 to September 1999 under LMV-4 from Kutir Jyoti and Janta Service Consumers. This had resulted in short billing for Rs. 35.35 lakh against these consumers as detailed below:

Sl. No.	Name of Division	No. of connections	Period	Amount of short billing (Rs. in lakh)
1.	EDD, II, Ballia	1903	June 1998 to July, 1999	10.17
2.	EDD, Bahraich	3070	Feb. 1999 to June, 1999	8.47
3.	EDD, Balrampur	1949	Feb. 1999 to Aug, 1999	6.88
4.	EDD, Khalilabad	2342	Feb. 1999 to Sept. 1999	9.83
	Total	9264		35.35

The matter was reported to the Company and Government in April/May 2000; the replies had not been received (July 2000).

4A.19 Belated assessment of revenue

The Company at the instance of audit raised assessment amounting to Rs. 1.94 crore, the recovery of which was pending.

The Company had been working on borrowed funds including withdrawal of funds from cash credit account from bank at the varying rates of interest ranging from 18 to 23 *per cent* per annum. Delay in raising of assessment for energy consumption against the consumer resulted in delayed realisation with consequent effect on ways and means position of the Company.

During test check in audit (March 1999 to December 1999), it was noticed that seven Distribution Divisions of the Company did not raise assessment of Rs. 2.02 crore as per prescribed billing schedule which were raised subsequently at the instance of audit as detailed in the Annexure-35.

As against assessment of Rs. 2.02 crore as pointed out by audit, the Divisions raised bills for Rs. 1.94 crore only during the period from August 1999 to March 2000 and for balance amount which related to EDD-I, Allahabad (Rs. 1.56 lakh) and EDD, Khalilabad (Rs. 7.03 lakh) no bill was raised by the Division so far (July 2000). Further, neither any action for recovery was initiated nor the amount was recovered so far (July 2000).

The matter was reported to Company and Government in May 2000; the replies had not been received (July 2000).

4A.20 Undue to consumer in release of load by tapping of trunk line

The Company, in contravention of its own directives, allowed the release of connection by tapping of trunk line emanating from 132/33/11 KV sub-station thereby resulting in undue benefit to a consumer amounting to Rs. 0.81 crore.

According to the Company's order of May 1994, tapping of its 33 KV trunk line for giving connection to consumer is not allowed under any circumstances. The Company sanctioned (January 1995) the load of one MVA to Simbholi Sugar Mills, Chilwaria in Bahraich to be released on 33 KV independent feeder. Accordingly, an estimate for Rs. 87.75 lakh was framed to cover the cost of construction of 33 KV independent feeder from 132/33/11 KV Sub-station, Bahraich.

During test check in audit (July 1999) of the records of EDD, Bahraich, it was noticed that the consumer did not agree with the above proposal and represented his case at different levels. Ultimately the Company accepted the request of the consumer (September 1995) without assigning any reasons on record and allowed release of the connection by tapping of trunk line emanating from 132/33/11KV Sub-station, Bahraich. Accordingly, terms and conditions (TC) were issued and the consumer was asked to deposit Rs. 18.17 lakh (line charges Rs. 6.67 lakh, system loading charges Rs. 6.50 lakh, security deposit Rs. 5 lakh). The amount was deposited during December 1995

to January 1997 by the consumer. Thereafter, the agreement was executed and load was released in January 1998.

Thus, the Company, in contravention of its own order of May 1994 prohibiting tapping of 33 KV trunk line under any circumstances, relaxed the condition which resulted in undue benefit to the consumer of Rs. 81.08 lakh (Rs. 87.75 lakh minus Rs. 6.67 lakh).

The matter was reported to the Company and the Government in May 2000; the replies had not been received (July 2000).

4A.21 Short imposition of penalty

Irregular revision of amount of penalty by the Company in contravention of its own directives, resulted in short levy of penalty amounting to Rs. 1.30 crore

According to State Government notification (April 1984), violations of peak hour restrictions and weekly closure by non-continuous process consumers were punishable for each violation with a penalty of Rs. 50, Rs. 30 and Rs. 20 per KVA on their contracted load up to 100 KVA, above 100 KVA and up to 500 KVA and above 500 KVA respectively. Besides, the Company's order of October 1991 and October 1998 alongwith clarification, further emphasised checking of consumer's premises and imposition of penalty according to which each entry of violation recorded in MRI (Memory Recording Instrument) print available in case of electric meters of the consumers would constitute separate violation.

During test check in audit (December 1999), it was noticed that in Electricity Urban Distribution Division (EUDD)-I, Ghaziabad and EUDD-IV Agra, though 12 consumers were imposed and billed penalty for Rs. 1.51 crore for each violation of peak hour restrictions recorded in MRI prints during the period from April 1998 to February 1999, the same were revised (July 1999) to

Rs. 20.82 lakh in view of the Chief Engineer's (Commercial) instruction (April 1999) to treat the first MRI report as a case of single violation for the whole month. These instructions were against the above provisions of Government notification and Chief Engineer was not empowered to relax the same. Thus, irregular revision of amount of penalty resulted in short billing of penalty for Rs. 1.30 crore as details given in the table on the next page:

Name of the Division	No. of Consumers	Contracted load (KVA)	Period	Peak hours violation (Nos.)	Penalty to be assessed/ imposed	Penalty revised/ billed	Short billing
					(Rs. in lakh)		
EUDD-I, Ghaziabad	6	950-1100	April, 98 to Feb. 1999	8 to 76	129.66	19.86	109.80
EUDD-III, Agra	6	250-1700	Oct., 98 to Nov. 1998	6 to 38	20.89	0.96	19.93
	12				150.55	20.82	129.73

The matter was reported to the Company and the Government in May 2000; the replies had not been received (July 2000).

4A.22 Locking up of funds

Delay in decision to reduce the length of line resulted in locking up of funds amounting to Rs. 0.60 crore with consequential loss of interest of Rs. 0.96 crore.

The Company failed to purchase store material according to requirement

During test check in audit (December 1998) of the records of Electricity Transmission Division II, Gorakhpur, it was noticed that the Central Electricity Authority (CEA) sanctioned (March 1988 and May 1989) the construction of 400 KV Varanasi - Mau - Gorakhpur Single Circuit Line (Length 260 Km) and LILO of Mau - Gorakhpur line at 200 KV Azamgarh Sub-station at a cost of Rs. 4960.58 lakh to be completed up to March 1992. In October 1990, the Company started the construction of line and procured all the line materials for 260 kms. line during June to August 1991. However, in a co-ordination meeting called (October 1991) by the Advisor to Minister of State for Power to review the progress of work in eastern Uttar Pradesh held at 132 KV sub-station, Semaria-Jamalpur in Mau, it was decided to divert above line from 400 KV Sub-station, Kasara to 400 KV Sub-station, Gorakhpur via 400 KV Sub-station, Azamgarh. This diversion reduced the length of line from 260 kms. to 160 kms. As a result of delay in decision to reduce the length of line from 260 kms. to 160 kms., the procurement of material could not be scaled down by the Company as it had already procured all material based on the requirement of 260 kms. of line length. The line was completed in December 1995 and line materials viz. super structures, templates, moose conductors etc. valued at Rs. 80.04 lakh became surplus. Against these surplus materials, materials valued at Rs. 22.22 lakh only could be transferred to other units during June 1994 to July 2000 and the balance material valued at Rs. 59.82 lakh remained unutilised so far (July 2000).

Thus, delay in decision to reduce the length of line resulted in procurement of excess material leading to locking of funds to the tune of Rs. 59.82 lakh on which the Company suffered loss of interest amounting to Rs. 96.01 lakh for the period from September 1991 to July 2000.

The matter was reported to the Company and the Government in May 2000; the replies had not been received (July 2000).

4A.23 Loss of revenue

Failure of the Company to install check meters and non-billing for consumption recorded in new meter resulted in loss of revenue amounting to Rs. 0.30 crore.

According to para 7.1 (c) of the Company's Commercial and Revenue manual, a check meter is required to be installed to check the accuracy of defective meter at consumer's premises and assessment should be made for the past six months in accordance with the test results.

During test check in audit (September 1999), it was noticed that Electricity Distribution Division-II, Ballia, while recording consumption of energy of the Railway Station, Ballia (contracted load 60 KW) for July 1998 found that the light and fan meter was slow and power meter was not working. Despite this, no check meter was installed and the consumer was billed during July to

September 1998 on the basis of monthly average consumption of 28582 units recorded during three preceding months of April to June 1998. The new meter installed on 20 September 1998 recorded consumption of 427560 units during October 1998 to January 1999 against which the consumer was billed for 282720 units at 70680 units per month which was recorded in February 1999. As a result, the consumer was short billed by 144840 units during October 1998 to January 1999. Besides, no assessment was made for the past period of March to September 1998. This also resulted in short billing for 527277 units.

Thus, the Division's failure to install check meter in September 1998 to ascertain the accuracy of old meter and non-billing for the consumption recorded in the new meter, resulted in loss of revenue for 672117 units valued at Rs. 30.16 lakh.

The matter was reported to the Company and the Government in May 2000; the replies had not been received (July 2000).

4A.24 Non billing of electricity duty

Electricity duty amounting to Rs. 0.30 crore was not recovered from the consumers.

According to U.P. Government notification of January 1997, Electricity Duty (ED) at the rate of 20 *per cent* was to be charged on unmetered consumers, billed at fixed energy charges. Before January 1997, the ED was chargeable at the rate of 10 *per cent* on energy charges.

The Division failed to levy Electricity Duty amounting to Rs. 0.30 crore

During test check in audit during July 1999 to December 1999, it was noticed that Electricity Urban Distribution Division, (EUDD), Chowk, Lucknow, Electricity Distribution Division (EDD), Pilibhit and Electricity Urban Distribution Division (EUDD)-IV, Agra did not levy the Electricity Duty (ED) amounting to Rs 29.69 lakh on energy charges against street light consumers (Town Area Committees, Nagar Nigams and Mahapalikas etc.) whose supply was unmetered during April 1996 to September 1999. This resulted in undercharge of Electricity duty as detailed below:

Sl. No.	Name of the Division	Period	Amount of ED not billed (Rs. in lakh)
1.	EUDD, Chowk, Lucknow	April 1996 to June 1999	15.38
2.	EDD, Pilibhit	April 1998 to August 1999	5.77
3.	EUDD, Agra	November 1998 to September 1999	8.54
	Total		29.69

Against short billing of ED of Rs. 29.69 lakh, the bills aggregating Rs. 23.92 lakh were raised only by EUDD, Chowk, Lucknow and EUDD-IV, Agra during February to June 2000 but no recovery could be effected so far (July 2000).

The matter was reported to the Company and Government in March 2000; the replies had not been received (July 2000).

4A.25 Infructuous expenditure

Release of payment for purchase of meters without ensuring their satisfactory performance resulted in infructuous expenditure amounting to Rs. 0.15 crore.

The Electricity Test & Commissioning Division, Ghaziabad of the Company received (February 1997) 49 three phase solid state micro processor based electronic trivector energy meters from Data Pro Electronics Pvt. Limited, Pune for use at grid Sub-stations and at inter-state energy transaction points at sub-stations against orders placed (June 1996) by Superintending Engineer, Electricity Sub-station Design Circle, Lucknow. According to terms of the order, the Division paid 90 *per cent* of the cost of the meters amounting to Rs. 14.88 lakh to the firm in April 1997.

During test check in audit (December 1999), it was noticed that when these meters were installed at Sub-stations, their performance was found unsatisfactory as these meters were running slow by 2.88 to 13 *per cent* and there was frequent component failure in meters. The Divisional Officers and Superintending Engineer approached (July to December 1997) the firm for rectification of defects of the meters but the firm failed to rectify the defects. These defective meters were replaced (December 1997) by secure meters purchased from Seewres Meters Ltd., Udaipur at a cost of Rs. 5.00 lakh.

Thus, the payment for the meters purchased without its proper testing and satisfactory performance resulted in infructuous expenditure of Rs. 14.88 lakh.

The matter was reported to Company and the Government in April 2000; the replies had not been received (July 2000).

4A.26 Irregular reduction of load

The Company failed to realise 15 per cent of Minimum Consumption Guarantee (MCG) amounting to Rs. 0.10 crore thereby extending undue benefit to consumer.

As per Company's order (December 1998), the sick industrial units were allowed to surrender their load for temporary period of one year to two years after approval of the Secretary of the Committee constituted by the Company. Equipment connected with the surrendered load were to be removed from electric line, and 15 *per cent* of MCG for the surrendered period was to be deposited in advance by the consumer. The reduction of load was to be made effective from the first day of the following month in which the consumer applies for reduction of load.

Scrutiny of records of Electricity Distribution Division-II, Mathura revealed (December 1999) that ATV Projects India Limited applied (November 1998) for reduction of its existing load of 1050 KVA to 400 KVA for 18 months. The Chief Engineer (Commercial) of the Company instructed (September 1999) the Superintending Engineer that the connection may be released at 33 KV and load may deem to had been reduced with effect from 1st December 1998. The load of the consumer was accordingly reduced without fulfilling the above requisite conditions.

It was noticed that 15 percent of MCG amounting to Rs. 10.27 lakh for the surrender period of 18 months was, however, not realised from the consumer. Thus, the consumer was benefitted to the extent of Rs. 10.27 lakh which also resulted in a loss to the Company.

The matter was reported to the Company and Government (April 2000); the replies had not been received (July 2000).

4A.27 Loss of interest due to delay in remittances of funds by bank

The Company suffered loss of interest of Rs. 0.10 crore due to delay in transfer of funds by a bank.

According to the Company's order (May 1979), all receipts from consumers towards the electricity consumption charges, security deposits and other miscellaneous receipts deposited by the divisions in branch receipt account of the bank were to be credited into Company's main receipt account at Lucknow. The memorandum of understanding (MOU) between the Company and bank provided that the remittances from branch receipt account to main receipt account shall be completed within seven days. In case of failure, Company was to charge interest from bank at cash credit (CC) rates beyond seven days till the date of transfer.

The Division failed to ensure timely remittance of fund by bank

The Electricity Urban Distribution Division-II, Varanasi had been operating its branch receipt account with Punjab National Bank wherein all revenue receipts from the consumers were being deposited. During test check in audit (July 1999), it was noticed that the division failed to ensure timely remittances of Company's fund by the bank from its branch receipt account to main receipt account at Lucknow. As a result, the minimum balances retained by the bank for whole month ranged from 0.77 lakh to 54.32 lakh during the period from April 1996 to June 1999. This resulted in loss of interest amounting to Rs. 10.49 lakh worked out at the rate of 18 *per cent* per annum on the minimum monthly balances retained by the bank during the above period and for which no claim was lodged with the bank.

The matter was reported to the Company and Government (May 2000), the replies had not been received (July 2000).

4A.28 Inadmissible payment of overtime allowance to drivers

The Company made inadmissible payment of Over Time Allowance (OTA) to drivers amounting to Rs. 0.81 crore.

According to the provisions of the Factories Act 1948, total hours of overtime allowed to a worker should not exceed 50 hours in a quarter. The limit of 50 hours could be relaxed to the maximum of 75 hours in a quarter by the State Government on the ground of urgent, exceptional and pressing nature of work under Section 64 and 65 of the Act.

The Statutory maximum limit of 50 hours in respect of payment of OTA to staff was not adhered to

In respect of payment of overtime allowance (OTA) to drivers, the statutory limit of 50 hours in a quarter was strictly followed by different units of the Company like Anpara and Tanda Thermal Power Stations (TPS) but at Obra TPS, the General Manager, without seeking exemption of the above statutory limit of 50 hours from State Government, himself authorised (December 1994) the concerned Chief Engineers to approve OTA up to 90 hours in a quarter and accordingly OTA to drivers was being invariably allowed by concerned Chief Engineers for 90 hours per quarter. This resulted in inadmissible payment of overtime allowance to drivers to the tune of Rs. 80.99 lakh during the last five years up to 1998-99.

The matter was reported to the Company and the Government in February 2000; the replies had not been received (July 2000).

4A.29 Loss due to non-availing of rebate on procurement of lubricants

The Company failed to avail rebate amounting to Rs. 0.16 crore on purchase of lubricants.

Lubricants are procured by various Thermal Power Stations (TPS) of the Company from Indian Oil Corporation (IOC) for utilisation in their power plants. On noticing that a rebate was being allowed by IOC to Uttar Pradesh State Road Transport Corporation on procurement of lubricants, Panki TPS also requested (August 1997 and September 1997) IOC to allow similar rebate to them. In response, IOC agreed (December 1997) to allow a special rebate of Rs. 1.50 per litre on all supplies of lubricants from IOC.

The company did not have any system to communicate the matter of common interest among sister units

During test check in audit, it was noticed that such rebate was not availed by other TPS as there was neither any system in the Company to communicate matters of common interest to sister units nor other TPS made efforts at their own for availing such rebate.

Due to non-availing of rebate, the Company suffered a loss to the tune of Rs. 16.29 lakh on procurement of 10.86 lakh litres of lubricants in four Thermal Power Stations viz. Anpara, Tanda, Parichha and Obra during the period from December 1997 to March 1999.

The matter was reported to the Company and the Government in February 2000; the replies had not been received (July 2000).

4A.30 Avoidable expenditure on engagement of drivers

Due to engagement of drivers instead of utilising the services of surplus drivers of other units, the Company had to bear an avoidable expenditure of Rs. 0.10 crore up to May 2000.

The Company failed to explore the possibility of posting the surplus drivers from other units

Despite Company's restriction (May 1990) on appointment, Maintenance Unit, Lucknow executed agreements with Uttar Pradesh Bhutpurva Sainik Kalyan Nigam Limited, Lucknow for engagement of 10 to 11 drivers every month for the period from September 1998 to 7 September 2000 under the approval of Chairman and an expenditure of Rs. 9.53 lakh was incurred on their wages up to May 2000.

On being pointed out by Audit (July 1999), Maintenance Unit, Lucknow assured to explore the possibility of posting surplus drivers from other units but no such effort was made though there were 9 surplus drivers in six units alone and the Company incurred expenditure of Rs. 26.33 lakh towards salary of these surplus drivers up to March 1999.

Thus, due to engagement of drivers instead of utilising the services of surplus drivers of other units, the Company had to bear an avoidable expenditure of Rs. 9.53 lakh up to May 2000.

The matter was reported to the Company and the Government in February 2000; the replies had not been received (July 2000).

General

4A.31 Excess payment of daily allowance during foreign tour

In deviation of State Government's instructions for payment of daily allowance on foreign tour, the six companies paid excess daily allowance amounting to Rs. 0.24 crore.

In contravention of the Government directives, six companies had paid excess daily allowance to their employees on foreign tours

Government of India vide order (November 1996) fixed the rates of daily allowances for journey on foreign tour. According to the order, full daily allowance (DA) up to 14 days, 75 per cent of full day for the next 14 days and 60 per cent thereafter in case of long tours/temporary duties were admissible. The different rates of DA were fixed for various grades. In regard to accommodation charges, the actual rent in approved hotel was reimbursable and the hotel entitlement to officers going abroad on non-representational visit such as training courses or seminars was one slab below their normal entitlement. Further, where an officer was treated as State guest and was provided meals free of cost, only 25 per cent of DA was admissible and if the hotel charges included breakfast, the DA was to be reduced by 10 per cent.

According to State Government's order (January 1989), amended from time to time, the DA rate during foreign tours to employees of State Public Sector

Undertakings(PSUs)/Corporations will be the same as fixed by the Central Government for their employees.

The State Government noticed that in case of some of the Corporations/PSUs the employees/officers had drawn excess DA than that fixed by the Central Government during foreign tours. Accordingly, Chief Secretary, Government of Uttar Pradesh instructed (December 1998) Chief Executive Officers of all PSUs/Corporations that the DA rates during foreign tours to employees of State PSUs/Corporations will be the same as fixed by the Ministry of External Affairs, Government of India from time to time for the employees of the Central Government for their foreign tour. If DA had been drawn in excess of the rate fixed by the Government of India in any case, the excess amount was to be recovered from the concerned officers/employees by 31 January 1999.

Scrutiny of records of the six companies revealed (1999-2000) that 33 Officers of the following companies (details given below), visited different countries during November 1996 to March 1998. The daily allowance claimed and drawn by them were much higher than the rate fixed by the Government of India despite clear cut instructions of the State Government.

Sl. No.	Name of Company/ Corporation	No. of Officers who visited foreign countries	Period	Excess D.A. drawn (Rs. in lakh)
1.	U. P. State Handloom Corporation Ltd.	5	January 1997 to January 1998	1.66
2.	U. P. Export Corporation Ltd.	4	January 1997 to October 1997	3.62
3.	U. P. State Tourism Development Corporation Ltd.	9	November 1996 to August 1998	8.73
4.	The Pradeshiya Industrial & Investment Corporation of U. P. Ltd.(PICUP)	1	July 1997	1.10
5.	Garhwal Mandal Vikas Nigam Ltd.	8	November 1996 to March 1998	6.70
6.	U.P. Power Corporation	6	7 January 1997 to 15 November 1997	2.18
	Total	33		23.99

This had resulted in excess payment of daily allowance to the extent of Rs. 23.99 lakh. The recovery of this amount had not been made from the concerned officers so far (July 2000).

- I. The Management of Pradeshiya Industrial and Investment Corporation of U.P. (PICUP) accepted the recovery pointed out by the Audit (August 2000) and accordingly intimated to the Government. However, no recovery had been initiated by the Management so far (August 2000).
- II. The Management of Uttar Pradesh State Tourism Development Corporation Limited stated (July 2000) that the G.O. dated 11.11.1996 through which DA rates on foreign tours was issued, did not include hotel tariff, local conveyance etc. For removal of this discrepancy, the Corporation revised the per diem rates for officers/officials who visited abroad. Reply is not convincing as the officer is required to arrange accommodation in a hotel on the approved panel and claim reimbursement of the actual room rental. Similarly, the actual cost of the taxi or conveyance hired for trips on duty which was considered

necessary and reasonable by the controlling authority was to be reimbursed to the officers subject to specific provision of funds in the sanction order. So, allowing composite rates to officers was not in order.

- III. In case of two PSUs (Uttar Pradesh State Handloom Corporation Limited and Garhwal Mandal Vikas Nigam Limited), their Management stated (July 2000) that the recovery orders for the excess drawal of DA during foreign tours had been issued. Recovery of the excess amount of DA was, however, awaited (July 2000).
- IV. The Management of Uttar Pradesh Export Corporation Limited did not furnish any reply (July 2000).
- V. From the records of U.P. Power Corporation, it was also noticed that an advance of Rs. 1.32 lakh paid (June 1997) to Shri S.P. Singh, Special Secretary to the State Government for his tour abroad was also lying outstanding (July 2000).

The matter was reported to the above Companies and the Government in May 2000; the replies had not been received (July 2000).

4B. Statutory corporations

Uttar Pradesh State Road Transport Corporation

4B.1 Failure of Depot managers in monitoring the banking arrangements

Failure of the Management in monitoring the transfer of funds by the banks to Corporation's main account resulted in loss of interest amounting to Rs.0.19 crore.

In terms of the banking arrangements finalised (February 1997) with Punjab National Bank, all the balances exceeding Rs. 5000 in collection account of depots were to be transferred to Regional Collection Account and ultimately to the Head Office account of the Corporation twice in a week so as to avoid any loss of interest. Regarding mode of transfer of the funds, it was decided that drafts will be delivered by the bank to authorised representatives of the Corporation\depots and mail transfer will be sent through courier/by registered post. It was the duty of the Depot managers to ensure regularly that full amount leaving the minimum balance had been transferred from the collection account.

The Corporation failed to monitor the remittance of funds from Depots to Headquarters

A test check of records of nine depots of the three regions (Allahabad, Ghaziabad and Meerut region) of the Corporation revealed (1998-99) that the bank failed to transfer balances exceeding Rs. 5000 in the collection account of the region on the fixed days in each week. The Depot managers also failed to monitor the banking arrangement finalised. As a result, heavy balances were retained by the bank in the current account for more than the permitted days which resulted in loss of interest amounting to Rs. 18.91 lakh.

In reply, the Management stated (June 2000) that all regions of the Corporation had been instructed to watch the transfer of funds as per provisions of the agreement. Reply is not tenable as the Management failed to watch the compliance of their own instructions.

The matter was reported to the Government in May 2000; the reply had not been received (July 2000).

Uttar Pradesh Financial Corporation

4B.2 Loss due to financing unviable unit

Appraisal of the project without ensuring viability resulted in non-recovery of dues amounting to Rs. 1.30 crore.

The Corporation sanctioned a term loan in May 1991 and an additional loan in June 1992 aggregating to Rs. 25.14 lakh to K.D. Metalizers (P) Limited for setting up bangles metalising plant at Shikohabad in Firozabad district against which Rs. 24.15 lakh was disbursed up to July 1992.

As per Project Appraisal Report (PAR), the unit was to be set up for metalising bangles by using chemicals on job work basis in replacement of costly golden polish using liquid gold. The economic and commercial factors were evaluated on the ground that the job works would be easily available at Shikohabad which was merely 20 kilometer away from Firozabad city where large number of bangle-making industries in the cottage and small sectors were already established. Moreover, the proposed unit had already obtained assurance letters from six parties of Firozabad for metalising 17300 gross bangles on job work basis. The project was envisaged to become viable at the break-even-point (BEP) of 31.84 *per cent* on 70 *per cent* utilisation of the installed capacity of 189000 gross per annum on three shifts of 300 working days.

The unit defaulted in repayment of the dues since the very beginning. As a result, the Corporation issued (June 1993) notice under Section 29 of the State Financial Corporation (SFC) Act to takeover the unit. It also came to the notice of the Corporation that the factory was let out to a third party. On issuance of the notice, the promoters filed a petition in the Court which was dismissed in November 1993. The unit was taken over in February 1994 and plant and machinery worth Rs. 0.22 lakh (approx.) was found missing from the factory for which FIR was lodged in March 1994. The remaining plant and machinery was sold for Rs. 6.75 lakh in December 1994. The land and building worth Rs. 6.15 lakh (May 1998) could not be sold so far (April 2000).

The Corporation did not ensure viability of the project before sanction of loan

Providing financial assistance to the project which was projected to be viable by available job orders (17300 gross) equal to 9.15 *per cent* of installed capacity though the unit would break-even at 31.84 *per cent* on 70 *per cent* capacity utilisation was incorrect. Due to labour and raw material problem, neither the unit could run well nor could it be sold. As a result, the dues (as on 20 June 2000) amounting to Rs. 1.36 crore (after adjustment of sale of Plant & Machinery) could not be recovered so far (July 2000) resulting in loss of Rs. 1.30 crore after deducting the value of land and building.

Management stated (April 2000) that at the time of appraisal of the project, the assumptions were made that job work would be available from Firozabad. However, they would be more careful in future. While accepting the contention of audit they further stated (May 2000) that the personal guarantee

of the promoter was invoked in April 2000 and efforts were being made to sell land and building of the loanee.

The matter was reported to the Government (May 2000); the reply had not been received (July 2000).

4B.3 Failure of Management in recovering dues

The failure of the Corporation in timely issuance of RC coupled with delay in taking over the possession of the unit resulted in non-recovery of dues amounting to Rs.0. 86 crore.

The Corporation sanctioned a term loan in March 1991 and an additional loan in October 1991 aggregating Rs. 26.40 lakh to Indo American Treads, Aligarh (a partnership firm) for setting up a tyre retreading plant having both the cold and hot retreading processes. Since the firm could install only the plant for cold retreading process, the Corporation disbursed only Rs. 21.52 lakh against the sanctioned loan.

The Corporation failed to take possession of unit despite non-payment of dues by loanee

The firm defaulted in repayment since beginning. The Corporation issued recall notice in October 1993. As the firm did not respond to the recall notice, Recovery Certificate (RC) under the Recovery of Public Money Dues Recovery Act was issued (February 1994) which was returned by the Revenue Authorities with the remark to re-send it in due course of time. Though, it was apprehended by the Corporation itself that the firm would not be able to pay the dues even after reschedulement of the dues, the facility of reschedulement was provided w.e.f. December 1994. The firm failed to pay the dues as per reschedulement. As a result, notice under Section 29 of the SFC Act was issued in July 1995 to take over the unit against which the firm moved in the Court of law which passed an order (August 1996) that the firm would pay to the Corporation a sum of Rs. 2.71 lakh in three instalments in addition to regular payment as per reschedulement failing which the Corporation would be free to take step for recovery under Section 29 of the SFC Act. The firm instead of paying the dues as per orders of the court, approached the Corporation for One Time Settlement (OTS) which was approved in January 1997 but was not honoured by the firm. The OTS was cancelled and notice under Section 29 was again issued in December 1997. On issuance of the notice, the promoters again approached the Corporation seeking permission to sell the unit by themselves for honouring the OTS. Till then (March 1998), the unit was attached by the Revenue Authorities against the dues of UPSEB and the Corporation could not takeover the unit due to some complications, not on records. The RC was, however, not issued again till August 1999.

It was observed in audit (August 1999) that the Corporation failed to re-issue Recovery Certificate in time, favourably allowed reschedulement and delayed in taking action under Section 29 of the SFC Act in spite of the Court's order. As a result, the unit could not be taken over and the Corporation could not recover its dues of Rs. 86.31 lakh so far (July 2000). The personal guarantee had still not been invoked (July 2000).

The Management in its reply (July 2000) did not furnish any plausible explanation to the audit observations.

The matter was reported to the Government in May 2000; the reply had not been received (July 2000).

4B.4 Incorrect assessment of advance Income Tax

Incorrect estimation of Income Tax liability resulted in excess payment of advance Income Tax on which interest amounting to Rs. 0.63 crore was lost.

According to Section 211 of the Income Tax Act, the advance tax on the current income computed under Section 209 of the Act is payable in four instalments of 15,30,30 and 25 percent respectively on or before 15th June, September, December and March of the financial year.

Incorrect estimation of Income Tax liability resulted in excess payment of advance Income Tax

It was noticed in audit (August 1999) that during the financial year 1996-97, the Corporation did not pay the first instalment of the advance tax. The Corporation assessed the profit of Rs. 5.00 crore before the due date of second instalment. At the time of making payment of advance tax, the Corporation treated the whole profit as the Income Tax liability of the year and accordingly paid Rs. 2.25 crore (45 *per cent*) to Income Tax Department whereas the advance tax liability worked out to Rs. 90 lakh based on total Income Tax liability of Rs. 2.00 crore (40 *per cent* of the profit) only at that time. This resulted in excess payment of advance tax of Rs. 1.35 crore in September 1996. The Corporation did not pay the third and fourth instalment of advance tax.

Payment of advance tax in excess of requirement resulted in loss of interest

As per income tax return filed with the Income Tax Department, the Corporation had incurred a loss of Rs. 12.81 crore. As such, the whole amount of advance tax of Rs. 2.25 crore was refundable. Thus, the decision for paying advance income tax without ascertaining the profit position and advance tax liability properly, resulted in avoidable payment of advance tax. Consequently, this amount could not be utilised in disbursing the loan thereby causing loss of interest income of Rs. 62.57 lakh up to July 2000 at the average lending rate of 17.5 *per cent* per annum after considering that Income Tax Department would allow interest at the rate of 12 *per cent* per annum on the refundable amount from April 1997.

The Management stated (April 2000) that advance tax of Rs. 2.25 crore was worked out on the tax liability of Rs. 5.00 crore and inter-alia accepted that it was an error of judgement. However, no malafide intentions were involved since money was paid to another Government department. Reply was evasive in as much as the documentary evidence revealed that profit was assumed at Rs. 500 lakh and not the tax liability.

The matter was reported to the Government in March 2000; the reply had not been received (July 2000).

4B.5 Irregular disbursement of loan

Disbursal of loan without ensuring grant of drug licence, sanction of power and working capital loan by bank resulted in loss of Rs. 0.40 crore.

The Corporation sanctioned (September 1990) a term loan of Rs. 8.12 lakh to Visowell Remedies (P) Ltd., Allahabad for setting up a unit for manufacturing eye drops, eye ointment, syrup etc. and disbursed Rs 8.03 lakh (January and June 1991) against the prime security of the plant and machinery and collateral security of the residential building of the promoters.

The loanee did not get power connection, drug licence and working capital loan from bank

The promoters had installed all the plant and machinery but could not start the factory due to non-availability of power connection, drug licence and working capital from the bank. On representation by the party, working capital term loan (WCTL) of Rs. 6.60 lakh was sanctioned in June 1993 to facilitate the unit against which Rs. 5.61 lakh was disbursed. However, Rs. 2.00 lakh was adjusted out of Rs. 5.61 lakh against the overdues hence the problem of working capital could not be solved and the unit did not run smoothly and failed to repay the dues of the Corporation.

The Corporation issued (March 1995) notice under Section 29 of the SFC Act but did not take over the unit (July 2000) even after expiry of five years. When the unit was advertised for sale in January 1999, the promoters approached (February 1999) the Corporation for One Time Settlement (OTS) which was approved (March 1999) for Rs. 20 lakh against the total dues including interest of Rs. 43.55 lakh (up to 20 December 1998). However, the promoters did not honour the OTS . Therefore, the OTS was cancelled and personal guarantee was invoked in March 2000.

The Corporation failed to ensure compliance of pre-disbursement conditions before making final disbursement of loan

The promoters were required to apply for drug licence and power was to be connected before 50 percent disbursement of WCTL. It was noticed in audit (October 1999) that fulfilment of the aforesaid pre-disbursement conditions were not ensured by the Corporation and non-availability of power connection, drug licence and WCTL from bank was not heeded to though reported at the disbursement stage. Moreover, inordinate delay in taking action under Section 29 resulted in deterioration in the assets of the prime and collateral security and increase in the dues to the extent of Rs. 58.04 lakh (June 2000). Thus, irregular disbursement of loan had resulted in loss of Rs. 40.39 lakh excluding the value of collateral security of Rs. 17.65 lakh available with the Corporation.

Management did not furnish any plausible explanation in their reply of April 2000.

The matter was reported to the Government in March 2000; the reply had not been received (July 2000).

4B.6 Non-recovery of dues due to irregular legal documentation

The Corporation, due to non-verification of original title papers, failed to recover dues amounting to Rs 0.56 crore.

The Corporation disbursed (June 1995) Working Capital Term Loan (WCTL) of Rs. 25 lakh to Alankar Pharmacy, Kanpur against the equitable mortgage of promoters' residential house-cum-factory building (1834 sq. yard land) situated at Swaroop Nagar, Kanpur.

The Corporation did not initiate action against loanee inspite of bouncing of several cheques

The borrower defaulted in making repayment since inception and most of the cheques given by them bounced. Although, the bouncing of cheques is punishable under Negotiable Instruments Act, the Corporation, instead of taking action, had been pursuing for clearance of the dues as per commitments made by the borrower. When the cheques given by them bounced again, the Corporation issued (August 1996) notice under Section 29 of the State Financial Corporations Act to take over the unit but no action was taken. Later, the unit was taken over in March 1997. When an advertisement was released (July 1997) for sale of the assets mortgaged to the Corporation, Central Bank of India, Meston Road, Kanpur informed that the property advertised for sale was already mortgaged with them for dues of the year 1973.

The Corporation failed to verify the original title papers of mortgaged property before release of loan

It was noticed in audit (August 1999) that the Corporation accepted the security of mortgaged property on the basis of registered will and affidavits whereas the Corporation was required to verify the original title papers of the property being mortgaged before release of WCTL. The Corporation did not, however, verify the original title papers and land was subsequently found to be mortgaged with Central Bank of India, Meston Road, Kanpur against their loan. Besides, front portion measuring 320 sq. yard out of 1834 sq. yard mortgaged land was already sold to a party in March 1993. Thus, the Corporation not only failed to detect/verify the false information furnished by the borrower but also did not verify the actual possession over the whole land at the time of inspection of the unit. As a result, the dues of Rs. 55.72 lakh (principal: Rs. 25.00 lakh, interest: Rs. 29.67 lakh and expense: Rs. 1.05 lakh) up to 15 July 2000 could not be recovered. No responsibility for such lapse was fixed by the Management (March 2000).

The Management stated (April 2000) that instructions/circular had been issued to ensure verification of the documents from the issuing authority to prevent such incidence of fraud again. Further, the Corporation would recover its dues of Rs. 50 lakh (approximate) out of its value of land (Rs. 80 lakh) measuring 1514 sq. yard as the Central Bank of India had agreed to subrogate in favour of the Corporation. The reply was not convincing as the offer of Rs. 52 lakh received for sale of land measuring 1514 sq. yard was rejected by the Corporation and subrogation from Central Bank of India could not be obtained (July 2000).

The matter was reported to the Government in March 2000; the reply had not been received (July 2000).

4B.7 Loss due to faulty appraisal of the project and inordinate delay in taking over the unit

Incorrect appraisal of the project and delay in taking over possession of the unit resulted in mounting of dues to Rs. 1.39 crore, the recovery of which was doubtful.

The Corporation, sold (March 1986) land and building of a defaulter unit for Rs. 6.01 lakh to Roshan Ice and Cold Storage (P) Limited, Noida against the down payment of Rs. 1.51 lakh and balance was to be paid in instalments.

Non-availability of sales tax exemption and inferior quality of water was not considered at the appraisal stage of the project

It was noticed in audit (August 1999) that the Corporation disbursed Rs. 13.09 lakh during February to October 1987 for renovation of the building and purchasing of the plant and machinery for the ice plant. At the time of sanction and disbursement, setting up of ice plant was banned in NOIDA. In addition, the quality of water available in NOIDA was not up to the mark and the sales tax exemption was also not admissible in case of purchase of unit from the Corporation under Section 29 of the SFC Act. These factors were not properly considered by the Corporation at the stage of the appraisal (August 1986) of the project.

Delayed possession of the unit resulted in mounting of dues

The unit became sick mainly due to inadmissibility of sales tax exemption and production of poor quality of ice and it defaulted in repayment since inception. The Corporation issued (February 1988) notice under Section 29 of the SFC Act to take possession of the unit. However, the action for taking over the unit was taken only in August 1995 when it was already sealed by the Revenue Department against the dues of trade tax and U.P. State Electricity Board. In spite of having first charge over the assets of the unit, the Corporation could not initiate further recovery action and total dues of Rs. 1.39 crore (including deferred liabilities, loans, interest and expenses) up to July 2000 could not be recovered. Moreover, Personal Guarantee was belatedly invoked in May 2000.

The Management stated (April 2000) that the proposal was put to the respective committee of the Corporation mentioning that the item was banned in NOIDA and as a special case it could be considered. The reply was not tenable as the acceptance of the proposal of the banned items was ab-initio wrong.

The matter was reported to the Government in March 2000; the reply had not been received (July 2000).

4B.8 Undue favour in releasing Working Capital Term Loan (WCTL) to a firm

Disbursement of Working Capital Term Loan without encashment of the cheque against previous loan and without verification of documents of collateral security resulted in loss of Rs. 1.01 crore.

**Title
document of
collateral
security
proved fake
on verification**

The Corporation disbursed Rs. 28.38 lakh to Ispat Udyog, Naini, Allahabad to establish a rolling mill for manufacturing of aluminum channels and strips. It also sanctioned (October 1996) WCTL of Rs. 48 lakh with the condition to repay the overdues of Rs. 16.30 lakh against previous loan and furnish collateral security before disbursement.

It was observed in audit (August 1999) that the cheque of Rs. 16.30 lakh deposited by the promoters against the dues was dishonoured by the bank. The Corporation, instead of taking action under Negotiable Instruments Act., however, disbursed the WCTL by adjusting the overdues of previous term loan and obtained collateral security of four plots (at Moinudin, Karchana, Allahabad). After receiving WCTL, the promoters absconded due to their involvement in some other fake bank draft case. The Corporation took possession (July 1997) of the unit under Section 29 of the State Financial Corporations Act. When the plots were advertised (December 1998) for sale, it came to the notice of the Corporation that the collateral security was also fake. The unit was sold (February 1999) for Rs. 27 lakh.

Thus, disbursement of the WCTL without encashment of the cheque against the overdues and failure in verification of the papers of collateral security resulted in loss of Rs. 100.48 lakh (Principal: Rs 22.00 lakh, interest: Rs. 76.46 lakh and other expenses: Rs. 2.02 lakh up to July 2000).

Management stated (May 2000) that matter was investigated by the Corporation and it was observed that original borrower had submitted forged legal paper/documents of collateral security to the Corporation. An inquiry was conducted by the Corporation and FIR was lodged against the borrower. The reply was not convincing as the Corporation failed to verify the forged legal papers/documents of collateral security submitted by the borrower before disbursement of the WCTL.

The matter was reported to the Government in March 2000; the reply had not been received (July 2000).

Uttar Pradesh Jal Nigam

4B.9 Blocking of funds on construction of water reservoirs

Due to non-observing the codal provisions of Forest Act, the expenditure of Rs.0.64 crore incurred on construction of three water reservoirs remained blocked.

According to the provisions of Forest Conservation Act 1980, prior permission of Central Government is necessary for use of forest land for non-forest purposes. In contravention of these provisions, Dehradun unit of the Nigam undertook (1992) construction of three water reservoirs (WR) of 4000 kilolitre capacity each at different intervals at Vincent Hill, Mussoorie, as a part of Mussoorie, Dehradun drinking water scheme for providing drinking water facility in Mussoorie.

Statutory provisions for construction activity in Forest land not followed

Rs. 0.64 crore remained blocked in incomplete scheme

Test check of records revealed that Dehradun unit of the Nigam had constructed two WRs on the forest land (1.24 acre) at Vincent Hill, Mussoorie. The Nigam neither obtained no objection certificate from Forest Department nor obtained approval of the Central Government as per Forest Conservation Act, 1980 before start of the work. While the construction work on third WR (January 1997) was in progress, Forest Department asked the Nigam to stop the work (September 1998) and obtain approval from the Central Government. However, the Nigam had submitted proposal for clearance of forest land to Divisional Forest Officer, Mussoorie, as late as in January 1998. By that time, the Nigam had already incurred an expenditure of Rs. 64 lakh on the construction of three WRs, out of which two WRs were complete and third WR was still incomplete. Thus, the very aim to supply drinking water in Mussoorie was not achieved and an expenditure of Rs. 64 lakh remained blocked and has not benefited the people (September 2000).

The matter was reported to Government in June 2000; the reply had not been received (July 2000).

4B.10 Avoidable expenditure on work charged staff

The Jal Nigam failed to execute an agreement with Nagar Nigam for reimbursement of expenditure on pay and allowances of pump operators leading to avoidable expenditure of Rs.0. 36 crore.

There was avoidable payment of Rs. 0.36.crore on pay and allowances of work charged staff

The Gorakhpur unit of the Nigam handed over 10 water pumping plants (seven in 1992 and three in 1999) to Nagar Nigam, Gorakhpur. However, these plants continued to be operated by 20 work charged operators of the Jal Nigam. Although, the Nagar Nigam agreed to reimburse the Jal Nigam the amount incurred on pay and allowances of the operators, the Jal Nigam did not enter into an agreement with Nagar Nigam regarding reimbursement of pay and allowances of the operators. It incurred an expenditure of Rs. 36.14 lakh on their pay and allowances since 1992-93 before withdrawing them in November 1999. When the matter was taken up with the Nagar Nigam by Executive Engineer, Gorakhpur (April 1999), the Nagar Nigam refused (May 1999) to reimburse the charges due to non-existence of any agreement with them.

Thus, due to its failure to enter into any agreement with Nagar Nigam, the Nigam had to bear an avoidable expenditure of Rs. 36.14 lakh.

The matter was reported to Government in May 2000; the reply had not been received (July 2000).

**Lucknow,
The**

**(RAMA MURALI)
Accountant General (Audit)-II
Uttar Pradesh & Uttaranchal**

Countersigned

**New Delhi,
The**

**(V. K. SHUNGLU)
Comptroller and Auditor General
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