2.3 Fund Management in Uttar Pradesh Power Corporation Limited

Highlights

Main source of fund inflow of the Company was sale of energy, subsidy and borrowings from the State Government, financial institutions and World Bank. The fund is utilised mainly for expenditure on capital works, operation and maintenance, purchase of power, repayment of loans and interest.

(Paragraph 2.3.1)

Arrears against the revenue assessment accumulated to the tune of Rs.6,930.50 crore up to 31 March 2003 due to inaction/delayed action for recovery of dues.

(Paragraph 2.3.6)

Company incurred avoidable interest liability of Rs.2.50 crore due to its failure to draw the fund according to its requirement.

(Paragraph 2.3.7)

Loan amounting to Rs.80.40 crore received from National Capital Region Planning Board for strengthening of transmission and distribution network in Meerut Zone was placed in fixed deposits resulting in loss of interest of Rs.3.16 crore.

(Paragraph 2.3.8)

Introduction

2.3.1 Uttar Pradesh Power Corporation Limited (Company) was incorporated (November 1999) to take over the work of transmission and distribution of electricity in the State from erstwhile Uttar Pradesh State Electricity Board (UPSEB). It started functioning from 14 January 2000. Further, on 1 May 2003, the State Government incorporated four distribution companies[*] under Section 617 of the Companies Act to take over the function of distribution of electricity from UPPCL. The distribution function of UPPCL was taken over by these companies from 12 August 2003.

Fund management involves projection of fund inflow/outflow and financing needs coupled with establishing a sound system of cash and credit control so as to ascertain the need for additional borrowings including working capital requirement or to invest surplus fund. Main source of fund inflow of the Company is revenue from sale of power, service connection charges, subsidy, grants, share capital and borrowings. Fund outflow comprise of expenditure incurred on capital works, establishment expenditure, operation and maintenance, purchase of power, stores and stock, repayment of loan and interest.

Organisational set-up

2.3.2 Generation and management of financial resources is vested with the Chairman-cum-Managing Director, who is assisted by Director (Finance), Director (Distribution) and Director (Transmission) at headquarters, and Chief Zonal Managers, Zonal Accounts Officers and Divisional Engineers in the field.

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[*] Madhyanchal Vidyut Vitran Nigam Limited, Lucknow, Purvanchal Vidyut Vitran Nigam Limited, Varanasi, Pashchimanchal Vidyut Vitran Nigam, Meerut and Dakshinanchal Vidyut Vitran Nigam Limited, Agra.

Scope of Audit

2.3.3 Cash management of erstwhile UPSEB was last reviewed in the Report of the Comptroller and Auditor General of India, (Commercial) for the year 1994-95, Government of Uttar Pradesh. The Committee on Public Undertakings has not discussed the Report so far (August 2004). The present review covers various aspects relating to collection, administration and utilisation of Company's fund during the period April 2000 to March 2003.

Records maintained at corporate office, 11 out of 465 Divisions engaged in construction, operation and maintenance of transmission and distribution network, were test checked in audit during December 2003 to May 2004.

Audit findings, as a result of review on Fund Management, were reported to the State Government/Company in June 2004 with a specific request for attending the meeting of Audit Review Committee for Public Sector Enterprises (ARCPSE) so that viewpoints of the Government/Management were taken into account before finalising the review. The meeting of ARCPSE was held on 9 August 2004 with Special Secretary (representative of State Government) and the Executives of the Company. The views expressed by the members have been taken into consideration during finalisation of the review.

Audit Findings

2.3.4 The results of the review of transactions relating to fund inflow and outflow for a period of three years (2000-01 to 2002-03) are discussed in succeeding paragraphs.

Sources and utilisation of fund

2.3.5 The details of working capital and sources and utilisation of fund of the Company during 2000-01 to 2002-03 are tabulated below:

(Rupees in crore)

Working Capital	2000-01	2001-02	2002-03	Total
At the beginning of the year	(-) 1680.68	(-)1717.27	(-)2326.56	
At the end of the year	(-)1717.27	(-)2326.56	(-)2250.19	
A. Sources of Funds: Increase/decrease (-)				
(1) Share capital including Application Money	588.00	282.21	225.90	1096.11
(2) Reserves & Surplus	142.92	252.73	(-)181.62	214.03
(3) Borrowings	1547.34	(-) 262.37	1368.78	2653.75
(4) Investment	-	-	60.02	60.02
Total A	**2278.26**	**272.57**	**1473.08**	**4023.91**
B. Utilisation: Increase/Decrease (-)				
(1) Fixed Assets including work-in-progress	633.72	(-) 179.82	572.36	1026.26
(2) Fund lost in operation	1681.13	1061.68	824.35	3567.16
Total B	**2314.85**	**881.86**	**1396.71**	**4593.42**
C. Increase /Decrease in working capital(-)	**(-) 36.59**	**(-) 609.29**	**76.37**	**(-) 569.51**
Total B+C	**2278.26**	**272.57**	**1473.08**	**4023.91**

Fund lost in operation aggregated Rs.3567.16 crore during the last three years up to 2002-03.

- It would be seen from the table that during 2000-03, the Company could raise a total fund of Rs.4,023.91 crore from different sources. As against this, the Company had utilised Rs.1,026.26 crore towards creation of fixed assets and Rs.3,567.16 crore towards financing revenue deficits. This resulted in a gap of Rs.569.51 crore between fund raised and fund utilised.
- The fund utilised in excess of fund raised were provided by increase in current liabilities and decrease in current assets. This had the effect of decreasing the working capital of the Company from Rs.(-)1,680.68

crore at the beginning of 2000-01 to Rs.(-) 2,250.19 crore at the end of 2002-03.

- Normally surplus from operation should be a major source of fund in any commercial undertaking. Paradoxically, however, operational deficit was all along a major item of utilisation of fund during the period from 2000-01 to 2002-03 in the Company.

Major factors responsible for poor fund position as highlighted above have been discussed in succeeding paragraphs:

Poor recovery performance

The recoverable dues accumulated to Rs.6,930.50 crore during the last three years up to 2002-03 due to non-enforcement of prescribed procedure.

2.3.6 The erstwhile UPSEB had issued (October 1976 to October 1995) instructions to the revenue collecting units to accelerate revenue realisation. As per the instructions, the electricity supply in respect of defaulting consumers are required to be disconnected within a week after due date of payment as mentioned in their bills and after issuing notices under Section 3 of U.P. Undertaking Dues Recovery Act, 1958. Recovery Certificates (RCs) are issued under Section 5 of the Act for recovery of the outstanding dues by the District Collector as arrears of land revenue. The facility of payment through cheques is required to be withdrawn immediately from consumers whose cheques are dishonoured by the banks.

The table below indicates the assessment and realisation of Company's dues/revenue as per commercial statements on account of sale of energy to consumers during three years up to 2002-03:

(Rs. in crore)

Sl. No.	Particulars	2000-01	2001-02	2002-03
a	Arrears at the commencement of the year*	5,699.44	6,539.09	6,748.77
b	Assessment during the year	6,696.52	6,534.50	6,750.42
c	Total revenue realisable during the year	12,395.96	13,073.59	13,499.19
d	Realisation and waival of revenue during the year			
	i. Realisation	5,240.65	5,097.79	5,135.95
	ii. Waival	--	434.72	1,432.74
	Total	**5,240.65**	**5,532.51**	**6,568.69**
e	Arrears at the close of the year*	7,155.31	7,541.08	6,930.50
f	Percentage of realisation excluding waival to total realisable revenue including arrears	42.28	38.99	38.05

The above table would indicate that the Company could not realise even 50 *per cent* of its dues. It was analysed in audit that the main reasons for poor recovery of dues from consumers was non-enforcement of prescribed procedures such as, disconnection of supply of electricity of defaulting consumers, stoppage of facility of payment through cheque (in case of dishonour of cheque) and delay in issue of RCs to District Collectors for recovery of dues as arrears of land revenue. Realisable dues as such increased from Rs.12,395.96 crore (2000-01) to Rs.13,499.19 crore (2002-03). Further, as certain dues became bad, Company had to write off of dues to the extent of Rs.434.72 crore and Rs.1,432.74 crore during the period 2001-02 and 2002-03 respectively.

* Arrears at the close of year differed from the arrears at the beginning of the year due to transfer of arrears relating to KESCO and Uttaranchal Power Corporation Limited.

Audit further observed that as against the dues of Rs.7,155.31 crore, Rs.7,541.08 crore and Rs.6,930.50 crore at the end of the years 2001-2003 respectively as per commercial statements, the dues as per financial statements were Rs.6,967.81 crore, Rs.8,039.10 crore and Rs.7,647.11 crore for the same years. These have not been reconciled so far (May 2004). The Company was also not having age-wise analysis of debtors.

Management stated (August 2004) that at the time of unbundling of UPSEB the gross receivable for sale of electricity was Rs.5,274 crore, and out of this Rs.4,345 crore was considered as bad and doubtful debts. It was further stated that till date there has been no further increase in the doubtful debts.

The reply is not tenable as the Company had made a provision of Rs.176.61 crore over and above Rs.4,345 crore during the period April 2000 to March 2003, besides writing off of dues amounting to Rs.1,867.46 crore, as discussed above.

Avoidable payment of interest on loan fund

The Company incurred avoidable expenditure of Rs.2.50 crore on account of interest due to its failure to draw fund according to its requirement.

2.3.7 Electricity Sub-station and Design Circle II, Lucknow of the Company was entrusted with the drawal of loan fund from PFC for various construction/augmentation schemes of transmission lines and sub-stations. As per Company's practice, loans were kept in separate bank for utilising exclusively for the schemes. Loan fund so drawn were required to be transferred/remitted to the field offices entrusted with the implementation of the schemes. Scrutiny of the cash book / bank statements revealed that there were heavy balances ranging from Rs.0.95 crore to Rs.9.37 crore during the period from January 2000 to December 2003 in bank account (at head office). This happened due to the fact that the loans were drawn from PFC without assessing the actual requirements. Audit analysed that the Company could have avoided the interest liability of Rs.2.50 crore, calculated at interest rate of 14 *per cent* per annum payable on such loans, as detailed in the table below, had the loans been drawn as per requirement of the implementation schedule:

(Rs. in crore)

Year ending	Annual total of monthly minimum balances retained	Average monthly blockade	Loss of interest @ 14 per cent
March 2000	16.15	1.35	0.19
March 2001	88.48	7.37	1.03
March 2002	38.51	3.21	0.45
March 2003	50.09	4.17	0.58
March 2004	20.95	1.75	0.25
	214.18	**17.85**	**2.50**

Management stated (August 2004) that under the PFC funding system, it was necessary to keep some reasonable kitty, so that, the bills be paid immediately to the firms/suppliers. Besides, amount kept in this account was not only PFC loan but this account catered the demand of other works on O & M and deposit also.

The reply is not tenable in view of the following facts:

- No minimum level of fund required to be maintained was assessed
- The amount that remained blocked was after discharging liabilities for payment in each month.

The Company incurred loss of Rs.3.16 crore due to borrowing fund at higher rate of interest and keeping amount in fixed deposit carrying lower rate of interest.

2.3.8 A project for strengthening transmission and distribution net work in Meerut Zone prepared by Regional Managers under the financing scheme of National Capital Region Planning Board (NCRPB), was approved by the Board of Directors on 26 December 2001 at an estimated cost of Rs.299.90 crore. The project was accepted by NCRPB in March 2002 for financing. The project was to be completed by March 2006 as per following schedule of expenditure:

(Rs. in crore)

Year	Expenditure on transmission network	Expenditure on distribution network	Total expenditure
2001-02	49.64	57.60	107.24
2002-03	54.81	50.52	105.33
2003-04	29.29	22.17	51.46
2004-05	5.87	20.17	26.04
2005-06	-	9.83	9.83
Total	**139.61**	**160.29**	**299.90**

Seventy five *per cent* of the total cost was to be financed by the National Capital Region Planning Board (NCRPB) at simple interest of 10 *per cent* per annum and rest 25 *per cent* was to be borne by the State Government/Company. Accordingly, loan of Rs.80.40 crore and equity of Rs.26.81 crore were released by NCRPB and the State Government respectively in March 2002 for the first year’s expenditure. The loan and equity were to be utilised exclusively for strengthening of transmission and distribution net work in Meerut Zone.

After receiving the loan amounting to Rs.80.40 crore from NCRPB, Company kept the same in term deposit till July 2003. Keeping the loan funds attracting higher rate of interest (10 *per cent*) in lower interest bearing term deposit (3.25 to 6.75 *per cent*) was not a prudent financial management. Management stated that by doing so Company had earned an interest of Rs.5.57 crore and had carried out the work from other sources till July 2003.

Audit observed that execution of work from other sources and keeping the loan funds in term deposit clearly indicated that the Company was not in real need of borrowed funds. Thus, the Company had suffered an avoidable interest burden of Rs.3.16 crore (Rs.8.73 crore interest paid less Rs.5.57 crore as interest earned).

2.3.9 The Company availed facility of making payments for purchase of electrical energy through letter of credit (LC) to National Thermal Power Corporation (NTPC), Power Grid Corporation of India Limited (PGCIL), National Hydro Electric Power Corporation Limited (NHPC) and Nuclear Power Corporation of India Limited (NPCIL). The sanctioned limit of letter of credit from the various banks were as under:

Name of Bank	Sanctioned Limit (Rs. in crore)	Date of Sanction/renewal
Central Bank of India	55	28.06.02
Punjab National Bank	20	7.10.03
State Bank of India	70	13.10.03

The Company could not save Rs.4.62 crore on account of interest due to its failure to get cash credit limit enhanced.

Audit observed that the Company was also having cash credit (CC) limit of Rs.5 crore during 2000-04. The normal rate of interest on overdraft covered under CC limit was cheaper (15 *per cent*) as against overdraft created due to LC (17 *per cent*). Company, however, failed to get CC limit enhanced. It was noticed in audit that for making the payments of power purchase to NTPC, NHPC, NPCIL and PGCIL, Company paid Rs.39.20 crore as interest at the rate of 17 *per cent* per annum on overdraft under LC during the period from

January 2000 to January 2004. As such interest of two *per cent* (17 *per cent* – 15 *per cent*) amounting to Rs.4.62 crore could have been saved, had the Company got its CC limit raised from Rs.5 crore to Rs.145 crore (LC limit).

Management stated (August 2004) that sanction of CC limit rests at discretion of bank which they release only on Government guarantee and the Company pursued the same but as a policy matter the Government guarantee was not issued for CC limit.

The reply is not tenable in view of the fact that (i) the State Government had given the guarantee amounting to Rs.148.26 crore during the year 2002-03 for raising loans, (ii) while requesting (December 2001) for the guarantee from the State Government for availing of LC/CC, the Company did not explain the comparative benefit of overdraft created under CC over the overdraft created under LC, and (iii) Company did not take up the matter in this regard after December 2001 with the Government for giving guarantee.

Delay in payment of Power Purchase Bills

The Company failed to avail rebate of Rs.8.16 crore besides incurring liability of surcharge of Rs.124.43 crore because of delay in payment of power purchase bills.

2.3.10 UPPCL was purchasing power from Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL) as per terms and conditions of Power Purchase Agreement (PPA) signed on 18 December 2000. According to Clause 11 of PPA, the Company was liable for paying late payment surcharge at the rate of 2 *per cent* per month on the amount remaining unpaid beyond due date. In case of payment by the Company within due date, UPJVNL was to allow rebate at the rate of 2.5 *per cent* on the amount paid within due date.

Audit observed that the Company failed to make payment of 35 bills amounting to Rs.326.46 crore for purchase of power within due dates raised during 29 May 2001 to 21 February 2004. Thus, as per terms and conditions of PPA, the Company failed to avail of rebate of Rs.8.16 crore at the rate of 2.5 *per cent* on the bills, besides it also became liable for paying surcharge of Rs.124.43 crore up to February 2004 at the rate of 2 per *cent per* annum.

Management stated (August 2004) that UPJVNL and UPPCL were Government owned companies and it had been decided that rebate and surcharge clause of the PPA would be withdrawn. No orders in this regard have been issued by the UPERC so far (September 2004).

Subsidy and grants

2.3.11 Government of Uttar Pradesh provides capital subsidy and grants generally for electrification of villages, extension, improvement of existing transmission and distribution networks. Revenue subsidy is provided to compensate the revenue gap due to lower tariff for private tube wells (PTWs) and light and fan connections in villages, etc. The State Government released Rs.2,280.01 crore as subsidy and grants during the last three years up to March 2003. In this connection following observations are made:

Part release of subsidy

2.3.12 Government of Uttar Pradesh sanctioned (November 2001) a subsidy of Rs.122 crore for the period of five months from November 2001 to March 2002 to cover up the gap of lower tariff and revenue realisable from light and fan consumers of rural and urban areas.

Audit observed that the Government released (November 2001) only part subsidy of Rs.22 crore for the month of November 2001. Remaining grant of

Rs.100 crore committed by State Government for the months of December 2001 to March 2002 was not released without any reason on record. The Company never took up this matter with the State Government. This adversely affected the ways and means position of UPPCL to that extent.

Banking

2.3.13 The revenue receipts of the Company are collected by Electricity Distribution Divisions (EDD) which are required to be remitted on the same day in Company's receipt account operated with local branches of nationalised banks. Amount so deposited in local branches was required to be transferred by the bank thrice a week i.e. every Tuesday, Thursday and Saturday to "Main Receipt Account" of the Company at Lucknow by telegraphic transfer, mail transfer and demand draft.

It was noticed in audit that there were delays in remittances of revenue realised by EDD, to Company's branch receipt account and in remittances of fund by bank to Company's main receipt account as detailed in succeeding paragraphs:

Delay in remittances of revenue

The Company incurred loss of Rs.10.28 lakh due to delay in remittances of revenue to banks.

2.3.14 A test check of records of the two EDDs revealed that remittances of revenue was delayed for the period ranging from 3 to 28 days, as detailed below:

Sl. No.	Name of Unit	period	amount belatedly remitted (Rs. in crore)	Delay in number of days
1	EDD, Raebareilly	01/03 to 03/04	13.70	3 to 28
2.	EDD, Mahrajganj	02/03 to 02/04	4.37	3 to 21

Delays in remittances of revenue to banks had resulted in loss of interest of Rs.10.28 lakh at the rate of 14 *per cent* per annum. The Management did not fix responsibility on the concerned officials for delay in remittances to bank resulting in loss of interest.

Delay in remittances of fund by banks to Company's main receipt account

The Company incurred loss of Rs.13.13 lakh due to delay in remittances of fund by banks to Company's main account.

2.3.15 A scrutiny of records of three EDDs revealed that banks having funds of the Company in the accounts, did not remit the fund to the headquarters account regularly thrice a week. Banks instead remitted the balances on weekly basis to the headquarters account after retaining amount which ranged from Rs.0.87 lakh to Rs.35.09 lakh (EDD-I Jhansi during March 2002 to May 2003), Rs.0.16 lakh to Rs.19.99 lakh (EDD, Orai during January 2002 to January 2003), Rs.0.95 lakh to Rs.53.14 lakh (Electricity Urban Distribution Division-II, Aligarh during January 2000 to March 2003) and Rs.0.04 lakh to 272.42 lakh (EUDD-I, Meerut during January 2002 to April 2003). In all these cases there was a delay of 2 to 4 days.

Delayed remittances resulted in avoidable loss of interest of Rs.13.13 lakh as the Company has been paying interest on cash credit facilities. It was further observed that the Division did not effectively pursue the matters with the banks to ensure timely transfer of Company's fund and claim for loss of interest.

Blocking of revenue due to non reconciliation of bank balance

2.3.16 Revenue collecting Divisions (EDDs and EUDDs) realise revenue from sale of power and deposit the same in branch receipt account daily. Banks maintaining branch receipt account transfer the balances to Company's main receipt account at Lucknow. It was also required that timely bank reconciliation statements be prepared to identify non-recording of transactions and to take corrective action. A test check of records of the Divisions revealed that balances of Company's fund as per bank statement were lower as compared to the balances appearing in the Company's account. The differences were persisting from 1 to 5 years, as detailed below:

(Rs. in crore)

Unit	Reconciliation done up to	Position of bank balances in receipt account	
		As per cash book (a)	As per bank book (b)
EUDD-II, Noida	February 2003	5.54	1.69
EUDD(RB), Rambagh	March 2003	1.10	0.25
EDD-II, Mirzapur	March 2003	0.40	0.28
EUDD-II Meerut	January 2004	0.27	0.00
EDD Rae-bareilly	October 2000	0.10	0.08
EDD Maharajganj	June 2001	0.34	0.06
EDD Robertsganj	October 2002	2.24	0.19
EUDD Mayohall	June 2003	0.14	0.06
Total		**10.13**	**2.61**
Difference (a-b)			**7.52**

Instances of differences in balances as per Company's books and bank statements and incomplete accounting noticed in audit are given below:

- Cheques amounting to Rs.3.46 crore received during September 2002 to July 2003 for payment of electricity bills from consumers in eight Divisions remained uncashed till date of reconciliation. It was further noticed that Divisions had no details of these uncashed cheques i.e. name of the consumer, cheque number, date and amount of each cheque, etc. leading to non-debit of consumer's account.
- EUDD, Noida was created in June 2001. Bank reconciliation of receipt account was started from September 2002. The difference of Rs.1.82 crore not credited by Bank up to August 2002 was left unreconciled up to August 2004 by the Division without reasons on records.
- As per para 6.8 (Chapter-8) of Commercial and Revenue Manual, if a cheque of a consumer is dishonoured by the bank, the facility of payment through cheque is withdrawn and consumer's accounts is debited.

  In test check of three Divisions*, it was noticed that cheques amounting to Rs.38.97 lakh received from consumers during September 2002 to July 2003 were dishonoured by the banks but the same were not accounted for in the cash book as well as in consumer's account.

  The possibility of misappropriation of Company's fund may not be ruled out due to persisting difference in the balances of two sets of records.
- It was further observed in audit that Electricity Distribution Division, Fatehpur, during the period from April 2001 to March 2003 accepted 143 cheques of Rs.16.10 crore from consumers which were subsequently dishonoured. In respect of few main consumers the details of repeated dishonour of cheques are as under:

* EUDD, Noida (Rs.11.29 lakh), EUDD, Rambagh (Rs.18.99 lakh) and EUDD, Unnao (Rs.8.69 lakh).

Name of consumer	No of dishonoured cheque	Period	Amount (Rs. in lakh)
Sigma Casting Ltd., Fatehpur	23	02/02 to 05/03	410.09
Kundan Casting Ltd., Fatehpur	28	10/99 to 05/03	525.66
Panam Casting Pvt. Ltd., Fatehpur	08	10/99 to 01/03	32.91
Maya Agro, Fatehpur	07	12/99 to 03/2000	45.62
Global Alloys Steel, Fatehpur	03	09/01 to 04/02	20.73
Sharda Steel Plant, Fatehpur	06	02/2000 to 08/02	24.05

On dishonour of cheques the Division was required to make reverse entry in cash book besides debiting the consumers account. As against the bank balance of Rs.8.13 crore (EDD Fathepur) as on 31 July 2002 appearing in the cash books of the Company, the actual bank balance was only Rs.59.79 lakh which was indicative of the fact that the Division had not made reverse entry in cash book and debit entry in the consumers account. Thus, the consumers were extended undue favour to use electricity even without payment of their regular electricity bills.

Management stated (August 2004) that action would be taken against delinquents.

Sundry receivables

Receivables from employees

Miscellaneous advances of Rs.5.40 crore were lying unadjusted/ unrecovered against employees since 1973 to 2003.

2.3.17 Cash imprests/advances given to employees not adjusted by them and shortages/non accountal of stores pending investigations are placed as miscellaneous advance against employees for recovery and are shown under receivables from employees in the accounts. These receivables from employees increased from Rs.41.95 crore as on 31 March 2000 to Rs.49.56 crore as on 31 March 2003. There was no significant recoveries against the amount receivable from employees leading to blockade of Company's funds.

It was noticed in audit that in 11* Divisions, the miscellaneous advances lying unadjusted/unrecovered since 1973 to 2003 stood to the extent of Rs.5.40 crore. This indicated lack of concerted efforts on the part of the management in effecting recoveries or reconciling the receivable amount.

Delay in realisation of security

Additional security of Rs.2.81 crore was to be recovered from consumers.

2.3.18 The Uttar Pradesh Electricity Supply (Distribution Code) 2002 issued by UPERC provides that a security deposit to cover the estimated power consumption for two months shall be made by all consumers.

The table below indicates the amount of revenue from sale of power, average amount of sale of power for two months and amount of security deposit available with the Company during three years up to 2002-03:

(Rs. in crore)

Particulars	2000-01	2001-02	2002-03
Revenue from sale of power	6315.99	6375.40	6087.54
Average amount of sale of power for two months to be kept as security deposit	1052.67	1062.57	1014.59
Security deposit from consumers available with the Company (as per annual accounts)	653.43	656.65	682.57
Shortfall in the amount of security deposit	399.24	405.92	332.02

* EDD-Robertsganj, EDD-Shamli, Electricity Works Division-Kanpur, EDD-Maharajganj, EDD-Kushinagar, EDD-Kannauj, Electricity Store Division-Ghaziabad, EDD I-Allahabad, EUDD II-Meerut, EDD-Chandpur and EDD I- Saharanpur.

- It would be seen from the above table that compared to the amount of average sale of power for two months, the available security fell short to the extent of Rs.332.02 crore to Rs.405.92 crore during the three years up to 2002-03.
- Audit further noticed (2003-04) that based on the average power consumption for two months in five Divisions*, additional /initial security amounting to Rs.2.81 crore was required to be recovered from the consumers. The recovery of the amount of security was still awaited (August 2004).

Diversion of equity and capital grants

2.3.19 State Government had been releasing equity and capital grants to the Company from time to time for specific purposes such as electrification of villages, energisation of private tubewells, the repayment of bonds and payment of coal prices. During December 2000, State Government released equity amounting to Rs.50 crore to the Company for payment of coal prices to UPRVUNL.

It was noticed in audit that out of the equity received, the Company utilised Rs.26 crore for payment of power purchase to NTPC & UPJVNL and Rs.2 crore for payment to GPF trust. This has defeated the very purpose of releasing the equity by the State Government and also the State Planning and Budgeting.

Internal Audit

2.3.20 Internal audit is a part of internal control which is used to detect irregularities, fraud, manipulation and embezzlement etc. and to see whether rules, instructions issued from time to time are being followed or not. The Company inherited the internal audit system from the erstwhile UPSEB where each zone used to have an audit set up. The Company had not prepared internal audit manual. The order/circulars issued from time to time defined the scope, duties and responsibilities of Internal Audit Wing. The detailed checking for each unit used to be carried out for one month in a year.

The Internal Audit Wing was not having adequate manpower. As a result, audit of field units could not be done regularly on annual basis. The period of transactions covered, therefore, ranged up to four years as observed in test check. There were delays up to six months (against the prescribed period of a fortnight) in issue of Audit Reports to the field units. The Statutory Auditors in their report pointed out that internal audit system in the Company, having regard to the size and nature of business needed strengthening.

At the time of unbundling of UPSEB, the following were proposed to be considered for reorganised structure of Audit Wing:

- Scope of internal auditing was required to be designated properly.
- Internal Audit wing was required to be given independent status.
- Internal Audit Wing was to have its own manual.
- Officers/ officials were inter- transferable from audit to accounts as such effectiveness of system was affected.
- According to the size and scope of business, strength of officers/ officials was required to be considered etc.

* EDD-II, Azamgarh, EDD-II Saharanpur, EDD-Fatehpur, EUDD Aligarh and EDD, Hathras.

These proposals were yet to be implemented.

The matter was reported to the Government in June 2004; the reply is awaited (September 2004).

Conclusion

The Management failed in realising dues recoverable from consumers. Non payment of power purchase bills in time resulted in additional liability of surcharge. Further, avoidable payment of interest adversely affected the ways and means position of the Company. Timely deposit of revenue in the Company's account and prompt transfer of fund to Company's central account could not be ensured by the Management.

The Company should strengthen and strictly enforce the system relating to generation and utilisation of resources so as to bring in economy and overall efficiency in the operation of transmission and distribution network.