

CHAPTER VII

COMMERCIAL ACTIVITIES

7.1 Overview of Government companies

Introduction

As on 31 March 2005, there were 22 Government companies (16 working and six non-working^{*}) and three Statutory corporations (all working) as against 20 Government companies (14 working and six non-working) and three Statutory corporations as on 31 March 2004 under the control of the State Government. During the year 2004-05, two Government companies viz. Uttaranchal Purv Sainik Kalyan Udham Limited and Power Transmission Corporation of Uttaranchal Limited were incorporated. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956.

The audit arrangements of Statutory corporations are as shown below :

Sl.No	Name of Corporation	Authority for audit by CAG	Audit arrangement
1	Uttaranchal State Road Transport Corporation	Section 33(2) of the Road Transport Act, 1950	sole audit by CAG
2	Uttaranchal Forest Development Corporation	Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971	audit by CAG**
3	Uttaranchal Peya Jal Sansadhan Vikas Evam Nirman Nigam	Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971	sole audit by CAG

The State Government had formed the Uttaranchal Electricity Regulatory Commission and its audit is entrusted to CAG under section 104(2) of the Electricity Act, 2003.^{***}

* Non-working Government companies are those that are in the process of liquidation/closure/merger, etc.

** Audit is also being conducted by Examiner, Local Fund Account as the amendment in the Corporation's Act is still awaited.

*** Erstwhile Section 34(4) of the Electricity Regulatory Commission Act, 1998 repealed by the Electricity Act, 2003.

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

7.1.1 As on 31 March 2005, the total investment in 19 working PSUs (16 Government companies and three Statutory corporations) was Rs.1,546.25 crore* (equity: Rs.130.76 crore, share application money: Rs.139.76 crore and long term loans** : Rs.1,275.73 crore) as against 17 working PSUs (14 Government companies and three statutory corporations) with a total investment of Rs.1,029.18 crore (equity: Rs.96.43 crore, share application money: Rs.8.91 crore and long term loans: Rs.923.84 crore) as on 31 March 2004. The analysis of investment in working PSUs is given in the succeeding paragraphs.

Sector-wise investment in working Government companies and Statutory corporations

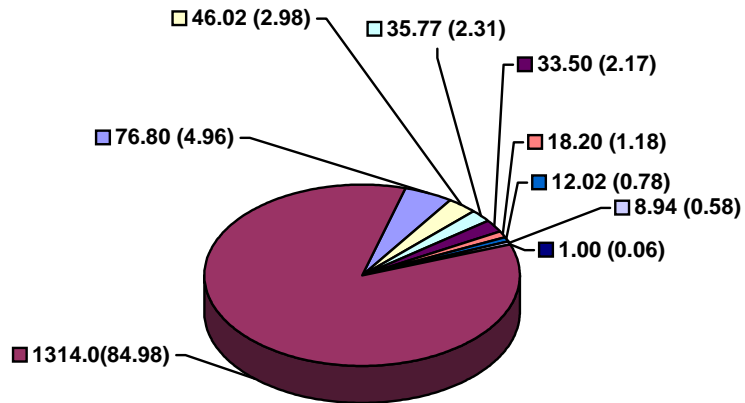
7.1.2 The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2005 and 31 March 2004 are indicated as follows :

* State Government investment was Rs. 568.96 crore (Others: Rs. 977.29 crore). Figures as per Finance Accounts 2004-05 is Rs. 463.52 crore. The difference is under reconciliation.

** Long term loans mentioned in paragraph 7.1.1, 7.1.2, 7.1.3, 7.1.4 and 7.1.12 are excluding interest accrued and due on such loans.

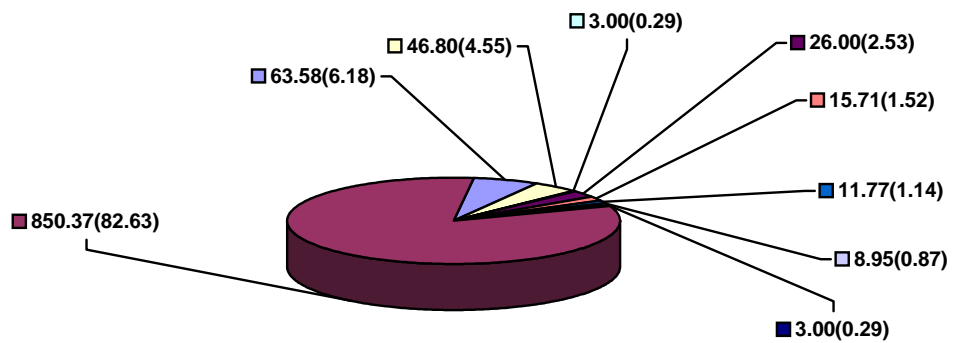
Sector-wise investment in working
Government companies and Statutory corporations

As on 31 March 2005
Amount: Rupees in crore
(Figures in brackets indicate the percentage of investment)
Total investment - Rs.1546.25 crore



Power	Sugar
Area Development	Transport
Finance	Development of Economically Weaker Sections
Industry	Electronics
Miscellaneous	

As on 31 March 2004
Amount: Rupees in crore
(Figures in bracket indicate percentage of investment)
Total investment - Rs.1029.18 crore



Power	Sugar
Area Development	Transport
Finance	Development of Economically Weaker Sections
Industry	Electronics
Peyajal	

Working Government companies

7.1.3 The total investment in working Government companies at the end of March 2004 and March 2005 was as follows:

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2003-04	14	93.43	8.91	920.84	1023.18
2004-05	16	102.76	139.76	1267.96	1510.48

Investment in the current year has increased over the previous year mainly due to increase in equity and loans in the Power, Sugar, Finance, Economically weaker sections and Industry sectors.

A summarised statement of Government investment in working Government companies in the form of equity and loans is given in **Appendix 7.1**.

As on 31 March 2005, the total investment in working Government companies comprised 16 per cent of equity capital and 84 per cent of loans as compared to 10 per cent and 90 per cent, respectively, as on 31 March 2004.

Working Statutory corporations

7.1.4 The three Statutory corporations (all working) were formed between May 2001 and October 2003 after the creation of the State of Uttaranchal. The first accounts of these corporations had not been finalised as of September 2005. As per the available information, the total investment in these corporations at the end of March 2004 and 2005* was as follows:

(Rupees in crore)

Sl.No.	Name of corporation	2003-04		2004-05	
		Capital	Loan	Capital	Loan
1.	Uttaranchal State Road Transport Corporation	3	Nil	28	7.77
2.	Uttaranchal Forest Development Corporation	Nil	Nil	Nil	Nil
3.	Uttaranchal Peyajal Sansadhan Vikas Evam Nirman Nigam	Nil	3	Nil	Nil
	Total	3	3	28	7.77

A summarised statement of Government investment in working Statutory corporations in the form of equity and loans is given in **Appendix 7.1**.

As on 31 March 2005, the total investment in working Statutory corporations comprised 78 per cent of equity capital and 22 per cent of loans.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

7.1.5 The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of the working Government companies and working Statutory corporations are given in **Appendices 7.1 and 7.3**.

* Figures are provisional.

The budgetary outgo in the form of equity, loans and grants/subsidies from the State Government to working Government companies and working Statutory corporations for the three years up to 2004-05 are given below:

(Rupees in crore)

Particulars	2002-03				2003-04				2004-05			
	Companies		Corporation		Companies		Corporation		Companies		Corporation	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
A (i) Equity Capital outgo from budget	3	17.05			3	18.91	1	3.00	3	139.76	-	-
(ii) Loans given from budget	5	113.98			4	26.62	1	3.00	4	56.32	1	4.25
Total A (i) + (ii)		131.03			6	45.53	2	6.00	5	196.08	1	4.25
B (i) Grant towards Projects/ Programmes /Schemes	2	36.72			4	142.67	2	126.62	2	178.84	-	-
(ii) Subsidy	-	-			-	-	-	-	1	9.60	-	-
Total B (i) + (ii)	2	36.72			4	142.67		126.62	3	188.44	-	-
Total outgo A+B	7*	167.75			6*	188.20	2*	132.62	6*	384.52	1	4.25

During the year 2004-05, the Government had guaranteed loans aggregating Rs. 147.09 crore obtained by four working companies and Rs. 17 crore obtained by one working corporation. At the end of the year, guarantees amounting to Rs. 1,087.19 crore against five working companies and Rs. 0.17 crore against one corporation were outstanding. Guarantee commission amounting to Rs. 10.56 crore is being charged by the State Government.

Finalisation of accounts by working PSUs

7.1.6 The accounts of the companies for each financial year are required to be finalised within six months from the end of the relevant financial year under Section 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year. The accounts of Statutory corporations are finalised, audited and presented to the Legislature as per the provisions of the respective Acts.

It can be seen from **Appendix 7.2** that none of the 16 working Government companies and three Statutory corporations had finalised the accounts for the year 2004-05 within the stipulated period. During the period from October 2004 to September 2005, four working Government companies finalised five accounts for previous years.

The accounts of all the working Government companies and three Statutory corporations were in arrears for periods ranging from one to 18 years as on 30 September 2005 as detailed below:

* Indicates actual number of companies/corporations which received budgetary support in the form of equity, loans, grants and subsidies from the Government in respective years.

Sl. No.	Number of working		Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial number of Appendix 7.2	
	Government Companies	Statutory Corporations			Government Companies	Statutory Corporations
1	1		1987-88 to 2004-05	18	A-8	
2	1		1990-91 to 2004-05	15	A-7	
3	1		1994-95 to 2004-05	11	A-4	
4	3		1997-98 to 2004-05	8	A-2,3,6	
5	1		1999-2000 to 2004-05	6	A-5	
6	1		2000-01 to 2004-05	5	A-1	
7	1	1	2001-02 to 2004-05	4	A-9	B-2
8	3	1	2002-03 to 2004-05	3	A-11,12,13	B-3
9.	-	1	2003-04 to 2004-05	2	-	B-1
10.	4		2004-05	1	A-10,14,15,16	

It is the responsibility of the Administrative Departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned Administrative Departments and officials of the Government were apprised quarterly by Audit of the arrears in the finalisation of accounts, no effective measures have been taken by them and as a result, the net worth of these PSUs could not be assessed.

Financial position and working results of working PSUs*

7.1.7 The summarised financial results of working PSUs as per their latest finalised accounts are given in **Appendix 7.2**.

According to the latest finalised accounts of 13** companies, 11 had incurred an aggregate loss of Rs. 39.28 crore and one had made a profit of Rs. 0.81 crore while in the case of one company (A-3) only pre-operative expenses were incurred.

Profit earning working Government companies and dividend

7.1.8 Out of four working Government companies, which finalised their accounts for previous years by September 2005, only one company (State Industrial Development Corporation of Uttaranchal Limited) earned a profit which amounted to Rs. 0.81 crore (**Appendix 7.2**). The Government has not formulated any dividend policy.

Loss incurring working Government companies

7.1.9 Six (Sl. No. A-1, 2, 6, 7,10 and 12 of **Appendix 7.2**) out of 11 loss incurring working Government companies, had accumulated losses aggregating Rs. 70.32 crore, which exceeded their paid-up capital of Rs. 30.59 crore (**Appendix 7.2**).

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to one company (Sl. No.

* Under this paragraph information in respect of Government companies only has been given, as none of the corporations have finalised their first accounts.

** In case of three companies (A-9, A-14 and A-16 of **Appendix 7.1**) first accounts have not been received.

A-12 of *Appendix 7.2*) amounting to Rs. 6.77 crore by way of loan during 2004-05 (*Appendix 7.1*)

Return on Capital Employed

7.1.10 As per the latest finalised accounts (upto September 2005), the capital employed* worked out to Rs.1,540.60 crore and total return** thereon amounted Rs. 20.23 crore compared to total return of Rs. (-) 7.09 crore in the previous year. The details of capital employed and total return on capital employed in case of working Government companies are given in *Appendix-7.2*.

Reforms in the power sector

State Electricity Regulatory Commission

7.1.11 The Uttaranchal Electricity Regulatory Commission (Commission) was formed on 5 September 2002 under Section 17 of the Electricity Regulatory Commission Act, 1998*** with the main objectives of rationalising generation, transmission, distribution and supply of electricity in the State, regulating the electricity industry in the State including the purchase, distribution, supply and utilisation of electricity, the quality of service, tariff and other charges keeping in view the interest of the consumers and utilities and creating an environment which will attract participation of private sector entrepreneurs in the electricity industry in the State. It is a single member Commission headed by a Chairman, who is appointed by the State Government. The audit of accounts of the Commission has been entrusted to CAG under Section 104 (2) of the Electricity Act, 2003. The Commission had issued two tariff orders up to September 2005.

Non-working Public Sector Undertakings (PSUs)

Investment in non-working PSUs

7.1.12 As on 31 March 2005, the total investment in six non-working PSUs (all Government companies) was Rs. 4.84 crore^λ (equity only). There was no change in the total investment as compared to 2003-04.

The classification of non-working Government companies at the end of March 2005 was as under:

* Capital employed represents net fixed assets (including capital work-in-progress) plus working capital.

** For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

*** Since replaced with Section 82(1) of the Electricity Act, 2003.

^λ Figures as per Finance Account is Rs. 0.15 crore, the difference is under reconciliation.

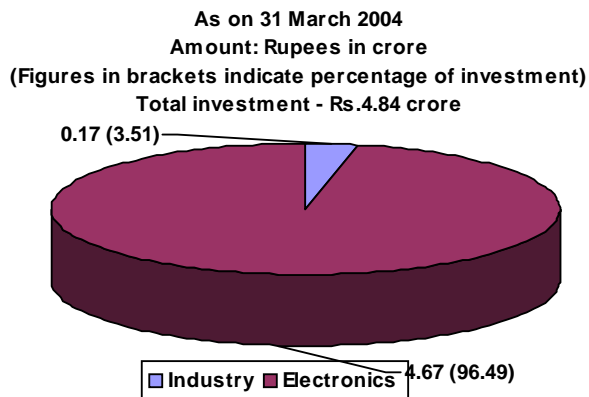
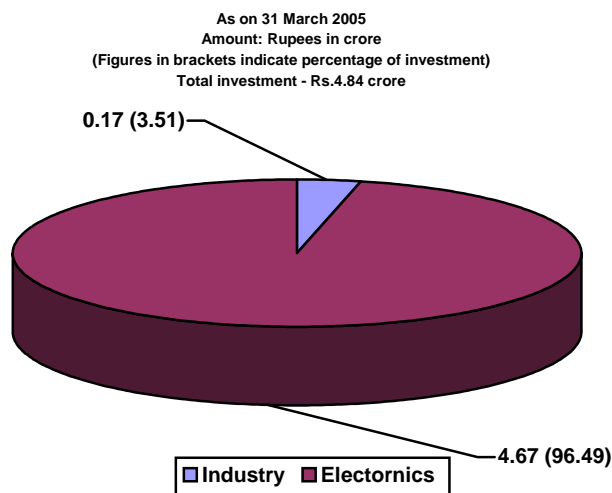
(Rupees in crore)

Sl. No.	Status of non-working Government companies	Number of companies	Investment	
			Equity	Long term loans
(i)	Under liquidation**	3	4.62	-
(ii)	Others***	3	0.22	-
	Total	6	4.84	-

Of the above non-working Government companies, three Government companies were under liquidation/closure under section 560 of the Companies Act, 1956 for periods ranging from nine to 14 years. Substantial investment of Rs. 4.62 crore was involved in these companies (*Appendix 7.1*). Effective steps need to be taken for their expeditious liquidation or revival.

Sector-wise investment in non-working Government companies

7.1.13 The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2005 and 2004 are shown in the following pie charts:



** Sl. No. C-1, C-5 and C-6 of *Appendix 7.1*.

*** Sl. No. C-2, C-3 and C-4 of *Appendix 7.1*.

Budgetary outgo, grant/subsidy, guarantees, waiver of dues and conversion of loans into equity

7.1.14 Details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of non-working Government companies are given in **Appendix 7.1 and 7.3**.

During the year 2004-05, there was no budgetary outgo in the form of equity/loans/subsidy/grants.

Finalisation of accounts by non-working Government PSUs

7.1.15 Three out of six non-working companies were under liquidation. The accounts of three non-working companies were in arrears for periods ranging from 15 to 18 years as on 30 September 2005 as can be seen from **Appendix 7.2**.

Financial position and working results of non-working Government companies

7.1.16 The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Appendix 7.2**.

The total paid-up capital, net worth, cash loss/profits and accumulated loss/profit of non-working Government companies as per their latest finalised accounts is shown below:

(Rupees in crore)				
Particular	Paid-up capital	Net worth ¹	Cash loss(-) / profit ² (+)	Accumulated loss (-) profit (+)
Non-working companies	4.70	(-)4.07	(-) 1.75	(-)8.76

Results of audit by the Comptroller and Auditor General of India

7.1.17 During the period from October 2004 to September 2005, the audit of accounts of four working Government companies were selected for review. The net impact of the important audit observations as a result of review of the Government companies was as follows:

Details	No. of accounts	Rs. in lakh
(i) Increase in loss	5	58.57
(ii) Non disclosure of material facts	2	852.56

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above Government companies are mentioned below:

¹ Net worth represents paid-up capital *plus* free reserves *less* accumulated loss.
² Cash loss/profit represents loss/profit *plus* depreciation for the year.

7.1.18 Errors and omissions noticed in the case of Government companies

UTTARANCHAL POWER CORPORATION LIMITED (2001-02)

Loans and Advances amounting to Rs. 12.41 lakh outstanding since 1978 and 1991-92 from two parties were not provided for. This resulted in overstatement of Loans and Advances by Rs. 12.41 lakh and understatement of loss to the same extent.

STATE INDUSTRIAL DEVELOPMENT CORPORATION OF UTTARANCHAL LIMITED (2003-04)

According to provisions of schedule VI (Part II, Item No. 3(xi) (c)) of the Companies Act, 1956, tax deducted at source (Rs. 67.65 lakh) by banks from interest on fixed deposits should have been shown as deduction from the gross amount of interest on fixed deposits on the income side, which was not done. This resulted in over statement of income/net profit and Loans & Advances (Schedule-6) by a corresponding amount.

KICHHA SUGAR COMPANY LIMITED (2003-04)

The Company did not show the value of 4,06,880 MT of bagasse amounting to Rs. 53.75 lakh lying in the stock. This resulted in overstatement of Loss and understatement of Closing Stock by Rs.53.75 lakh.

Internal audit/Internal control

7.1.19 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit/internal control systems in the companies audited by them in accordance with the directions issued by the CAG to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which need improvement. In the case of two companies (State Industrial Development Corporation of Uttaranchal Limited and Doiwala Sugar Company Limited) the Statutory Auditors had commented that the internal control system was weak and was not commensurate with the size and nature of its business.

Recommendation for improving performance or closure of PSUs

7.1.20 Even after completion of five years of their existence, the turnover (sales and other income) of five working Government companies (**Appendix-7.4**) had been less than Rs. 5 crore in each of the preceding five years of the latest finalised accounts. Similarly, three working Government companies (**Appendix-7.5**) had been incurring losses for five consecutive years (as per latest accounts) leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve the performance of these companies or consider their closure.

Response to Inspection Reports, Draft paragraphs and Reviews

7.1.21 Observations made during audit and not settled on the spot are communicated to the Heads of PSUs and concerned Departments of the State

Government through Inspection Reports. The Heads of the offices/PSUs are required to furnish replies to the Inspection Reports through the respective Heads of Departments within a period of six weeks. Inspection Reports issued up to March 2005 pertaining to 12 PSUs disclosed that 1,681 paragraphs relating to 487 Inspection Reports were outstanding at the end of September 2005. Of these, seven Inspection Reports containing 18 paragraphs had remained unreplied for more than five years. Department-wise break-up of Inspection Reports and Audit Observations outstanding as on 30 September 2005 is given in **Appendix-7.6**.

Similarly, draft paragraphs and reviews on the working of the offices/PSUs are forwarded to the Principal Secretary, Finance and the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Three draft paragraphs forwarded to the various departments during June/July 2005, had not been replied to so far as detailed in **Appendix-7.7**.

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to Inspection Reports/draft paragraphs/reviews and Action Taken Notes for recommendations of COPU as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayment in a time bound schedule, and (c) the system of responding to the audit observations is revamped.

Departmentally managed Government commercial/quasi-commercial undertakings

General

7.1.22 Consequent on formation of the State of Uttaranchal with effect from 9 November 2000, under the Uttar Pradesh Reorganisation Act 2000, the assets and liabilities of the undertakings already situated in Uttaranchal were to be passed on to the newly formed State.

Accordingly, the assets and liabilities of the following undertakings located within the State were deemed transferred to the newly created State from the aforesaid date.

Sl.No.	Department	Name of the undertakings
1.	Food and Civil Supplies	Grain Supply Scheme: Regional Food Controller, Dehradun Regional Food Controller, Haldwani
2.	Irrigation	Irrigation Workshop Division, Roorkee
3.	Animal Husbandry	State Livestock and Agricultural Farms, Kalsi, Dehradun State Livestock and Agricultural Farms, Manjhara, Dehradun
4.	Health	Rishikul Ayurvedic Pharmacy, Haridwar State Vaccine Institute, Patwadangar, Nainital

Lack of accountability for the use of public fund in departmentally managed commercial and quasi-commercial undertakings

7.1.23 Activities of quasi-commercial nature are performed by departmental undertakings of Government departments. These undertakings are to prepare pro-forma accounts annually in the prescribed format showing the results of financial operations so that Government can assess the results of their working. The Heads of Departments in Government are to ensure that the undertakings, which are funded by budgetary releases, prepare the accounts and submit the same to the Accountant General for audit by 30 June every year. It was observed that only the Irrigation Workshop Division (IWD), Roorkee had finalised its accounts for the year 2001-02, while the other undertakings have not finalised their accounts for the period 9 November 2000- March 2001, 2001-02, 2002-03, 2003-04 and 2004-05. Thus the accounts except in the cases of IWD, Roorkee, were in arrears for a period of five years, and in the case of IWD, Roorkee for a period of three years. There is no improvement in spite of this being pointed out earlier. The finalised accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, Government's investment remains outside the scrutiny of the State Legislature. Consequently corrective measures, if any required, cannot be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

619-B Companies

7.1.24. There was one working company under Section 619-B of the Companies Act, 1956. *Appendix 7.8* gives the details of paid up capital, investment by way of equity, loans and grants and summarised working results of the Company based on the latest available accounts.

MISCELLANEOUS TOPICS OF INTEREST RELATING TO GOVERNMENT COMPANIES

UTTARANCHAL POWER CORPORATION LIMITED

7.2 Non-charging of Rs. 42.51 crore from THDC

The Company did not charge additional 25 per cent amounting to Rs. 42.51 crore on electricity charges of Rs. 170.04 crore, as applicable on construction work.

Rate schedule LMV-9 (effective from 01 January 2002) and RTS-8 (effective from 20 September 2003) of the Uttaranchal Power Corporation Limited (UPCL) provide for the levy of charges in the appropriate schedule plus 25 per cent extra, from the consumers, including Government departments, engaged, *inter-alia*, in construction of any work/project.

Test check (August 2004 and September 2005) of the records of Electricity Distribution Division (Division), Tehri, revealed that it had entered into an agreement (3 July 2002) for supply of an additional 4 MVA energy (in addition to existing 6 MVA) to Tehri Hydro Development Corporation (THDC) till the completion of the Project. THDC was to be billed as per rate

schedule LMV-9, later (September 2003) incorporated in rate schedule RTS-8. It was noticed that the Division had, however, billed the consumer under LMV-2/RTS-2 (meant for commercial purposes etc.) for the period between July 2002 and July 2005 (37 months) and did not levy 25 *per cent* extra on the charges of Rs. 170.04 crore (Rs. 42.51 crore) on the consumer as required under the provisions of rate schedule LMV-9/RTS-8.

The Government in its reply (October 2005) stated that the bills have been raised for Rs. 18.42 crore for the period January 2002 to February 2005 but disconnection was not made in compliance to the orders (July 2005) of the District Judge, Tehri and the payments from THDC (without the additional 25 *per cent*) were being accepted under protest. The reply is not tenable in view of the fact that the Company failed to revise the agreement at the time of revision of rate schedule and the consumer may be conferred the benefits of the clauses of mutual agreement. Moreover, the authority to prescribe or revise the rates was transferred to Electricity Regulatory Commission in 2002-03.

7.3 Avoidable extra expenditure on purchase of Steel Tubular Poles

Vitiation of the tender process by the Corporation resulted in avoidable extra expenditure of Rs. 1.01 crore.

The procedure laid down (October 1971) by the erstwhile Uttar Pradesh State Electricity Board categorically provides that once the specifications of tendered items are clearly indicated in the tender, no subsequent changes which virtually border on a revised tender, may be made. If variation is permitted, the extent of variation should be indicated in the tender notice itself.

Test check (September 2003) of the records of the Uttaranchal Power Corporation Limited revealed that a tender was floated (July 2002) for supply of 21,360 numbers of steel tubular poles of the swaged type. One of the 13 firms whose bids were considered eligible, quoted the lowest rate for conical type poles which were different from the type of poles for which the tender was floated. The offered pole contained a lesser quantity of steel than the swaged type specified in the tender. Although the price bid of Utkal Galvanizers Limited (firm) was the lowest, their product did not conform to the specifications and should not have been considered. Also the rates quoted by the firm for conical type poles were not competitive as no other firm had quoted for this type of poles.

Despite protest from other parties, the Corporation decided (5 March 2002) to procure 50 *per cent* of the poles from the firm and placed orders for 40 *per cent* on the second lowest firm and 10 *per cent* on an Uttaranchal based firm. The other parties refused to accept the orders.

The Corporation then placed orders on the firm for supply of the entire quantity. The firm, after delivering 4026 numbers of poles of the ordered quantity, stopped delivery (July 2002).

For meeting requirements of incomplete works of 2001-02 and new works of 2002-03, fresh tenders for swaged type poles were floated in September 2002 against which the procurement of 43,500 numbers of poles was made. The rates finalized against the second tender were higher by 17.25 *per cent* as compared to the first tender, resulting into extra avoidable expenditure of Rs. 1.01 crore.

On this being pointed out (September 2003), the Corporation replied (October 2005) that the offer of the firm was accepted as per *Upvaky* no. 13.2, 13.3 and 14 relating to instructions circulated with the tender notice. The reply is not tenable in view of the fact that as per the Procedure for Invitation and Finalisation of Tenders issued by erstwhile Uttar Pradesh State Electricity Board (23 October 1971), the variation in specification is permitted to the extent specified in the tender notice. The tender was floated for swaged type poles and no specified variation in the form of conical type poles was mentioned in the tender notice. The *Upvaky* only permitted the variation in respect of standard of material which was not mentioned in the tender notice.

Had the Corporation adhered to the specifications and procured the poles at the earlier tendered lowest rates for swaged type poles (in the first tender), it could have avoided the extra expenditure of Rs. 1.01 crore.

The matter was reported to the Government (June 2005); reply is awaited (November 2005).

7.4 Blockage of funds on excess procurement

Funds amounting to Rs. 39.27 lakh were blocked due to non-utilisation of material procured in excess.

Material is procured centrally by the Uttaranchal Power Corporation Limited (UPCL) for its field divisions after ascertaining their requirements.

Test-check of the records of Electricity Transmission Division I, Dehradun (Division) revealed (April 2005) that out of six Nos. 145 KV Bus Isolators, five Nos. 36 KV Breakers and 57 Nos. 145 KV Lightning Arresters procured between April and June 2003, only one 145 KV Bus Insulator and three KV Lightning Arresters had been utilized. The remaining items, costing Rs. 39.27 lakh, were lying idle from April 2003 till date (November 2005). Executive Engineer (EE) requested (April 2005) other divisions to utilize these items, proving that they had been procured in excess of requirements. The guarantee of 18 months on these items also expired in December 2004.

On this being pointed out (April 2005), the EE intimated that the procurement of these items was necessary to keep the smooth supply of power. The reply is not tenable as the items were procured much in excess of the actual requirement and were lying unused despite their guarantees having lapsed.

The matter was reported to the Company and the Government (July 2005); replies are awaited (November 2005).

KUMAON MANDAL VIKAS NIGAM LIMITED

7.5 Unauthorised expenditure on a Tourist Complex

The Nigam spent Rs. 3.66 crore on a project contrary to Government sanction.

Tourism Department, Government of Uttar Pradesh sanctioned (January 1988) Rs. 2.25 crore to the Kumaon Mandal Vikas Nigam Limited (Nigam) for the construction of a 200 bedded Tourist Rest House at Haldwani on land provided free of cost for the purpose.

The Nigam proposed (May 2000) the construction of a Multipurpose Tourist Complex including an underground car park, shopping complex, etc., and submitted (December 2001) an estimate of Rs. 3.54 crore for the purpose, later revised (January 2003) to Rs. 5.31 crore. Approval and sanction had not been accorded by the Government of Uttaranchal (November 2005). The Tourism Department objected to the change of the project from Tourist Rest House to Multiplex.

Scrutiny of the records of the Nigam (November 2003) revealed that it had awarded (June 2002) the work of construction of the complex to a contractor at a cost of Rs. 3.89 crore and had incurred an expenditure of Rs. 3.66 crore (July 2004) without administrative approval and financial sanction of the Government.

On this being pointed out (November 2003), the Nigam in its reply (November 2005) intimated that the Government had empowered the Board of Directors for sanctioning of the Project in July 2000. The reply is not tenable in view of the fact that the Government vide their letter of July 2000 had only directed the Nigam that before taking further steps in the matter, they should submit its proposal to the Government after approval from the Board of Directors. The Department of Tourism clarified (November 2005) that the Government approval for the project has not been given.

The matter was reported to the Government (July 2005); reply is awaited (December 2005).

Dehradun

The

(PRABHAT CHANDRA)

Accountant General, Uttaranchal.

Countersigned

New Delhi

The

(VIJAYENDRA N. KAUL)

Comptroller and Auditor General of India.