

## CHAPTER-III

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

#### 3.1 Government companies

##### *Uttar Pradesh Rajkiya Nirman Nigam*

#### 3.1.1 Avoidable loss due to defective tendering and lack of control

**Incorrect application of foreign exchange conversion rate in bid pricing and lack of control over expenditure and monitoring, resulted in avoidable loss of Rs.2.62 crore in construction of B. P. Koirala Institute of Health Sciences, Dharan (Nepal).**

The Government of India, under the Indo-Nepal Friendship Treaty, assigned construction of B. P. Koirala Institute of Health Sciences at Dharan in Nepal to the Central Public Works Department (CPWD). Uttar Pradesh Rajkiya Nirman Nigam secured work of construction of the institute in three phases for Nepali Rupee (NR) 20.43 crore during July 1995 to August 1996 from CPWD and completed in 1999-2000 at a cost of NR 25.60 crore. The Company received final payment of NR 21.41 crore (up to March 2000) from the CPWD, thus leading to loss of NR 4.19 crore (equivalent to Indian Rupee (IR) 2.62 crore) which could have been avoided, had the Management adopted the prevailing rate of exchange while tendering and exercised control over the expenditure, as discussed below:

- As per condition of the tender, offer was to be made in NR. The Company worked out the value of tender at IR 7.56 crore (work of main building/phase-I) and submitted the same for NR 11.20 crore, by applying conversion rate of 100 IR:149 NR which was accepted at a negotiated price of NR 11.02 crore. Since actual exchange rate prevailing at the time of tender (June 1995) was 100 IR:160 NR, the Company should have quoted the tender value at NR 12.10 crore. Due to adoption of incorrect exchange rate, the tender remained under priced consequently, the Company suffered a loss of NR 90 lakh.
- The Company failed to exercise control measures as prescribed in the working manual of the Company for purchase of material, engagement of labour etc., besides genuineness of cost of material and labour was also not ascertained. The record of measurement of work was not maintained. These factors resulted in loss of NR 2.25 crore.
- As per accounting system followed by the Company, materials issued to the Engineers/Storekeepers deputed at the site of work should be accounted for by them under the 'material-at-site' (MAS) account and balance should be drawn and tallied with reference to the 'consumption statement'. Nine Engineers/Storekeepers did not maintain MAS account. As such, tally of total issue of building material on the work with 'consumption statements' submitted (at the close of the work) by them brought out a shortage of materials valuing NR 80 lakh.

- The Company did not obtain necessary certificate from the client for availing excise exemption on steel and salitax board purchased from Indian market and also did not obtain sales tax exemption from Government of Nepal in respect of steel purchased from local market though the aggregate amount of relief was taken into consideration while quoting the rates in tender. This resulted in excess expenditure in procurement of material aggregating to NR 11.12 lakh.
- Advances were given to various suppliers/piece rate workers (PRW) without exercising prescribed control over its adjustments. The recovery of unadjusted advances amounting to NR 12.87 lakh on the close of the work was considered doubtful by the Company.

The Management while confirming the above facts stated (August 2003) that action against 25 officers/officials is in progress. However, no responsibility has been fixed so far (September 2003) even after expiry of over three years since submission of the enquiry report (October 2000).

The matter was reported to the Government (June 2003); the reply is awaited (October 2003).

*Uttar Pradesh Bhumi Sudhar Nigam*

**3.1.2 Avoidable payment of Central Sales Tax on railway freight**

**The Company made avoidable payment of CST of Rs.3.26 crore on freight due to procurement of gypsum at FOR destination rates.**

The Company procures agriculture grade gypsum for its distribution to the beneficiaries under the “Sodic Land Reclamation” project, which is being implemented by it with the financial assistance of the World Bank (WB).

The Company had been procuring gypsum by inviting International competitive bids where the bidders were required to quote FOR destination rates and Central Sales Tax (CST) as statutorily applicable was payable extra (on freight element). As such, the practice of calling for and awarding FOR destination rates, instead of ex-works rates, involved extra burden of CST on the freight element. The Company did not call for ex-works rates (with freight up to destination on Company’s account) so as to restrict its CST liability. While placing the orders (January 2001) the Company, however, incorporated an additional condition restricting payment of CST on ex-works price on three firms of Rajasthan State. The additional clause proposed by the Company, was not accepted by the suppliers on the grounds that the terms of the tender as well as composite rates quoted represented F.O.R. destination contract and, therefore, attracted CST on total amount billed including freight.

It was observed (February 2002) that the Company paid CST of Rs.3.26 crore on freights of Rs.83.38 crore on the procurement of 12.31 lakh tonne gypsum during 1999-2000 to 2002-03. Thus, by not inviting bids on ex-works rates basis with a clause for direct payment of freight by it, the Company incurred an extra expenditure of Rs.3.26 crore in the form of CST on freight which could have been avoided.

Management stated (July 2003) that as per conditions of the agreements entered by the Company with Central/State Government and World Bank, the transportation cost up to rail head was reimbursable to the Company and it would have to open site

offices to each dispatching stations for monitoring the transportation of gypsum which might cost an extra 5 per cent of freight. The reply is not acceptable as there was no need for opening site offices at each dispatching stations as the transportation could have been managed by issue of "Freight to Pay" railway receipts which was also advised by the Tax Advisors of the suppliers themselves.

The matter was reported to the Government (June 2003); the reply is awaited (October 2003).

### **3.1.3 Loss in implementation of Swa-Shakti Project**

**Company incurred actual expenditure at the rate of Rs.1983 and Rs.2522 per group against approved rate of Rs.1300 per group resulting in a loss of Rs.76.22 lakh.**

The World Bank assisted 'Swa-shakti' project for empowerment and development of rural women was being implemented by the Company in 13 districts of the State under a Memorandum of Understanding (MOU) with Mahila Kalyan Nigam which was responsible for implementation of the scheme in 15 districts of the State. At the instance of the World Bank, another MOU was signed (August 2001) with Central Project Support Unit (CPSU) of the Government of India (GOI) under which the Company assumed a separate entity for implementation of the project. The MOU spelt out modalities for reporting physical and financial progress directly to CPSU.

Under the scheme, the Non-Government Organisations (NGOs) were appointed to form 'Women Self Help Groups' (groups) for which they were to be paid remuneration at the rate sanctioned by GOI.

It was observed in audit (January 2003) that the Company, on its own, without prior approval of GOI entered into agreements with NGOs for payment at the rate of Rs.1,924 per group for the year 2001-02 onwards against the approved rate of Rs.1,300 per group. The Company, however, incurred actual expenditure at the rate of Rs.1,983 and Rs.2,522 per group during 2001-02 and 2002-03 respectively leading to a loss of Rs.76.22 lakh.

Management stated (September 2003) that re-imburement of the expenditure above Rs.1300 per group was being pursued with GOI. The reply is not tenable as no plausible explanation was rendered in reply for making agreements with NGOs at higher rate and incurring expenditure even at higher than agreement rate without prior approval of GOI. Further, the admissibility of the claim was restricted (August 2002) by GOI to the approved rate of Rs.1,300 per group.

The matter was reported to the Government in June 2003; the reply is awaited (October 2003).

### ***Uttar Pradesh State Industrial Development Corporation Limited***

### **3.1.4 Undue benefit to an allottee**

**The Company extended undue benefit of Rs.1.42 crore to an industrialist by allotting plots in Leather Goods sector for the projects, which qualified for allotment in Tannery sector.**

The Leather Technology Park (LTP) at Banthar, (District: Unnao), developed by the Company is divided into two sectors i.e. 'Tannery' for setting up industries

involving tanning process and 'Leather Goods' for setting up industries involving use of finished leather as raw material. The 'Tannery' sector involved captive drainage system and installation of Central Effluent Treatment Plant (CETP) as a measure of adequate pollution control device because of huge discharge of polluting liquid effluent during the process of slaughtering and tanning. As such, the rate of land in 'Tannery' sector (Rs.460 per sqm *plus* Rs.75 per sqm as CETP charges) was fixed higher than that in 'Leather Goods' sector (Rs.370 per sqm.).

The project profile submitted (September 2000) by J.S. International (allottee) included establishment of slaughter house and manufacturing of dog chews and dog food of all sorts, frozen meat, bone and meat meals, etc. So, the Company allotted (October 2000) land measuring 66,000 sqm in 'Tannery' sector. The allottee, however, protested (October 2000) against the allotment in 'Tannery' sector on the ground that their project did not involve tanning process and, therefore, they should not be charged at the rate applicable for 'Tannery' sector. The Company accepted the request of the allottee and allotted (December 2000) land measuring 85,774 sqm on payment of Rs.3.21 crore at the rate as applicable for 'Leather Goods' sector.

It was observed in audit (August 2001) that as per the project profile, the process involved slaughtering and use of tanning chemical etc. with discharge of plenty of effluents for which CETP installations was not available in 'Leather Goods' sector. As such, project of the allottee was *ab initio* qualifying for allotment in 'Tannery' sector only. By not allotting the land in 'Tannery' sector, the Company, extended undue favour to the party to the tune of Rs.1.42 crore (Rs.165 per sqm. being rate differential X 85774 sqm land allotted).

Management stated (July 2003) that project of the allottee did not involve tanning process, therefore, the land was re-allotted in 'Leather Goods' sector. The reply is not acceptable because process of manufacturing of dog chews and food, frozen meat and bone and meat meals, etc. involved slaughtering and use of raw leather, tanning and finishing chemicals as raw material input apart from use of huge water which was bound to emit polluted effluents. As such, the project did not qualify for allotment in 'Leather Goods' sector.

The matter was reported to the Government (June 2003); the reply is awaited (October 2003).

### **3.1.5 Blockade of fund due to excess payment of compensation**

**Fund of Rs.69.40 lakh remained blocked due to release of compensation to SLAO at rates exceeding the award of Court without verifying the correctness of their demand.**

The Company acquired (January 1982) 171.46 acre of land in village Tigaria through the Special Land Acquisition Officer (SLAO), Moradabad. The award of compensation, payable to land owners, was declared by the SLAO in September 1986 at Rs.10,156 per acre. The compensation so demanded was deposited (April 1991) by the Company. Fifteen landowners, however, did not accept the award and moved (1987) the District Court for enhancement of the rate. Although the District Court awarded (May 1989) compensation at flat rate of Rs 40,741 per acre irrespective of grade and present use of land, the SLAO raised additional demand aggregating Rs.1.06 crore during 1989-90 and 1990-91 based on graded rates ranging from Rs.40,741 to Rs.1,64,472 per acre without furnishing any details. The

Company released funds without examining the correctness of demands so raised by the SLAO with reference to the Court's decision.

On appeal by the Company against the District Court's order, the rate was further enhanced (May 1995) to Rs.50,000 per acre by the High Court but reduced (March 1996) to a flat rate of Rs.35,000 per acre by the Supreme Court. In terms of above order, a sum of Rs.69.40 lakh was recoverable from the SLAO who had already disbursed the amount to farmers after its collection from the Company. In spite of protracted correspondence by the Company, the amount remained unrecovered so far even after expiry of seven years of the final verdict (March 2003). On vigorous pursuance by the Company, the Government issued directives in July 2001 to effect the recovery as arrears of land revenue but no action could be taken in this regard for want of approval by the Board of Revenue.

Thus, the payment of additional compensation against inflated demand without exercising any check over the rates claimed by the SLAO before payment led to additional payment of Rs.69.40 lakh which remained blocked with consequential loss of interest of Rs.1.10 crore for ten years, at the rate of 16 *per cent* per annum (based on the rate of interest on Government loan) and chances of recovery were remote due to lapse of such a long period without any concrete progress in the matter.

Management stated (July 2003) that demand raised by SLAO could not be verified due to non-furnishing of details and their demand at graded rates had to be paid to avoid Attachment Order of District Court. The reply is not tenable as compensation demanded at graded rates and Attachment Order both could have been contested with reference to earlier order of the District Court for compensation at flat rate. The Government stated (August 2003) that instructions had been issued to the District Magistrate for ensuring recoveries. Loss of interest of Rs.1.10 crore, however, due to lapse of Management shall remain unrecovered.

#### ***Uttar Pradesh State Sugar Corporation Limited***

##### **3.1.6 Loss due to unsafe storage of sugar in hired cold storage**

**Storage of sugar in old non-operational cold storage without adequate insurance led to loss of Rs.1.19 crore.**

The existing godowns of Amroha Sugar factory were full with unsold sugar of earlier season. With a view to overcome the problem of storage of sugar during the crushing season 2001-02, the Company decided (October 2001) for hiring the required space in a cold storage situated at Joya road Amroha. Technical advice for the purpose was obtained (October 2001) from M/S Ahluwalia Associates, Meerut (private technical consultants) who computed safe load carrying capacity of the chambers of the cold storage on the basis of the drawings provided by the owner without assessing the physical strength of pillars, wooden racks, RCC ceiling and condition of ammonia gas pipes. Accordingly, two chambers in the cold storage were hired (December 2001) by Amroha factory for storing 1.20 lakh quintal of sugar at a monthly rent of Rs.2.10 lakh. As per agreement with the lessor, the Company was required to insure the stock against all risks. The stock was, however, insured by the Company against theft and fire risks only. No insurance cover was taken by the lessor for building.

It was revealed in audit (September 2002) that the Amroha Sugar Factory stored 1.03 lakh quintal of sugar in January 2002 in two chambers of the cold storage. In the last week of January 2002, three pillars of chamber No. 1, where 37,450 quintal sugar was stacked, collapsed due to excessive load. As a result of which the ammonia gas pipeline laid on the racks' platform got damaged and the entire sugar stored therein got moist and damaged. The Management, however, did not make any immediate efforts to shift the sugar till 2 August 2002 (except 908 quintal transferred/sold) when, the ceiling of this chamber got partly damaged due to rain. Even then, Management could shift only 11,996 quintal of rain soaked sugar from this chamber, leaving therein a balance of 24,546 quintal sugar under the debris when the ceiling subsequently collapsed on 5 September 2002 due to torrential rains. Out of 24,546 quintal buried sugar, the Management shifted 21,590 quintals sugar during 6 September to 27 October 2002 to its factory and 2.956 quintal sugar was reported lost. The damaged sugar (21,590 quintals) was sold for Rs.2.15 crore at rates varying from Rs.974 to Rs.1,025 per quintal received in tender opened in December 2002.

The claim for Rs.3.30 crore on account of loss of sugar lodged (September 2002) by the Company and revised (July 2003) to Rs.1.19 crore (reduced by sale proceeds: Rs.2.15 crore and added by expenditure of Rs.3.88 lakh relating to cold storage) under the insurance policy taken by it, did not yield to any result as risks against natural calamities were not covered under the policy taken by the Company. Thus, storage of sugar in cold storage without assessing its physical strength and inadequate coverage of insurance policy against losses due to natural calamities resulted in a loss of Rs.1.19 crore. The loss could have been avoided by storing the sugar in the godowns of its own closed sugar factory at Rampur (60 kms away from Amroha) which was economical as the additional transportation cost of Rs.14.68 lakh from Amroha factory to Rampur factory would have been set off against huge rent of Rs.13.84 lakh paid to the owner of the cold storage up to July 2002.

Management stated (July 2003) that load bearing capacity could be assessed by "destructive test" only which was not feasible and insurance policy was taken by the Company against fire standard and special peril. The reply is not tenable as the cold storage which was not in use for the past many years required more care in assessment of load bearing capacity and if, the destruction test was not feasible, the Management ought to have opted for storage of sugar at Rampur factory. Further, the Company was required to insure all stocks against all the risks under the provisions of clause 10 of the agreement entered into with owner of the cold storage, but it took insurance policy, which covered fire standard and burglary risks only.

The Government endorsed (August 2003) the reply of the Management, which is not tenable in view of facts stated above.

### **3.1.7 Loss due to non-reprocessing of brown sugar**

**The Company suffered loss of Rs.83.73 lakh on sale of brown sugar instead of reprocessing it in next crushing seasons of respective production year.**

As per practice in vogue, the brown sugar of one season was to be reprocessed during the next crushing season so as to convert it into fresh sugar to obtain better prices and liquidate the locked funds/inventory. As per past performance of the

Company, 80-90 *per cent* fresh sugar is recovered by reprocessing the brown sugar in the very next year.

Bhatni, Laxmiganj and Deoria units of the Company had been reprocessing (1988-89 to 2001-02) partial quantity of brown sugar in the next crushing season and carried over its major stock every year which accumulated to 18,339 quintal up to 2001-02. It was seen during the course of audit (March 2002) that the Company sold out this carried over stock for Rs.85.30 lakh at the rates varying from Rs.200 to Rs.625 per quintal during July/August 2002. It was observed (April 2002) that had the brown sugar been reprocessed in the crushing season following the respective production year, the Company could have obtained minimum recovery of 80 *per cent* (14,671 quintal) fresh sugar and realised Rs.1.76 crore by its sale at rates varying from Rs.700 to Rs.1,400 per quintal prevailing in the respective years of reprocessing. Thus, by not reprocessing the brown sugar, which was economical, the Company suffered a loss of Rs.83.73 lakh (after reducing the cost of reprocessing: Rs.10.27 lakh and adding the sale price of 20 *per cent* molasses: Rs.3.30 lakh).

Management stated (August 2003) that reprocessing was adversely affected in these units, as it required extra fuel, which was lacking due to gradual fall in cane availability/short duration of crushing season. The reply is evasive as production of brown sugar ranging between 635 quintal to 2,350 quintal in a season could be reprocessed easily in the next seasons by managing fuel from other sister units. Further, the contention of the Management that recovery of fresh sugar will vary between 50-80 *per cent* is also not correct as this figure is estimated based on apprehension of reprocessing in 2002-03 (after a gap of 1-14 years) whereas a minimum recovery of 80 *per cent* could have been ensured by reprocessing in the very next season. Furthermore, the Management's contention that reprocessing will cost Rs.140 per quintal is not correct as it includes largely transportation cost of brown sugar from these units to other units in case of reprocessing in 2001-02 whereas reprocessing cost would have been restricted to around Rs.56 per quintal as no transportation cost was involved in case of reprocessing in the same units in respective years.

The matter was reported to the Government in June 2003; the reply is awaited (October 2003)

### **3.1.8 Wasteful expenditure**

#### **The expenditure of Rs.16.69 lakh incurred on installation of regulators proved wasteful.**

In order to avoid fluctuations caused by manually operated control systems, the Company commissioned (1998-99) "Feed Water Regulatory System" (FWRS) to regulate water supply to the boilers automatically in Amroha Sugar Factory. The FWRS did not work since inception. As a result, feed water was being controlled manually causing fluctuations in feed water and damage to super heater coils.

The Company, with a view to overcome the above problem and to maintain water level automatically in drums of boilers, placed (October 1998) an order on Dhiraj Prasad & Company, New Delhi for supply of two sets of Copes Feed Water Regulator and its installation and commissioning at a cost of Rs.19.64 lakh. The supplier installed and commissioned the regulators during December 1998 and January 1999. On certification of Chief Engineer of the factory (January 1999) to

the effect that the regulators were working quite smoothly and satisfactorily, 85 *per cent* payment (Rs.16.69 lakh) was released to the supplier and balance 15 *per cent* (Rs.2.95 lakh) was retained for satisfactory performance for one year as per terms and conditions of the order. The terms and conditions of purchase order, however, did not stipulate any guarantee/warranty for the regulators.

It was observed (September 2002) in audit that soon after one week of installation, water regulators started giving excess water to the boilers. In spite of repeated reminders, the supplier could not set right the equipment and as a result, the water feeding function was being controlled manually (September 2003). The Management neither made efforts to get the regulators set right at the risk and cost of the supplier nor initiated legal action against them for supply of unsuitable regulators. Thus, the expenditure of Rs.16.69 lakh incurred on the regulators proved wasteful and its objectives could not be achieved.

Management stated (June 2003) that the system was not working satisfactorily despite the modification made at the instance of own technical advice but necessary action would be taken to set right the system by next season with the help of suppliers of the regulators. The reply is not satisfactory as the suppliers have themselves failed in their earlier attempts and no guarantee/warranty had been obtained from the supplier to safeguard the interest of the Company.

The matter was reported to the Government (June 2003); the reply is awaited (October 2003).

*Uttar Pradesh Small Industries Corporation*

**3.1.9 Undue benefit to additional co-ordinators appointed on lower profit sharing basis**

**Additional coal co-ordinators were appointed at lower sharing profit margin for same districts where a coal co-ordinator was already working at higher sharing profit margin thereby incurring loss of Rs.18.51 lakh.**

The Company appoints coal co-ordinators for procurement of steam and slack coal from units of Coal India Limited against allotment made by the Director of Industries in favour of the Company. The selling price of coal, as fixed by the Company, includes 10 *per cent* profit over landed cost of coal at destination, which is shared between the co-ordinators and the Company at agreed ratio.

It was noticed (August 2001) in audit that, on the basis of open tender, the Company appointed (September 1996) S.K. Jain & Company, Meerut to act as co-ordinator for a period of two years, which was extended up to September 2000, for its eight dumps/districts of steam and slack coal on the basis of profit sharing at 70 *per cent* by the Company and 30 *per cent* by the co-ordinator. During the contract period, the Company appointed (December 1997) three additional co-ordinators for the period from December 1997 to December 1998 for the same districts on the basis of lower profit sharing of 50:50 without making any analysis of the cost of operations by the co-ordinators in justification of lower profit accepted by it as compared to higher profit already being shared with S.K. Jain & Company. Furthermore, the additional co-ordinators were granted (January 1999) another one year's extension (up to December 1999) without inviting any fresh tender.

Thus, appointment of additional co-ordinators at lower profit margin, while contract at higher profit sharing basis was still valid, resulted in loss of Rs.18.51 lakh to the Company.

The matter was reported to the Management and the Government in June 2003; their replies are awaited (October 2003).

## Uttar Pradesh Power Corporation Limited

### 3.1.10 Loss in purchase of power from private generators

**The Company suffered loss of Rs.7.13 crore in purchase of power from private generators due to inconsistent provisions in agreement and other deficiencies.**

The Government of Uttar Pradesh formulated (October 1994) a policy for private participation in generation of electricity through non-conventional energy sources for which biomass fuels from sugar mills (like bagasse) and other agricultural industries was available in abundance. The energy so generated was to be purchased by Uttar Pradesh Power Corporation Limited (Company) on the basis of a power purchase agreement (PPA).

The Company entered into agreements between November 1995 and December 1998 (revised between January 2000 and March 2002) with eight Private Generators (PGs<sup>1</sup>) for purchase of their surplus energy to the extent of 48.3 MW.

The PPA of these PGs were test checked between July 2001 and May 2002 during audit and the deficiencies (leading to loss aggregating to Rs.7.13 crore) noticed are discussed below:

#### (a) Non-recovery of cost of maintenance of power evacuation system from PGs

Section 18 A of Electricity Supply Act, 1948, *inter alia*, provides that Generating Company i.e. PG has to establish, operate and maintain generating stations and tie-lines, sub-stations and main transmission lines connected therewith. The agreements with the PG provided that they would provide power evacuation system at their own cost up to the grid sub-station of the Company. The agreements further stipulated that till such time the system was not constructed, they would use the Company's existing system. While allowing this facility, the Company did not stipulate any time frame for completion of work and a condition to charge maintenance cost from them. A clause was belatedly incorporated (March 2002) in case of Simbholi Sugar Mills Limited, Ghaziabad to recover a minimum of 1.5 *per cent* (of deemed cost of evacuation system) on account of maintenance cost of the system used by the PG. Absence of an enabling clause in the agreement facilitated continued use of Company's evacuation system without any charge for the cost of maintenance and financial cost of the system<sup>2</sup>.

Based on the wheeling charges (rent of the line) of 12.5 *per cent* of the net energy sold/billed by the PG to the Company (as being charged for evacuation of power

<sup>1</sup> Dhampur Sugar Mills, Barabanki (15.11.95 for 15 MW), Dhampur Sugar Mills, Asmouli of Moradabad (15.11.95 for 6 MW), Monnet Industries, Muzaffarnagar (30.12.95 for 1.8 MW), Agauta Sugar and Chemicals, Bulandshahr (10.6.96 for 2.5 MW), J. K. Sugar Mills, Bareilly (17.7.96 for 6.5 MW), Simbholi Sugar Mills, Hapur (16.12.96 for 5 MW) and SIAL-SBEC Bio-energy, Meerut (17.12.98 for 7 MW), Dhampur Sugar Mills, Dhampur (15.11.95 for 4.5 MW).

<sup>2</sup> As cost of deemed expenditure on power evacuation system was not made available, loss on account of non-recovery of maintenance cost could not be worked out in audit.

from other units of the PG), loss in case of four PGs worked out to Rs.5.37 crore<sup>1</sup> from April 1996 to July 2002.

**(b) Ultra vires provision for sharing of cost of transmission lines meant for power evacuation**

The agreement of Dhampur Sugar Mills Limited, Barabanki provided for incurring cost of power evacuation system (132/11 KV) by itself and the same was in line with Section 18 A of the Act *ibid*. The Company, in contravention of the stipulations of the Act, modified (January 2000) the clause providing that 132 KV line up to its 132 KV, Barabanki sub-station shall be constructed by the Company and 50 *per cent* cost thereof shall be recovered from the PG.

The Mill was to bear an expenditure of Rs.5.28 crore and Company was to bear the expenditure of Rs.4.50 crore. The construction work had not started till June 2003 and share of the Mill was also to be received. The fact remains that the PG has been using power evacuation system of the Company free of cost.

Thus, ultra-vires act of accepting the burden of the PG resulted in inadmissible cost to be incurred by the Company for the benefit of the PG.

**(c) Non beneficial power purchase agreement with a private generator**

A PPA executed (December 1998) with M/s Monnet Industries, Muzaffarnagar provided that power evacuation was to be made through 11 KV feeders for its distribution to rural consumers of the area. Further, the energy supplied by the PG was to be billed at the consumption recorded in the meter installed at the supply point of the PG. In this connection it was noticed in audit that despite the fact that line losses in the area were more than 60 *per cent* due to un-metered supply and energy was being sold at the rate of Rs.1.80 per unit against the purchase rate of Rs.2.475 per unit, the Company executed agreement for supply at 11 KV rural feeder instead of taking supply at 33/11 KV Sub-station where the import meter could be installed.

During March 1998 to February 2002, the Company paid for 0.62 MU of energy to the PG against which the sale to the consumers aggregated 0.19 MU only. This resulted in loss of 0.43 MU valuing Rs.1.07 crore.

The General Manager (Distribution), Saharanpur agreed to audit objection (August 2002) and recommended for cancellation of PPA in view of heavy losses. Uttar Pradesh Electricity Regulatory Commission, too agreed (August 2000) that power evacuation should be on 132 KV Sub-station by the PG. No action was taken by the Company so far (September 2003).

Thus, the execution of agreement with private generator was not beneficial to Company resulted in loss of Rs.1.07 crore.

**(d) Loss due to non-deduction of prescribed system losses**

The import and export of energy of the PG was to be measured by installing meters at incoming and outgoing feeder panels of the power evacuation system. Where such meters were not provided, 5 *per cent* from the imported units were to be deducted and payments made on the net energy after such deduction. Electricity Distribution Division, Hapur, however, failed to make deduction of Rs.21.68 lakh on this account

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<sup>1</sup> J. K. Sugar Mills, Bareilly (Rs.1.56 crore), Dhampur Sugar Mills, Barabanki (Rs.3.46 crore), Dhampur Sugar Mills, Asmouli, Moradabad (Rs.0.26 crore) and Dhampur Sugar Mills, Dhampur (Rs.0.09 crore).

for the period from April 1997 to April 1999 (meter installed thereafter) in case of Simbholi Sugar Mills, Ghaziabad.

**(e) Loss of rebate**

The Company can avail discount at the rate of 2.5 per cent of the payments to be made to PG if the payment is made within 30 days.

Electricity Distribution Division, Bareilly and Baraut (Meerut) delayed payment of bills of M/s J. K. Sugar Mills, Bareilly and SIAL SEBC Bio Energy Limited, Meerut respectively during December 1997 to June 2001 and failed to avail rebate of Rs.47.19 lakh (Rs.21 lakh and Rs.26.19 lakh respectively).

The matter was reported to the Management and the Government in June 2003; their replies are awaited (September 2003).

**3.1.11 Performance of Vigilance Wing (Wing)**

**The Vigilance Wing could not contribute to the efficiency of the Company as it could conduct raids only in one to two per cent cases and enforce assessment in 33 to 60 per cent cases.**

The erstwhile Uttar Pradesh State Electricity Board (Board) created (1970) Enforcement (Police) Wing with a view to detect and prevent theft of electricity by domestic, commercial, small and medium power consumers (having load up to 100 BHP only) and conduct enquiry into complaints of corruption and malpractices against its officers and staff. With trifurcation of the Board from 14 January 2000, the Wing was attached to Uttar Pradesh Power Corporation Limited (Company). The Wing was headed by an officer designated as Inspector General, Vigilance (IGV) who was assisted by two Superintendents of Police, one each for Vigilance and Enforcement (SPV and SPE). The Vigilance Wing was responsible for enquiring into the complaints of corruption and malpractices and Enforcement Wing for detecting and preventing theft of electricity by conducting raids at consumers' premises. As on 31 March 2003, the Wing had 318 men in position (Vigilance: 12 and Enforcement: 306). The establishment cost of these staff members ranged between Rs.5.65 crore and Rs.6.64 crore and the realisation made at their instance ranged between Rs.2.31 crore and Rs.3.46 crore only during three years up to 2002-03.

The performance of the wing was reviewed (February and March 2003) during audit for a period of three years up to 2002-03. Test check of the records of headquarters office and five Electricity Distribution Divisions (EDD)<sup>1</sup> revealed the following deficiencies:

**(i) Frequent change of IGV and other staff on deputation**

During a period of past 10 years up to March 2003, 13 persons held the charge of the post of IGV for period ranging from 27-577 days (except for an intermittent tenure of 815 days by one IGV). Similarly, eight Inspectors/Sub-inspectors held charge from 3 days to 11 months during three years up to 2001-02<sup>2</sup>.

Short duration of Head of the Office and other staff members, contrary to the directives (December 1979) of State Government, deprived the Company of the

<sup>1</sup> EDD-I, Allahabad, EDD-II, Jhansi, Electricity Urban Distribution Division I, II & III, Ghaziabad.

<sup>2</sup> Position in respect of 2002-03 and other staff members were not furnished to audit.

benefits of consistent leadership and workers for detecting or preventing theft of energy or quick finalisation of complaint cases. The deficiency was reflected in heavy line losses, which varied from 26.83-41 *per cent* during 1998-99 to 2002-03 as against 11.5 *per cent* prescribed by the Central Electricity Authority. Similarly, out of 137 cases relating to complaints/malpractices pending for disposal at the close of March 2003, 27 cases were pending for over 5-12 years and one case for over 33 years. Reasons for delays could not be examined in audit as the IGV did not furnish case files to vouchsafe status of each case despite the matter being brought to the notice of the Government and Management in May 2003.

The Vigilance Wing stated (September 2003) that posting of high level officers in the wing was done by the State Government and the working was not affected as operating level staff were Inspectors and Deputy Superintendent of Police. Further, delays in finalising complaints and cases of malpractices were due to (i) delays in availability of records, (ii) frequent transfers of important witnesses and (iii) pre-occupation of inquiry officers in enforcement works. The reply confirms contravention of Government policy.

**(ii) Lack of professional approach to achieve the avowed objectives**

The Superintending Engineers of Distribution Circles (SED), available at the zonal headquarters of the raid teams, were made the Nodal Officers (NOs) to plan for conducting raids. The NOs were to prepare work plans for four days in a week by identifying such consumers/areas where large-scale theft was suspected. The raid teams were to be headed by the Assistant Engineer (AE) and his instructions were to be followed by other team members. The Executive Engineers of the concerned Distribution Divisions were to raise assessment bills immediately on the basis of the raid reports. The procedure further stipulated that the respective Chief Zonal Engineers (CZE) and Superintending Engineers (SE) shall arrange a meeting of all the concerned staff members (including the Deputy Superintendent and his Inspector) and shall investigate the deficiencies leading to non-assessment. The deficiencies were to be brought to the notice of the raid teams to avoid their recurrence in future. The CZEs and SEs were also to ensure that a countersigned copy of the report was handed over to the raid teams after making assessments on the consumer within three to six days from the date of the report.

It was noticed during audit that the system was deficient to the extent that:

- It did not stipulate periodicity of raids for coverage of all the consumers (falling within the ambit of the raid teams) atleast once within a reasonable time frame (say one to three years), and coverage of high theft prone feeders based on input of feeder-wise energy account. The wing had not developed any mechanism to exercise counter check on the NOs.
- Further analysis revealed that the shortfall in coverage of consumers by the raid teams within their ambit was in the range of 98 to 99 *per cent* (only 1-2 *per cent* covered)<sup>1</sup> and shortfall in cases of assessment raised to assessment proposed was in the range of 40-67 *per cent*<sup>2</sup> during three years up to 2002-03.
- Realisation of dues against such assessment was in the range of 15-34 *per cent* during the same period.

It was also noticed that the raid teams concentrated only on domestic (LMV-I) and commercial (LMV-II) category of consumers and that too of urban areas

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<sup>1</sup> Raids were conducted on 85606 consumers to 183740 consumers out of 7977278 to 8390931 consumers within the ambit of IGV during three years ending 2002-03.

<sup>2</sup> Assessment made in 12549 to 16110 cases out of 26964 to 48410 cases, reasons for non-assessment not indicated during three years ending 2002-03.

constituting 29-31 *per cent* of the connected load and the remaining consumers (LMV-3 to LMV-6) comprising small, medium power and private tube well consumers were largely neglected.

The Vigilance Wing stated (September 2003) that the squads, not having independent entity, have become virtually non-functional due to their being attached to the Sub-divisional Officers. Further, the observation of neglect of LMV-3 to LMV-6 were correct and unless comprehensive programme to cover all the consumers were chalked out by the field officers, the objective of checking all the consumers can not be achieved.

The above deficiencies were indicative of lack of professional approach in proper perspective to achieve avowed objective of arresting trend of theft of electricity in the State.

**(iii) Non-assessment of raid cases due to lack of monitoring**

The wing fixed targets of raids for the first time in October 2001. Till then, the raids were conducted in an inconsistent manner. There was no system of monitoring assessments raised against the cases reported by the NOs. The CZEs and SEs who were made responsible to review cases of non-assessment and issue directives to the raid teams failed to issue such directives as a result of which deficiencies in the raid reports continued and resulted in non-assessments. It was noticed in EDD-I, Allahabad that 17 raid reports for the period from December 2001 to March 2002 involving theft of energy (assessment proposed for Rs.19.93 lakh in 16 cases, assessment in one case not made available) did not contain signature of the Assistant Engineer (in one case even the signature of Junior Engineer was not obtained). These reports were, therefore, considered invalid for the purpose of assessment by the division in terms of the procedure prescribed by the Board in July 1996. However, no efforts were made to obtain the signature of the AE concerned and the raid report were filed. In case of Electricity Urban Distribution Division-I, II and III Ghaziabad and EDD-II Jhansi, the assessment for theft of energy by 350 consumers for the period from April 1999 to March 2002 could not be raised as the team failed to verify and mention the connected load at the time of raid to facilitate assessment. Neither any responsibility for the negligence was fixed nor any guidelines issued to avoid its recurrence.

The Vigilance Wing stated (September 2003) that the discrepancies mentioned were being enquired into and EDD-I, Allahabad did not assess the consumers as it was not aware of the provisions of October 2000, which empowers Junior Engineers (involved in the checking) to carry out work in place of Assistant Engineers in the matter of checking of premises.

**(iv) Belated assessment of raid cases due to delayed submission of raid reports**

The procedure prescribed (July 1996) provides that the raid reports should be submitted to the respective Distribution divisions latest by the sixth day of the raid. It was noticed during audit that the raid reports of 250 consumers were submitted late by 1-24 months (1-6 months: 209 cases, 7-12 months: 30<sup>1</sup> cases, 13-18 months: one case and 19-24 months: 10 cases) to the four divisions (EUDD I, II, III, Ghaziabad and EDD II, Jhansi) with corresponding late assessment of Rs.5.30 crore pertaining to the period from April 1998 to March 2001.

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<sup>1</sup> Includes 18 cases of delay from 3 to 8 months.

The Vigilance Wing stated (September 2003) that the matter was being enquired into.

These matters were reported to the Management and the Government (May 2003); their replies are awaited (September 2003).

### **3.1.12 Avoidable loss in procurement of transformers**

<b>Failure of Management to take notice of declining trend in rates of transformers and unjustified delay in finalisation of tender resulted in extra expenditure of Rs.67.44 lakh.</b>
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The prescribed procedure (October 1971), of the erstwhile Uttar Pradesh State Electricity Board (now Uttar Pradesh Power Corporation Limited), provides that purchase orders for procurement of stores are to be finalised within 11 weeks of inviting tenders (finalisation of tender, recommendation and approval of the Board: 10 weeks and placement of order thereafter: 1 week). In this connection, the following cases of avoidable loss of Rs.67.44 lakh were noticed:

(a) The requirement for 2001-02 was intimated (1 January 2001) by Chief Engineer and Controller of Stores (CECS) to Electricity Stores Procurement Circle-I, Lucknow (ESPC-I). The ESPC-I invited (20 February 2001) tenders for 10 numbers of 10 MVA transformers. The opening date of the general and technical bid was 26 March 2001. The opening date was extended to 20 April 2001 and further to 19 May 2001 without assigning any reasons. The opening date of tender was, however, again extended to 30 May 2001 on the pretext that one of the tenderer had sought clarification on some technical issues. The price bid was opened on 17 July 2001 after more than 6 weeks from opening of the general and technical bid on 30 May 2001. The Corporate Stores Purchase Committee (CSPC) recommended (29 September 2001) the lowest computed rates of Rs.61.48 lakh quoted by PM Electricals Limited, Noida and orders were placed in December 2001 after more than 44 weeks (against prescribed 11 weeks) from the date of invitation of tender.

In the meantime, the CECS intimated (March 2001) further urgent demand of seven transformers for the summer. Since the new tenders were not opened till then, CSPC decided (April 2001) to procure these transformers, (at the computed unit rate of Rs.63.22 lakh, validity of which expired in March 2001) against the earlier tender (1,107 of 1999). While deciding to procure transformers at old rates CSPC ignored the fact that the rates of transformers had a declining trend (5 MVA: from Rs.13.23 lakh in 1995 to Rs.10.20 lakh in 2000; 8 MVA: from Rs.16.07 lakh in 1996 to Rs.15.62 lakh in 1999 and 10 MVA: from 63.22 lakh in 1999 to Rs.61.48 lakh in 2001) and did not incorporate enabling clause to protect financial interests in case of lower rates in the subsequent tender. It procured (against the order of May 2001) six transformers (including two transformers from existing supplier viz. Accurate Transformers Limited, New Delhi) at the earlier computed rate of Rs.63.22 lakh (against rate of Rs.61.48 lakh in the subsequent tender) resulting in loss of Rs.10.44 lakh.

The reply of Management (July 2003) that the rates of subsequent tenders were not known at the time of placing orders at old rates was not acceptable as the Management was aware and it failed to follow the prescribed time schedule of finalisation of the tender and to include an enabling clause in the purchase order. There was downward trend in the prices of transformers.

(b) A test check (January 2003) of records of Sub-station Design Circle-I, (SSDC-I) Lucknow revealed that tenders were invited (August 1998) for purchase of four 100 MVA transformers under specification No. 481 with the date of opening as 7 October 1998 (extended up to 23 October 1998). Part II of eight valid tenders was opened on 5 February 1999 and the tenders were sent to CSPC on 27 May 1999. CSPC called for rock bottom rates from the suppliers and approved the lowest F.O.R. destination rate of Rs.1.11 crore of M/s GEC Alstom on 19 November 1999. Supply order was placed in December 1999. The Company took approximately 17 months' time against prescribed 11 weeks' time.

During the above process, Company placed (3 September 1998) an order for the supply of one 100 MVA transformer to the same supplier (M/s GEC Alstom) in continuity of their earlier orders of April 1997 against specification No. ESD-463 and the rate finalised in April 1997 (Rs.1.68 crore) was paid in March 1999 when the supply was received.

From the above, it is evident that F.O.R. price of 100 MVA transformer was showing reducing trend because the same firm for the same supply quoted (5 February 1999) the rate of Rs.1.11 crore. This indicated that the Company failed in visualising the reducing trend in the rate of 100 MVA transformers and efforts were not made to finalise their later offer of four transformers of August 1998 within the stipulated time so as to include the need of one more transformer purchased on the basis of earlier rates.

Management stated (October 2003) that the order for finalisation of tender within 10 weeks were applicable on those cases where specifications were given at the time of tender notice and not on two-part tenders. Further, it was not expected that rates in the subsequent tenders would be lower.

The reply was not tenable, as the Company had already invited tenders of same technical rating and make in August 1998. In order to ensure that the rates of transformers procured in the intermittent period were not more than the new rates, an enabling clause in the purchase order restricting the rates at lower of the existing and new rates could have saved it from the financial loss.

Thus, injudicious planning in purchase management, undue delay in finalisation of tenders and failure to incorporate an enabling clause to safeguard the financial interest resulted in extra expenditure of Rs.57 lakh on purchase of one 100 MVA transformer.

The matter was reported to the Government in May/June 2003; the reply is awaited (September 2003).

### **3.1.13 Excess expenditure in purchase of Current Transformer**

**The Company suffered loss of Rs.12.25 lakh due to rejection of the lowest offer on unjustified grounds.**

Tender for procurement of 360 nos. Current Transformers (CT) of rating 400-200/1A 36 KV CT was invited by the Dy. General Manager, Electricity Sub-station Design Circle-II, Lucknow for utilisation in 132 and 220 KV sub-stations. The tender consisted of Part-I containing pre-qualification condition and the Part-II containing price bid. The Part-I of the tender was opened on 19 November 2001 wherein three tenders fulfilled the pre-qualifying condition. On this basis Part-II i.e. price bid was opened on 18 January 2002 and rates FOR destination per item were Rs.11,842.00 (M/s Floral), Rs.14,162.90 (M/s Hepta Care), and Rs.14,731.40 (M/s Mehru).

Test check (February 2002) of records of the division revealed that the Director (Transmission), Store Purchase Committee (SPC) rescinded the lowest offer of M/s Floral on the ground that a certificate of experience issued by KESCO had been doctored by the firm and the firm was recommended to be black listed. Rock bottom rates were invited from remaining two parties. Orders for supply by enhancing the quantity to 540 numbers CT (M/s Hepta Care 486 nos. and M/s Mehru 54 nos.) were placed in March 2002 at the rate of Rs.14,110.90 per CT.

Rejection of the offer of Floral was not justified as the recommendation of SPC to black list the firm was turned down by its own Law Officer citing the material available as insufficient to warrant not only black listing but also for forfeiture of earnest money. Even after recommending the firm for black listing (in February 2002), the SPC, itself, procured CT's from M/s Floral under another tender specification No. ESD-151 in December 2002.

Thus, the unjustified rejection of offer of M/s Floral had resulted in an extra expenditure of Rs.12.25 lakh and was not in the financial interest of the Company.

The matter was reported to the Management (May 2003) and the Government (June 2003); their replies are awaited (September 2003).

#### **3.1.14 Loss due to negligence**

**The Company suffered loss of Rs.17.26 lakh due to failure in taking timely action for recovery of misappropriated stock.**

The Financial Handbook Volume VI, *inter alia* provides that each section/stock holder of the division should submit monthly receipt and issue account of stock material. In case the account is not submitted, a miscellaneous advance to the extent of material issued is booked against the official concerned and action for recovery of cost initiated as per prescribed procedure.

A test check of records of Electricity Distribution Division (EDD), Amroha revealed (March 2003) that a Junior Engineer (JE) of the division received stock material amounting to Rs.17.98 lakh between January 1993 to July 1993. However, account of the same was not submitted by him. In the meantime (September 1993) he was transferred to EDD-II, Muzaffarnagar. The Executive Engineer of EDD, Amroha relieved him for EDD-II, Muzaffarnagar without ensuring accountal of the stock issued to him. FIR for mis-appropriation of stock was lodged by the EDD, Amroha only in December 1993. Miscellaneous advance for Rs.17.98 lakh was placed only in May 1996 but further action for recovery was not initiated. As the division did not maintain Miscellaneous advance register despite repeated objections raised in four Inspection Reports (January 1997 to August 2001), progress of recovery could not be vouchsafed by audit.

After seven years, the EE, EDD-II, Muzaffarnagar was asked (July 2000) by the EE, EDD, Amroha to make recovery of Miscellaneous advance from the JE. EDD-II, Muzaffarnagar made a recovery of Rs.0.72 lakh only and the JE retired on 30 April 2001. His retirement benefits were adjusted to clear another Miscellaneous advance of Rs.2.33 lakh of EDD, Chandausi. At present, no claim is pending against him to recover these dues.

Two more FIR's were lodged in April and June 2001 but no action could be taken as the bail was granted by the Hon'ble District Court (26 July 2001). The recovery

certificate belatedly issued was returned back with the remarks that no movable or immovable property exist in the name of the JE in revenue records.

The matter was reported to the Management and the Government (June 2003); their replies are awaited (September 2003).

### 3.1.15 Loss due to execution of work at higher rates

**The Company allowed substantially higher rates for almost identical civil works executed by one division compared with the other and incurred loss of Rs.49.43 lakh.**

A 132 KV sub-station at Gomti Nagar, Lucknow and a 132 KV double circuit LILO (line in line out) line to feed this sub-station from 132 KV sub-station Sanjay Gandhi Post Graduate Institute (SGPGI), Lucknow was constructed during January 2000 to March 2003. It was constructed to meet the increasing demand and to minimise the line losses. The construction of 132 KV sub-station and 132 KV line was to be done by Electricity Civil Construction Division-II, (ECCD), Lucknow and Electricity Transmission Line and Erection Unit (ETLEU), Varanasi respectively.

It was noticed (March 2003) during audit that the ETLEU executed two agreements (9-ETLEU/99-2000 and 3-ETLEU/2000-01 during January 2000 and September 2000 respectively) with M/s Jyoti Engineering Works, Fatehpur for the construction of foundation required for the erection of towers of above line. Likewise ECCD executed (April 2000) another agreement for construction of sub-station with M/s Rajkumar, Gorakhpur. A scrutiny of agreements (March 2003) revealed that the rates allowed by ETLEU for identical items of work were much higher than the rates allowed by the ECCD for the same items of work thus costing UPPCL an extra expenditure of Rs.49.43 lakh as detailed below:

Agreement item No.	Details of item	Rate allowed by ETLEU	Rate allowed by ECCD	Difference	Quantity executed by ETLEU	Extra expenditure
1	2	3	4	5 (3-4)	6	7 (5 X 6)
		(In rupees per cubic meter)			(In cu. m.)	(In Rs.)
1.	Excavation of foundation pits including all earth work, back filling and leveling etc. for normal towers	125.00	23.10	101.90	11210.05	1142304.00
2.	Concrete for foundation/revetment and costing of Chimney of reinforced stubs in ratio of 1:2:4 including all materials but excluding cost of cement	2795.00	1245.76	1549.23	2453.051	3800340.00
<b>Total</b>						<b>4942644.00</b>

It would be seen that the rates allowed by ETLEU were higher by 441 *per cent* and 124 *per cent* which proves that reasonability of rates was not ensured while entering into agreements, as required under UPSEB order of April 1970 read with para 360 (2) of the Hydel Manual of Order (HMO) of erstwhile Uttar Pradesh State Electricity Board (now Uttar Pradesh Power Corporation Limited).

Management stated (July 2003) that the works of civil wings were not identical to that of transmission line works, as such these rates could not be compared. The reply is not acceptable as both the works were executed at Lucknow having almost similar

sites/soil conditions. Moreover, the rates that were higher by 441 and 124 *per cent* were neither analysed nor approval for deviation from the Schedule of Rates (SOR) was taken.

The matter was reported to the Government (May 2003); the reply is awaited (September 2003).

### **3.1.16 Loss due to non-reduction of compatible load of matching equipment**

**The Company reduced the load but did not install matching equipment. This facilitated drawl of excess load and theft of energy involving loss of Rs.27.09 lakh.**

Paragraph 10 (b) of the Electricity Supply (Consumers) Regulations, 1984 read with orders contained in the Revenue & Commercial Manual of the Company provide that no reduction in load can be made effective unless metering equipment, transformer and CT (current transformer) installed in the switch gear have been replaced corresponding to the reduced load. Further, the consumer desiring to reduce the existing load has to submit revised Building and Load (B&L) form and enter into a fresh agreement after completion of formalities for reduction of load.

It was noticed (October 2002) during audit that Electricity Distribution Division, Akbarpur (Kanpur Dehat) reduced the load with effect from 16 January 2001 from 1240 KVA (billable under HV-2) to 211 KVA (240 BHP) on the application (13 December 2000) of M/s L. Kant Paper Mill, Kanpur Dehat. The division changed the CT ratio of the meter to 20/5 Amp. (Compatible for a load up to 381 KVA) and instructed (10 May 2001) the consumer to change the transformer of 750 KVA rating with a rating of 250 KVA. The consumer, however, did not comply (March 2003). The Company entered into a fresh agreement on 05 January 2001 and reduced the load from 16 January 2001 without ensuring the installation of a matching capacity transformer. This facilitated drawl of higher load than sanctioned to the extent of 315.20 KVA (January 2001) and 302.40 KVA (February and March 2001).

The drawl of higher energy was established when Company's raid team found (June 2001) that the consumer had tampered with the seal of the meter and replaced the existing CT with a higher capacity CT of 50/5Amp. (Capable of taking load of 952.9 KVA) which involved theft of energy. The team, however, did not record the connected load in its report. This facilitated revision (1 July 2002) of the assessment bill of Rs.33.87 lakh (based on load of 750 KVA) proposed by it to Rs.6.78 lakh (based on sanctioned load of 211 KVA) by the Area Level Committee on a representation made by the consumer.

The deliberate inaction on the part of the officials of the Company facilitated theft of energy resulting in loss of Rs.27.09 lakh (Rs.33.87 lakh *minus* Rs.6.78 lakh).

The matter was reported to the Management and the Government (March 2003); their replies are awaited (September 2003).

### **3.1.17 Loss due to undue benefit given to consumers**

**The Company did not bill the applicable surcharge from continuous process industries and suffered loss of Rs.1.02 crore.**

The Company allowed benefit of Rs.1.02 crore to continuous process industries by not charging surcharge of 15 *per cent* as discussed below:

(a) According to note (a) under para 4 of rate schedule HV-2 effective from 9 August 2000, 15 *per cent* surcharge is to be levied on the consumers who opt for using electricity during restricted/peak hours. The continuous process industries,

which were getting continuous supplies during the restricted hours under the pre-revised tariff, also have to pay 15 per cent surcharge from 9 August 2000 as per clarification issued under Company's orders of 8 September 2000 even without obtaining any option up to 15 September 2001. The tariff structure was revised thereafter. The cold storages were notified under continuous process industry by the erstwhile UPSEB vide B.O. No. 1003-HC/SEB-586 dated 09 April 1986.

A test check of records of Electricity Distribution Division (EDD), Pratapgarh revealed (August 2002) that in contravention of the above order, Executive Engineer had taken consent letters from five cold storages to the effect that they would not use electricity during peak hours and exempted them from 15 per cent surcharge. The action of the Executive Engineer was ultra-vires of the above order and caused a loss of Rs.10.03 lakh during 9 August 2000 to 15 September 2001 as per details given below:

Sl. No.	Name of the consumer M/s.	Contracted load (In KVA)	Category/ connection no.	Billed amount (In Rs.)	15 per cent surcharge not levied (In Rs.)
1.	Pratapgarh Cold Storage	140	HV-2/14	1667844	250176
2.	Pratap Cold Storage	88	HV-2/34	879859	131979
3.	Awadh Cold Storage	200	HV-2/13	1727203	259080
4.	Shahi Cold Storage	125	HV-2/33	944600	141690
5.	Rooma Cold Storage	129	HV-2/15	1464336	219650
<b>Total</b>					<b>1002575</b>

(b) Rate Schedule issued by the Uttar Pradesh Electricity Regulatory Commission (ERC) effective from 16 September 2001 provides that consumers (HV-2 category) who do not opt for supply during peak hours/restricted hours shall be allowed to use the power not more than 15 per cent of their contracted demand. In case of use of excess power over 15 per cent during restricted hours, a penalty of Rs.75 per KVA of contracted load shall be levied for the number of occurrence of default. In a further clarification, the Chief Engineer (Commercial) on 2 January 2003 opined that in case of violation in peak hours, penalty on industrial consumers should be levied only once in a day irrespective of number of occurrence of default on that particular day. The clarification was adopted by ERC in the subsequent tariff also effective from 9 November 2002. Accordingly, the penalty was leviable by taking all violations in a day as one violation.

A test check of records of Electricity Distribution Division-I, Raibareli (November 2002) and Electricity Distribution Division-III, Mathura (February 2003) revealed that the bills for levy of penalty on account of peak hour violation for using more than 15 per cent of load during peak /restricted hours from the defaulting consumers were either not issued or issued for lesser number of violations. This resulted in short charge of penalty of Rs.91.60 lakh as per details given in the table below:

Sl. No.	Name of the consumers and contracted load M/S	No. of days on which default was made	No. of days for which penalty was levied	No. of days on which penalty was leviable but not levied	Penalty less imposed (Rs. 75X Contracted load X Col. 5) (Rs. In lakh)
1	2	3	4	5 (4-3)	6
	<b>EDD-I, Raibareli</b>				
1.	U.P. State Spinning Mill, 2000 KVA	75	31 <sup>1</sup>	44	66.00
2.	Raibareilly Floor Mill, 120 KVA	04	--	04	0.36
3.	Fasner India Limited, 92 KVA	49	--	49	3.38
4.	F.I. Industries, 103 KVA	16	--	16	1.24

<sup>1</sup> The EDD-I, Raibareli levied the penalty of Rs.46.50 lakh at the instance of audit.

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1	2	3	4	5 (4-3)	6
	<b>EDD-III, Mathura</b>				
5.	Swaraj, 180 KVA	11	3	8	1.08
6.	S. D. Cold Storage, 175 KVA	68	5	63	8.27
7.	Yamuna Cold Storage, 154 KVA	07	3	04	0.46
8.	Kishan Cold Storage, 132 KVA	09	3	06	0.59
9.	Baldeo Cold Storage, 148 KVA	16	5	11	1.22
10.	Mathura Cold Storage, 176 KVA	26	4	22	2.90
11.	Goverdhan Cold Storage, 150 KVA	45	4	41	4.61
12.	Sunand Cold Storage, 180 KVA	14	3	11	1.49
	<b>Total</b>				<b>91.60</b>

Management stated that penalty was imposed as per advice contained in Chief General Manager (Commercial) letter dated 2 January 2003. The reply is not correct as the divisions incorrectly calculated the violations.

The matter was reported to the Government in May/April/June 2003; the reply is awaited (September 2003).

**3.1.18 Loss due to incorrect application of tariff**

**The Company suffered loss of Rs.1.58 crore due to application of lower tariff rates.**

According to note (a) below item 4 of rate schedule HV-2 effective from 9 August 2000, an additional surcharge of 15 *per cent* of the amount billed shall be levied on the consumers who opted for using electricity during restricted/peak hours. Besides, the continuous process industries who were getting continuous supplies during the restricted period under the pre-revised tariff shall also have to pay 15 *per cent* surcharge from 9 August 2000 (no option was required to be obtained in such cases as per Board's order dated 8 September 2000). However, from 16 September 2001 tariff was revised by Uttar Pradesh Electricity Regulatory Commission and rate of charge was segregated for consumers using electricity during restricted/peak hours and not using it during these hours.

A test check of records (March 2003) of Electricity Distribution Division (EDD)-I, Aligarh revealed that Pashupati Casting (contracted load 3300 KVA) was a consumer of HV-1 continuous category prior to 9 August 2000 (HV-1 tariff merged with HV-2 tariff thereafter). The consumer did not tender any option to avail or not to avail supply during peak/ restricted hours. The consumer was liable to be billed under HV-2 continuous category. The division, however, billed the consumer erroneously under HV-2 non-continuous process, which resulted in under charge of revenue to the tune of Rs.1.58 crore for the period from August 2000 to January 2003.

The matter was reported to the Management (May 2003) and the Government (June 2003); their replies are awaited (September, 2003).

**3.1.19 Under billing**

**The Company applied lower tariff against applicable higher tariff and suffered loss of Rs.15.76 lakh.**

Townships and residential colonies of public institutions having minimum contracted load of 500 KW, receiving supply at single point and having contracted load of not less than 80 *per cent* for domestic purpose were to be billed under

LMV-4 tariff of the rate schedule applicable w.e.f. 16 September 2001 (prior to this such consumers were billable under LMV-1 tariff).

A test check conducted during audit in August 2002 revealed that Electricity Distribution Division-I, Shahjahanpur incorrectly billed the residential colony of the Ordnance Cloth Factory, Shahjahanpur having a contracted load of 630 KVA (536 KW) under LMV-1 tariff, while it should have been billed under LMV-4 tariff from 16 September 2001 as per the modified tariff structure. This resulted in under billing of Rs.15.76 lakh during the period from October 2001 to March 2003.

The matter was reported to the Management and the Government in May 2003; their replies are awaited (September 2003).

### **3.1.20 Irregular release of load**

**The Company released load by inadmissible tapping of existing line to a continuous process consumer, consequently, it could not recover bay charges and surcharge for continuous process aggregating Rs.23.14 lakh.**

The General Manager (Distribution) Kanpur Zone sanctioned (January 2001) load of 1200 KVA to M/s Frontier Alloys Steels, Kanpur under HV-2 (Continuous Process) of Rate Schedule subject to the condition that load should not be released by tapping of any line, orders of the Company shall be complied for releasing load by independent feeder.

During test check of the records of Electricity Distribution Division (EDD), Akbarpur, Kanpur Dehat, it was noticed (September 2002) that contrary to the above orders, Dy. General Manager (Distribution), Kanpur irregularly sanctioned (March 2001) the estimate of the consumer in which the load was to be released by tapping the line of UPPCL's 11 KV industrial feeder. The tapping of line was not technically safe, as it would have resulted into increase of load of feeder and feeding lines. The load was released (June 2001) to the consumer by tapping the aforesaid line. As a result, the bay charges of Rs.17.13 lakh required to be recovered in case of independent feeder supply could not be recovered.

It was, further, seen that the billing of the consumer was being done without charging 15 *per cent* surcharge as was leviable under Rate Schedule HV-2 (Continuous Process) applicable from 9 August 2000 as the load of the consumer was sanctioned vide order of January 2001 under the category of HV-2 continuous process. However, at the instance of consumer the billing as continuous process industry commenced from February 2002. Thus, the consumer was short billed for Rs.6.01 lakh for the period from June 2001 to January 2002.

The General Manager of Kanpur (Distribution) Zone stated that consumer had applied for non-continuous process but it was sanctioned as continuous process and agreement made with the consumer did not point out whether the process is continuous or non-continuous. The reply is not tenable as the load was released for continuous process and the division was bound to enter into agreement for the same and raise the bills accordingly.

The matter was reported to the Management and the Government (May 2003); their replies are awaited (September 2003).

### **3.1.21 Loss due to negligence**

**The Company's failure in identifying difference of energy between the meters installed at consumer's premises and at sub-station feeder facilitated theft of energy resulting in loss of Rs.2.56 crore.**

A test check of records (January 2000) of Electricity Distribution Division-I, Varanasi revealed that an electro-mechanical meter which was installed at M/s S.K. Glass Works, having contracted load of 750 KVA (862.50 HP) through 11 KV independent feeder, was changed to electronic meter on 3 September 1998. Executive Engineer (Distribution) and Executive Engineer (Test) recorded the readings at consumer's premises without identifying the energy consumption at outgoing feeder panel of sub-station during May 1998 to July 1999 to ascertain theft of energy as envisaged in the Board's order of April 1994 and June 1995.

The data of meters installed at consumer's premises and at sub-station was recorded through Memory Reading Instrument (MRI) in November 1998, February 1999, March 1999, May 1999 and July 1999 and sent to Distribution division in February 1999, July 1999 and September 1999. The MRI's reading and reading at sub-station revealed a difference of 20.79 lakh units amounting to Rs.83.54 lakh between the two segments of meters during 25 April 1998 to July 1999.

On being pointed out in audit (January 2000), the division raised (February 2000) an additional demand of Rs.83.54 lakh on the consumer. The consumer filed a case in Hon'ble High Court, which directed (April 2000) the consumer to file an appeal to the Chief General Manager (CGM), East Zone, Varanasi. The CGM while agreeing with the audit findings held (June 2002) that the consumer should be billed for Rs.85.36 lakh (instead of Rs.83.54 lakh). It was also pointed out in the Appellate Committee's Report (June 2002) that the Executive Engineer (Distribution) and Executive Engineer (Test) failed to fulfil their duties, as they did not lodge an FIR for pilferage of energy, despite noticing wide variation in consumption. This resulted in non-billing of Rs.2.56 crore under Rule 22(b) of Electricity Supply (Consumers) Regulation, 1984 (under which the consumer is to be billed at thrice the applicable rate) on account of pilferage of energy proved from MRI reports. The consumer did not deposit Rs.85.36 lakh as determined by the Appellate Authority and filed (November 2002) a case in Hon'ble High Court. The Court stayed the recovery on the ground that at no point of time any enquiry for pilferage of energy by the Management was conducted. The case is still sub-judice (March 2003).

Thus, the Management failed:

- to identify difference of energy in the first instance by comparing the meter readings at the sub-station and consumer's premises
- to lodge FIR immediately after investigating reasons of theft

These lapses resulted in loss of Rs.2.56 crore (including penalty of Rs.1.71 crore). No responsibility has been fixed by the Management for the lapses.

The matter was reported to the Management and the Government (May 2003); their replies are awaited (September 2003).

### **3.1.22 Loss due to undue favour to consumer**

**The Company suffered loss of Rs.98.91 lakh on account of failure to realise old dues as per procedure and monitor realisation of cheque subsequently**

The erstwhile Uttar Pradesh State Electricity Board streamlined the procedure for recovery of dues from defaulting units, financed by Uttar Pradesh Financial

Corporation (UPFC), in July 1995 and September 1996. Accordingly, Executive Engineer (EE) of UPPCL was made responsible to (i) permanently disconnect the supply of defaulting unit from the date of take over by UPFC, (ii) participate in the proceedings for sale to ensure obtaining of highest sale amount and (iii) realise its dues from UPFC on pro-rata basis as per the agreement (May 1995) between UPFC and UPPCL.

UPFC sold (30 May 2001) Susheela Alloys Private Limited, Fatehpur (load: 1350 KVA) to Vaibhav Castings and Alloys (Private) Limited, Kanpur for a sale consideration of Rs.1.50 crore, on account of non-payment of dues. The possession of defaulted unit was taken over by UPFC in June 2001. A sale agreement was executed (May 2001) between UPFC and the new unit that stipulated bearing of 50 per cent of old electricity dues by the new unit. The sanction order (August 2001) for releasing new connection also stipulated that load to the new unit shall be released after realising the dues against the old installation.

It was noticed (August 2002) during audit that Electricity Distribution Division (EDD), Fatehpur had to recover an arrear of Rs.93 lakh from the old unit. EDD, however, who had following alternate options failed to exercise any of the options;

- share its dues on pro rata basis from the sale amount available with UPFC;
- realise 50 per cent share (Rs.46.58 lakh) from the new unit as per the sale agreement between UPFC and the new unit; and
- realise full dues from the new unit before releasing (December 2001) new connection as per condition of the sanction letter.

It was further noticed that General Manager (Distribution), Allahabad fixed (August 2001) six and three installments respectively for recovery of security (Rs.10.58 lakh) and system loading charges (Rs.10.92 lakh) against the new connection. The new unit paid Rs.3.53 lakh (December 2001) as the first installment and deposited (February 2002) a cheque of Rs.9.83 lakh on account of subsequent two installments *plus* assessment bill for January 2001. The realisation of cheque, deposited in February 2002, was not ensured within 7 days of presentation as per the procedure and the consumer was allowed to consume energy till April 2002. The supply was disconnected thereafter on account of cheque being dishonored. Recovery Certificate was issued (July 2002) for Rs.21.76 lakh only which was revised (January 2003) to Rs.52.33 lakh at the instance of audit.

Thus, releasing of load to new unit without realising old dues as per the procedure and lack of monitoring of realisation of cheque subsequently in case of the new unit resulted in non-recovery of Rs.98.91 lakh (Rs.46.58 lakh + Rs.52.33 lakh).

The matter was reported to the Management in May 2003 and the Government in June 2003; their reply is awaited (September 2003).

### **3.1.23 Injudicious order of the State Government leading to undue favour to a consumer**

**The Company suffered loss of Rs.18.23 lakh up to October 2003, that would increase further, due to injudicious decision of the State Government.**

Section 12 (2) (a) of Uttar Pradesh Electricity Reforms Act, 1999 (effective from 14 January 2000) provided that while approving or regulating the tariff structure, the State Government was authorized to issue policy directions for grant of subsidy (in

addition to those adjusted by Uttar Pradesh Electricity Regulatory Commission, an agency to determine the tariff structure) for the electricity supplied only to a class or classes of persons or in respect of any area. However, the State Government was required to compensate the licensee for any such subsidy allowed by it and the quantum of such compensation was to be determined by UPERC.

In test check of records of Electricity Distribution Division-I, Bulandshahr, it was noticed (March 2003) that the unit, Suraj Vanaspati Limited, Bulandshahr (load of 3200 KVA from January 1990 reduced to 2500 KVA in June 2001 and further to 2000 KVA in October 2002) became sick and was registered (date not available) under Board for Industrial & Financial Reconstruction (BIFR) and as per decision (April 2002) relating to BIFR package, the State Government was required to ensure that the unit of the consumer is exempted from power cut. Accordingly, the Energy Department of the State Government directed (August 2002), the Company to exempt the consumer from power cut<sup>1</sup> and defer old dues<sup>2</sup> till production starts and recover the arrears in 10 equal monthly installments.

In the meanwhile the matter relating to other benefits viz exempting the consumer from payment of electricity charges and electricity duties for the next five years was under consideration of the State Government. The Company in anticipation of the order of the State Government protested and intimated (August 2002) to the State Government that as per sanctioned package by BIFR, only continuous supply to the firm was desired from the State Government. No decision was given by the BIFR on the firm's request for suspending the electricity charges and electricity duty for five years. It further stated that it would facilitate the deferment of recovery of electricity charges of Rs.9.23 crore with consequent non-levy of late payment surcharge of Rs.5.54 crore.

Ultimately, the State Government directed (November 2002) that (i) electricity charges and electricity duty payable by the consumer may be deferred for five years; (ii) these along with surcharge should be made payable from sixth year to tenth year; and (iii) late payment surcharge for the deferred period should not be collected.

The Company requested for payment of compensation equal to this concession. The decision for compensating the Company had not been communicated by the State Government (March 2003). Further, UPERC was also not consulted by State Government while passing these orders.

Consequent to this decision, energy consumed for Rs.2.28 crore from November 2002 to October 2003 and late payment surcharge of Rs.18.23 lakh could not be realised. The security amount available with the Company against this was only Rs.37.47 lakh that had already surpassed the current dues. In case of non-payment, the Company does not have any other mode of recovery.

Thus, the deferment of electricity dues (including current dues: Rs.2.28 crore and late payment surcharge: Rs.18.23 lakh) was contrary to the provisions of the Reforms Act and recommendations of BIFR. The current dues have also surpassed the security money available. The Government order of November 2002 was, therefore, injudicious jeopardising the financial position of the Company.

The matter was reported to Management (April 2003) and the Government (June 2003); their reply is awaited (October 2003).

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<sup>1</sup> 50 per cent power cut to be applied under unavoidable circumstances.

<sup>2</sup> No dues pending till the date of decision.

**Kanpur Electricity Supply Company Limited**  
(Subsidiary of Uttar Pradesh Power Corporation Limited)

**3.1.24 Loss due to incorrect application of tariff**

**The Company suffered loss of Rs.4.97 crore due to incorrect application of tariff.**

Defence institutions utilise power continuously for their production units (including peak hours) as per the commitment made (August 1986) by the erstwhile Uttar Pradesh State Electricity Board (Board). Accordingly, these institutions are billable as per rates applicable to continuous process industries (HV-2 tariff).

In test check of records of Kanpur Electricity Supply Company Limited, Kanpur (KESCO), a subsidiary of Uttar Pradesh Power Corporation Limited, it was noticed (June 2002) in audit that KESCO billed two consumers of Kanpur at lower rates applicable to non-continuous process industries of HV-2 tariff in contravention of the supply conditions. This resulted in short assessment aggregating Rs.4.97 crore during the period from December 1998 to March 2002, in case of M/s Indian Field Gun Factory (Rs.2.98 crore) having load of 12000 KVA from June 1992 and M/s Indian Ordnance Factories (Rs.1.99 crore) having a load of 12000 KVA (date of agreement not made available). Billing under continuous process was, however, started from March 2002 in case of the former installation and from November 2001 in case of the latter.

Management stated (June 2003) that the bills were raised as per the agreement signed by the consumers for non-continuous process. The reply was indicative of KESCO's failure to execute agreement for continuous process, as the supply was required to be made on continuous basis to enable round the clock availability of energy as committed by the Board in August 1986 itself.

The matter was reported to the Government (June 2003); the reply is awaited (September 2003).

**Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited**

**3.1.25 Loss due to unwarranted repairing of hydraulic coupling**

**The Obra unit repaired hydraulic coupling at 97 per cent cost (Rs.74.53 lakh) in contravention of policy that too proved unfruitful.**

The procedure prescribed (October 1975) by erstwhile Uttar Pradesh State Electricity Board provides for procuring new equipment when the repairing charges are beyond 45 per cent of its current market price.

In test check of the records of Turbine Maintenance Division of 'B' Thermal Power Station (BTPS), Obra, it was noticed (August 2002) in audit that to run a unit of thermal power station at full load (200 MW), hydraulic couplings were required in each of the three boiler feed pumps to connect it to the boiler. In unit no. 10 of BTPS, two couplings were damaged in July 2000. BTPS procured (December 2001) one coupling at a cost of Rs.77.21 lakh from VOITH India Private Limited, Hyderabad (original manufacturers) and which remained idle. The second coupling was got repaired (in October 2002 against the order of August 2000) from the same firm at a cost of Rs.74.53 lakh but was not installed (March 2003). The repair cost

represented 97 per cent of the cost of new coupling (Rs.77.21 lakh) and that too was kept idle on the ground that foundation platform had to be reconstructed to place the coupling. Therefore, the entire expenditure of Rs.74.53 lakh was rendered unfruitful. Consequently, the unit was being run at 80 MW capacity (against 200 MW) that caused per day shortfall of generation of 2.88 MU (value: Rs.40.61 lakh per day) as per its own admission from August 2000.

Thus, apart from rendering expenditure of Rs.74.53 lakh as unfruitful, the Management incurred potential loss of Rs.40.61 lakh per day between August 2000 and September 2003 on account of shortfall in generation.

Management stated (August 2003) that out of three couplings, two were required to run the unit on full load and one was kept as spare. Further, decision to repair one coupling was taken as installation of new coupling involves alteration of foundation, change in gaps, instrumentation technology, modified version etc. The reply is not tenable, as the Company had already procured one new coupling, installation of which would involve the changes as indicated above.

The matter was reported to the Government in May 2003; the reply is awaited (September 2003).

### **3.1.26 Excess payment due to negligence**

**The Company suffered loss of Rs.48.51 lakh due to negligence in contesting court case.**

'B' Thermal Power Station, Obra (BTPS) of Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) procures coal on ex-works price from various coal mines. Transportation of coal up to BTPS site are arranged through rail wagons. The bills of freight were incorrectly being raised by the Railways on the basis of carrying capacity (CC) of wagons *plus* 2 MT during 1986. To avail the benefit as per rules (CC weight *minus* 1 MT), the BTPS filed a writ petition in 1986 in the Hon'ble High Court. In the interim order of 11 August 1987, the Hon'ble court allowed payment of freight as per rule. Payments were made accordingly thereafter. In 1993, the railways started to claim the freight at CC weight *plus* 5 MT. BTPS filed another writ petition in 1993. The Hon'ble High Court merged the petition of 1993 with that of 1986 and decided (1993) to uphold the earlier interim decision. The bills were accordingly verified and paid on this basis up to July 1999. In the meantime, the case was heard and quashed ex-parte in February 1999, as BTPS did not depute their staff to monitor disposal of the petition. This fact came to the notice of BTPS only in June 2001 i.e. after 28 months of the event. BTPS got the interim order of August 1987 revived in January 2002. The status quo was maintained from January 2002.

Taking advantage of the rejection of earlier writ petition due to negligence of BTPS, railways claimed and were paid freight on the basis of CC weight *plus* 2 MT from August 1999 to August 2002 (including February to August 2002 in disregarding the Court's judgment). This resulted in excess payment of Rs.48.51 lakh (including Rs.16.83 lakh from the date of revival of interim order January 2002 to August 2002), which was attributable to lack of pursuance of court case as well as Management's failure in making payment as per court orders. Railways have rejected (September 2002) the claim of BTPS to refund the excess amount.

Management stated (July 2003) that the payment to Railways for freight was made by Uttar Pradesh Power Corporation Limited after adjusting the amount due from Railways on account of electricity supplied to them, therefore, UPRVUNL could not

know the excess drawn by the Railways in time. Thereafter, the Management lodged the claim for excess payment made which was rejected by the Railways.

The reply is not tenable as the freight bills are duly verified by UPRVUNL before being passed on to UPPCL for payment to Railways. Thus, negligence of UPRVUNL in monitoring the case and payments had resulted in excess payment of Rs.48.51 lakh.

The matter was reported to the Government (May 2003); the reply is awaited (September 2003).

### **3.1.27 Avoidable payment of escalation due to Management lapses**

**Failure of Management in verifying title of land under their own physical possession resulted in undue delay in completion of works leading to avoidable payment of Rs.5.80 crore.**

During construction of 'B' Thermal Power Station (BTPS), Anpara, construction of main Ash Dyke for ash disposal of its 2x500 MW plant was proposed over the natural dry area at Belwadah. In 1989-90, it was decided that the portion of Ash Dyke should be constructed under water by cutting a small fringe of Rihand Reservoir with additional requirement of 34.10 hectare of land. The work of construction of Main Ash Dyke and Spillway was awarded (August 1995) to Hindustan Steel Work Construction Company, New Delhi (HSCL) with the due date of completion being August 1998. The agreement included a clause under which escalation was payable if time for execution of work was extended for reasons not attributable to the contractor.

Despite the fact that the required land (plot no. 77, 78, 79, 1614 and 1615 of Mauja Belwadah measuring 31.76 hectare) was in physical possession of the Project and marked on the blue print of 1977 available with Electricity Civil Maintenance Division-II of the project, it requested the Forest Department (May 1996) to transfer the additional land to BTPS for execution of work. On a request of the Forest Department (November 1996) the Project Authorities ordered (May 1997) for survey and marking by hiring private agencies. The Conservator of Forest, however, informed (July 1997) that the ownership of the proposed land rests with the Project itself, and therefore, only permission to cut the trees was required. Thereafter, the Project Authorities sought the permission in December 1997, which was accorded by the Government of India in January 1999 and Government of Uttar Pradesh in March 1999. Thereafter, spillway was designed and HSCL completed the work in October 2001 at a cost of Rs.32.50 crore which included an escalation of Rs.5.80 crore.

Thus, failure of the Project Authorities in maintaining fixed assets register or verifying the blue print of land in their physical possession resulted in undue delay leading to avoidable payment of Rs.5.80 crore as price escalation.

Management stated (July 2003) that the delay was due to late submission of survey reports of the area by a private agency, obtaining license for use of explosive, geo-technical testing reports, permission to cut the trees, non-supply of steel and cement by the Company etc. The reply is only indicative of Management's failure in verifying its own records for title of land and coordinating various other activities well in advance to ensure completion of the work as per the time schedule. It also

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failed to utilise the geological data of the area that are available with the Geological Survey of India.

The matter was reported to the Government in May 2003; the reply is awaited (September 2003).

## 3.2 Statutory corporations

### Uttar Pradesh Financial Corporation

#### 3.2.1 Unintended benefit to borrowers in One Time Settlement Scheme

**The Corporation settled the outstanding dues under one time settlement scheme in contravention of the guidelines and extended unintended financial benefits of Rs.14.42 crore.**

With a view to ease the burden of non-performing assets being borne by the Uttar Pradesh Financial Corporation, the Board of Directors approved (March 1999) a One Time Settlement (OTS) Scheme, giving an opportunity to defaulting borrowers to repay outstanding dues at amounts worked out on the basis of period of disbursement, location of industry, category of borrowers and value of securities. The guidelines *inter alia*, prescribed that post 1997 disbursement cases were to be decided on total liabilities while in other cases, OTS amount was to cover the outstanding principal (OSP) *plus* a minimum percentage of outstanding simple interest (OSI) and other expenses as per the matrix approved by the Board.

A test check of OTS cases finalised by the Corporation during April 1999 to December 2002 revealed cases as discussed in the table given below, which were not in consonance with the OTS guidelines causing loss to the Corporation and consequently led to unintended financial benefits to the extent of Rs.14.42 crore to the borrowers.

(Rs in crore)									
Sl. No	Name of Party & year of last disbursement	Total dues	Security available	Minimum OTS as per matrix	OTS offered by borrower	OTS accepted	Dues waived off	Unintended benefit	Audit observation
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(c-g)	(i)	
1.	Rama Paper Mills Limited, Bijnore, 1998	5.91	17.94	5.91	2.90	2.90	3.01	3.01	Corporation approved OTS at Rs.2.90 crore, apprehending difficulties in getting suitable buyer for the promoter's securities (valued at Rs.3.08 crore) as the property was located in a small town although IDBI assessed realisable value of prime securities at Rs.14.86 crore besides existence of personal assets of the Directors valued at Rs.7.04 crore.
2.	Krishna, Synthetics Limited, Noida, 1997	1.55	1.25	1.55	1.18	1.18	0.37	0.37	Management valued the land of the defaulting unit at Rs.4000 per square meter against the circle rate of Rs.5000 per square meter. A further unjustified discount of 45 and 20 percent over the depreciated value of building and plant & machinery respectively was also allowed, leading to an under valuation by Rs.38.10 lakh and resultant waiver of Rs 37.17 lakh.
3.	Rich Harvest Dairy Products Ltd, Saharanpur, 1996	4.97	1.54	4.97	1.85	1.85	3.12	3.12	OTS offered at Rs.2.36 crore was initially rejected (September 1999) by the Corporation on the ground that it was below the realisable value (Rs.2.38 crore) of securities and not supported with earnest money. Later on, it approved (March 2002) the OTS at reduced offer (September 2001) of Rs.1.85 crore on the ground that the Unit was located at half a kilometer (kuchcha road) away from the main road and realisable value of assets had reduced to Rs.1.54 crore although minimum OTS as per matrix worked out to Rs 4.97 crore.

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(a)	(b)	(c)	(d)	(e)	(f)	(g)	(c-g)	(i)	
4.	Rana Paper Limited, Muzaffarnagar, 1996	3.94	6.26	3.94	3.45	3.45	0.49	0.49	Corporation treated the unit, which was open and running, as closed and settled for a lower OTS amount of Rs 3.30 crore under the Corporation's Policy of sympathetic consideration reserved only for closed units. As unit was open and paying excise, OTS was later enhanced to Rs 3.45 crore against the outstanding dues of Rs 3.94 crore.
5.	Technicast Engineers Limited, Delhi, 1991	2.73	1.11	1.34	1.22	1.22	1.51	0.21	Corporation approved OTS by considering the realisable value of prime security assessed at Rs.1.11 crore but without exploring the possibility of recovery of total dues from the personal assets of the borrower (Sri U.K. Modi) who was considered man of means being the director in the Board of over 15 companies representing the financially sound Modi Group of Industries. PRC issued seven years after issue of notice (March 1993) under section 29 of SFCs Act, 1951 to take over the Unit but withdrawn when OTS was proposed.
6.	Maya Duplex Limited, Muzaffar Nagar, 1996	5.93	2.66	4.01	2.60	2.60	3.33	1.41	Corporation accepted offer for OTS at Rs 2.60 crore only against minimum amount of OTS of Rs.4.01 crore as per matrix relying on affidavits furnished by the borrowers declaring that they had already sold their assets, although a number of assets declared in loan appraisal were not to be sold till repayment of loan.
7.	Rexnord Woollen Yarns (P) Limited, Jaunpur, 1995	2.13	0.78	0.85	0.66	0.56	1.57	0.29	Ignoring realisable value of securities assessed at Rs.40 lakh by the approved valuer as well as the fact that there was no movable/immovable property in the name of entrepreneurs, Corporation did not accept the OTS offer (September 1999) of Rs.66 lakh on the ground that it was much below the matrix (Rs.84.52 lakh). Later on, however, Corporation finalised (January 2002) OTS at Rs.55.85 lakh.
8.	Solar Lamp Works, Varanasi, 1982	1.41	0.19	0.05	0.15	0.15	1.26	0.04	Corporation disbursed loan to the Unit by accepting security of Bank Guarantee (BG) of United Bank of India instead of mortgaging the assets. However, on failure of the borrower to create equitable charge of assets, the Corporation invoked BG in August 1983 which was not honoured (November 1983) by the Bank stating that they had not issued the alleged BG. Although a civil suit filed by the Corporation (January 1984) against the bank was still pending (January 2003), the Corporation approved (August 2002) OTS at Rs.15 lakh against total dues of Rs.141.14 lakh (up to June 2002) on the ground that final verdict of Court was unlikely to come in near future and it was a lost assets case in the absence of any mortgage of the property. On full deposit (September 2002) of OTS amount, the borrower was exonerated from remaining liabilities of Rs.1.26 crore instead of initiating legal proceedings against him for furnishing forged BG.
9.	Shree Ganesh Rice Mills, Saharanpur, 1997	1.00	0.86	1.00	1.00	0.90	0.10	0.10	Rejection of offer (July 1999) for OTS at full dues of Rs.1.00 crore and later settlement at Rs.0.90 crore (December 2001) resulted in loss of Rs.10 lakh.

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(c-g)	(i)	
10.	Markandey Plywood (P) Ltd, Saharanpur, 1998	1.15	1.37	1.15	0.71	0.71	0.44	0.44	In these five cases, the Corporation did not consider the personal assets to the tune of Rs 5.10 crore of the promoter directors in working out the minimum OTS amount. Of these, in two cases <sup>1</sup> the Corporation stated that the directors were absconding and/or that the said properties were sold out, in one case <sup>2</sup> no action was taken as there was apprehension of litigation due to a family dispute over the assets. In the remaining two cases, no reasons were furnished. Management's replies are not tenable as they do not justify its failure to legally protect the personal assets declared at the time of loan appraisal due to which the Corporation was put to loss.
11.	U.P. Lime Chem, Moradabad, 1996	6.51	4.75	3.60	1.99	2.15	4.36	2.60	
12.	Hingiri Metal (P) Limited, Muzaffar Nagar, 1995	3.61	2.09	3.27	1.57	1.57	2.04	1.70	
13.	Prem Cement Private Limited, Muzaffar Nagar, 1997	1.98	1.31	0.91	0.79	0.79	1.19	0.52	
14.	Indira Oil Mills, Mathura, 1993	0.61	0.05	0.17	0.05	0.05	0.56	0.12	
	<b>Total</b>	43.43	42.72	32.72	20.12	20.08	23.35	14.42	

**Note:** In cases of consumers at Sl. No. 8,11, and 13 of the table, unintended benefit has been worked out with reference to security available with the Corporation as the value of security is more than the value of matrix and the dues are more than the value of security.

The reply of the Management furnished in August 2003 was not considered satisfactory as it did not address the audit remarks recorded separately against each case in the table.

The matter was reported to the Government (June 2003); the reply is awaited (October 2003)

### **3.2.2 Loss due to financial assistance extended to unviable unit**

**The Corporation suffered loss of Rs.11.68 crore due to its failure to evaluate the impact of open import policy on domestic market and independent verification of credit worthiness of the borrowers direct from their banks.**

The Corporation sanctioned (March and April 1996) Working Capital Term Loan (WCTL) of Rs.1.50 crore and Lease Assistance (LA) of Rs.2.96 crore to Swarnima Oil Industries Limited (SOIL) for procurement of 250 TPD (tonnes per day) capacity Solvent Extraction Plant to enhance its existing capacity. The loans were secured by first charge on the leased assets, equitable mortgage of leasehold land of the factory, hypothecation of all fixed assets and personal guarantee of the promoters.

Following lapses on the part of the Management were noticed (December 2002) in audit:

- The Financial Statements of SOIL clearly depicted decline in its profit from Rs.2.57 crore in 1994-95 to Rs.1.25 crore in 1995-96 (for nine months ending December 1995) mainly due to reduction in prices of imported edible oils and oil seeds consequent to open import policy in 1994. The Corporation, while appraising the viability to extend loan assistance, did not investigate the reasons for low profit of SOIL especially to ascertain the impact of import policy.

<sup>1</sup> Markandey Plywood (P) Ltd, Saharanpur & Indira Oil Mills, Mathura

<sup>2</sup> U.P. Lime Chem, Moradabad

- Despite information furnished by the banker of SOIL (15 April 1996) before disbursement that the SOIL failed to satisfy certain terms and conditions and as such cash credit limit could not be disbursed to them in full, the Corporation did not pay heed to the dwindled credit worthiness of SOIL and disbursed the entire loan in April and May 1996.
- Entire loan was released, though the borrowers had not completed the building for housing the machinery as required in pre-disbursement condition.
- The Corporation, without entering into tripartite agreement, handed over (10 May 1996) cheque of Rs.1.46 crore, drawn in the name of supplier, to the borrower. The borrower fraudulently encashed it by opening fake bank account in connivance with the supplier which could have, otherwise, been avoided, had the cheques been directly handed over to the supplier.

The borrower started committing defaults in repayment immediately after final disbursement of LA in May 1996 and several commitments regarding payment of dues remained unhonoured. In August 1996 itself, the Corporation issued notice under Section 29 of the State Financial Corporation Act, 1951 for taking over possession of the assets of SOIL. Personal Recovery Certificate belatedly issued in February 2001 against the promoters, however, could not be executed as they had left their places of residence and their whereabouts were not known. Further, the promoters did not own any movable/immovable property other than shares of SOIL and its land.

An inspection (August 2002) of the SOIL revealed that its assets were lying abandoned and in damaged condition without any safety arrangement. The assets of the SOIL were valued (October 2002) at Rs.2.21 crore. No other security was available with the Corporation against its dues of Rs.13.89 crore (Principal: Rs.1.33 crore, Interest: Rs.4.90 crore, lease rental: Rs.2.96 crore and compounding charges: Rs.4.70 crore) accumulated up to January 2003.

Thus, disbursement of WCTL without proper evaluation of impact of the open import policy on domestic market as well as adverse credit worthiness of the borrowers as reported by their banker and delay in taking coercive action for recovery resulted in a loss of Rs.11.68 crore (after considering the value of assets available with the Corporation). No responsibility has been fixed for the lapses.

The Government stated (August 2003) that, at the time of sanction of WCTL, SOIL reported to be regular with banks, FIR had been lodged against the promoters and efforts were being made to settle the dues under One Time Settlement scheme of the Corporation. The Management, however, did not render any plausible explanation for its lapses, which facilitated the fraud. Efforts for settlement of dues may not justify the lapses already committed by the Management. Further, promoters are not traceable at their given addresses, therefore, chances of recovery of outstanding dues are remote.

### **3.2.3 Loss due to defective pre-sanction financial appraisal**

**Failure to verify corporate guarantor's net worth independently as certified by the Chartered Accountants, resulted in loss of Rs.7.09 crore.**

The Corporation disbursed (February and March 1997) a Lease Assistance (LA) of Rs.1.33 crore for Socks Knitting Machines and a Working Capital Term Loan (WCTL) of Rs.85 lakh for manufacturing hosiery items (socks) to M/s S.R. Hari

Ram (SRHR). Loans were secured by hypothecation of plant and machinery valuing Rs.4.44 crore located at C-4/1 Wazirpur Industrial Area but without mentioning their make, date of purchase, serial number and condition. Apart from above, collateral securities were also obtained of land and building of another unit at Noida (value: Rs.1.10 crore), land (valued Rs.4.24 crore) at Wazirpur Industrial Area, Delhi, corporate guarantee of H. Lon Hosiery Limited (Holding Company of borrower) and personal guarantee of the promoters. The property at Wazirpur, however, could not be mortgaged as the title papers were reported by promoters to have been misplaced against which agricultural land, measuring 2400 sq. mtrs valuing Rs.2.30 crore only, at village Barauri, Delhi was accepted.

It was observed in audit (February 2003) that the Corporation disbursed entire LA of Rs.1.33 crore to the supplier of the equipment as advance without making tripartite agreement with the borrower and supplier so as to safeguard the interest of the Corporation. WCTL was also disbursed without verifying the value of the prime securities. Even value and title deeds of collateral securities and financial worth of corporate guarantee were not got independently verified though a civil petition had already been filed in 1996 in Court for liquidation of the Holding Company.

On account of continuous defaults in repayment of the loans since beginning, physical possession of the assets of SRHR was taken over in June 1998 by the Corporation when most of the machines, mortgaged as prime security, were found missing. An FIR was lodged belatedly in September 1998, outcome of which was awaited (March 2003). Possession of machineries (located at C-4/1 Wazirpur Industrial Area) mortgaged as prime security and plot of Barauri village, Delhi mortgaged as collateral security was not taken over for reasons not put forward to audit. Apart from this possession of land and building of H. Lon Hosiery Limited had to be returned (September 1998) to the official liquidator in compliance of the Court's order. The Personal Recovery Certificate issued (August 1998) against the promoters has likely to yield nothing, as they had no property in their own names.

Thus, acceptance of collateral security of lesser value, lack of independent verification of the value and title of prime and collateral securities and failure to verify the fact of initiation of liquidation process of the corporate guarantor (Holding Company) resulted in loss of Rs.7.09 crore including interest (up to January 2003) for which no responsibility has been fixed so far (March 2003).

Management stated (June 2003) that the loans were sanctioned in January 1997 against the promoters' net worth certified by Chartered Accountants after verification of title of prime and collateral securities, which was later found not clear/marketable. The reply is not convincing as the facts of pending petition filed in 1996 for winding up the corporate guarantor and lack of clear marketability of the mortgaged securities escaped notice of the Management which, otherwise, would have been known if verification of net worth of promoters/guarantors was carried out independently instead of relying on the certificate furnished by the Chartered Accountants.

The matter was reported to the Government (May 2003); the reply is awaited (October 2003).

#### **3.2.4 Loss due to incorrect appraisal of lease assistance**

**The Corporation suffered loss of Rs.4.85 crore due to sanction of loan for procurement of obsolete and unviable MRI machine.**

The Corporation disbursed (May 1997 to April 1998) Lease Assistance (LA) of Rs.1.95 crore to Sheela Memorial Hospital (SMH), Lucknow for installation of reconditioned Magnetic Resonance Imaging (MRI) machine imported from G.E.

Medical System, USA at its Diagnostic Center. The LA was secured by prime security (Land, building, MRI machine and other assets: Rs.1.97 crore) and collateral security (Cold Storage: Rs.70 lakh).

It was observed in audit (December 2002) that SMH was a newly set up unit and the eligibility criteria of the Corporation for giving LA was that the loanee should be in operation for at least three years and earned profit in last two years. The Corporation, while appraising the project, also did not look into whether profitability had been worked out for the period of residual life of the equipment after considering risk of technological obsolescence and whether new capacities were being added in the region as these were important factors for the survival of project.

The borrower defaulted in repayment of lease instalment since beginning. The Corporation, though, issued a notice under section 29 of the State Financial Corporation Act, 1951 in May 2001, yet had not (June 2003) taken over physical possession of SMH for reasons not on record. Personal Recovery Certificate has also not been issued against the borrowers to recover the dues. Delayed inspection (November 2002) of SMH carried out by the Corporation revealed that the MRI machine was lying in broken down condition for the past six months and its repair was considered uneconomical and therefore, it was declared scrap.

The collateral security (Cold Storage) was valued at Rs.44 lakh by the Valuer and the obsolete and scrap MRI machine at Rs.15 lakh (as per quotation of the suppliers). The land (prime security) was, in fact, leasehold and mortgaged on the basis of certified copy of sale deed without obtaining its original title papers. Therefore, it had no clear marketability and its value should have been considered nil. Thus, the Corporation had been holding total valid securities of Rs.59 lakh only against its dues of Rs.5.44 crore (February 2003), leading to a loss of Rs.4.85 crore.

The Government stated (August 2003) that the equipment was of latest technology and its residual life, as certified by the supplier, was eight-ten years and there was only one MRI machine installed at SGPGI where there was a long waiting list of patients. It was also stated that the realisable value of all securities (including collateral security) was Rs.1.25 crore.

The reply is not tenable because the Corporation relied on the residual life of eight-ten years of the equipment as certified by the supplier instead of ascertaining its life independently based on expert technical opinion from private consultants/specialists. The facts that the equipment was of obsolete technology and failure of SMH was due to low clientele were admittedly disclosed by the Corporation itself in its appraisal note for OTS proposal of SMH. The value of available securities intimated in reply (Rs.1.25 crore) is not correct because the value of collateral security as per valuer's certificate was Rs.44 lakh and the MRI machine was valued at Rs.15 lakh by the suppliers of the machine (total: Rs.59 lakh).

### **3.2.5 Loss in Priority Sector Bond Issue**

**Injudicious decision of the Corporation in not incorporating 'Put and Call' option in the bond issue vis-à-vis hiring the services of arrangers at higher rates resulted in loss of Rs.5.29 crore.**

The Corporation decided (January 1997) to issue government guaranteed priority sector bonds of Rs.25 crore with option to retain over subscription up to Rs.25 crore. In order to raise funds at competitive rates, the Corporation held discussions (January 1997) with several arrangers for mobilisation of the required funds. In

response, offers from PNB Capital Services Limited (PNBCSL), a subsidiary of Punjab National Bank (PNB) at a fee of 0.25 *per cent plus* fixed component of Rs.5 lakh (total fee: Rs.17.50 lakh) and RR Financial Consultants Limited (RRFCL) at a fee of one *per cent plus* Rs.1 lakh for out of pocket expenses (total fee: Rs.51 lakh) were received. PNBCSL also offered “Put and Call” option enabling the Corporation to prematurely redeem the bonds in case the interest value in the market declines. The Corporation appointed RRFCL as its Advisor & Sole Arranger for above issue of bonds and awarded mandate to them on 25 January 1997 at a fee of one *per cent* enhanced to 1.6 *per cent* on 30 January 1997 for reasons not on record. Scrutiny of the records during audit (March 2003) revealed the following:

- The bond issue was opened on 3 February 1997 and PNB subscribed the whole amount of Rs.50 crore on 4 February 1997 through RRFCL. The Corporation paid (3 April 1997) Rs.81 lakh (1.6 *per cent* of Rs.50 crore *plus* Rs.1 lakh) to RRFCL as Arranger’s fees. Ignoring the lowest offer of PNBCSL, the Corporation suffered loss of Rs.63.50 lakh.
- By not opting “Put and Call” option as offered by PNBCSL, enabling the Corporation to prematurely redeem the bonds in case the market declined since the interest rates were generally on the decrease, the Corporation sustained loss of Rs.4.05 crore in redemption of bonds worth Rs.30 crore up to March 2003 and a further likely loss of Rs.60 lakh which is imminent on final redemption of balance bond worth Rs.20 crore in 2004. The loss could have been avoided by redemption of bonds with prevailing lower cost of borrowings at 11 *per cent*.

The Government stated (August 2003) that the offer of RRFCL was accepted because their annualised cost of issue (14.14 *per cent*) was lower than PNBCSL (14.27 *per cent*) on the basis of 5 years’ tenure and the Corporation opted for ‘Staggered Redemption’ instead of ‘Put and Call’ option due to the liquidity crunch being faced by it.

The replies is not tenable as the annualised cost of the offer of PNBCSL for seven year term would work out to 14.19 *per cent* as against the annualised cost of 14.23 *per cent* in respect of RRFCL (calculated on the revised offer at 1.6 *per cent*) i.e., lower than the offer of RRFCL. Further to this, the upfront discount of one *per cent* quoted by PNBCSL could also be negotiated to further bring down the cost as the discount is required to be passed on to the investors and not to be retained by the arrangers. Besides, the decision for ‘Put and Call’ option was in the interest of the Corporation as the market scenario indicated declining trend of interest rates due to which no vigilant investors would exercise ‘Put’ option.

### **3.2.6 Loss due to disbursement of loan on fake documents of collateral security**

**Dues of Rs.4.50 crore could not be recovered due to non-verification of documents of collateral security.**

The Corporation sanctioned loan of Rs.95 lakh under Equipment Refinance Scheme (ERS) in January 1995 and a Working Capital Term Loan (WCTL) of Rs.1 crore in

November 1995 to Span Tubes Limited (STL), Ghaziabad for manufacturing of steel tubes. The loans were secured by hypothecation of proposed plant and machineries to be acquired under ERS alongwith second charge on the existing assets of the STL. Collateral security of residential houses and land worth Rs.1.62 crore was also obtained apart from the personal guarantee of the promoters.

The loan was disbursed during January to December 1995. It was observed in audit (March 2003) that STL started defaulting in repayment of the loan immediately after disbursement of last instalment of loan. The Promoters sought permission (August 1998) of the Corporation for rescheduling and to release a residential house (value: Rs.65 lakh) pledged as collateral security and offered another two properties of equivalent value located at Delhi. The Corporation accepted (October 1998) the new collateral security without verifying its physical existence and title papers and released the mortgage papers of the earlier property. The repayment behaviour of the borrower did not improve even after reschedulement (October 1998). In an inquiry (June 1999) made by the Corporation, it was found that the collateral securities were fake and documents were forged. So, FIR was lodged (July 1999) and equipment financed under ERS was taken over (September 2001) under Section 29 of the SFC Act, 1951 when machineries worth Rs.55 lakh were found missing. The remaining items of plant and machineries were sold for Rs.25 lakh (May 2002). Personal Recovery Certificate (PRC) was issued (August 2001) against the directors but nothing has yielded so far (August 2003) as whereabouts of the promoters were not known. The land and building of STL was taken over by the first charge holder (State Bank of India) on these assets.

Thus, dues of Rs.4.50 crore (principal: Rs.1.24 crore and interest: Rs.3.26 crore) remained unrecovered (March 2003) due to non-verification of physical existence and title papers of collateral security, resulting into loss to the Corporation. No responsibility had been fixed for the lapses.

Management stated (August 2003) that there would not have been any loss but for the fraud committed by the party as the intention of the borrowers was not considered doubtful while permitting change of collateral security but later on the borrowers cheated by submitting forged documents. The reply is evasive to non-verification of documents of collateral security.

The matter was reported to the Government (June 2003); the reply is awaited (October 2003).

### **3.2.7 Loss due to faulty appraisal and disbursement of loan to an ineligible unit**

**Sanction of loan for purchasing equipment to be leased out to another unit against litigated corporate security resulted in loss of Rs.4.48 crore.**

The Corporation sanctioned (January 1997) a term loan of Rs.1.50 crore under Equipment Finance Scheme (EFS) to Promise Securities and Credit (Pvt) Limited (PSCL) for procurement of camera and graphic equipments to be leased out/hired to their holding company-Sristi Video Corporation Limited (SVCL). The loan was secured by (i) hypothecation of financed equipment, (ii) corporate guarantee of the holding company and second charge on the assets, and (iii) pledge of one lakh shares of SVCL.

It was observed in audit (March 2003) that:

- The industrial concerns were eligible for assistance under EFS for only own use of the financed equipment whereas the loanee *ab initio* intended to lease out the equipment to its holding company.
- The holding company was facing severe resource crunch and as such acceptance of security offered against their assets was not sound.
- The revenue model of the borrower company was risky as it solely depended on the business provided by the holding company whose performance was not satisfactory.
- The project profile submitted by the borrowers considered the expenditure of one shift only against service of three shifts, thus showing incorrect profit. As such, appraisal of viability of the project was not correct.
- Neither equipments (financed) carried any identification marks of UPFC nor the Company kept on record detailed particulars of the financed equipment after their arrival at site.

Borrower defaulted in repayment of the loan since inception. A notice under section 29 of the State Financial Corporation Act, 1951 was issued (September 1997) to takeover the unit within 15 days but its physical possession was not taken over as the interest overdues were paid. However, no payment towards overdues of principal was made.

On account of continued default in repayment of dues of financial institution, physical possession of the units of parent company was taken over (June 1999) by Pradeshiya Industrial and Investment Corporation of Uttar Pradesh (PICUP). An inspection of the PSCL carried out by PICUP in presence of officers of the Corporation revealed (June 1999) that equipment, similar to those financed by the Corporation were financed by other institutions also and most of the equipment were found missing. No FIR was lodged with the police. The disbursement file of the case was reported to have been misplaced for which no responsibility was fixed.

The prime security, created in the form of financed equipment, was no longer available. The holding company, whose corporate guarantee was taken, was under litigation and as such, the pledged shares did not carry any value. Thus, the Corporation suffered a loss of Rs.4.48 crore (Principal: Rs.1.45 crore and Interest & expenses: Rs.3.03 crore up to 15 April 2003) for which no responsibility has been fixed as yet.

Management stated (August 2003) that PSCL was considered industrial concern as they could carry the manufacturing activity as per their Articles of Association and the projected profitability was based on three shifts basis. The reply is not tenable as no manufacturing activity was being carried out by the borrowers at the time of sanctioning of loan and expenditure of one shift only was considered.

The matter was reported to the Government (June 2003); the reply is awaited (October 2003).

#### *Uttar Pradesh Forest Corporation*

### **3.2.8 Loss due to mismanagement of funds**

**Failure of the Management in renewal of 35 Fixed Deposit Receipts and non-preferment of claim of interest for intervening period resulted in loss of Rs.2.24 crore.**

The Corporation, during May 1992 to March 1993, invested Rs.1.87 crore in 35 Fixed Deposits (FDs) with Allahabad Bank, Lucknow for the period ranging from

46 days to seven years at the interest rates varying from 11 to 13 *per cent* per annum. It, however, failed to renew these FDs on their due dates of maturity.

It was noticed in audit (June 2003) that the Corporation presented all these 35 FDs on 22 March 2000 for encashment against which, the bank remitted Rs.2.20 crore (Principal: Rs.1.87 crore and Interest: Rs.33 lakh) for the period and interest rates mentioned on FDs. The Corporation worked out maturity value of these FDs at Rs.4.76 crore (Principal: Rs.1.87 crore and Interest: Rs.2.89 crore up to 27 March 2000 worked out on compounding basis) as open dated investments and lodged claim (May 2000) for remaining interest of Rs.2.56 crore. The bank denied the claim against which the Corporation lodged (June 2000) a complaint with Banking Lokpal, and as per their decision (May 2003), the bank made further payment (30 July 2003) of interest of Rs.1.33 crore in full and final settlement of claim worked out on simple interest only. Thus, the Corporation suffered a loss of Rs.1.23 crore as detailed below due to lack of monitoring on the part of the Management in timely renewals and reinvestments:

(Rupees in lakh)

Sl. No.	No. of FDs	Period	Principal	Interest claimed	Interest Received			Loss of interest
					I <sup>1</sup> spell	II <sup>2</sup> spell	Total	
1	6	84 Months	26.89	37.52	22.59	0.86	23.45	14.07
2	1	72 Months	0.67	0.78	0.44	0.05	0.49	0.29
3	2	63 Months	12.35	16.73	7.78	2.86	10.64	6.09
4	26	46 days	147.51	233.66	2.19	129.39	131.58	102.08
<b>Total</b>	<b>35</b>		<b>187.42</b>	<b>288.69</b>	<b>33.00</b>	<b>133.16</b>	<b>166.16</b>	<b>122.53</b>

Management stated (September 2003) that open dated investment was made to maintain liquidity of funds and final settlement of claim was accepted at Rs.1.33 crore to avoid further litigation and blockage of funds. The reply is not tenable as the Corporation did not go in for encashment of the FDRs and there was no control mechanism in the Corporation by which the Corporation could have come to know the FDRs to be renamed/encashed at the year end or whenever the need arises based on the liquidity position of the Corporation.

The matter was reported to the Government in June 2003; the reply is awaited (October 2003).

### *Uttar Pradesh State Road Transport Corporation*

#### **3.2.9 Avoidable payment of commission charges**

**Despite Headquarters' directives to close accounts with State Bank of India, Agra and Aligarh regions continued to operate their accounts with the bank and paid avoidable commission charges of Rs.19.11 lakh on preparation of bank drafts.**

The Corporation had a standing arrangement with State Bank of India (SBI) since July 1976 under which the bank had granted at par fund remittance facility to the Corporation. The facility was available to the Corporation up to March 1999 only.

<sup>1</sup> Refers to interest paid by the bank in March 2000.

<sup>2</sup> Refers to interest paid by the bank in July 2003 pursuant to decision of Banking Lokpal.

On the request of the Corporation, the SBI, however, accepted to extend the facility but with certain conditions like retention of heavy average balances in current account which were not acceptable to the Corporation. As such, alternate arrangement was made with Punjab National Bank (PNB) who were ready to extend similar facilities to the Corporation. All Regional Managers/ Assistant Managers were accordingly instructed (January 1997) to close their accounts in SBI and open with PNB.

It was noticed (September 2002) in audit that Agra and Aligarh regions did not comply with the headquarters' directives and continued to operate the account with SBI beyond March 1999 till December 1999 and paid the commission charges amounting to Rs.19.11 lakh (Aligarh region: Rs.10.38 lakh and Agra region: Rs.8.73 lakh) on the bank drafts prepared during April to December 1999.

Thus, due to operation of bank accounts with SBI beyond expiry of agreement (March 1999) and not opening the account with PNB with whom agreement was finalised to accept transaction on non-commission basis, the Corporation had to incur an avoidable expenditure of Rs.19.11 lakh.

The matter was reported to the Management and the Government in June 2003; their replies are awaited (October 2003).

#### ***Uttar Pradesh State Warehousing Corporation***

##### **3.2.10 Loss due to ill-conceived project of Container Freight Station**

**Establishment of Container Freight Station on the basis of ill-conceived export potential of Basmati rice led to loss of Rs.40.93 lakh.**

With a view to expand its activity and thereby maximise profit, the Corporation set up (December 1998) a Container Freight Station (CFS) at Rudrapur at a cost of Rs.30.40 lakh to provide port facilities to exporters and importers at their doorstep. The project was conceived based on the study of export/import business of five parties without analysing whether the services to be provided at CFS, Rudrapur would be economical to them.

Feasibility of the project was based on the tariff proposed (October 1997) to be charged by the Corporation for its facilities at Rudrapur which was worked out marginally lower than the existing costs being incurred by exporters.

It was seen during audit (October 2002) that the establishment of CFS, Rudrapur was considered viable mainly due to export potential of Basmati rice. Movement logistics of the cargo through CFS, Rudrapur, however, proved costlier for the exporters. The local rice millers were not directly exporting the rice but were mainly feeding the break-bulk supply orders of the export merchants of Delhi who were taking delivery of rice at their godowns at Delhi and then, exporting it after blending with other varieties of Haryana and Punjab. Thus, the Corporation did not carry out well thought of study of the contemporary modus operandi of the export of Basmati rice by the local rice millers. As such, containerisation at the CFS of the Corporation could attract very little business varying from nil to 11 per cent of the anticipated business as per details given on the next page :

Sl. No	Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03
1	Projected export/import (Ton Export Unit)	1200	1500	2000	2200	2200
2	Actual export/import (Ton Export Unit)	1	0	4	242	118
3	Percentage of actual export/import to projected	0.08	0.00	0.20	11.00	5.36

The ill-conceived venture resulted in a loss of Rs.40.93 lakh up to 2002-03 including an outstanding liability of Rs.25.93 lakh towards establishment expenditure of customs' staff posted at CFS. Further to this, the expenditure of Rs.30.40 lakh incurred on providing the infra structural facilities at the CFS also remained largely unutilised and the very objective of the project remained defeated due to improper assessment of viability of the project.

Management stated in reply (June 2003) that the exporters/importers of the region showed a poor response due to which a proposal to close the CFS was made in August 2000 but it was not agreed by the Government of India. The reply is not tenable in view of the fact that Government of India had directed continuance of CFS up to March 2001 only in view of assurance of Kumaon Garhwal Chamber of Commerce and Industry for providing adequate business. The Corporation, however, did not make further efforts to close down the unviable CFS even after March 2001 when business response of the area was quite poor.

The matter was reported to the Government in June 2003; the reply is awaited (October 2003).

### **3.2.11 Loss due to negligence in delivery and storage of wheat**

#### **Improper storage of wheat and timely non-claim of damages with Insurance Company resulted in loss of Rs.21.60 lakh.**

The wheat procured directly from the farmers under the procurement scheme of the Government of India, are required to be stored temporarily at the centre as per the procedure prescribed by the Corporation i.e. using dunnage/ballies at the bottom of the stacks and covering with polythene/tripals over the top, before its delivery to Food Corporation of India (FCI) for Central Pool and to the State Food & Civil Supplies Department (SF&CSD) for State Pool.

It was observed in audit (December 2002) that during 14 April to 24 May 2000, the Centre-in-charge, Puranpur procured 3,912.30 MT of wheat. Against this, the sale to SF&CSD was recorded as 3,613.55 MT only. Remaining 298.75 MT wheat valuing Rs.29.22 lakh were not delivered to SF&CSD at their Mandi Samiti godowns as its storage capacity had exhausted and the Centre-in-charge failed to access the knowledge of the movement plan of the godown. The stock was kept alongside the road without following the prescribed procedure, though adequate storage materials were available with the Centre-in-charge. Due to heavy rains the wheat was damaged which was intimated to the Insurance Company on 14 June 2000. Even before lodging the claim with Insurance Company (which was lodged only in July

2001), the Corporation auctioned the damaged wheat in August 2000 for Rs.7.62 lakh. The insurance claim was rejected (July 2002) as the Corporation could not provide the required information.

No responsibility for the loss of Rs.21.60 lakh was fixed though preliminary inquiry conducted (June 2000) by the Corporation concluded that the damage of wheat was caused due to improper storage. The loss has been compounded further due to failure to furnish required information to the Insurance Company.

Management stated (June 2003) that inquiry to fix the responsibility against the officers/officials had been set up. Reply is not tenable, as inaction on the part of the Corporation for such a long period to fix responsibility and recover the losses from the concerned officials may not augur well for its workings.

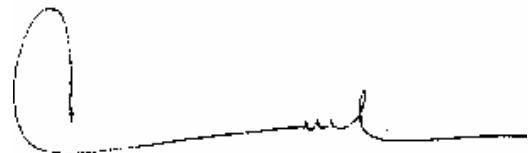
The matter was reported to the Government (May 2003); the reply is awaited (October 2003).



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