CHAPTER–II

Performance Audit relating to Government companies and Statutory corporations

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2. Performance Audits relating to Government companies and Statutory corporations

2.1 Performance Audit on Re-structured Accelerated Power Development and Reforms Programme

Executive summary

Accelerated Power Development and Reforms Programme (APDRP) was modified (September 2008) during the XI Plan as "Re-structured Accelerated Power Development and Reforms Programme (R-APDRP)" by the Ministry of Power (MoP), Government of India (GoI). The main objectives of R-APDRP were to reduce Aggregate Technical and Commercial (AT&C) losses, bring about commercial viability in the power sector and increase consumer satisfaction. In Uttar Pradesh, the Scheme was implemented by Uttar Pradesh Power Corporation Limited (UPPCL) and Power Distribution Companies (DISCOMs) in 168 towns.

The scheme was divided into Part-A and Part-B. Part-A included (i) establishment of baseline data, Information Technology (IT) applications for energy accounting/ auditing and IT based consumer service center, (ii) establishment of Supervisory Control and Data Acquisition System/ Distribution Management System (SCADA/DMS) in large towns and Part-B included regular distribution system strengthening works.

The scheme was to be completed within three years from the sanction of project (June 2009) but the same was extended upto March 2017 for Part-A (i) and for Part-A (ii) SCADA and Part-B upto May 2017.

Important audit findings are discussed below:

Part-A (i) of the scheme

Under Part-A of the scheme, 100 *per cent* funds for the projects were to be provided in the form of interest bearing loan from GoI to be converted into a grant once the establishment of the required system was achieved and verified by an independent agency.

Part-A of the Scheme was implemented in 168 towns with sanctioned cost of ₹ 775.10 crore out of which ₹ 508.01 crore was spent up to March 2016. In 43 selected towns, it was noticed that IT enabled system was not completed under Part-A by Information Technology Implementation Agency (ITIA) even after expiry of five years from scheduled period of completion. However, the projects had been declared Go-live in all the towns.

- As the IT enabled system was not completed, the Baseline data could not be verified by Third Party Independent Evaluation Agency (TPIEA) appointed by Power Finance Corporation (PFC) so far (October 2016). The AT&C losses generated by the system even after declaration of all the towns Go-live (June 2015) were erratic and ranged between (-) 99.83 and 99.92 *per cent* during July 2015 to July 2016. Therefore, chances of completion of scheme even in extended period (up to March 2017) and conversion of loan of ₹ 474.50 crore received from GoI into grant remained remote.

(Paragraph 2.1.12)

- DISCOMs made irregular payment of ₹ 8.98 crore to Network Bandwidth Service Provider (NBSP) for partial connectivity in a town, whereas payments were to be made on successful connectivity of all the links in a town. The fact regarding poor NBSP services were also confirmed by Chief Executive Officers of beneficiary DISCOMs in the survey conducted by Audit.

(Paragraph 2.1.13)

- The objective of Meter Data Acquisition System (MDAS) to acquire meter data automatically without human intervention was defeated as 18 *per cent* sub-stations were not communicating data automatically and eight *per cent* feeders and 57 *per cent* Distribution Transformers (DTs) were not updated in MDAS as of March 2016.

(Paragraph 2.1.14)

- Out of 55,751 modems installed on DTs, data communication was working only in 11,933 modems (16 *per cent* of DTs) as of 31 March 2016. Due to this deficiency in data communication, DISCOMs were compelled to fill the gaps of energy data through manual entries, thus, defeating the objective of eliminating human intervention in energy accounting/auditing.

(Paragraph 2.1.15)

- Reports generated by Customer Care Centre were not as per System Requirement Specification and the reports prescribed for status, age and level of pendency of complaints were not being generated.

(Paragraph 2.1.17)

Part-A (ii) Supervisory Control and Data Acquisition System

SCADA was to be implemented in 12 towns as per guidelines of the scheme with the sanctioned cost of ₹ 280.81 crore. There was no physical progress in the project even after a lapse of more than four years and its completion would not be possible in the extended period upto May 2017; therefore, conversion of loan of ₹ 79.96 crore into grant would become inadmissible.

(Paragraph 2.1.25)

Part-B of the scheme

Part-B of the scheme was implemented in 167 towns[1] with sanctioned cost of ₹ 6915.57 crore out of which ₹ 3,239.12 crore was spent as of March 2016. However, overall physical progress was only 56.65 *per cent d*espite lapse of six years. Only one town *i.e.* Etawah was completed as of March 2016.

- The AT&C losses of the DISCOMs which ranged between 23.38 and 34.92 *per cent* for base year 2009 increased from 33.04 to 45.95 *per cent* (July 2015 to July 2016) despite declaring Go-live of all towns. In one completed town *i.e.* Etawah, it increased from 65.71 *per cent* (February 2013 to April 2013) to 73.16 *per cent* in July 2016. In fact in all four DISCOMs, the AT&C losses actually increased after declaring the towns under them as Go-live. Thus, chance for conversion of loan of ₹ 3,556.24 crore into Grant of ₹ 1,778.12 crore (50 *per cent* of loan) looks remote.

(Paragraph 2.1.28)

- Variation in scope of work and delay in award of work by 18 to 45 months from the date of sanction of Detail Project Reports (DPR) in 33 towns out of 42 towns resulted in cost escalation of ₹ 737.88 crore.

(Paragraph 2.1.36)

[1] Out of 168 towns, one town i.e. Noida was not selected by Paschimanchal Vidyut Vitran Nigam Limited for implementing Part-B works, as system strengthening work was not required there.

- Madhyanchal Vidyut Vitran Nigam Limited failed to offer the work to Turnkey contractor (TKC) within the validity period of rates which resulted in extra financial burden of ₹ 134.33 crore on the scheme.

(Paragraph 2.1.37)

- As per Central Vigilance Commission's (CVC) guidelines (December 2007), verification of Bank Guarantee (BG) should be done before acceptance. Purvanchal Vidyut Vitran Nigam Limited in contravention of CVC guidelines, accepted BGs of ₹ 14.32 crore of a non-banking financial company from TKC without verification from the bank. During subsequent scrutiny (May 2015), it was revealed that the BGs were fake. As a result, though the agreement was terminated in July 2015, the BGs could not be encashed.

(Paragraph 2.1.38)

- The work of Part-B under R-APDRP in Kannauj Town was closed in April 2015 as GoUP, without assigning any reason, decided (April 2015) for conversion of overhead electrical system into underground system under *Twarit Arthik Vikas Yojna* of GoUP instead of under R-APDRP. However, BoD of DVVNL, prepared the DPR for the scheme, citing political sensitivity of the town as reason for the change. Thus, the improper planning while constructing overhead lines for Kannuaj Town resulted in infructuous expenditure of ₹ 3.10 crore incurred on construction of overhead lines.

(Paragraph 2.1.40)

- In six towns DISCOMs failed to provide land to TKCs for 20 sub-stations after lapse of 14 to 37 months as on March 2016. Further, due to pending completion of associated works in four towns, six sub-stations were energised with the old existing line. This fact was substantiated by the finding of joint physical inspection in Lucknow town.

(Paragraphs 2.1.41 and 2.1.42)

Introduction

2.1.1 Accelerated Power Development and Reforms Programme (APDRP) was modified during the XI Plan as "Re-structured Accelerated Power Development and Reforms Programme (R-APDRP)" by the Ministry of Power (MoP), Government of India (GoI). The main objectives of R-APDRP were to reduce Aggregate Technical and Commercial (AT&C) losses, bring about commercial viability in the power sector, reduce outages and interruptions and increase consumer satisfaction. The Power Finance Corporation Limited (PFC) was the nodal agency for the operationalisation and implementation of Scheme under overall guidance of the MoP, GoI. In Uttar Pradesh, the Scheme was implemented by Uttar Pradesh Power Corporation Limited (UPPCL) and Power Distribution Companies (DISCOMs)[2] in 168 towns.

Projects under R-APDRP Scheme were to be taken up in two parts, Part-A and Part-B. Part-A includes (i) establishment of baseline data and IT applications for energy accounting/ auditing and IT based consumer service center and (ii) establishment of Supervisory Control and Data Acquisition System/ Distribution Management System (SCADA/DMS) in large towns[3]. Part-B includes regular distribution system strengthening works.

[2] Madhyanchal Vidyut Vitran Nigam Limited (MVVNL), Purvanchal Vidyut Vitran Nigam Limited (PuVVNL), Paschimanchal Vidyut Vitran Nigam Limited (PVVNL) and Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL), subsidiaries of UPPCL.

[3] Having a population over 4 lakh and annual input energy of 350 MUs.

Funding mechanism and benefit from the scheme

2.1.2 Initially 100 *per cent* and 25 *per cent* funds for the approved projects of Part-A and Part-B of the schemes respectively were to be provided in the form of interest bearing loan from GoI through PFC. The balance funds for Part-B projects were to be raised by DISCOMs from Financial Institutions (FIs), namely PFC/REC and/or own resources. Guidelines of the scheme provided in case of Part-A, that 100 *per cent* loan plus interest thereon was to be converted into a grant once the establishment of the required system is achieved and verified by an independent agency. No conversion to grant was to be made in case projects were not completed within the extended timeline (extended period up to March 2017). In case of Part-B, if DISCOMs achieved the target of 15 *per cent* AT&C losses on a sustained basis for a period of five years in the project area and project was completed within the time schedule fixed by the Steering Committee (extended up to May 2017), loan against Part-B projects *plus* interest thereon up to 50 *per cent* was to be converted into grant in equal tranches, every year after the year in which the baseline data system (Part-A) of the project area concerned was established and verified by the independent agency appointed by MoP through the nodal agency.

Thus, considering the financial health, scarcity of funds and huge losses incurred by the DISCOMs, timely completion of the scheme provided an opportunity to DISCOMs to establish IT enabled systems and improve its power distribution infrastructure and thereby reduce its AT&C losses up to 15 *per cent* and also avail the benefit of grant.

In Uttar Pradesh, the Scheme was sanctioned in 168 towns[4] with sanctioned cost of ₹ 7,971.48 crore out of which a total of ₹ 4,110.70 crore (GoI: ₹ 1,990.57 crore and FIs: ₹ 2,120.13 crore) was released to DISCOMs. Of this, ₹ 3,764.72 crore was expended upto March 2016. The scheme was to be completed within three years from the sanction of project (June 2009) but the same was extended upto March 2017 for Part-A IT enabled system and upto May 2017 for Part-A SCADA and Part-B. The R-APDRP scheme has not been completed so far (October 2016).

Organisational set up

2.1.3 The UPPCL, being holding company, has been monitoring the implementation of R-APDRP Scheme. The Chairman, UPPCL with the assistance of its Directors[5], monitors the progress of the Scheme.

The Management of the DISCOMs is vested with a Board of Directors comprising Chairman, Managing Director (MD) and three other Directors appointed by the State Government. Nodal Officers (Superintending Engineers) at each DISCOM Headquarters are responsible to monitor the implementation of the Scheme and coordinate with all stake holders and Chief Executive Officer (Superintending Engineers) at each Circle level of DISCOMs are responsible to look after the execution and monitoring of the Scheme. The Organisational set up is shown in the **Annexure-2.1.1.**

Audit objectives

2.1.4 The audit objectives of the Performance Audit were to assess whether:

4 Part-A of the Scheme was implemented in 168 towns and Part-B in 167 towns (excluding Noida town).

5 Director (Commercial) for Part-A and Director (Distribution) for Part-B.

- formulation of Detailed Project Reports (DPRs) was in line with the scheme guidelines to derive optimum benefits of work executed;
- funds received under the Scheme were utilised economically, efficiently, effectively and as per the Scheme Guidelines;
- projects were executed in efficient, economical and effective manner; and
- effective monitoring was put in place to achieve the envisaged objective of the Scheme.

Audit criteria

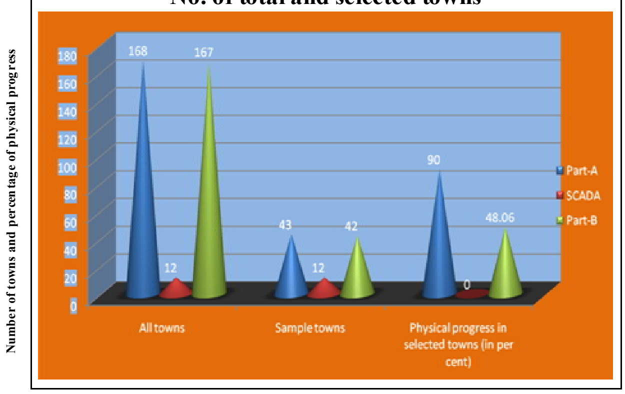
2.1.5 Audit criteria adopted for ensuring achievement of the audit objectives were drawn from:

- National Electricity Act, 2003 and National Electricity Policy formulated there under along with Guidelines issued by MoP, GOI for implementation of the R-APDRP Scheme;
- Agenda and Minutes of the meetings of Board of Directors, Steering Committee and Distribution Reform Committee (DRC);
- Quadripartite agreement among GOI, PFC, GoUP and DISCOMs and Detailed Project Reports (DPRs);
- Request for Proposals (RFP), Tender documents, Agreements and System Requirement Specifications (SRS) document;
- U.P. Electricity Supply Code 2005, Rate Schedule (Tariff Orders) and Rural Electrification and Secondary Systems Planning Organisation (RESSPO) Schedule of Rates; and
- Guidelines of Central Vigilance Commission (CVC), monitoring reports of each UPPCL/DISCOMs and Best Information Technology Practices.

Scope and methodology of audit

2.1.6 The Performance Audit for the period from 2009-10 to 2015-16 was conducted from December 2015 to March 2016 and Audit examined the records related to the scheme maintained by UPPCL and DISCOMs at their Headquarters. Out of 168 towns, 43 towns ***(Annexure-2.1.2)*** were selected from four[6] DISCOMs for detailed audit scrutiny through Stratified Random Sampling Method. The details of all towns and selected towns are depicted in chart 2.1.1.

Chart 2.1.1
No. of total and selected towns



The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining the scope and objectives of the audit to the top Management in an Entry Conference held on 15 July 2015,

6 MVVNL, PuVVNL, PVVNL and DVVNL.

examination of records at UPPCL and DISCOMs. Besides, joint physical verification of 33/11 KV sub-stations constructed in five towns[7] under the Scheme was conducted and feedback from the DISCOMs were obtained.

The Performance Audit report was issued to the Management and Government in July 2016 for their comments. An Exit conference was held on 30 August 2016 with the Management and Government. Replies of the Management were received in October 2016 which have been duly considered while finalising the Performance Audit Report. Reply of the Government was awaited (October 2016).

Financial and physical progress

2.1.7 DISCOM-wise financial and physical progress of the Scheme as a whole (168 towns) and in selected towns (43) for the last seven years up to March 2016 has been detailed in the **Annexure-2.1.3 (A and B) and 2.1.4 (A and B)** and summarised in table 2.1.1.

Table 2.1.1

Financial and Physical progress of the scheme

(₹ in crore)

Scheme	All Towns				Sampled Towns			
	Sanctioned cost	Fund released	Expenditure	Physical progress (in *per cent*)	Sanctioned cost	Fund released	Expenditure	Physical progress (in *per cent*)
Part-A (i) IT System	775.10	474.50	508.01[8]	90	536.95	348.69	336.26	90
Part-A (ii) SCADA	280.81	79.96	17.59[9]	0	280.81	79.96	17.59	0
Part-B	6915.57	3556.24	3239.12	56.65	5042.96	1857.64	1760.19	48.06
Total	**7971.48**	**4110.70**	**3764.72**		**5860.72**	**2286.29**	**2114.04**	

Source: Information furnished by UPPCL and DISCOMs.

Table 2.1.1 depicts that the sanctioned cost of the scheme was ₹ 7,971.48 crore out of which a total of ₹ 4,110.70 crore (GoI: ₹ 1,990.57 crore and FIs: ₹ 2,120.13 crore) was released to DISCOMs. Despite expenditure of ₹ 3,764.72 crore upto March 2016, physical progress of 90 and 56.65 *per cent* could only be achieved in Part- A (i) and B respectively whereas no physical progress was achieved in Part- A (ii) SCADA.

Implementation of the Scheme

2.1.8 For implementation of Part-A of the scheme, Information Technology Consultant (ITC) was to be appointed by the UPPCL from empanelled list of PFC. The ITC was responsible for preparation of DPRs and monitoring of the progress of work related to Part-A. Alongwith this, an Information Technology Implementation Agency (ITIA) was to be appointed from firms empanelled with PFC, for the establishment of IT enabled system without human intervention (Go-live[10]) in the DISCOMs.

In case of Part-B, the DPRs were prepared by the consultants appointed by the UPPCL/DISCOMs and monitoring of the projects was to be done by a project

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7 Lucknow, Hardoi, Faizabad, Unnao and Bangarmau.

8 Including ₹ 33.51 crore incurred from internal resources.

9 This is mobilisation advance paid to SCADA Implementing Agency and payment to SCADA consultant.

10 Town is declared Go-live where IT enabled system is complete as per System Requirement Specification and report of AT&C losses is reported online without human intervention.

management consultant (PMC) to be appointed by the respective DISCOMs. The works were to be awarded to Turnkey Contractors (TKCs) by DISCOMs through an open tender. The Superintending Engineers of respective Circle of the DISCOMs, being Chief Executive Officers (CEOs), were responsible to get the works executed as per terms of the scheme and make the payments to TKCs. The work was to be taken up after getting the DPRs (Part-A and B) approved by the Steering Committee[11] of GoI. DPRs were to be duly forwarded by Distribution Reform Committee[12] (DRC) of State Government through PFC.

Audit findings

2.1.9 Audit objective-wise findings are discussed separately under Part-A (IT enabled system and SCADA) and Part-B of the scheme in succeeding paragraphs.

Part A (i) - IT enabled system

2.1.10 Part-A of the scheme envisaged establishment of baseline data, IT applications for energy accounting/ auditing and IT based consumer service center.

Part-A of the Scheme was implemented in 168 towns with sanctioned cost of ₹ 775.10 crore out of which ₹ 474.50 crore was released to the DISCOMs by the PFC and ₹ 508.01 crore (including ₹ 33.51 crore incurred from internal resources) was spent upto March 2016. The sanctioned cost of projects of 43 selected towns was ₹ 536.95 crore, out of which ₹ 348.69 crore was received from GoI and ₹ 336.26 crore was spent upto March 2016. The DISCOM-wise breakup of sanctioned cost, receipt and expenditure of fund is given in table 2.1.2.

Table 2.1.2
DISCOM-wise sanctioned cost, receipt and expenditure of fund

(Amount ₹ in crore)

DISCOM	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Overall					
Number of Towns	39	44	56	29	**168**
Sanctioned Cost	128.64	265.93	257.64	122.89	**775.10**
Receipt of Fund	54.39	186.23	161.57	72.31	**474.50**
Expenditure	86.9	186.23	153.87	81.01	**508.01**
Sample					
Number of Town	10	11	14	8	**43**
Sanctioned Cost	62.07	217.58	179.81	77.49	**536.95**
Receipt of Fund	27.61	169.07	109.34	42.67	**348.69**
Expenditure	23.54	182.13	93.08	37.51	**336.26**

Source: Information furnished by UPPCL and DISCOMs.

IT enabled system was to be established under Part-A by ITIA within 18 months from the date of award of work (January 2010). However, ITIA completed 90 *per cent* works only despite completion of five years up to June 2015. Audit noticed that, in all the selected towns, the projects had been declared Go-live despite 10 *per cent* of the works remaining incomplete. The works remained incomplete are IT applications for energy accounting/

[11] The role of Steering Committee *inter alia* included sanction of projects, modification or revision of estimates, monitoring/review of implementation of the Scheme and approval of conversion of loan into grant.

[12] The role of DRC was to recommend the project proposals of DISCOMs to MoP, GoI, monitor the compliance and achievement of milestones/targets under the Scheme.

auditing, customer care centre and baseline data system *etc.* as discussed in succeeding paragraphs.

Execution of works

2.1.11 As per the guidelines issued (December 2008) by MoP, the DISCOMs were required to submit DPRs to the Steering Committee, GoI by 25 March 2009 for approval indicating the priority of towns for execution of work. The UPPCL appointed Infosys Technologies as ITC (12 March 2009) for preparation of DPRs and HCL Technologies Limited (January 2010) as ITIA for establishment of IT enabled system in 168 towns of the State. Observations related to appointment and executions of work are discussed below:

Loss of grant as reliable Base Line Data system was not established

As the baseline data system was not established as per the guidelines and the issues regarding generation of AT&C losses were not addressed, chances of conversion of loan of ₹ 474.50 crore received from GoI into grant was remote

2.1.12 The guidelines provided that the loan along with interest thereon shall be converted into a grant only after the establishment of a reliable and automated sustainable system for collection of base line data and verified by Third Party Independent Evaluation Agency (TPIEA) appointed by MoP through the nodal agency (PFC). National Thermal Power Corporation was appointed (March 2013) as TPIEA to verify the establishment of baseline data system under Part-A.

Audit noticed that as the IT enabled system established under Part-A remained incomplete as discussed in paragraphs 2.1.14 to 2.1.21, the baseline data system could not be verified by TPIEA so far (October 2016). Further, the AT&C losses generated by the system even after declaration of all the towns Go-live (June 2015) were erratic as AT&C losses ranged between (-) 99.83 and 99.92 *per cent* during July 2015 to July 2016 ***(Annexure-2.1.5).*** Therefore, chances of completion of scheme even in extended period (up to March 2017) and conversion of loan of ₹ 474.50 crore received from GoI into grant remained remote.

UPPCL stated (October 2016) that conversion of loan into grant was expected as verification period given by MoP/PFC was December 2016. Reply was not acceptable as major deficiencies in the established IT enabled system still existed (October 2016).

Irregular payment to Network Bandwidth Service Provider (NBSP)

2.1.13 DISCOMs executed (July 2010) a tripartite agreement among DISCOMs, HCL Technologies (ITIA) and TULIP (NBSP) valued at ₹ 128.60 crore for NBSP services with a delay of eight months (November 2009 to July 2010). As per Clause 8 (iv) of the agreement, the NBSP was eligible to receive web-link wise payment from the DISCOMs only after successful connectivity of all the links in a town.

The DISCOMs, ignoring the provisions of the agreement, made payment of ₹ 8.98 crore to NBSP for partial connectivity (links for the purpose of revenue billing only) of links

- Audit noticed that agreement was terminated (October 2013) on account of deficient and poor services; meanwhile NBSP had provided only partial connectivity for links. The DISCOMs, ignoring the provisions of the agreement, made (upto March 2013) payment of ₹ 8.98 crore to NBSP for partial connectivity (links for the purpose of revenue billing only) of links. This led to irregular payment of ₹ 8.98 crore to NBSP.

UPPCL stated (October 2016) that payments for network bandwidth were on usage basis; therefore, it was necessary to start payment to NBSP from the date of delivery of links by them. Reply was not acceptable as payment was not to be made before connectivity of all links in a town. The fact regarding partial connectivity of links by NBSP were also confirmed in the feedback received in survey conducted by Audit among CEOs of beneficiary DISCOMs.

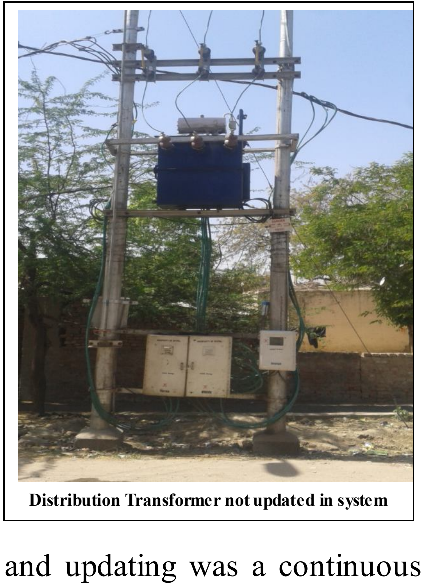
- Audit noticed that as per Clause 7 of the agreement, DISCOMs should have obtained Performance Bank Guarantee (PBG) for an amount of ₹ 12.86 crore (DVVNL: ₹ 2.58 crore, MVVNL: ₹ 3.41 crore, PVVNL: ₹ 4.11 crore and PuVVNL: ₹ 2.76 crore) towards the performance of the contract which was not obtained. In absence of required PBG, NBSP could not be penalised for not performing the agreement. Audit further noticed that DISCOMs (DVVNL and PuVVNL) did not get the BGs renewed from NBSP against the mobilisation advance. As a result, mobilisation advance of ₹ 5.34 crore (DVVNL: ₹ 2.58 crore and PuVVNL: ₹ 2.76 crore) could not be recovered on termination of the agreement.

UPPCL stated (October 2016) that though BGs were not renewed, bills of NBSP for amount in excess of lapsed BGs were withheld by the DISCOMs. Reply was not tenable as the withheld amount was not payable to NBSP as per terms and conditions of the agreement. Further, the failure to obtain PBG resulted in the NBSP escaping penalties for not performing the agreement and the recovery of mobilisation advance from withheld amount could not compensate the loss due to expiry of the BGs.

Feeder/Distribution Transformer meters not updated in Meter Data Acquisition System

2.1.14 The main objective of Meter Data Acquisition System (MDAS) is to acquire data automatically from meters by avoiding any human intervention.

Audit observed that in 43 test checked towns, the data communication facility was available only from 462 (82 *per cent*) sub-stations out of total 557 sub-stations. Out of 5,281 feeders and 74,009 Distribution Transformers (DTs) only 4,888 feeders (92 *per cent*) and 31,875 DTs (43 *per cent*) were updated in MDAS. Thus, the objective of MDAS to acquire meter data automatically without human intervention was defeated as 18 *per cent* sub-stations were not communicating data automatically and eight *per cent* feeders and 57 *per cent* DTs were not updated in MDAS as of March 2016.



Distribution Transformer not updated in system

UPPCL accepted the facts and stated (October 2016) that replacement of meters and updating was a continuous process and efforts were made to gradually improve the status of DT meters and availability of modem. Reply furnished by the Management was not tenable, as updating a system by adopting technological changes in a timely manner was an essential component for sustainable operation of established system in an IT environment, which the Management failed to ensure.

Poor data communication from modems installed on DTs

2.1.15 The scheme provided for installation of meters, modems and GPRS[13] SIMs[14] at each DT to capture the energy data on a continuous basis.

Audit observed that out of 55,751 modems installed on DTs, data communication was being received only from 11,933 modems (16 *per cent* of DTs) as of 31 March 2016. Thus, due to deficient data communication from the modems, the DISCOMs were compelled to fill the gaps in energy data through manual entries which defeated the objective of eliminating human intervention in energy accounting/auditing.

UPPCL accepted the facts and stated (October 2016) that communication deficiencies of these modems were due to de-activation of SIMs and maintenance activities of DT meters.

Deficient User Acceptance Testing

2.1.16 As per good IT practices, User Acceptance Testing (UAT) is a very crucial phase to declare the completion of a project. Therefore, UAT should be compulsorily conducted as specified in the SRS before the issue of UAT completion certificate by DISCOMs to ITIA. As per SRS, tests of modules as well as system tests of total 13 types[15] under Part-A were prescribed to be conducted for successful completion of the scheme.

DISCOMs issued (May 2012) UAT completion certificates without ensuring prescribed 13 tests of modules for all modules while UAT was conducted in 14 of 17 modules, leaving three modules untested

Audit noticed that UAT was conducted during 14 May 2012 to 19 May 2012 in 14 of the 17 modules, leaving three modules[16] untested. However, DISCOMs issued (May 2012) UAT completion certificate for all the modules. Moreover, recommendations of the ITC, as detailed in **Annexure-2.1.6,** to address the shortcomings/deficiencies noticed during UAT of eight modules[17] were not complied with by the DISCOMs/ITIA. Audit further noticed that none of the 13 system tests prescribed as per SRS was carried out (March 2016) to declare the project as complete. Therefore, UAT completion certificate issued by the DISCOMs without ensuring prescribed 13 tests of modules was not justified.

UPPCL stated (October 2016) that functionality changes/additions in software were an ongoing and continuous process and not a one time job and so on the basis of this, the user acceptance of system cannot be termed deficient. Meanwhile, the operational recommendations of committee on the tested modules had been addressed and untested modules had been tested.

Reply furnished by the Management was not acceptable, as changes/additions in software by adopting technological changes in a timely manner was an essential component for sustainable operation of established system in an IT environment. Moreover, the Management had not yet (October 2016) carried

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[13] General packet radio service.

[14] Subscriber identity module.

[15] Unit Testing, Integration Testing, Incremental Integration Testing, System Testing, Pre-Production Testing, Regression Testing, Performance Testing, Load Testing, Installation Testing, Security/Penetration Testing, Recovery/Error Testing, Acceptance Testing, Performance Testing.

[16] Management Information System, System security and Development of Commercial Database of Consumers.

[17] New Connection Module, Disconnection and Dismantling Module, Network Analysis Module, Customer Care Centre, Web Self Service, Billing, Assets Management and Maintenance Management.

out UAT of all 17 modules together which was essential for completion of the project.

Deficiencies in Customer Care Centre

2.1.17 As per SRS, a Customer Care Centre (CCC) was to be established in each DISCOM with a view to achieve the objective of increasing consumers' satisfaction. Audit noticed that the CCCs were not fulfilling the requirements as envisaged in the SRS due to the following reasons:

- CCC service module was not able to generate 11 types of periodical summarised report of consumers' complaints prescribed in SRS. Rather, it generated only three types of report *i.e.* service request complaints, billing complaints and mobile and email updation requests;
- the system was not able to track the action taken at appropriate level of DISCOM against complaints/requests to ensure the status of action taken within the time prescribed in U.P. Electricity Supply Code;
- there was no provision of generating report showing time taken by the DISCOMs for disposing off consumer's complaints; and
- the reports showing age-wise pendency of complaints could also not be generated.

UPPCL stated (October 2016) that the CCC was integrated for six types of complaints in accordance with existing requirements of input from registered consumers. Design for remaining five types of complaints also existed in system. Reply was not acceptable as only three out of 11 types of reports as per SRS were generated by CCC. The reports prescribed for status, age and level of pendency of complaints were not being generated.

Deficiencies in IT enabled system

2.1.18 IT application capable of generating energy bills, conducting energy accounting/auditing was developed by ITIA under Part-A of the scheme. As analysed by audit the following deficiencies were found in the IT system:

- the system did not provide the status of working of shunt capacitor;
- provision for protective load charges was not made in the system;
- password generation, password change and password unlock process were not as per SRS which made the system vulnerable for security attack;
- template of Management Information System (MIS) reports of GIS, MDAS, Energy audit, Network analysis, Work and Asset Management modules was not finalised;
- poor performance of Customer Care and Billing (CCB) Server was reported in January/February 2014 and the problem aggravated up to March 2015. It was recommended by ITC that UPPCL/DISCOMS should carry out Root Cause Analysis (RCA) for poor performance of CCB servers along with mitigation plan from ITIA so that the problems might not repeat in future. The UPPCL/DISCOMs, however, did not take any corrective action;
- IT policy for standardisation and security of R-APDRP system was neither formulated nor implemented in DISCOMs;

- functioning of Disaster Recovery Centre (DRC) in correlation with Data Centre (DC) was not tested. As a result, the billing data of consumers faced the high risk of loss in case of any contingency/disaster; and
- Oracle Utility Business Intelligence (OUBI) tools required for MIS was not provided by ITIA. In absence of the same, the Management could not generate MIS and failed to monitor the aforesaid activities to minimise AT&C losses.

UPPCL accepted the audit observations and stated (October 2016) that the ITIA was instructed to make the system enabled and updated with regard to password management system and enhancement of capacity of CCB and its sustainability.

Failure in updating Geographic Information System data

2.1.19 Clause 4.1.2 (section G-1) of System Requirements Specification (SRS) provided that vendor would detail their methodology for updation of changes in Geographic Information System (GIS) data.

Audit observed that during the period of implementation of the scheme, there had been huge changes in consumer data as well as in electrical network in the towns selected under the scheme due to new connection, disconnection, construction of new sub-stations and lines. The ITIA/DISCOMs did not update GIS data in any of the towns. In absence of updated data, the objective of correct energy accounting and auditing could not be ensured.

UPPCL stated (October 2016) that GIS could not be completed as a standalone activity but was to be gradually corrected with monthly survey in each billing cycle. The fact, however, remained that no corrective action was taken by the DISCOMs to update the changes in GIS.

Assessment based consumption in R-APDRP towns

2.1.20 As per section 55 of the Electricity Act, 2003, the DISCOMs were to provide meters to all service connections before June 2005. Further, the scheme provided for 100 *per cent* metering to ensure proper energy accounting and auditing.

Audit noticed that 3,712 street light consumers pertaining to all DISCOMs having connected load of 68,127 KW were unmetered and billing was done on assessment basis. This defeated the objective of 100 *per cent* metering under the scheme.

UPPCL accepted the facts and stated (October 2016) that planned efforts in phased manner was being made to achieve 100 *per cent* metering on street lights.

Delay in appointment of ITC and technically disqualified ITIA

Appointment of technically not qualified ITIA and delay of more than two months in appointment of ITC delayed the implementation of the Project

2.1.21 Audit observed that UPPCL took more than two months in appointing the ITC and submitted (15 May 2009) the DPRs without indicating priority of towns to GoI for approval that too with a delay of 51 days. Audit further noticed that the ITIA appointed by DISCOMs was technically not qualified as its score was 33.65 marks against a minimum of 35 marks prescribed (December 2009) by the Steering Committee. Thus, there was delay in appointment of ITC and ITIA was technically not qualified as per the benchmarks set by Steering Committee. Audit observed that the scheme could not be completed even after lapse of more than six years up to October 2016 due to delayed appointment of ITC and deficiencies in the system established by ITIA, as discussed in paragraphs 2.1.16 to 2.1.19.

UPPCL stated (October 2016) that bids were evaluated at its level and final marks obtained by all bidders were more than 40 and HCL was selected as ITIA because it was the L1 tenderer. Reply was not acceptable as ITC was appointed as an expert for bid evaluation for appointment of ITIA. But ignoring scores given by the ITC, HCL was appointed as ITIA on the basis of internal evaluation. Thus, purpose for which ITC was appointed was defeated. Moreover, no document in support of evaluation of bids made by UPPCL was furnished to audit.

Avoidable expenditure on consultancy services

DISCOMs incurred avoidable expenditure of ₹ 2.72 crore due to extension of validity of consultancy agreement with an additional payment, despite the fact that out of seven only three milestones were achieved by the ITC

2.1.22 DISCOMs executed (October 2009) an agreement with ITC (valid for four years) for monitoring execution of projects. As per Clause 1.9 of the contract, payment of contracted amount of ₹ 1.94 crore was to be made to ITC as per milestones ***(Annexure 2.1.7)*** achieved. Audit noticed that only three against the required seven milestones were achieved by the ITC as of October 2013. Three DISCOMs[18] extended (17 October 2013) the validity of the agreement for two years with an additional amount of ₹ 2.72 crore, payable on monthly equated installments. The other DISCOM *i.e.* DVVNL, however, did not extend validity period of agreement and was getting the work done through ITC against the existing agreement without involving any additional payment.

Thus, extension of validity of agreement by three DISCOMs[19] with an additional payment led to avoidable expenditure of ₹ 2.72 crore.

UPPCL stated (October 2016) that additional payment was justified in the interest of project to enable the DISCOMs to seek valuable technical help and support from the ITC. Reply was not acceptable as the extension of agreement should have been done without any additional payment as all the agreed milestones had not been achieved by the ITC.

Irregular payment to ITIA

2.1.23 Clause 14.1 of the agreement with ITIA provided that all payments for Facility Management Services (FMS) would be made after declaration of DISCOMs 'wide rollout Go-live' and submission of the energy audit reports by ITIA.

DISCOMs made irregular payment of FMS charges of ₹ 2.45 crore (upto March 2015) to the ITIA prior to declaration of DISCOMs wide rollout Go-live

Audit noticed that the DISCOMs made payment of FMS charges of ₹ 2.45 crore (up to March 2015) to the ITIA prior to declaration (April 2015 to June 2015) of DISCOMs wide rollout Go-live into all towns and without submission of any energy audit reports by the ITIA. Audit also noticed that energy audit reports were not generated as eight *per cent* feeder meters and 57 *per cent* Distribution Transformer (DT) meters were not updated in MDAS and 84 *per cent* DTs lacked communication facility as of March 2016.

Thus, payment of FMS charges to ITIA prior to declaration of DISCOMs 'wide rollout Go-live' in all towns and without conducting energy audit led to irregular payment of ₹ 2.45 crore to the ITIA.

[18] PVVNL, MVVNL and PuVVNL.
[19] PVVNL, MVVNL and PuVVNL.

UPPCL stated (October 2016) that in view of ensuring utility operations; UPPCL took decision to start FMS operations from March 2014 for all Go- live towns under R-APDRP. The fact remained that the payment of FMS charges to ITIA was made before declaring 'wide rollout Go-live' by DISCOMs in all towns.

Undue favour to ITIA

2.1.24 As per Clause 69 of the agreement with ITIA, if the ITIA failed to perform all the work within the period specified in the contract, the DISCOMs should deduct liquidated damages equivalent to 0.5 *per cent* per week subject to a maximum of 10 *per cent* of contract value.

Audit noticed that delay in submission of design, not updating the GIS data, not conducting integrated testing of all modules *etc.* by ITIA led to deficient Go-live of the programme in all towns. Despite these deficiencies, the DISCOMs unduly favoured ITIA by issuing completion certificate for deficient Go-live and by not deducting penalty of ₹ 77.51 crore from their bills.

UPPCL stated (October 2016) that the system implementation works had been completed by the ITIA on their part and all towns were declared Go-live within the extended timeframe. Therefore, not deducting penalty does not amount to any undue favour to the ITIA. Reply was not acceptable as the ITIA did not carry out the steps involved in completion of the project and implemented a defective and incomplete programme that was declared Go-live between April 2015 and June 2015.

Part A (ii) Establishment of SCADA

2.1.25 Part-A (ii) SCADA of the scheme envisaged improvement in system reliability through remote operation. SCADA was to be implemented in 12 towns[20] within three years from sanction of the project *i.e.* June 2009 (extended upto May 2017) as per guidelines of the scheme. SCADA consultant (SDC) was to be appointed by DISCOMs for preparation of DPRs and monitoring of projects and SCADA Implementing Agency (SIA) for implementation of projects.

DISCOMs incurred an expenditure of ₹ 17.59 crore under SCADA with no physical progress as of March 2016

The sanctioned cost of projects of 12 towns was ₹ 280.81 crore out of which ₹ 79.96 crore was received from GoI (September 2012) and ₹ 17.59 crore was spent on mobilisation advance and payment to consultant. However, as of March 2016, there was no physical progress in the project. The DISCOM-wise breakup of sanctioned cost, receipt and expenditure of fund is given in table 2.1.3.

Table 2.1.3
DISCOM-wise sanctioned cost, receipt and expenditure of fund

(Amount ₹ in crore)

DISCOM	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Overall and Sample					
Number of Town	3	2	4	3	**12**
Sanctioned Cost	46.35	47.42	112.93	74.11	**280.81**
Receipt of Fund	13.91	9.94	33.88	22.23	**79.96**
Expenditure	2.88	1.74	7.11	5.86	**17.59**

Source: Information furnished by UPPCL and DISCOMs.

[20] Lucknow, Bareilly, Allahabad, Varanasi, Gorakhpur, Meerut, Ghaziabad, Saharanpur, Moradabad, Aligarh, Firozabad and Jhansi.

As analysed by audit, the SCADA work could not progress after a lapse of more than four years mainly due to the following reasons:

Due to delay in finalisation of scope of work of Part-B, not handing over SCC buildings and failure in specifying the scope of work to the implementing agency, no progress could be achieved in SCADA project

- DPRs for SCADA were sanctioned during June to October 2011 but contract with SIA (SIEMENS) for implementation of SCADA was finalised (July 2013) by UPPCL after a period of 20 to 24 months against scheduled time limit of three months from the date of sanction of DPRs. The agreements were belatedly entered into by DISCOMs with SIA during August to October 2014 (to be completed within 18 months) due to delay in finalisation of scope of work of Part-B;
- DISCOMs were to provide buildings to SIA for establishment of SCADA Control Centre (SCCs). Seven out of 12 SCC buildings were not completed and handed over to the SIA so far (March 2016); and
- The scope of work finalised by UPPCL in July 2013, was subsequently (August 2015) reduced in respect of 10 towns considering no progress in the project. However, reduction in scope of work was not intimated to SIA, hence the work could not be taken up by SIA as of October 2016 as discussed in paragraph 2.1.26.

Loss due to curtailment in scope of work

2.1.26 As per scheme guidelines, the DISCOMs should not transfer or abandon the project at any stage without written consent of the nodal agency otherwise entire outstanding dues alongwith interest would have to be refunded by the DISCOMs to nodal agency before any such transfer is effected.

Audit noticed that considering no progress in implementation of the SCADA projects, UPPCL decided (August 2015) to implement two projects with complete scope in Lucknow and Varanasi towns; whereas, in rest of the ten towns with reduced scope up to sub-station automation level only without consent of the nodal agency. Due to reduction in scope of work the Renovation and Modernisation (R&M) of sub-station only was done but online communication facility with auto re-closure was not established. Therefore, the purpose of SCADA to monitor and control the distribution network with establishment of SCCs was defeated in the case of 10 towns. Further, due to establishment of SCADA system without establishing the required communication facility with auto re-closure in 10 towns, the DISCOMs were liable to return ₹ 82.66 crore (including interest of ₹ 18.46 crore) to PFC as per provisions of the scheme.

Thus, failure to specify the scope of work to the implementing agency resulted in no progress being achieved. Consequently, DISCOMs failed to improve system reliability through remote operation even after lapse of more than seven years since initiation (June 2009) of the project. Thus, DISCOMs not only lost the opportunity to improve system reliability to monitor and reduce AT&C losses, but also loan of ₹ 79.96 crore could not be converted into grant as there was no progress in the SCADA project so far (October 2016) and also could not be possible to complete in extended period (up to May 2017).

UPPCL stated (October 2016) that UPPCL and DISCOMs had worked out a detailed month-wise/ phase-wise plan with SIA to successfully execute the decided scope in 10 towns upto sub-station level and full scope in two towns.

Reply was not acceptable as the DISCOMs failed to obtain approval of PFC on the curtailed scope of work of SCADA. Furthermore, implementation of SCADA within the extended period upto May 2017 would not be possible considering slow progress (48.06 *per cent* only upto March 2016 in 41 selected towns) of the system strengthening works under Part-B of the scheme.

Part-B: Distribution system strengthening works

2.1.27 Part-B of the scheme envisaged regular distribution system strengthening projects *viz.* Renovation, modernisation and strengthening of sub-stations, Transformers/ Transformer Centers, Re-conductoring of lines, Aerial Bunched Conductoring in dense areas, replacement of electromagnetic energy meters with tamper proof electronic meters, installation of capacitor banks *etc.* The Part-B of the scheme was implemented in 167 towns with the sanctioned cost of ₹ 6,915.57 crore out of which ₹ 3,556.24 crore was received and ₹ 3,239.12 crore was spent upto March 2016.

The sanctioned cost of projects of 42 test checked towns was ₹ 5,042.96 crore out of which ₹ 1,857.64 crore was received and ₹ 1,760.19 crore was spent upto March 2016 with physical progress of 48.06 *per cent* ***(Annexures-2.1.3 (A and B) and 2.1.4 (A and B))***. Out of 42 selected towns in only one town *i.e.* Etawah project was completed upto March 2015. The DISCOM-wise breakup of sanctioned cost, receipt and expenditure of fund is given in table 2.1.4.

Table 2.1.4

DISCOM-wise sanctioned cost, receipt and expenditure of fund

(Amount ₹ in crore)

DISCOM	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Overall					
Number of Town	39	44	55	29	**167**
Sanctioned Cost	1639.19	1816.01	2347.66	1112.71	**6915.57**
Receipt of Fund	1752.59	714.50	585.27	503.88	**3556.24**
Expenditure	1568.17	680.46	540.89	449.60	**3239.12**
Sample					
Number of Town	10	11	13	8	**42**
Sanctioned Cost	1128.95	1411.81	1745.25	756.95	**5042.96**
Receipt of Fund	672.42	620.25	260.87	304.10	**1857.64**
Expenditure	628.64	620.25	211.93	299.37	**1760.19**

Source: Information furnished by UPPCL and DISCOMs.

The progress of major items of works to be executed under Part-B varied from 39.50 to 67.27 *per cent* in all the towns and 31.82 to 61.59 *per cent* in remaining 41 selected towns even after lapse of more than five years as shown in chart 2.1.2.

Chart 2.1.2
Physical progress of major items of all towns and selected towns

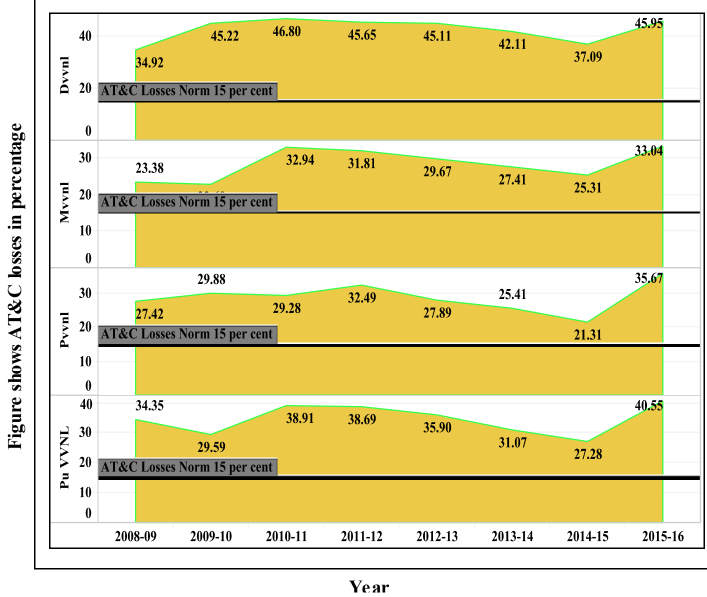
Figure shows physical progress of major items in percentage

As analysed in audit, reasons for slow progress in implementation of Part-B of the scheme were delay in preparation of DPR, preparation of deficient DPRs, delay in finalisation of tenders, delay in providing infrastructure to contractors *etc.* as discussed in paragraphs 2.1.30, 2.1.31, 2.1.37 and 2.1.41.

Increase in AT&C losses post 'Go-live'

2.1.28 Audit noticed that despite expenditure of ₹ 3,239.12 crore (46.84 *per cent* of the sanctioned cost), the overall physical progress of Part-B achieved was only 56.65 *per cent* after more than six years of execution of the scheme from January 2010.

Chart 2.1.3
DISCOM-wise AT&C losses



As can be seen in the chart 2.1.3, after declaring Go-live of all towns (June 2015), the AT&C losses ranging between 23.38 and 34.92 *per cent* as verified for base year 2009 increased from 33.04 *per cent* to 45.95 *per cent* in all four DISCOMs during the period from July 2015 to July 2016.

Further, in Etawah town, the work under Part-B was completed in March 2015 and Go-live of the town was declared in June 2015. The baseline AT&C loss of the town was 65.71 *per cent* (February 2013 to April 2013). As intimated to PFC, the AT&C loss for the period of June to August 2015 was 80.47 *per cent* and the same was 73.16 *per cent* in July 2016.

As analysed above, the AT&C losses of all DISCOMs increased after execution of works under Part-B instead of decreasing. Especially, in case of Etawah town where all works were completed, the position of AT&C losses was more alarming. Thus, objective of achievement of AT&C losses of 15 *per cent* could not be achieved so far (October 2016) and was also not likely to be achieved during the extended period (up to May 2017). In fact in all four DISCOMs, the AT&C losses actually increased after declaring the towns under them as Go-live. Therefore, chances for conversion of loan of ₹ 3,556.24 crore into Grant of ₹ 1,778.12 crore (50 *per cent* of loan) were remote even after the expiry of extended period (up to May 2017).

Preparation of DPR

2.1.29 As per the scheme guidelines, DPRs of Part-B were to be prepared by the DISCOMs. The DPRs were to be submitted to Distribution Reform Committee (DRC) for its onwards submission to Steering Committee for approval through nodal agency (PFC). Deficiency in preparation and submission of DPRs are discussed in succeeding paragraphs.

Delayed preparation of DPRs

Failure of the DISCOMs in undertaking the requisite formalities for execution of Part-A and Part-B of the scheme caused avoidable delay of 11 months in preparation of DPRs of Part-B

2.1.30 The DISCOMs appointed consultants (March 2009 to November 2009) for preparation of DPRs. The DPRs were submitted by the DISCOMs to MoP in June 2010 for their approval. The guidelines provided that formalities for execution of Part-B Projects may be taken up along with Part-A.

Audit noticed that DPRs of Part-B works for 29 towns out of 42 test checked towns were belatedly submitted in June 2010 whereas the DPRs of Part-A were submitted in June 2009. The DISCOMs, despite the provision in the guidelines, did not undertake the requisite formalities of Part-A and Part-B simultaneously causing avoidable delay of 11 months in preparation of DPRs of Part-B.

UPPCL stated (October 2016) that delay in preparation of DPRs was due to integrated planning of the scheme as a whole by UPPCL which was necessary and inevitable. Reply was not acceptable as the Part-B works involve regular system strengthening works and the same could have been taken up simultaneously with Part-A activities of the scheme.

Preparation of deficient DPRs led to revision and delay in implementation

2.1.31 The DISCOMs invited (August 2011) tenders for execution of Part-B works of 30 towns as per DPRs prepared by consultants. The Chairman and Managing Director (CMD) of UPPCL, while finalising the tenders, noticed (April 2012) that the consultants had included those works which might result in enhancement of capacity of the distribution system; but would not result in reduction of theft and technical losses. Therefore, these tenders were cancelled (April 2012) and tenders were re-invited (August 2012) based on the DPRs revised by the consultant. The revised DPRs were approved by MoP during February to July 2014. Meanwhile, in 16 towns, system strengthening works of ₹ 322.83 crore included in original DPRs were carried out by the DISCOMs during the intervening period of January 2011 to June 2014 from its own resources. These works were excluded in revised DPRs. This led to delay in implementation of the scheme for more than four years and expenditure of ₹ 161.42 crore (50 *per cent* of ₹ 322.83 crore) were not reimbursed under the Scheme.

UPPCL while accepting the facts stated (October 2016) that motive and prime reason of revising the DPRs were inclusion of works to achieve the very purpose of the scheme.

Short provision for conversion of High Tension lines

2.1.32 Central Electricity Authority (CEA) recommended ideal ratio of 1:1 for HT/LT lines for minimising the line losses. Audit noticed that conversion of LT lines to HT lines in the ratio of 0.25:1 to 0.96:1was proposed in the DPRs of 17 towns out of 42 towns. Thus, DISCOMs made short provision of HT lines in DPRs despite knowing the fact that more HT lines minimise the AT&C losses; therefore, DPRs submitted to MoP were deficient.

UPPCL stated (October 2016) that the DISCOMs fixed and installed HT/LT lines as per actual requirement to the extent of its feasibility to cut down the AT&C losses in the areas concerned. Reply was not tenable as the fact remained that DPRs were not prepared as per the recommendation of the CEA as envisaged in the Scheme for reduction in AT&C losses.

Avoidable expenditure due to preparation of DPRs without proper survey

2.1.33 The DPR of Lalitpur town was prepared for ₹ 18.01 crore under R-APDRP scheme with the objective of reducing AT&C losses by conversion of overhead electrical system to underground electrical system, reducing overloading of 11 KV feeders/LT lines *etc.* Meanwhile, the Board of Directors (BoD) of DVVNL approved (November 2015) the DPR for an amount of ₹ 46.14 crore of the town under GoUP scheme with similar scope of work (as included in R-APDRP) to reduce high AT&C losses.

Thus, the DPR was not prepared after conducting proper survey to decide scope of work under the R-APDRP scheme, which resulted in incurring additional expenditure of ₹ 46.14 crore to achieve the objective of reduction in AT&C losses.

UPPCL stated (October 2016) that the provision of expenditure was made in separate DPR for underground electrical system, which was 100 *per cent* funded by GoUP and the objective and scope of work in both DPR were different. Reply was not acceptable as similar works under R-APDRP scheme were also proposed with the same objective which was indicative of the fact that scope of work in the DPR of R-APDRP was included without proper survey and planning.

Avoidable expenditure on preparation of DPRs

2.1.34 As per scheme guidelines, the appointment of the consultant in case of Part-B was optional and cost of hiring the consultant was not to be funded under the scheme. Further, PFC had prepared the format of DPR in which the data had to be filled up directly through web portal.

Audit noticed that three DISCOMs[21] had hired consultants for preparation of DPRs at a cost of ₹ 17.39 crore. Audit further noticed that all DPRs of test checked towns were revised (July 2014) due to deficiencies observed by the DISCOMs itself. The Bill of Quantity (BOQ) incorporated in the revised DPRs was seen to be on an ad-hoc basis and without proper survey. Huge variations of (-) 100 *per cent* to 6400 *per cent* in proposed quantity of items was found when site survey was conducted by the SEs of DISCOMs. Thus,

[21] MVVNL, PVVNL and DVVNL.

the DPRs prepared by the consultants were not of much use and ultimately the work was executed on the basis of BOQ finalised by the engineers of the DISCOMs. Therefore, DISCOMs could have prepared the DPRs themselves and avoided making payment of ₹ 17.39 crore for hiring the services of consultants.

UPPCL stated (October 2016) that the appointment of consultants was necessary to get expert services for the work. Officers of the DISCOMs coordinated with the consultants to make the DPRs more realistic keeping in mind the needs of the existing system of distribution. Reply was not acceptable as the DPRs prepared by consultants were deficient and the works were ultimately carried out on the basis of survey conducted by concerned SEs**.**

Execution of works

2.1.35 The works related to strengthening of distribution network (projects) were awarded to different Turnkey Contractors (TKCs) selected through Circle wise open tenders at respective DISCOM Headquarters. SEs of respective Circle, being Chief Executive Officer (CEO), were responsible for making payments against works executed by TKCs and monitoring of execution of Part-B work under their respective jurisdiction.

The Part-B of the scheme was implemented in 167 towns with the sanctioned cost of ₹ 6,915.57 crore out of which ₹ 3,556.24 crore was received and ₹ 3,239.12 crore was spent upto March 2016. The sanctioned cost of projects of 42 test checked towns[22] was ₹ 5,042.96 crore out of which ₹ 1,857.64 crore was received and ₹ 1,760.19 crore was spent upto March 2016 with physical progress of 48.06 *per cent.* Out of 42 selected towns, only in one town *i.e.* Etawah the project was completed as of March 2015.

Deficiencies noticed in execution of projects are discussed below:

Cost overrun due to time overrun

The works of 33 towns out of 42 towns were awarded to TKC with a delay of 18 to 45 months from the date of sanction of DPRs. This led to variation in scope of work and cost escalation of ₹ 737.88 crore

2.1.36 The works in respect of 42 towns were awarded (August 2012 to February 2015) to TKCs with a delay of 33 to 63 months[23] from the date of sanction of projects ***(Annexure-2.1.8)***.

Audit noticed that the works of 33 towns out of 42 towns were awarded to TKC with a delay of 18 to 45 months[24] from the date of sanction of DPRs whereas the total period being allowed for execution of projects was only 18 months (as per the executed agreement). This led to variation in scope of work and cost escalation of ₹ 737.88 crore ***(Annexure-2.1.9)***.

UPPCL stated (October 2016) that the delay happened due to reasons beyond the control of DISCOMs and cost overrun was due to phased implementation. Reply was not acceptable as the reasons for delay were attributable to deficient preparation of DPRs leading to the revision subsequently and excessive time taken in finalisation of tenders by the DISCOMs.

[22] Part-B of the Scheme was not implemented in one town *i.e.* Noida.
[23] Calculated excluding six months from the date of sanction of projects.
[24] Calculated excluding three months from the date of sanction of DPRs.

Loss due to delay in finalisation of tender

MVVNL failed to offer the work to TKC within the validity period of rates which resulted in extra financial burden of ₹ 134.33 crore on the scheme

2.1.37 MVVNL invited tender in May 2013 for the work in Lucknow town (DPR approved in October 2011) without considering the works already executed during the intervening period. The financial bid was opened in August 2013 having validity of rates up to February 2014. However, the Management decided (March 2014) to reduce the quantity of work already executed valuing ₹ 309.29 crore and offered (April 2014) TKCs the execution of remaining works at negotiated L-1 rate of ₹ 590.66 crore[25]. The firm declined to execute the work at the rates of August 2013 as it was becoming unviable to execute the Project at the quoted rate. As a result, MVVNL had to re-tender the work in June 2014 and the work was awarded (October 2014) at ₹ 724.99 crore to the same firm but at a higher rates. Thus, due to delay in finalisation of the tender, the MVVNL had to get the work executed at higher rates which resulted in extra financial burden of ₹ 134.33 crore (₹ 724.99 crore - ₹ 590.66 crore) on the scheme.

UPPCL stated (October 2016) that the negotiated L-1 rates of ₹ 899.95 crore in tender were higher by 52.36 *per cent* with respect to sanctioned DPR cost *i.e.* ₹ 590.66 crore, hence, the rates were not approved. Reply was not acceptable as MVVNL did not offer the work within the validity period of rates quoted by TKC and awarded the work to the same firm at a rate higher by 22.74 *per cent* with respect to sanctioned cost.

Loss due to failure in obtaining valid Bank Guarantee (BG)

2.1.38 As per terms and conditions of the agreement, bank guarantee (BG) of scheduled bank was to be obtained by the PuVVNL against mobilisation advance and performance guarantee. Further, Central Vigilance Commission's (CVC) guidelines (December 2007) provides that verification of BG should be done before acceptance.

Acceptance of BGs of NBFC without verification led to loss of ₹ 14.32 crore to PuVVNL

Audit noticed that the nodal officer (Superintending Engineer) of PuVVNL, at the time of agreement (February 2013) accepted BGs of ₹ 14.32 crore of a non-banking financial company[26] (NBFC) from the TKC[27] against the performance guarantee and mobilisation advance, without getting it verified from the bank. The TKC was not executing the work satisfactorily; therefore, the PuVVNL invoked (May 2015) the BGs but could not encash as these were fake. The agreement was terminated (July 2015) on account of fake BG. Thus, in absence of required BGs, the amount of ₹ 14.32 crore could not be recovered.

UPPCL stated (October 2016) that all the corrective and remedial measures/steps were taken to recover the financial loss of PuVVNL. Reply was not satisfactory as any specific action taken against TKC had not been intimated to audit. The fact remained that acceptance of BGs of NBFC without verification thereof at the time of acceptance led to loss to PuVVNL for which no action was taken against the defaulter officer of PuVVNL.

Further, the same firm had also defaulted in MVVNL. However, no record of BG/PBG obtained from the contractors in respect of any of the towns under the jurisdiction of MVVNL was provided to audit.

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[25] Negotiated L-1 rate: ₹ 590.66 crore (₹ 899.95 crore - ₹ 309.29 crore)
[26] Chartered Mercantile M.B. Limited
[27] Biecco Lawrie Limited.

Undue benefit to contractor by allowing a higher rate

DVVNL extended undue benefit of ₹ 4.53 crore in Etawah town to the TKC by allowing higher rate than the awarded rate in respect of 14 items of work in executed estimate

2.1.39 As per Scheme guidelines, in Part-B works, 10 *per cent* variation in sanctioned cost and 20 *per cent* variation in quantity of works was allowed.

Audit noticed (September 2015) that the nodal officer (Superintending Engineer) of DVVNL allowed higher rate than the awarded rate in respect of 14 items of works in executed estimate submitted by TKC of Etawah town (completed in March 2015). The excess payment was compensated by reducing the quantity of six items to keep the total executed cost within the sanctioned DPR cost. Thus, undue benefit of ₹ 4.53 crore was extended to the TKC.

UPPCL stated (October 2016) that the mentioned rates were activity-wise and not item-wise. The items for execution of any activity normally varied during execution due to site requirement. Reply was not acceptable as the cost of activity to be executed under the agreement was based on the item-wise rate given therein. Therefore, payment to the contractors should have been made as per the agreement.

Infructuous expenditure on construction of lines

Expenditure of ₹ 3.10 crore incurred in Kannauj town on construction of overhead lines, which was closed in March 2015 due to conversion into underground electrical system, became infructuous

2.1.40 The DPR of Kannauj town included construction of overhead lines at a cost of ₹ 7.94 crore under Part-B of R-APDRP. The TKC carried out 47 *per cent* of construction of overhead lines and incurred an expenditure of ₹ 3.10 crore (upto March 2015). But, the work was closed in April 2015 as GoUP, without assigning any reason, decided (April 2015) for conversion of overhead electrical system into underground system under *Twarit Arthik Vikas Yojna* of GoUP instead of under R-APDRP. However, BoD of DVVNL, prepared the DPR for the scheme in April 2015 citing political sensitivity of the town as reason for the change. Thus, the improper planning while constructing overhead lines for Kannuaj Town resulted in infructuous expenditure of ₹ 3.10 crore incurred on construction of overhead lines.

UPPCL stated (October 2016) that expenditure incurred under R-APDRP scheme and subsequently under another scheme of undergrounding of electrical system with 100 *per cent* equity from the GoUP was fruitful with different objectives. Reply was not tenable as the expenditure on construction of overhead lines could have been avoided, had DVVNL and GoUP planned the laying of underground system/cable at the initial stage itself. Further, the nature of political sensitivity because of which the overhead lines were replaced by underground lines was not clear.

Delay in providing infrastructure to the contractor

2.1.41 As per guidelines, the DISCOMs had to ensure timely availability of any other infrastructure or facilities not in the scope of work of the Contractor *viz.* land, pole location *etc.*

Audit noticed that in six towns[28] (works awarded during September 2012 to January 2015), the DISCOMs failed to provide land to TKCs for 20 sub-stations even after lapse of 14 to 37 months from date of award of works so far (March 2016). This resulted in inordinate delay in completion of the Part-B works. This was further substantiated by the findings of joint physical inspection of five towns as detailed in paragraph 2.1.43.

[28] Lucknow, Firozabad, Jhansi, Jaunpur, Varanasi and Allahabad.

UPPCL stated (October 2016) that in such a massive work for restructuring of electrical distribution network, timely availability of land/infrastructure or facilities could not be ensured. Reply was not acceptable as the DISCOMs were responsible for timely providing related infrastructure. This fact was also confirmed in the feedback received by Audit in survey conducted by issuing questionnaires to CEOs of beneficiary DISCOMs.

Unfruitful expenditure due to associated works not completed

Objective of the scheme to reduce overloading and provide quality power could not be achieved even after incurring expenditure of ₹ 14.13 crore due to delay in completion of associated lines

2.1.42 The activities under Part-B of the scheme were to be planned in such a manner that main work and associated works were completed in time. The construction of sub-stations under the scheme were planned to reduce overloading of existing sub-stations and improve quality of power to consumers. In four towns[29], audit noticed that six sub-stations were constructed with an expenditure of ₹ 14.13 crore but the same were energised (March 2016) with the existing lines as the associated lines planned were not completed. Thus, due to the failure to complete the required lines in time, the objective of the scheme to reduce overloading and provide quality power could not be achieved even after incurring an expenditure of ₹ 14.13 crore. This was further substantiated by the findings of joint physical inspection of five towns as detailed in paragraph 2.1.43.

UPPCL stated (October 2016) that erection of associated line activities were generally planned in synchronisation but practically same was lagged behind due to other reasons. Reply was not acceptable as delay in completing associated works showed lack of adequate planning on the part of the DISCOMs. As a result, reduction of overloading and providing quality power could not be achieved.

Joint physical inspection of projects

2.1.43 Joint physical inspection was carried out in six 33/11 KV sub-stations of five towns, out of 42 test checked towns. The findings of joint physical inspection, as discussed in paragraphs 2.1.41 and 2.1.42 are as under:

- In Lucknow town, two sub-stations were inspected. One sub-station (Sugamau) was found complete but associated line was not constructed. In case of other sub-station (Priyadarshani Colony), infrastructure was to be provided by the DISCOM; land and building were not provided timely by the DISCOM, therefore, the sub-station could not be completed, as can be seen in the following photographs.

Incomplete sub-stations in Lucknow

Sub-station constructed without completion of associated line, Lucknow (Sugamau)

Sub-station building under construction, Lucknow (Priyadarshani Colony)

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29 Lucknow, Sultanpur, Hapur and Mathura.

UPPCL stated (October 2016) that the 33/11 KV Sugamau sub-station is on load since November 2015 from one source of 33 KV line and the work for the alternate source of 33 KV line got delayed as clearance of Right of Way was not made available by the forest department. Further, the work of 33/11 KV Priyadarshini sub-station was delayed due to delay in availability of land from the district administration. The fact remained that the associated line was not constructed as well as land and building were not timely provided by the DISCOM.

Unbalanced current and overloaded DTs

2.1.44 As per sanctioned DPRs of 42 towns, the provision for installation of 7,496 DTs was made to reduce overloading and regulate unbalanced current on the existing DTs. Against which, 4,493 DTs were installed under the scheme as of March 2016.

Audit noticed that in test checked towns, out of 31,875 DTs updated in MDAS, 8,164 DTs (25 *per cent*) were found with unbalanced current and 1,001 DTs (3.14 *per cent*) were overloaded as of March 2016. Thus, the purpose of reducing over loading and balancing of current was defeated despite installation of additional DTs under the scheme.

UPPCL stated (October 2016) that unbalancing and overloading was mainly due to theft and *katia* connections. DISCOMs were trying to handle the problem with more vigilance, raids and theft proof techniques like ABC and underground cabling. The fact remained that DISCOMs failed to reduce overloading and regulate the current despite installation of additional DTs.

Change in location and capacity of sub-station without any approval

2.1.45 The construction and augmentation of 18 sub-stations in 10 towns were undertaken by the DISCOMs in the locations which were not provided for in the approved DPRs. Since the DPRs were approved for sub-stations at specific locations, therefore, in case of change in locations and capacity of the sub-station, the DISCOMs should have taken prior approval of MoP so as to qualify its expenditure for re-imbursement under the scheme. The expenditure of ₹ 27.89 crore incurred on sub-stations at unapproved places, was liable to be rejected and may have to be borne by the DISCOMs from its own resources.

UPPCL stated (October 2016) that the electrical distribution was load dependent and not the place and name dependent; therefore, wide locational and quantitative changes in the work from the proposed DPR during execution were inevitable. Reply was not acceptable as all works approved in DPRs were location specific which should have been adhered to by the DISCOMs.

Short closure of project

2.1.46 The work of Part-B in Kannauj town was awarded (September 2012) to TKC for ₹ 15.04 crore. Meanwhile (March 2015), BoD of DVVNL approved the proposal of conversion of existing Overhead Electrical System (HT/LT Lines) into Underground Electrical System of town under GoUP scheme and the same was approved by GoUP (April 2015).

Audit noticed that DVVNL had short closed the work under R-APDRP scheme in May 2015 without written consent of nodal agency. Thus, in view of the provisions of the guidelines DVVNL would have to return ₹ 9.83 crore (including interest of ₹ 2.23 crore) to nodal agency.

UPPCL stated (October 2016) that DVVNL had not short closed the work under R-APDRP scheme, but revised the scope of pending work to avoid further investment on erection of those infrastructures which would become redundant due to proposed undergrounding cabling work. Reply was not acceptable as approved works under the scheme were left incomplete without consent of nodal agency.

Failure to install meters in premises of the consumer

2.1.47 To ensure achievement of the objective of the scheme and increase the billing efficiency, 100 *per cent* metering of the consumers and replacement of electro mechanical meters was to be carried out as per approved DPRs.

Audit noticed that the tenders for the 42 test checked towns were awarded during August 2012 to October 2014 with scheduled completion period of 18 months. Against 2,01,846 consumer meters proposed to be installed under the scheme, 68,371 meters (33.87 *per cent*) could only be installed upto 31 March 2016. Thus, in the absence of 100 *per cent* metering, the basic objective of the scheme for accurate and reliable energy accounting on sustainable basis was defeated.

UPPCL stated (October 2016) that the work was under progress and expected to be completed by the end of the December 2016. The reply was not acceptable as the DISCOMs failed to get meters installed even after lapse of the scheduled completion period and did not intimate any firm plan to complete 100 *per cent* metering in the extended period (May 2017).

Failure in installation of Capacitor Banks

2.1.48 Installation of Capacitor banks (CBs) improves power factor by regulating the current flow and voltage and save loss of energy. Erstwhile Uttar Pradesh State Electricity Board assessed (July 1993) that installation of one CB of 2.4 Mega Volt Ampere Reactive (MVAR) capacity saves energy of 0.118 MU *per annum*.

Audit noticed that CBs of 1701.19 MVAR capacity was to be installed in 42 towns but CBs of 438.74 MVAR (17 *per cent*) could be installed in only 15 towns up to March 2016. Thus, the delay in installation of CBs in all towns resulted in dissipation of energy of 73.65 MU valued at ₹ 287.88 crore every year.

UPPCL stated (October 2016) that the installation works were in progress and delay was attributable to some technical issues like space constraints in many sub-stations. Reply was not acceptable as the constraints referred to in reply were to be removed by the DISCOMs.

Undue benefit due to irregular release of mobilisation advances

Failure of DISCOMs to adhere to CVC guidelines pertaining to mobilisation advance resulted in loss of interest of ₹ 12.75 crore

2.1.49 Para 17 (i) of the CVC guidelines provided that mobilisation advance should be allowed in cases of selected works only and advance should be interest bearing so that the contractor cannot draw undue benefit. BoD of UPPCL in August 2013 also ordered that mobilisation advance should be interest bearing.

Audit noticed that the Managing Director and Director (Finance) of the DISCOMs allowed interest free mobilisation advances of ₹ 74.30 crore to TKCs for the works related to 21 towns during October 2012 to June 2015. This act was not only in violation of the CVC guidelines and order of the BoD of UPPCL but also against the financial interest of the DISCOMs as the mobilisation advances were given out of the interest bearing loan (11.5 *per cent*) obtained under the scheme. This resulted in loss of interest of ₹ 12.75 crore.

UPPCL stated (October 2016) that mobilisation advances were given to the executing agencies as per the terms and conditions of the tender, which was also recovered as per agreement. Reply was not acceptable as providing interest free mobilisation advances was in contravention of CVC guideline and orders of BoD of UPPCL.

Failure in deduction of Labour Cess

2.1.50 As per the provisions of 'The Building and other Construction Workers' Welfare Cess Act, 1996" (Act), read with the order of GoUP issued in February 2010, labour cess at the rate of one *per cent* of project cost was to be recovered from the bills of the contractors.

Failure in deducting labour cess from the bills of contractors, which was to be remitted to Cess authorities, unduly benefitted the contractors to the extent of ₹ 16.33 crore

Audit noticed that DISCOMs entered into agreements for ₹ 5,228.37 crore with TKCs under Part-B for 42 towns and made payment of ₹ 1,693.07 crore to the contractors up to March 2016. The DISCOMs did not deduct labour cess of ₹ 16.33 crore against the due amount of ₹ 16.93 crore which was to be remitted to Cess authorities. This would also attract penal interest, at the rate of two *per cent* per month as per Section 8 of the Act *ibid*, for the period of delay in remitting the Cess to Cess authorities. Also, the contractors were unduly benefitted by not deducting the labour cess from their bills.

UPPCL stated (October 2016) that all CEOs had been instructed to comply with the provision of the Act. The fact remained that the labour cess were not deducted from the bill of contractors.

Undue benefit to PMC in contravention to CVC guidelines

2.1.51 Central Vigilance Commission (CVC) guidelines stipulate that selection of consultants should be made in a transparent manner through competitive bidding. It, further, stipulates that the payment of consultant should be based on original contract value and should be correlated with the progress of work.

- Audit noticed that in contravention to the CVC guidelines, UPPCL appointed (May/June 2011) WAPCOS Limited as PMC for 161 towns (at the rate of two *per cent* and 1.67 *per cent* of DPR cost in respect of 155 towns and six towns respectively) on single quotation basis under Part-B of the scheme. Audit further noticed that PuVVNL invited (November 2013) open tender for PMC work of three other towns and awarded the work to Feedback Infra at 0.43 *per cent* of DPR cost. In this open tender, WAPCOS Limited also participated and it was found to be technically disqualified/ineligible. It could thus, be seen that UPPCL awarded PMC work of 161 towns at higher rate of 1.24 *per cent* to 1.57 *per cent* to a technically ineligible firm mainly because of the award of work on single quotation basis. This led to avoidable expenditure of ₹ 46.76 crore.

- Audit noticed that the agreement entered into with the PMC (WAPCOS) provided payment through fixed monthly installments which was not correlated with the progress of work in violation of the CVC guidelines. Further, despite not completing the work within scheduled period the consultancy agreement was extended for a period of 15 months at additional

Contrary to the provisions of the CVC guidelines agreement with the PMC was extended without correlating the additional payment with the progress of work resulting in undue benefit to the PMC to the extent of ₹ 6.17 crore

payment at the rate of 0.5 *per cent* of total DPR cost in the form of monthly installments. Thus, extension of validity of agreement with an additional payment without correlating with the progress of work resulted in undue benefit to the PMC of ₹ 6.17 crore.

- Audit noticed that three DISCOMs made payment of consultancy fee to PMC (WAPCOS) on the basis of original DPR cost, but DVVNL, in contravention to the CVC guidelines, made payment to PMC based on the revised DPR cost, which was higher. This resulted in excess payment of ₹ 0.92 crore to PMC.

UPPCL stated (October 2016) that qualitative evaluation of consultant was extremely difficult and WAPCOS being a Government undertaking was found appropriate by the management and given preference in the scheme. Further, extension was given for whole of the agreement. Reply was not acceptable as open tendering process provides an opportunity to award the work to a qualified firm at the competitive rates and in no way restricts participation by a Government Company. Moreover, fixed monthly payment should have been correlated with the progress of the work.

Diversion of fund

2.1.52 Clause 12 (g) of the quadripartite agreement provided that funds released to the DISCOMs should not be diverted for any other scheme or purpose.

- Audit noticed that a fund of ₹ 274.76 crore was released (March 2011) by PFC to DISCOMs under the scheme. This fund was diverted instantly and utilised by UPPCL for purchase of power, in contravention to the guidelines of the scheme. Out of ₹ 274.76 crore utilised by UPPCL, the DISCOMs could not receive back ₹ 33.79 crore from UPPCL even after five years.

Further, the DISCOMs also did not claim the interest of ₹ 131.09 crore payable on above loan fund utilised by the UPPCL.

- As per Scheme Guidelines, increased quantity/new items of works owing to increase in consumer base during the currency of the contract were to be borne by DISCOMs. Audit noticed that in case of two towns[30], PVVNL carried out system strengthening and improvement works of ₹ 41.92 crore from R-APDRP fund in contravention of the provisions of this scheme guidelines.

UPPCL while accepting the fact stated (October 2016) that as funds were idle with DISCOMs it was utilised by them. As and when there was requirement, the fund was transferred to DISCOMs. However, the fact remained that against the requirement of the scheme, funds were diverted for the purposes other than for which it was released.

Interest earned and penalty recovered not credited into the scheme fund

2.1.53 The interest earned on the funds received under the scheme should have been credited to the scheme fund or should have been adjusted in future releases. Interest of ₹ 31.31 crore earned (up to March 2016) on unutilised R-APDRP funds under Part-A and B and a penalty of ₹ 0.96 crore imposed (up to March 2016) by MVVNL on ITIA was not adjusted from the reimbursement claims demanded from PFC.

[30] Saharanpur and Moradabad.

UPPCL stated (October 2016) that all the interest earned was credited in designated bank accounts. All necessary and due adjustments will be ensured on demand of PFC. Reply was not acceptable as the same should have been adjusted by DISCOMs while claiming reimbursement claims from GOI.

Monitoring and Quality Control

2.1.54 As per guideline of the scheme, the implementation of the scheme in the State was to be monitored by Distribution Reforms Committee (DRC) formed to forward scheme related proposals to Steering Committee and to monitor the achievement of milestones and targets. At circle level of the DISCOMs, SEs were responsible to monitor implementation of the scheme. The deficiencies noticed in monitoring of the scheme are discussed below:

Lack of monitoring

2.1.55 DRC comprising of nine members of UPPCL/DISCOMs under the Chairmanship of Principal Secretary, Department of Energy, GoUP was constituted in May 2009. DRC was required to hold meeting in last week of every second month. The constitution of DRC showed that it was done in such a manner that implementation of scheme could be monitored at UPPCL level on a regular basis and remedial action to any deficiency could be taken promptly.

Audit noticed that total 14 meetings were held by DRC against required 41 meetings during May 2009 to March 2016 and these meetings were held to discuss only the forwarding of the proposals to Steering Committee. This showed that DRC did not pay adequate attention to monitor the achievement of milestones and targets under the scheme. In absence of proper monitoring, the scheme works could not be completed even after the lapse of more than seven years since its initiation in the State.

Further, audit noticed that minutes of the meetings held by SE/CEO at circle level (in DISCOMs) with representative of TKCs and Consultants on monthly basis were not maintained, due to which remedial action, if any suggested by CEO in the monitoring meetings and action taken there against could not be examined in audit.

UPPCL stated (October 2016) that DRC committee meetings were convened at UPPCL level for all the DISCOMs to monitor the progress. Further, meetings were regularly held at SE/CEO as well as DISCOMs level and minutes of meeting had also been issued by the concerned authorities. Reply was not acceptable as requisite numbers of meetings were not held and meetings were held to discuss only the proposals being forwarded to Steering Committee. No document in support of minutes of the meetings held at SE level was made available to audit.

Lack of quality control

2.1.56 As per Clause 9.1 of the agreement, material purchased by the contractor was to be routed through nearest Store Centre of concerned Store Division of DISCOMs for the purpose of accountal and the material was to be delivered directly at store of TKC. The DISCOMs did not make any provision in the agreement for quality check at the time of receipt of material, procured by TKC. In absence of any mechanism for quality check, chances of utilisation of sub-standard material by TKC could not be ruled out.

UPPCL stated (October 2016) that there was no compromise with the quality of work/materials used in the project and desired quality was being assured at all events. Reply was not acceptable as mechanism for quality check at the time of receipt of material was not evolved by the DISCOMs.

Conclusions

Audit concluded that:

- **under Part-A of the Scheme, DISCOMs failed to establish IT enabled system even after a period of more than seven years since initiation of the Scheme in the State. The benefit of the Scheme could not be derived even after incurring an expenditure of ₹ 508.01 crore on Part-A works, due to appointment of technically weak ITIA and lack of proper planning and coordination with ITIA;**

- **SCADA work could not progress even after a lapse of more than four years due to failure in specifying scope of work to the executing agency. In addition, the scope of work was reduced without consent of the nodal agency (PFC). Thus, DISCOMs failed to improve system reliability through remote operation even after lapse of more than seven years;**

- **for Part-B of the Scheme, DISCOMs failed to prepare the DPRs as per guidelines of the scheme and also could not ensure timely execution of work. In preparation of DPRs, guidelines of the scheme, instruction of CVC and cannons of financial proprietary were not adhered to. As a result, work of Part-B of the scheme could achieve physical progress of 56.65 *per cent* only after lapse of more than six years since January 2010; and**

- **DRC/DISCOMs failed to monitor the achievement of milestones and targets under the scheme. Further, progress of the scheme could not be monitored as recording the minutes of meetings held at CEO level were not available.**

Thus, loan of ₹ 4,110.70 crore received under Part-A and SCADA and Part-B of the scheme would not be admissible for conversion into grant of ₹ 2,332.58 crore[31] and implementation of the scheme did not appear possible even in the extended period up to March 2017.

Recommendations

Audit recommends that:

- **in respect of Part-A of the Scheme DISCOMs should ensure preparation of DPRs and execution of work as per guidelines of the Scheme and appoint technically qualified ITIA to ensure timely establishment of IT enabled system and achieve objective of the Scheme through better planning, follow-up with the consultants and ITIA;**

- **DISCOMs need to implement SCADA strictly as per guidelines of the Scheme and without curtailing scope of work to derive benefit of the Scheme;**

[31] Grant of ₹ 554.46 crore (being 100 *per cent* of loan amount in case of Part-A and SCADA *i.e.* ₹ 474.50 crore and ₹ 79.96 crore respectively) and grant of ₹ 1,778.12 crore (being 50 *per cent* of loan of ₹ 3,556.24, received in case of Part-B).

- **DISCOMs need to comply with the timelines and provisions of the guidelines for framing of DPRs and appointment of consultants under Part B of the Scheme. DISCOMs also need to comply with provisions of scheme and CVC guidelines; and**

- **DRC needs to convene regular meetings to monitor the milestone and targets under the Scheme. DISCOMs also need to record minutes of the meetings held for monitoring to ensure that remedial action on shortcomings noticed/pointed out are followed up.**

2.2 Performance Audit on Working of Electrical Wing of the Uttar Pradesh Rajkiya Nirman Nigam Limited

Executive summary

Uttar Pradesh Rajkiya Nirman Nigam Limited (Company) executes civil and electrical works. There were 26 Electrical Units (Units) which executed 957 electrical works of ₹ 4,006.83 crore. The eight Units test checked in audit executed 481 works valuing ₹ 2,303.95 crore out of which 273 works were completed at the cost of ₹ 804.56 crore and 208 works were under progress on which expenditure of ₹ 1,499.39 crore was incurred during 2011-12 to 2015-16.

The important audit findings are discussed below:

- The Company executed 88 works of sub-station/cable laying awarded by Uttar Pradesh Power Transmission Company Limited (UPPTCL)/Power Distribution Companies (DISCOMs). Out of this 42 works were completed and 46 works were in progress at the end of March 2016 with delays of one month to four years and four months. As a result of delay in completion of the works, expenditure of ₹ 1,155.12 crore incurred on 88 works remained blocked for the delayed period. The slow pace of execution by the sub-contractors mainly was due to inadequate deployment of manpower by the sub-contractors at site, despite timely release of funds by the clients. These facts were confirmed by the clients during beneficiary survey done by Audit.

In case of 83 works valuing ₹ 867.30 crore related to electrical works of other deposit works, completion period was not specified and time of two years to 13 years was taken in execution of the works.

(Paragraphs 2.2.9, 2.2.19, 2.2.28, 2.2.36 and 2.2.37)

- Due to failure in ensuring the reasonability of rates, the Company incurred avoidable expenditure of ₹ 78.55 crore on award of sub-contracts at higher rates and extra expenditure of ₹ 3.71 crore on purchase of material at higher rates during 2011-12 to 2015-16 which caused financial burden on its clients *i.e.* DISCOMs, UPPTCL and Government Departments.

(Paragraphs 2.2.20, 2.2.38 and 2.2.39)

- Central Vigilance Commission (CVC) guidelines (October 1997, April 2007 and February 2011) provide that provision of allowing mobilisation advance should be clearly stipulated in the tender document. In case where it is to be provided, it should be interest bearing. Failure of General Manager, Financial Adviser and Controller of Accounts of the Company to oversee the compliance of CVC guidelines and lack of their checks as prescribed in the Manual of the Company resulted in irregular grant of interest free mobilisation advance of ₹ 142.03 crore to the sub-contractors by the Project Incharge of the eight units causing loss of interest of ₹ 21.90 crore.

(Paragraph 2.2.21)

- The Units, in violation of provisions of Manual and GFR awarded two works of sub-station to the sub-contractors without inviting tenders and awarded 81 other works without adhering to proper tender procedures. Further, the Units purchased items of ₹ 19.67 crore through supply orders and executed 68 works through work orders of ₹ 173.25 crore during 2011-12 to 2015-16 without inviting open tenders.

(Paragraphs 2.2.27 and 2.2.42)

- Joint physical verification revealed that three Units failed to assess correct quantity of the materials as per actual requirement. As a result, control cables, power cables and conductors valuing ₹ 55.22 lakh were purchased in excess of six to 88 *per cent* of the actual requirement in construction of five sub-stations.

(Paragraph 2.2.32)

- The Company did not implement decision of High Level Technical Committee to make provision for cost increase in the estimates for the project period which resulted in cost overrun of ₹ 216.16 crore in case of 54 works.

(Paragraph 2.2.37)

- The Company failed to set and monitor the targets in physical terms. Further, it fixed the financial targets without obtaining inputs from the field units as six to 13 zones out of 15 to 18 zones did not furnish the requisite information during 2011-12 to 2015-16.

(Paragraph 2.2.9)

- The Company executed 33.17 to 56.51 *per cent* works through sub-contractors against the prescribed ceiling of 10 to 30 *per cent* without approval of Managing Director/Board of Directors.

(Paragraph 2. 2.12)

- The works were started without obtaining technical sanction. While technical sanctions of 106 works were obtained with a delay of one month to 15 years after the start of the work, it was not obtained so far (March 2016) in respect of other 241works after a lapse of 6 months to 18 years.

(Paragraph 2.2.13)

- Eight units incurred an expenditure of ₹ 59.33 crore in excess of the funds received on 116 works in violation of the provisions of Manual.

(Paragraph 2.2.16)

- Eight Units failed to close the clients' accounts after handing over of the work to the client due to which unspent balance of ₹ 10.77 crore was not refunded to respective clients.

(Paragraph 2.2.49)

Introduction

2.2.1 Uttar Pradesh Rajkiya Nirman Nigam Limited (Company) was incorporated in May 1975 as a wholly owned State Government company with an objective to undertake civil engineering works including electrical installations.

Government of Uttar Pradesh (GoUP) and Government departments/ undertakings assign building construction works to the Company as deposit work on cost *plus* centage basis. The Company earns 12.5 *per cent* centage on the direct cost of works. It also secures tender works by participating in open tenders invited by the prospective clients. The Company executes the works mainly on DCU pattern[1], besides, it also executes the works by subletting to sub-contractors.

The Company executed civil and electrical works of ₹ 18,816.43 crore during 2011-12 to 2015-16. There were 26 Electrical Units (Units) which executed 957 electrical works of ₹ 4,006.83 crore and it comprised 21.29 *per cent* of the total value of work done. Of these, 948 works of ₹ 3,989.64 crore (99.57 *per cent*) were obtained as deposit works and nine works of ₹ 17.19 crore (0.43 *per cent*) were obtained through participation in open tenders. Out of 957 electrical works, the Company executed 934 works of ₹ 3,272.43 crore (81.67 *per cent*) on DCU pattern and 23 works of ₹ 734.40 crore (18.33 *per cent*) by subletting to sub-contractors. The present Performance Audit has been taken up to evaluate the performance of Electrical Wing of the Company.

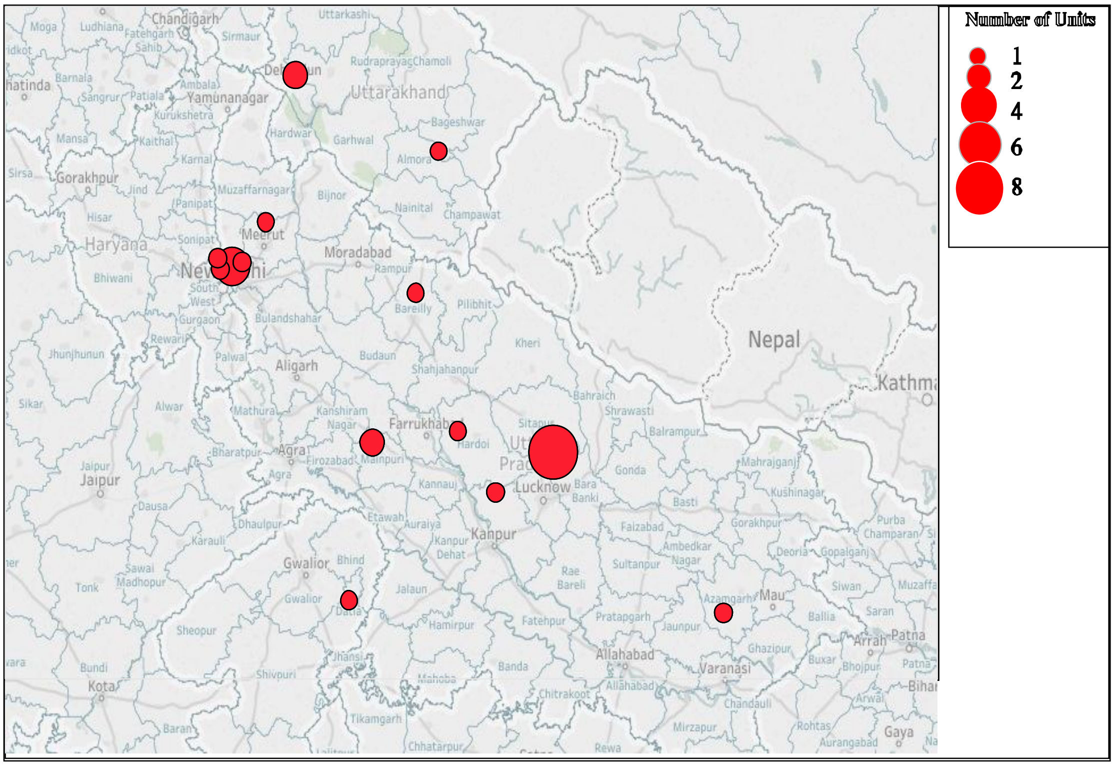
Organisational set up

2.2.2 The Management of the Company is vested in a Board of Directors (BoD) comprising a Chairman and seven directors including Managing Director (MD) appointed by the GoUP. The Managing Director is the Chief Executive, who looks after day-to-day affairs of the Company with the assistance of a Chief Architect, a Financial Advisor, eight[2] Additional General Managers (AGM) at the Head Office and 12 Zonal AGMs in the field. Execution of electrical works is carried out by 26 Units (as given in Chart 2.2.1), each headed by a Project Manager under the supervisory control of four Zonal AGMs (Electrical).

Chart 2.2.1
Map showing location of 26 Electrical Units

[1] Under Departmental Construction Unit (DCU) pattern, the Company procures material and engages labour (Piece Rated Workers) at the rates recommended by the Purchase Committees.

[2] AGM (Personnel), AGM (Commercial), AGM (Technical, Consultancy and Mechanical), AGM (Design), AGM (Contract), AGM (Complaint), AGM (Legal) and AGM (Claim).



The organisational chart of the Electrical Wing of the Company is given in **Annexure-2.2.1**.

Audit objectives

2.2.3 The Performance Audit was conducted to ascertain whether:

- planning and financial management of electrical works were prudent and in accordance with the prescribed rules and procedures;
- electrical works were executed economically, efficiently and effectively in accordance with procedures laid down in the Working Manual (Manual) of the Company and orders issued by GoUP; and
- internal controls and monitoring mechanisms were adequate, efficient and effective.

Audit criteria

2.2.4 The audit criteria considered for assessing the achievement of audit objectives of the Performance Audit were drawn from:

- provisions of Manual of the Company, orders of GoUP/ Company issued from time to time;
- provisions of Financial Hand Book (FHB) of GoUP, General Financial Rules (GFR) and Guidelines of Central Vigilance Commission (CVC);
- provisions of budget prepared by the Management;
- schedule of rates of Uttar Pradesh Public Works Department (UPPWD)/ Central Public Works Department (CPWD)/ Uttar Pradesh Power Corporation Limited (UPPCL)/ Uttar Pradesh Power Transmission Corporation Limited (UPPTCL); and
- terms and conditions of contracts executed with the clients.

Scope and methodology of audit

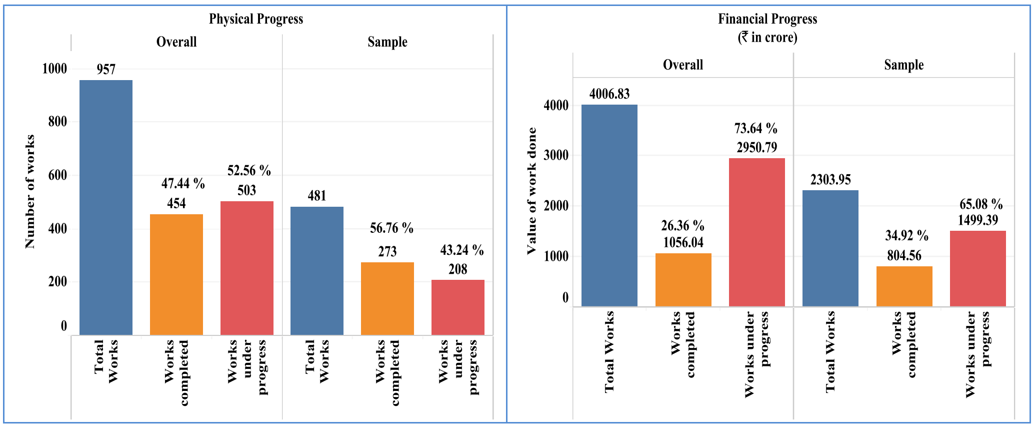
2.2.5 The Performance Audit was conducted during October 2015 to April 2016 to evaluate the execution of electrical works during 2011-12 to 2015-16. Audit examined records at Head Office of the Company and eight Units[3] out of 26 Units (31 *per cent*), selected on the basis of stratified random sampling, covering a turnover of ₹ 2,303.95 crore (57.50 *per cent*).

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted explaining the audit objectives to the Management in the Entry conference held on 21 January 2016, examination of records, issue of queries and discussion with the Management. Besides, joint physical verification was conducted of 10 electrical works executed by the audited units and feedbacks from the clients were obtained. An Exit conference was held on 22 August 2016 with the Government and Management. Replies of the Management to audit findings were received in August 2016 and September 2016 which have been duly considered while finalising the Performance Audit. Reply of the Government was awaited (October 2016).

Physical and financial progress of electrical works

2.2.6 The physical and financial progress of the electrical works executed by 26 Units and the works executed by eight selected Units during 2011-12 to 2015-16 is detailed in **Annexure-2.2.2 (A and B)**. The same is depicted in the chart 2.2.2.

Chart 2.2.2
Physical and financial progress of overall electrical Units and eight selected Units



As can be seen from chart 2.2.2, out of 481 works valuing ₹ 2,303.95 crore of selected eight units, only 273 works were completed at the cost of ₹ 804.56 crore and 208 works were under progress on which expenditure of ₹ 1,499.39 crore was incurred. Further, 88 works (₹ 1,155.12 crore) of sub-stations and cable laying awarded by DISCOMs/UPPTCL and 83 works (₹ 867.30 crore) related to other deposit works awarded by Government departments, were selected for detailed scrutiny in Performance Audit.

Audit findings

2.2.7 Audit objective wise findings are discussed in succeeding paragraphs.

[3] Unit 18 Lucknow, Varanasi, Etawah, Bareilly, J. P. Nagar/ Merrut, New Delhi, Haridwar and Consultancy Unit Ghaziabad.

Planning and financial management

2.2.8 Deficiencies noticed in planning for execution of works and financial management are discussed in succeeding paragraphs.

Fixation of targets and preparation of budget

2.2.9 Para 1117 to 1125 of the Manual of the Company provide that Head Office of the Company shall prepare budget for the ensuing financial year by collecting information from the field units based on BAR chart in respect of each work and expected availability of funds. From these BAR charts, quantity of material and their expected value of procurement were to be worked out against individual items to be executed in the ensuing year. The budgets shall be approved by the Board of Directors (BoD) within the month of March, every year.

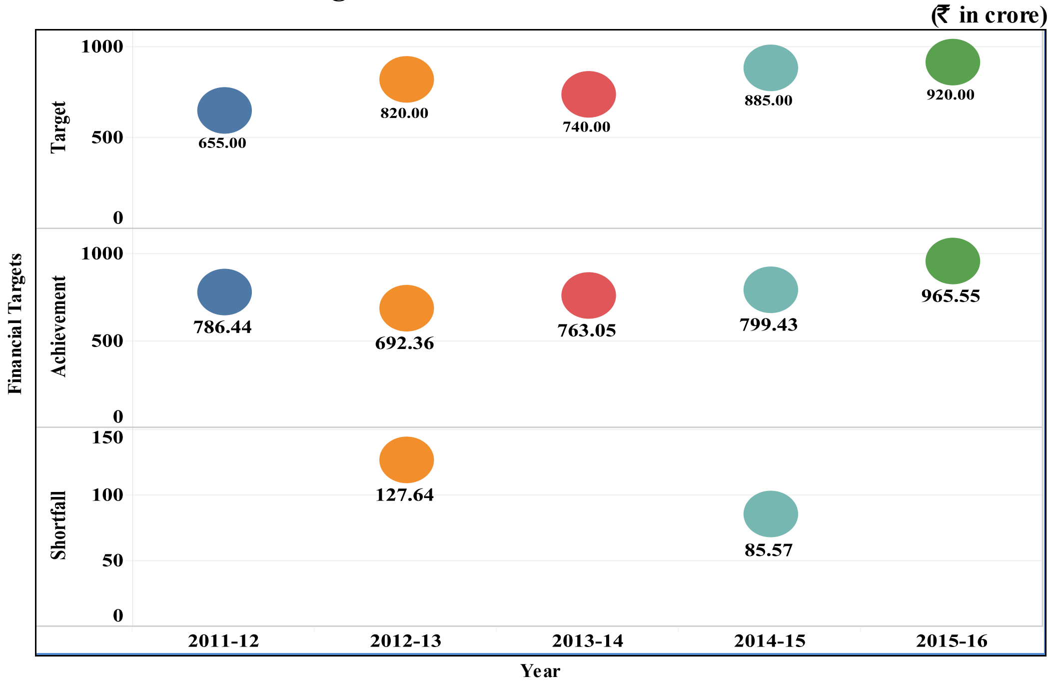
The Company fixed the financial targets without obtaining inputs from the field units

Audit noticed that the field units of six to 13 zones out of 15 to 18 zones did not furnish the requisite information to the Head Office during 2011-12 to 2015-16. Therefore, overall budgets were prepared by the Financial Advisor and approved by the BoD of the Company, without obtaining inputs from the field units. Further, Head Office did not fix and monitor the targets in physical terms.

The year wise position of budgetary targets and achievement of the 26 Units (Electrical) and eight selected Units during 2011-12 to 2015-16 is given in **Annexure-2.2.3 (A and B)**. The position of targets and achievement of the 26 Units (Electrical) is also shown in the Chart 2.2.3.

Chart 2.2.3
Financial Targets and Achievements of 26 Electrical Units

(₹ in crore)



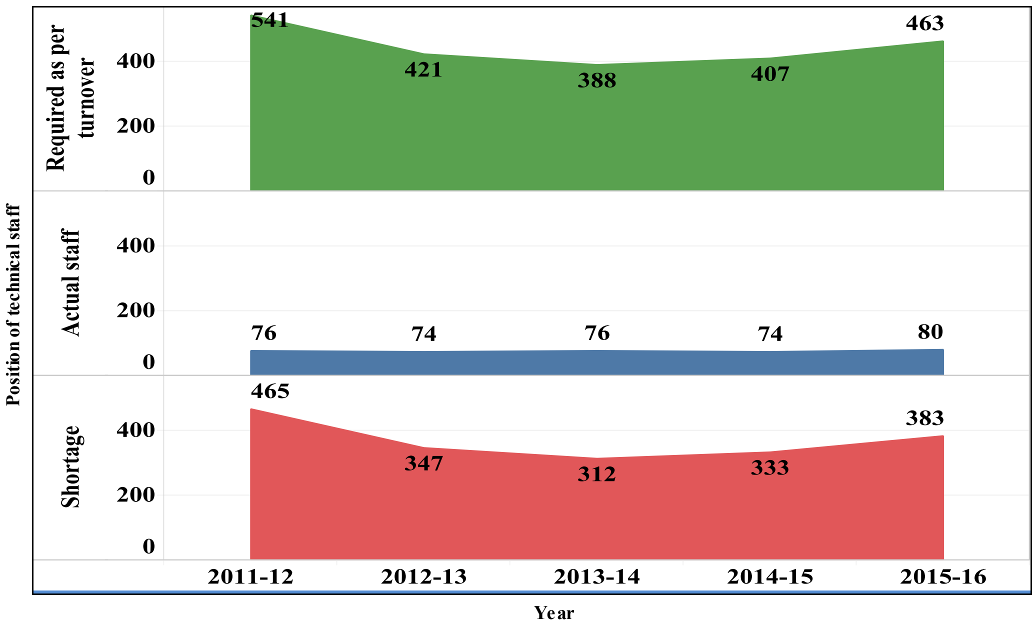
It could be seen from the annexure and chart above that, during the last five years up to 2015-16, there was a shortfall of 15.57 *per cent* and 9.67 *per cent* in the achievement of financial targets of 26 Units during 2012-13 and 2014-15. Reason for shortfall, as analysed in audit, was that the financial targets of electrical Units were increased by the BoD by 25 *per cent* and 20 *per cent* for 2012-13 and 2014-15 respectively against the targets of preceding year without any detailed analysis, though, overall budgetary financial targets (all civil and electrical works) remained constant for 2012-13 and 2013-14 with marginal increase of 3.75 *per cent* in 2014-15 against the preceding year.

The Management stated (August 2016) that targets were fixed based on data obtained from zonal offices. The main reason for shortfall was delay in release of funds by the clients, which resulted in slow progress of works. Reply was not acceptable as shortfall in achievement was not due to delay in receipt of funds from clients, as unutilised funds ranged between ₹ 222.92 crore and ₹ 343.60 crore were lying with Units during 2011-12 to 2015-16 as indicated in table 2.2.3. Further, timely release of funds was confirmed by the clients in beneficiary survey done by Audit.

Manpower planning

2.2.10 Para 861 and 862 of the Manual of the Company prescribed the number of technical staff[4] in the Unit based on the turnover. Audit noticed that against the requirement of 388 to 541 technical staff in 26 Units based on turnover, 74 to 80 technical staff were deployed during 2011-12 to 2015-16 resulting in shortage of 312 to 465 staff as given in **Annexure-2.2.4**. The same is shown in Chart 2.2.4.

Chart 2.2.4
Technical staff required as per turnover, actual staff deployed and shortage of staff



Twenty two Units were headed by APMs and REs against the requirement of CPM/PM. Further, REs were given preference over the APMs for posting in the Units having higher turnovers

Para 860 (b) of the Manual stipulates the level of officers to be posted as Unit Incharge on the basis of Average Annual Turnover (AAT) of the Units. The position of actual deployment of AAT[5] wise Unit Incharges in 26 Units is given in **Annexure-2.2.5**. It could be seen from the annexure that:

4 Resident Engineer (RE), Assistant Resident Engineer (ARE) and Sub-Engineer (SE).
5 As per updated price index of 2015-16 against base year of 1983.

- sixteen Units were required to be headed by Chief Project Managers (CPMs) but these Units were headed by APMs[6] (six Units) and REs[7] (10 Units).

- six Units were required to be headed by Project Managers (PMs) but these Units were headed by APMs (three Units) and REs (three Units).

- although there was shortage of APMs, one APM was deployed in the Unit where RE was eligible for posting. REs were given preference over the APMs for posting in three Units having AAT eligible for posting of CPMs without any reason on record.

- six Units were held under additional charge by two APMs and four REs. Additional charges of the Units were given to four REs, although seven APMs were holding single charge.

As a result of inadequate manpower deployment and its deficient utilisation, delays occurred in obtaining technical sanction and execution of works as discussed in paragraphs 2.2.13, 2.2.28 and 2.2.37.

The Management accepted in the Exit conference (August 2016) that there was decline in the strength of manpower due to restriction (July 2010) by the GoUP for filling the posts through direct recruitments up to November 2013. Therefore, due to shortage of staff, REs and APMs were posted as Unit Heads. Reply was not acceptable as these posts could have been filled up through deputation as provided in the order (July 2010) of GoUP. Further, the posts could not be filled so far (October 2016) even after relaxation (November 2013) by the GoUP for recruitment.

Imprudent allocation of work among Units

2.2.11 Para 17 (B) of the Manual provides that the MD shall organise and adopt yardsticks for distribution of works to the Units, for the best advantage of the Company keeping in view cost consideration. Further, Para 861 provides that a Unit Incharge may have a territorial area jurisdiction over job sites falling in a circle with a diameter below 80 km.

Audit noticed that eight Units executed 143 works of which sites were located at the distance of 101 to 504 km from the respective Units. As analysed in audit, allocation of works at distant locations, by and large, resulted in poor monitoring by the Unit Heads. Audit inferred delays of 10 to 46 months from the scheduled date of completion in 17 works of sub-stations and cable laying. Also, 63 to 243 months were taken in execution of 11 works other than sub-stations and cable laying, where the scheduled dates of completion were not fixed, as shown in table 2.2.1.

Table 2.2.1

Imprudent allocation of works among Units

Sl. No.	Name of the Unit	No. of works (S/s[8] and OW[9])	Distance of sites from the unit (Km)	Range of delay in case of S/S and actual time taken in case of OW (In months)	Name of the Unit nearer to the work site (No. of works)

[6] Additional Project Managers.
[7] Resident Engineers.
[8] S/s indicates Sub-station and cable laying works.
[9] OW indicates works other than sub-station and cable laying.

Sl. No.	Name of the Unit	No. of works (S/s[8] and OW[9])	Distance of sites from the unit (Km)	Range of delay in case of S/S and actual time taken in case of OW (In months)	Name of the Unit nearer to the work site (No. of works)
1.	Unit 18, Lucknow	3 S/s	128 to 200	10 to 30	Varanasi (1)
2.	Varanasi	3 S/s	120 to 172	27 to 46	-
		7 OW	119 to 162	97 to 243	-
3.	Bareilly	5 S/s	163 to 202	23 to 45	Lucknow (3), Meerut (1)
4.	Etawah	1 OW	240	74	Lucknow (1)
5.	Ghaziabad	1 S/s	104	31	-
		3 OW	104 to 439	63 to 85	Lucknow (1) Bareilly (1)
6.	Hardwar	4 S/s	167 to 289	20 to 30	Ghaziabad (3) Meerut (1)
7.	J.P. Nagar/ Meerut	1 S/s	504	12	Kanpur (1)
Total		**17 S/s**	**104 to 504**	**10 to 46**	**Six units (13)**
		11 OW	**104 to 439**	**63 to 243**	

Source: Working by Audit

The Company allocated 55 works to the Units far away although these sites were located nearby other seven units

Audit further noticed that out of 144 works, sites of 55 works were located in the vicinity of seven Units but these works were not allocated to their closer by Units.

The Management stated (August 2016) that in view of shortage of manpower, allocation of works among the Units was decided to execute the works efficiently and avoid time and cost overrun. Reply was not acceptable as it was more prudent to allocate the work to a nearby Unit instead of a farther Unit for greater control in view of shortage of manpower.

Planning for award of works to sub-contractors

2.2.12 Paras 1, 2 and 20 of the Manual provide that the Company shall normally carry out construction works directly through its staff by procuring material, machine, equipment and engaging labour. Paras 21 and 468, however, authorised MD to sublet any work in part or full after recording reasons therefor. A list of such sub-contracts was also required to be put up to the BoD in the subsequent meeting for information.

The Company executed 33.17 to 56.51 *per cent* works through sub-contractors against the prescribed ceiling of 10 to 30 *per cent* without approval of MD/BoD

The BoD decided (July 2008) to restrict execution of works through sub-contract up to 10 *per cent* of the value of total works executed in a year. The ceiling was revised to 25 *per cent* in June 2013 and 30 *per cent* in December 2013. Audit noticed following deficiencies in sub-contracting of the works.

- In case of sub-station and cable laying works, the Company did not ensure the prescribed ceiling of sub-contracting of works and executed 117 works of ₹ 1,344.57 crore through sub-contractors which stood between 33.17 and 56.51 *per cent* of the value of works undertaken during 2011-12 to 2015-16 except 5.55 *per cent* in the year 2015-16 as shown in table 2.2.2.

Table 2.2.2
Details of work awarded to sub-contractors

(₹ in crore)

Year	Number of works	Total value of electrical works	Value of electrical works executed by sub-	Percentage of works executed by sub-contracting to

		executed	contracting	total works
2011-12	50	786.44	350.31	44.54
2012-13	69	692.36	391.26	56.51
2013-14	76	763.05	284.21	37.25
2014-15	87	799.43	265.16	33.17
2015-16	60	965.55	53.63	5.55
Total	**117***	**4006.83**	**1344.57**	**33.56**

Source: Information furnished by Units
**** Since execution of a work is continued for more than one year***

- In cases of 117 works valuing ₹ 1,344.57 crore executed through sub-contractors pertaining to construction of sub-stations/ cable laying, neither approval of MD was obtained nor BoD was apprised.

The Management stated (August 2016) that the works of construction of sub-stations were sub-letted to the sub-contractors as it was new work and the Company lacked experience and technical manpower. It was further stated in Exit conference (August 2016) that the limits for sub-contracting were prescribed considering the value of whole works (civil as well as electrical works). The works executed through sub-contractors were within the prescribed limit if compared as a whole. Reply was not acceptable as total value of works including civil works and expenditure there against had been taken in assessing the excess of ceiling cost of works. Neither, approval of the MD was taken for sub-letting the works to the sub-contractors nor the BoD was apprised of this fact as per rules.

Execution of works without obtaining prior technical sanction

2.2.13 Para 318 of FHB and Para 320 (24) of the Manual of the Company provide for obtaining Technical Sanction (TS) on detailed estimates prior to start of work, which assures that detailed estimates are correct and architectural drawings and designs are technically sound.

While technical sanctions of 106 works were obtained with a delay of one month to 15 years after the start of the work, it was not obtained so far (March 2016) in respect of other 241 works after a lapse of six months to 18 years

Audit noticed that out of 360 works test checked in eight Units, only 13 works were started by four Units after obtaining TS. Out of remaining 347 works, in 106 works TS were obtained with delay of one month to 15 years and in remaining 241 works involving expenditure of ₹ 1,767.91 crore, TS was not obtained (March 2016) even after a lapse of six months to 18 years.

The Management accepted the observations in the Exit conference (August 2016) and stated that circular had been issued to the field units to ensure compliance.

Financial management

2.2.14 The main sources of funds of the Company are deposits from clients against deposit works. As per directions issued by the Company from time to time (October 1996 to July 2015), in case of receipt of fund by the field units directly from the clients, it was to be remitted immediately to the Head Office of the Company. Para 137 of the Manual provided that Head Office would provide funds to the units on the basis of its monthly requirement based on expected amount of work to be executed.

The year-wise position of receipt of funds, its utilisation and balance at the end of each year in respect of eight selected Units during the last five years up to 2015-16 is given in table 2.2.3.

Table 2.2.3
Year-wise receipt of funds, utilisation and balance

(₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Opening balance	106.73	343.60	296.32	228.86	294.03
2.	Funds received during the year by the Units	664.44	419.40	397.45	536.17	402.67
3.	Total available fund (1+2)	771.17	763.00	693.77	765.03	696.70
4.	Expenditure during the year	427.57	466.68	464.91	471.00	473.78
5.	Unutilised funds at year end ((3-4)	343.60	296.32	228.86	294.03	222.92
6.	Percentage of unutilised funds (5/3 x 100)	44.56	38.84	32.99	38.43	32.00
7.	Unutilised funds equivalent to month's expenditure	9.6	7.6	5.9	7.5	5.6

Source: Information furnished by Company and monthly progress reports

As can be seen from the table 2.2.3, the Financial Management of the Company was inadequate as it could not utilise the available funds, restrict expenditure up to the amount of fund received from the clients and was deprived of potential interest due to not availing of flexi facility in its bank accounts as discussed in the succeeding paragraphs.

Under utilisation of funds

Due to slow progress/delay in execution of works funds ranging between ₹ 222.92 crore and ₹ 343.60 crore were lying unutilised

2.2.15 It can be seen from table 2.2.3 that funds ranging between ₹ 222.92 crore and ₹ 343.60 crore (32 *per cent* to 44.56 *per cent* of the available fund) were lying unutilised in the Units during the last five years up to 2015-16. The unutilised fund at the end of the year was equivalent to 5.6 to 9.6 months' expenditure of the Units. The main reasons for under utilisation of funds as analysed in audit, were setting of unrealistic financial targets and slow progress/ delay in execution and completion of works as discussed in paragraphs 2.2.9, 2.2.28 and 2.2.37. Further, the Units received ₹ 925.99 crore directly from the client departments during 2011-12 to 2015-16 but, in violation of the directives of the Company, the Units did not remit the amount to the Head Office. However, the funds were deposited by eight Units in the bank and earned interest of ₹ 42.50 crore during 2011-12 to 2015-16.

The Management accepted the observations in the Exit conference (August 2016) and stated that circular had been issued to the field Units to ensure compliance of remittance of funds to Head Office. However, reply of the Management was silent over the reasons for under utilisation of funds.

Excess expenditure over fund received

Eight units incurred an expenditure of ₹ 59.33 crore in excess of the fund received on 116 works in violation of the provisions of Manual

2.2.16 Para 39 of the Manual provides that expenditure be restricted on the work up to funds received from the client. Audit noticed that eight Units incurred an expenditure of ₹ 944.42 crore on 116 works against the fund of ₹ 885.09 crore received from the clients. Thus, the Units incurred ₹ 59.33 crore in excess of the fund received from clients as on 31 March 2016. The amount of excess expenditure was met either from its own resources or by diverting funds received for other works.

The Management stated (August 2016) that the funds were received at Head Office/ Civil Units which remitted the amount for electrical works after retaining 6.5 *per cent* towards centage of Head Office. Reply was not acceptable as excess expenditure ranged between 6.56 *per cent* and 329.36 *per cent* in 61 works.

Auto sweep/ flexi facility not availed

2.2.17 Banks provide minimal interest on savings accounts but extend auto sweep/ flexi facility to its customers of savings/ current accounts on their demand; wherein automatic investment of surplus funds lying in saving/ current accounts is made into term deposits which earn interest applicable for term deposits. It also allows automatic encashment of term deposits when funds are required to meet an impending expenditure.

Audit noticed that huge balances upto ₹ 28.83 crore were lying in savings/ current accounts in eight Units during 2011-12 to 2015-16. These Units did not avail auto sweep/ flexi facility on the saving/ current accounts. As a result, the Company was deprived of potential interest of ₹ 9.57 crore[10] on the balances of 31 bank accounts test checked.

The Management accepted the observations in the Exit conference (August 2016) and stated that circular had been issued to the field units to ensure compliance.

Execution of works

2.2.18 The Company executes electrical works which are part of civil works. Besides, it also executes electrical works relating to sub-stations and cable laying of Uttar Pradesh Power Transmission Corporation Limited (UPPTCL)/ Uttar Pradesh Power Corporation Limited (UPPCL).

Out of total 957 electrical works of ₹ 4,006.83 crore executed by 26 Units during 2011-12 to 2015-16, 117 works of ₹ 1,344.57 crore (33.56 *per cent*) of sub-stations and cable laying were assigned by UPPTCL and Distribution Companies (DISCOMs) of Uttar Pradesh. These works were executed through sub-contractors.

Remaining 840 electrical works of ₹ 2,662.26 crore[11] executed during 2011-12 to 2015-16 related to electrical parts of the building construction works (other than sub-stations and cable laying works). These works were mainly executed under DCU pattern.

Deficiencies noticed in execution of sub-station/ cable laying works and other works are discussed in succeeding paragraphs.

Execution of sub-stations and cable laying works of UPPTCL/DISCOMs

2.2.19 Eight selected Units executed 103 works of ₹ 1,175.98 crore of sub-stations/ cable laying during 2011-12 to 2015-16 out of which Audit examined 88 works of ₹ 1,155.12 crore. All the 88 works were executed through turnkey contracts with sub-contractors, selected on the basis of open tenders. Separate letter of intents (LoIs) were issued to sub-contractors for supply of materials, erection and civil works. The agreements were, however, not executed with the sub-contractors except in case of one work[12] in violation of the provisions of para 468 of the Manual.

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[10] At the rate of four *per cent* per annum.
[11] ₹ 2,662.26 crore does not include cost of civil works.
[12] 220 KV sub-station, Debai, Bulandshahar executed by Consultancy Unit, Ghaziabad.

220/ 132 KV sub-station, *Baghpat*

For execution of the works of 220/132 KV and 132/33 KV sub-stations, UPPTCL furnished Bill of Quantity (BoQ) indicating the lowest rates obtained by it through tenders for execution of similar works. The estimates for these works were prepared by the Units on the basis of rates furnished by UPPTCL. The estimates for cable laying and construction of 33/11 KV sub-stations were prepared by the Units on the basis of quotations obtained after market survey. The estimates so prepared were required to be submitted to the client for approval.

The DISCOMs/UPPTCL did not device a system of analysis of rates submitted by the Units of the Company. As a result, the Company committed various irregularities as discussed in succeeding paragraphs 2.2.20, 2.2.22 to 2.2.25 and 2.2.33 and incurred extra/avoidable expenditure of ₹ 92.12 crore besides centage of ₹ 4.61 crore worked out at the rate of five *per cent* thereon. Thus, the Company caused financial burden of ₹ 96.73 crore on its clients *i.e.* DISCOMs/UPPTCL which are Government PSUs.

Award of contracts at higher rates

2.2.20 Para 97 and 101 of the Manual require that to ensure reasonability of rates detailed market survey be conducted before awarding the work. The Company incurred avoidable expenditure of ₹ 78.55 crore on award of sub-contracts at higher rates during 2011-12 to 2015-16 as discussed below:

- UPPTCL (Client) awarded (May 2011 to August 2012) four works of ₹ 364.85 crore for underground laying of HT cable (132 KV and 220 KV) to the Company and directed it to ensure the reasonability of rates before awarding the work. Two Units[13] awarded (June 2011 to November 2012) the above works to the sub-contractors on turnkey basis after inviting open tender.

Audit noticed that the Units did not prepare analysis of rates for ensuring reasonability of rates obtained in the tender. As analysed by audit, the rates awarded for supply of HT cables in three works and laying of cable in one work, which constituted 30 *per cent* to 66 *per cent* of the total cost of the works, were found to be higher by 74 *per cent* to 176 *per cent* than the rates prevailing in the market[14]. In absence of any rate analysis, the Units could not judge the reasonability of the quoted rate and awarded the works to the sub-contractors at higher rates, resulting in extra expenditure of ₹ 62.67 crore.

[13] Unit 18 Lucknow and Varanasi.

[14] As indicated by the invoices, packing lists and logistic receipt furnished by the supplier to the sub-contractors in case of supply and the rates awarded by sub-contractor on further sub-letting the laying work.

The Company failed to ensure reasonability of rates and incurred avoidable expenditure of ₹ 78.55 crore on award of sub-contracts at higher rates

Similarly, five Units[15] awarded (April 2009 to October 2013) construction of 11 sub-stations to the sub-contractors on turnkey basis for ₹ 289.93 crore without preparing any analysis of rate. As a result, the rates awarded for supply of 22 transformers being one of the major items were found higher by 21 *per cent* to 81 *per cent* of the rates prevailing in market after allowing 10 *per cent* Contractor's profit. This also led to extra expenditure of ₹ 10.94 crore on construction of sub-stations.

The Management stated (August 2016) that materials were procured after proper rate analysis. It further stated that the cost of transportation, insurance, loading, unloading, road clearance charges, performance guarantee charges for five years and contractor's profit at the rate of 10 *per cent* were not considered by Audit. Reply was not acceptable as the excess expenditure had been calculated after allowing contractors profit of ten *per cent* on the cost of the materials. As regards the analysis of rates, the Company had not prepared any rate analysis before awarding the contracts for supply to the sub-contractors but in one case (each for cable and transformer) analysis was prepared later on to justify the rates already awarded as indicated by the fact that the rate analysis was signed by the present APM who was different from the then APM issuing the letter of award.

- Rural Electrification and Secondary System Planning Organisation (RESSPO), a wing of UPPCL, prepares cost schedule for construction of electrical works.

Varanasi Unit submitted (September 2013) estimates for construction of 31 sub-stations[16] of 33/11 KV along with connected lines to Purvanchal Vidyut Vitran Nigam Limited (Client) based on the rates higher by 22 *per cent* to 28 *per cent* than the prevailing rates of RESSPO which were approved (September 2013) by the client. The Unit, however, awarded (November 2013) the work of these sub-stations to the sub-contractors at the rates higher by nine *per cent* to 12 *per cent* than the rates approved by the client. This resulted in excess expenditure of ₹ 4.20 crore over the financial sanction of the client, which will be borne by the Company from its own sources.

The Management stated (September 2016) that the cost of transformers included in the cost schedule of RESSPO did not include VAT. Reply was not acceptable as VAT was included in the cost schedule of RESSPO.

- Varanasi and Bareilly Units awarded the works of one (Jhoosi) and two (Rampur and Khair) 220/132 KV sub-stations respectively at the rates higher than the rates awarded by it for other sub-stations of similar capacity at the same time. This resulted in avoidable expenditure of ₹ 74.10 lakh.

The Management stated (August 2016) that the scope and quantity of items of work were different for the sub-stations. Reply was not acceptable as the sub-stations of similar capacities within the same Units were compared and the comparison was made with the unit rate of items of the quantity actually executed.

Irregular release of mobilisation advance

15 Unit 18 Lucknow, Etawah, J.P. Nagar/ Meerut, New Delhi and Haridwar.

16 29 sub-stations of 1x5 MVA transformers and 2 sub-stations of 2x5 MVA transformers.

2.2.21 CVC Guidelines (October 1997, April 2007 and February 2011) provide that provision of allowing mobilisation advance should be clearly stipulated in the tender document. In case where it is to be provided, it should be need based, restricted up to 10 *per cent* of the contract cost, against submission of bank guarantee equivalent to 110 *per cent*, interest bearing and it should not be allowed on erection portion. Recovery of the mobilisation advance should be time based and not be linked with progress of work.

Eight units extended undue benefit of interest of ₹ 21.90 crore by allowing interest free mobilisation advance although it was not provided in the tender documents

Further, as per provisions of Paras 241(3), 242(12) and 243(9) of the Manual of the Company, the General Manager (GM) was required to works as guide or advisor to the Unit Incharge; Financial Advisor (FA) was responsible to see that advances of various types were kept to a minimum; and Controller of Accounts (CA) was required to watch position of advances in the Unit and bring it to the notice of FA with suggestive action each month.

The Project Incharge of eight Units, at their own level, provided interest free mobilisation advances of ₹ 142.03 crore to the sub-contractors during 2011-12 to 2015-16 for construction works of 47 sub-stations/cable laying. Since condition was not laid in the tender documents for providing mobilisation advances for the works, releasing interest free mobilisation advances to the sub-contractors vitiated the tendering process and was tantamount to undue benefit of interest of ₹ 21.90 crore[17] to the sub-contractors.

Audit noticed that the GM, FA and CA of the Company failed to exercise checks as prescribed in Paras 241(3), 242(12) and 243(9) of the Manual; therefore, the Project Incharge granted irregular mobilisation advances to sub-contractors. This further facilitated the following deficiencies relating to release of the mobilisation advances:

- Advances of ₹ 48.28 crore were allowed in excess of ten *per cent* of the cost in 47 contracts including ₹ 10.35 crore allowed on the erection portion of the contract;
- Two Units[18] allowed advances of ₹ 7.15 crore against three sub-stations, prior (four months to two years and 10 months) to ensuring availability of land for construction;
- As against requirement of bank guarantee of ₹ 156.23 crore (110 *per cent* of mobilisation advance), the selected Units obtained bank guarantees of ₹ 139.83 crore from the sub-contractors which resulted in short receipt of bank guarantee of ₹ 16.40 crore in 47 works;
- Recoveries of mobilisation advances were based on progress of work instead of the time. As a result, the Company extended undue benefit of interest of ₹ 5.74 crore to the sub-contractors on delay in recovery of mobilisation advances due to delayed completion of work by the sub-contractors.

The Management accepted the irregularities in the Exit conference (August 2016) and stated that corrective action would be taken to adhere the provisions in case of new works. However, no action was proposed to be taken against the defaulting officers.

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[17] Calculated at the rate of 12 *per cent* per annum followed by the Company as per provisions of the agreements where this rate of interest is provided.

[18] Unit 18 Lucknow and Varanasi.

Excess payment to sub-contractors

2.2.22 The Management of Varanasi Unit, made payment to the sub-contractor for supply of equipment at the rates higher than that awarded (December 2012) in the LoI for the work of 132/33 KV sub-station at Gurudevnagar. This resulted in excess payment of ₹ 27.35 lakh to the sub-contractor.

The Management stated (August and September 2016) that excess payment had been worked out by Audit without considering difference of excise duty provided in LoI. Reply was not acceptable as the LoI for supply of material was issued to the sub-contractor for ₹ 8.79 crore which were inclusive of insurance, excise duty and UP VAT. The same amount was sanctioned by the client. Therefore, any amount towards excise duty was not payable separately.

The Company made excess payment of ₹ 7.46 crore over and above the quoted/ awarded

2.2.23 The Management of Six[19] Units awarded (July 2011 to April 2013) 10 works of construction of 132/33 KV sub-stations to sub-contractors on turnkey basis which included supply of material for ₹ 77.89 crore. Audit noticed that in all the cases, the sub-contractors had quoted the rates inclusive of all taxes. Varanasi Unit, however, allowed for VAT separately in the LoIs issued to the sub-contractors for construction of two sub-stations[20] over and above the quoted rates. In respect of remaining eight sub-stations, although the terms and conditions of LoIs issued to the sub-contractors provided for VAT inclusive in the rates, the payment of VAT was made over and above the awarded rates. Thus, the above Units made an excess payment of ₹ 7.19 crore to the sub-contractors during 2011-12 to 2015-16.

The Management stated (August and September 2016) that the client clarified (April 2011) that VAT was payable extra. Accordingly, LoI was issued which provided for VAT extra and was paid. Reply was not acceptable as in all the above cases the bids were invited after April 2011 and were inclusive of VAT.

Undue benefit to the sub-contractor

2.2.24 New Delhi Unit, invited (5 March 2011) tenders for supply and erection of 220/132 KV sub-station at RC Green, New Delhi. The last date of submission of bids was 25 March 2011 with stipulation that the bids would be opened on the same day. Three firms submitted their bids; amongst them, Safety Plus Power Limited (SPPL) had submitted their bid for supply on 18 March 2011 and that of erection on 24 March 2011 for ₹ 22.92 crore and ₹ 24 lakh respectively. The bids were opened on 25 March 2011 and LoI for ₹ 22.92 crore in respect of supply and other LoI for ₹ 24 lakh in respect of erection were issued on 20 May 2011 and 8 August 2011 respectively. In the meantime, after closure of bid, SPPL submitted (4 April 2011) another bid for higher amount of ₹ 2.37 crore for erection.

Audit noticed that the later bid was submitted after the opening of bids *i.e.* 25 March 2011, hence should have been rejected. The Project Incharge of the Unit, however, after obtaining approval of the Zonal GM, issued another LoI bearing the same date and number[21] (8 August 2011) for ₹ 2.37 crore for erection of the same work for which LoI was issued for ₹ 24 lakh. Thus, the

[19] Unit 18 Lucknow, Varanasi, Bareilly, J.P. Nagar/ Meerut, Etawah and Haridwar.
[20] Koraon and Katghar Mahalu.
[21] LoI no. 253/EUD/SS-RCG/RNN/2011 dated 8 August 2011.

Project Incharge extended undue benefit of ₹ 2.13 crore[22] to SPPL by awarding the work on higher rates of ₹ 2.37 crore, after opening of the bid.

The Management stated (August 2016) that the last date of submission of bids was extended up to 6 April 2011 and the sub-contractor had quoted lesser rates in the earlier bid due to typographical mistake. Reply was incorrect as separate bids for supply and erection were called through the same Notice Inviting Quotation which were opened on 25 March 2011. Therefore, extension of last date of submission of bids was not possible. In the Exit conference (August 2016), MD and Special Secretary directed the GM concerned/ Financial Advisor to conduct an enquiry into the matter. However, any action initiated against defaulter was not intimated to Audit so far (October 2016).

The Company extended undue favour of ₹ 5.36 crore to the sub-contractors by allowing them to work at higher rates and allowing irregular price variation

2.2.25 Rule 204 of General Financial Rules (GFR) provides for allowing price variation in long term contracts, where the delivery period extends beyond one year and six months. In short term contracts, it provides for firm and fixed prices.

Audit noticed that tenders invited (March 2009/March 2011) by the two[23] Units for construction of three 220/132 KV sub-stations did not stipulate any price variation clause as the scheduled period of supply was within one year and six months and the sub-contractors also did not ask for it. However, the Units [24] while issuing LOIs, inserted the clause of price variation based on Indian Electrical and Electronics Manufacturers' Association (IEEMA) formula and paid price variation of ₹ 3.23 crore to the sub-contractors on supply of 60 MVA transformers. Thus, the Units, in violation of provisions of GFR and tender documents, extended undue favour of ₹ 3.23 crore to the sub-contractors.

The Management accepted the issue of price variation for contract period of less than 18 months in the Exit conference (August 2016).

Financial sanctions not obtained

2.2.26 As per LoIs issued by UPPTCL (client), the Company was required to submit detailed estimate and obtain financial sanction (FS) before executing the works.

Audit noticed that the Units started execution of work through sub-contractors without preparing the detailed estimates and only on the basis of BoQ furnished by the clients. In test check of 13 cases, Audit noticed that FS was obtained after 14 to 58 months from the date of start of work. As a result of not preparing detailed estimates and obtaining FS before start of work, the clients reduced FS in two cases[25] to the extent of ₹ 91.91 lakh, the extra cost of which was borne by the Company from its own sources.

The Management agreed with audit observation in the Exit conference (August 2016) and assured to recover the excess paid amount from the sub-contractors.

Tendering procedures not adhered

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22 ₹ 2.37 crore - ₹ 0.24 crore.

23 J.P. Nagar/ Meerut and New Delhi.

24 J.P. Nagar/ Meerut and New Delhi.

25 132/33 KV sub-station, Shyamli-Shyamla, Muzaffar Nagar executed by J. P. Nagar/ Meerut and 132/33 KV sub-station Baghauli executed by Bareilly.

2.2.27 Paras 468, 473 and 480 of the Manual provide for inviting sealed tenders in an open and public manner by advertising in four leading Hindi/ English dailies allowing at least one month for submission of bids.

CVC guidelines (November 2002) provide to obtain performance bank guarantee of reasonable amount valid up to defect liability period for due performance of the contract. CVC guidelines (September 2003) provide for inviting the bids in two parts *viz.* technical bid and financial bid. Financial bids of only those bidders, who qualify in technical bid, should be opened and considered.

Audit noticed that:

The Units awarded two works to the sub-contractors without inviting tenders and awarded 81 other works without adhering to the proper tender procedures

- Unit 18, Lucknow awarded two works of sub-stations for ₹ 21.97 crore to sub-contractors on nomination basis without inviting tender and specifying any reason thereof.
- The 81 works were executed by inviting tenders where only financial bids were called for works of sub-station. As a result, technical competency of the bidders in respect of 81 works was not ensured before awarding works to the sub-contractors.

Audit noticed that out of 81 works, 38 works of ₹ 772.37 crore were executed by 13 sub-contractors and each sub-contractor executed two to seven works of sub-stations for ₹ 17.86 crore to ₹ 143.76 crore simultaneously with the delay of one to 52 months up to March 2016.

- Against the provision for allowing one month time for submission of bids, six to 20 days were allowed in 83 cases (excluding three cases where 33 days were allowed).
- Notice for Inviting Quotations (NIQ) were published in two to three news papers instead of four Hindi/English dailies. The NIQs were not published in Indian Trade Journal, Calcutta, as required in CVC guidelines.
- Neither conditions were laid in bid documents/ LoI for bidders to deposit earnest money and performance guarantee for due completion of contracts nor actually obtained to safeguard financial interest of the Company.

The Management accepted the irregularities in the Exit conference (August 2016) and stated that corrective action would be taken to adhere to the provisions in case of new works.

Delay in execution of works

2.2.28 As per the terms and conditions agreed with UPPTCL and DISCOMs, the works of construction of sub-stations and cable laying were to be completed within eight months to one year and six months. The position of progress of 88 works examined in audit as on 31 March 2016 is shown in table 2.2.4.

Table 2.2.4
Progress of works

Sl. No.	Particulars of works	Position (as on 31 March 2016)
1	No. of works Completed	42
2	No. of works in progress (WIP)	46
3	Total works	88

4	Scheduled period of completion of works (in months)	8 to 18
5	Actual time taken in completion/ up to March 2016 in case of works under progress (in months)	13 to 64
6	Delay in completion of works (in months)	1 to 52

Source: Working done by Audit

It could be seen from table 2.2.4 that 42 works of the sub-stations/cable laying were completed during 2011-12 to 2015-16 and 46 works were in progress at the end of March 2016. Audit noticed that delay of one month to four years and four months occurred in completed and works which were in progress (WIP).

Reasons for delay, as analysed by audit, were the following:

- Delay of one month to one year and six months occurred in providing the construction sites of 29 works by UPPTCL;
- Delay of one month to one year and two months occurred in award of 43 works by the Company to sub-contractors which was mainly due to delay of seven days to eight months and 28 days in finalisation of tenders in 26 cases (after considering 15 days normal time); and
- Slow pace of execution by the sub-contractors was mainly due to inadequate deployment of manpower by the sub-contractors at site. This was also confirmed by the client during beneficiary survey done by Audit.

As a result of delay in completion of the works, expenditure of ₹ 1,155.12 crore incurred on 88 works remained blocked for the delayed period and the sub-stations could not be put to use.

The Management stated (August 2016) that works were delayed due to late receipt of fund from the clients, delay in sanction of estimates, financial sanction and providing connecting line by UPPTCL. Reply was not acceptable as funds were released by the clients which was more than the expenditure incurred during the period 2011-12 to 2015-16. As regards delay in sanction of estimates, the Company itself submitted estimates with delay to the clients for approval. Further, connecting lines were required to be provided by the clients only after completion of the sub-stations.

Liquidated damages not levied

2.2.29 The terms and conditions of LoI issued (April 2009 to November 2013) by the Company to the sub-contractors for construction of sub-stations/ cable laying provided scheduled period of completion of four months to one year and six months.

Audit noticed that LoIs issued by eight selected Units in respect of 39 out of 88 works of constructions of sub-stations/cable laying, stipulated levy of liquidated damages (LD) for delay in completion of works, at the rate of 0.5 *per cent* per week of incomplete work subject to maximum of five to 10 *per cent* of value of contract. The Units, however, did not levy LD of ₹ 40.28 crore on the sub-contractors for delay in completion of the works by one month to four years and four months. Extensions for time were neither applied by the sub-contractors nor granted by the Company till date (March 2016).

The Company did not levy liquidated damages of ₹ 40.28 crore on the sub-contractors for delay in completion of the works

Further, the LOIs issued by the Units[26] in respect of remaining 49 works, did not stipulate the levy of LD. In absence of such condition in the LOIs, the Units could not levy LD of ₹ 9.28 crore for delay of one month to three years and eight months in completion of the works by the sub-contractors.

The Management stated (August 2016) that LD was not levied as there was delay/ not release of fund by the clients to the sub-contractors besides delays in providing the land, transformers and connecting lines by the clients. As regards not including LD clause in few agreements, it stated that corrective action had been taken by including the above clause in the LoIs of the works to be executed in future. Reply was not acceptable as unutilised funds remained with the Units during the period of audit as indicated in table 2.2.3 and this was also confirmed by the clients during beneficiary survey. Further, cases relating to delay in providing land to the sub-contractors were not considered while calculating the LD and connecting lines were required to be provided only after completion of the sub-stations.

Irregular release of advances

2.2.30 Para 553 of the Manual provides that secured advance up to 75 *per cent* of the value of material brought at site as assessed and certified by Unit Incharge, in the prescribed form, can be allowed to the sub-contractor after securing lien on such material.

Audit noticed that although the LoIs did not contain any clause for providing secured advances, selected Units provided advances of ₹ 109.45 crore to the sub-contractors on their requests without receipt of material at site and securing lien on the material, which was irregular.

The Management stated (August 2016) that advances were given against the works already executed by the PRWs/ sub-contractors and material supplied on the basis of certificates given by the concerned SE/ARE after proper valuation of work. Reply did not address the issue as Audit had considered the advances against supply portion only and that too without receipt of material.

Poor workmanship

2.2.31 UPPTCL (client) awarded (July 2010) work of diversion of 220 KV cable of Badarpur-Ghazipur line to the Company at the cost of ₹ 39.16 crore excluding centage and labour cess. New Delhi Unit executed the work by awarding the work to sub-contractors for ₹ 39.16 crore in October 2010. The work was completed in December 2011 and handed over to the client in the same month. The Unit had made payment of ₹ 28.19 crore to the sub-contractor as of December 2011.

On energisation of the line, frequent faults occurred as pointed (June 2012 to October 2013) out by the client. The Unit incurred ₹ 13.63 crore on rectification of the defects in the line (repairs: ₹ 1.80 crore and replacement of line: ₹ 11.83 crore) on behalf of the sub-contractors. Out of ₹ 13.63 crore incurred on rectification of line, ₹ 10.97 crore was adjusted from the pending bills of the sub-contractors, ₹ 87 lakh by forfeiting security and ₹ 1.29 crore by invoking bank guarantee of the sub-contractors. Remaining amount of ₹ 50 lakh could not be recouped. The Unit, however, did not take any action against

[26] J.P. Nagar/ Meerut, Varanasi and New Delhi.

the sub-contractor and suffered loss of ₹ 50 lakh owing to poor workmanship by the sub-contractor.

The Management accepted (August 2016) the above facts but did not comment on the loss of ₹ 50 lakh.

Excess purchase of material

2.2.32 The terms and condition of the LoI issued to the sub-contractors provided that the quantity of equipment may vary from the BoQ during execution as per actual layout plan, site requirement and approved drawings.

Materials valuing ₹ 55.22 lakh were purchased in excess of actual requirement and lying unutilised in the open, exposed to deterioration

Audit noticed that three[27] Units failed to assess correct quantity of the materials as per actual requirement. As a result, control cables, power cables and conductors valuing ₹ 55.22 lakh were purchased in excess of six to 88 *per cent* of the actual requirement in construction of five sub-stations. The excess material was lying unutilised in the open, which could lead to their deterioration since December 2013 to March 2016 which was also noticed during joint physical verification as shown in the photographs below:

220/ 132 KV sub-station, *Baghpat*

132/33 KV sub-station, Kirthal, *Baghpat*

The Management stated in the Exit conference (August 2016) that the unutilised cables may be used further as the works were under progress. Reply was not acceptable as the works were 95 to 100 *per cent* complete and in most cases the quantity executed were taken from the final bills of erection/ final reports.

Excess payment of Value Added Tax

2.2.33 The GoUP reduced[28] the rate of Value Added Tax (VAT) on transformer and its parts from 14 *per cent* to five *per cent w.e.f.* 19 December 2014.

Audit noticed that two[29] Units continued to make the payment of VAT at the old rate of 14 *per cent* instead of prevailing rate of five *per cent* during December 2014 to June 2015. Thus, the Units made an excess payment of VAT of ₹ 75.46 lakh to the sub-contractors on supply of 23 transformers during December 2014 to June 2015.

[27] JP Nagar/ Meerut, Hardwar and Consultancy Ghaziabad.

[28] Notification KA.NI.-2-1797/XI-9(14)/97-U.P.Act-5.2008-order-(125)-2014 dated 19 December 2014.

[29] Unit18, Lucknow and Varanasi.

The Management accepted (September 2016) and issued letter for recovery of ₹ 36.90 lakh in respect of one transformer at Behraich sub-station. In respect of other 22 transformers, it stated that the transformers were supplied by the sub-contractors before the date of notification. Reply was not acceptable as the actual recovery was still pending in case of Behraich sub-station and in remaining 22 cases, Audit had considered only the transformers which were supplied after the date of notification.

Payment of UPVAT without obtaining tax invoice

Two units made payment of VAT of ₹ 5.77 crore to the sub-contractors without obtaining tax invoices and thus chances of tax evasion could not be ruled out

2.2.34 Section 22 (1) of Uttar Pradesh Value Added Tax Act, 2008 stipulates that every registered dealer (except a dealer who opts for payment of tax on lump sum under section 6) is required to issue a tax invoice to the purchaser in the prescribed form while making sale of a taxable goods.

Audit noticed that two Units[30] made payment of ₹ 49.91 crore including VAT of ₹ 5.77 crore to the sub-contractors against LoI for supply of equipments (inclusive of VAT) for the construction of six sub-stations without obtaining the tax invoice or certificate issued under section 6 by Commercial Tax Department. In absence of tax invoice, chances of tax evasion could not be ruled out.

The Management stated (August 2016) that the payment of VAT was made after obtaining tax invoices from the contractors/ suppliers. Reply was not acceptable as tax invoices were obtained in case of sub-stations other than above six sub-stations.

Service Tax not deducted/deposited

2.2.35 Notification[31] (June 2012) relating to deposit of Service Tax, applicable from July 2012, provided that in case of the services provided by other than body corporate, both the service provider and receiver were liable to deposit 50 *per cent* of the Service Tax each. In case of these services being provided by a corporate body, the service provider was liable to deposit the full amount of Service Tax. The Company, being a Government body, was also required to ensure the deposit of Service Tax as the liability to deposit was with the service provider.

Audit noticed that:

The Company failed to deduct service tax of ₹ 1.25 crore from the bills of the sub-contractors and ensure the deposit of service tax of ₹ 6.60 crore by the sub-contractors

- Eight Units did not deduct ₹ 1.25 crore, (50 *per cent* of the Service Tax) from bills of the sub-contractors (other than corporate body) submitted for erection and commissioning (services) and civil construction (works contract) of sub-stations during July 2012 to March 2016.
- The Units failed to ensure that 17 sub-contractors (corporate body) deposited Service Tax of ₹ 6.60 crore paid to them during July 2012 to March 2016.
- The Units also failed to deposit Service Tax of ₹ 47.60 lakh with Excise Department, payable by the Units on the amount of centage (₹ 8.77 crore) received from the clients during 2011-12 to 2015-16.

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30 Varanasi and Haridwar.

31 30/ 2012-ST dated 20 June 2012.

The Management stated (August 2016) that as per notification[32] issued by Government of India (GoI), service tax is not applicable on the works sanctioned before March 2015. Reply was not acceptable as the above works of sub stations were not exempt from service tax even earlier.

Execution of electrical parts of other deposit work

2.2.36 Twenty six Units executed 840 works of ₹ 2,662.26 crore, other than sub-stations and cable laying works during 2011-12 to 2015-16. Out of these, 378 works of ₹ 1,127.97 crore were executed by eight selected Units.

Audit examined 83 works of ₹ 867.30 crore executed by eight Units and findings related thereto are discussed in succeeding paragraphs.

Time and cost overrun

2.2.37 A High Level Technical Committee (HLTC) constituted under the Chairmanship of Chief Secretary of GoUP directed (November 2008) that in the cases of the works where construction period was more than one year, a suitable provision for cost increase for the project period was required to be inbuilt in the estimate based on the cost index of last ten years so as to avoid cost overrun and revision of estimates. The GoUP reiterated (January 2011) the fact for making provision for cost increase in case of projects involving construction period of more than one year.

Audit noticed that the Company did not make provision for cost increase in the estimates submitted to the GoUP for sanction despite directions of HLTC and GoUP. As a result, estimates of 54 works (Completed: 27 and WIP: 27) were revised during 2011-12 to 2015-16, from ₹ 531.06 crore to ₹ 747.22 crore involving cost overrun of ₹ 216.16 crore. The cost overrun was necessitated due to the time overrun of two years to 13 years taken in execution of the works.

The Management accepted in the Exit conference (August 2016) that HLTC directives of incorporating expected cost increase was not implemented by the Company.

Procurement of material at higher rate

Commercial section in the Head Office did not collect and circulate rates of electrical items to ensure reasonability of rates, in absence of which the Units incurred an extra expenditure of ₹ 2.67 crore on purchase of material at higher rates

2.2.38 Para 30 of the Manual provides that Commercial section in the Head Office shall collect every quarter, prices in Lucknow of all common bought out items like electrical cables, wires and electrical goods. The price list of all such bought out items shall be printed in a booklet and circulated to all the field units. The Purchase Committee of the Units were required to compare the prices collected in market survey with the prices of Lucknow circulated in the booklet and record both the rates in the Purchase Committee Report (PCR) to ensure reasonability of rates.

Audit noticed that rates of the electrical items were not collected and circulated by the Commercial section to the field units. In absence of the price list, the Units could not judge reasonability of rates to be awarded by them and incurred an extra expenditure of ₹ 2.67 crore due to purchase of electrical items at higher rate as discussed below:

- The field units purchased electrical items at the rates finalised by the Joint Purchase Committee (JPC) at the zonal levels. On comparison of the rates

[32] 9/2016 dated 1 March 2016.

awarded by the zones, Audit noticed that the rates awarded by JPC of Etawah zone and JPC of Haridwar and Srinagar Units for power cables and HT Power cables were higher by 6.82 *per cent* to 28.72 *per cent* than the rates of JPC of Lucknow zone. Due to this, three Units[33] purchased the above material valuing ₹ 5.58 crore at higher rates during 2014-15 to 2015-16 and incurred extra expenditure of ₹ 69.57 lakh on the procurement of material.

- JPCs were constituted first time in February 2014 by Etawah zone and in August 2014 by Lucknow zone for purchase of electrical items. Prior to this, purchases were made by the respective units at the rates decided by the Unit Purchase Committees. Other two electrical zones of Delhi (except Haridwar and Srinagar Units which prepared a joint PCR in June 2013) and Kanpur zones had not prepared JPCR so far (May 2016).

Since JPCs in the zones were not constituted up to February 2014/ August 2014, four Units[34] purchased flexible wiring, power cables, control cables and HT Power cables valuing ₹ 9.72 crore during 2011-12 to January 2014 at rates higher by 0.84 *per cent* to 60.36 *per cent* than the rates subsequently finalised by JPC. This resulted in avoidable expenditure of ₹ 1.54 crore.

- Havells, the manufacturer, reduced the rates of copper flexible wire with effect from 20 January 2015. Haridwar Unit, however, continued to purchase the above item at the old rates during February 2015 to January 2016 and incurred extra expenditure of ₹ 4.40 lakh on the purchase of 2,069 coils of copper flexible wire at higher rates.

Audit further noticed that the Unit purchased 8,303 coils of copper flexible wires of brands Havells and KEI valuing of ₹ 1.90 crore during August 2014 to January 2016; whereas the wire of brand Polycab, which was of equivalent quality was available at lower rate. The purchase of wire of Havells and KEI make instead of Ploycab which were costlier resulted in extra expenditure of ₹ 38.94 lakh.

The Management stated (August 2016) that electrical materials were purchased at the rates finalised by the purchase committee as per the procedure laid in the manual. It further stated that the rates of JPC at Lucknow were not comparable with Dehradun which was at distance of 600 km from Lucknow. Reply of the Management was not acceptable as the provisions of manual regarding collection of rates of electrical items centrally at Head Office and its circulation to the field Units for ensuring reasonability of rates were not complied with. As regards the comparability of rates between Lucknow zone and Haridwar Unit at Dehradun, the rates of Seiko make cables were same for both the places. Further, transportation was paid extra for the cables purchased by Haridwar Unit.

2.2.39 Para 101 of the Manual provides that the rates for procurement of material shall be decided on the basis of market survey. UPPCL notifies yearly stock issue rate of electrical items including transformers used for framing estimate for construction of 33 KV line and sub-station.

Audit noticed that two[35] Units purchased six[36] 33/11 KV transformers during November 2010 to January 2015 at the rates higher than the prevailing stock

[33] Etawah, Bareilly and Haridwar.
[34] Varanasi, Bareilly, J.P. Nagar/ Meerut and Consultancy Unit, Ghaziabad.
[35] Unit 18 Lucknow and J.P. Nagar/ Meerut.

issue rates of UPPCL. The Units while evaluating the quoted rates did not ensure the reasonability of rates by comparing the rates with stock issue rates of UPPCL, which resulted in extra expenditure of ₹ 1.04 crore.

The Management stated (August 2016) that RESSPO rates did not include VAT. Reply was not acceptable as RESSPO rates included VAT.

Inadmissible payment to sub-contractor

2.2.40 Employee's State Insurance Corporation (Client) awarded (23 June 2011) the work of construction of ESIC Medical College, Alwar, Rajasthan with stipulated period of completion of 30 months from the date of start (10 July 2011). Therefore, the scheduled date of completion was 9 January 2014.

The Company engaged J. Kumar Infraprojects Limited as sub-contractor for execution of the work at par with value of the BoQ.

Audit noticed that although the client sanctioned (13 August 2015) time extension of 558 days from 10 January 2014 to 21 June 2016 with the condition that escalation would be admissible up to 342 days (10 January 2014 to 17 December 2014), the Unit claimed escalation of ₹ 3.09 crore from the client for the period from January 2015 to April 2015 and this was paid to the sub-contractor. Thus, the Unit made excess payment of escalation of ₹ 3.09 crore to the sub-contractor for a period of work which was inadmissible.

The Management stated (August 2016) that ESIC approved the time extension for the completion of project and paid the escalation bills accordingly. Reply was not acceptable as time extension was allowed up to June 2016 with the restriction to pay escalation up to December 2014. In the Exit conference (August 2016), MD directed the GM concerned to check the issue and make recovery.

The Company made inadmissible payment of escalation of ₹ 5.34 crore to the sub-contractors

2.2.41 GoUP accorded (August 2007) administrative and financial sanction of ₹ 236.26 crore for construction of Government Allopathic Medical College, Ambedkar Nagar which was revised (March 2010) to ₹ 384.63 crore. The revised sanction included electrical works of ₹ 78.26 crore for internal electrification of the residential/ not residential buildings and other additional electrical works. The work of internal electrification was executed by awarding it to sub-contractor.

The terms of the agreement (7 October 2008) entered into with the sub-contractor provided that payment would be made for the actual plinth area executed at the Plinth Area Rates (PAR) approved by EFC, GoUP. It also provided for price escalation on the basis of revision of PAR by UPPWD subject to approval by the GoUP for the project. The escalation was to be provided upto the scheduled date of completion.

Audit noticed that Unit 18, Lucknow did not ascertain the actual executed plinth area of the buildings from the concerned civil unit and made the payment on the plinth area indicated in the sanctioned estimate. The Unit paid inadmissible escalation of ₹ 2.25 crore for the works executed during the period (October 2010 to December 2015) beyond the scheduled date of completion (September 2010) which was not to be paid as per provisions of the agreements.

[36] Four 5 MVA and two 10 MVA.

The Management stated (August 2016) that the escalation was paid according to the terms of the LoI. Reply was incorrect as LOI as well as agreement provided for payment of escalation at the revised PAR upto the scheduled date of completion.

Procurement of high value items and award of works without inviting open tender

2.2.42 Rules 146 and 150 of GFR, 2005 provide that goods valuing ₹ 25 lakh and above should be purchased through advertised tenders. Rule 181 of GFR provides that the works of ₹ 10 lakh and above should be awarded through advertised tenders. Further, Para 468 and 473 of the Manual provide that in case of specialised work which the Company is not in a position to take up directly, the works of high value may be executed through sub-contract by inviting tenders in the most open and public manner.

Eight Units purchased items of ₹ 19.67 crore through supply orders and executed 68 works through work orders of ₹ 173.25 crore without inviting open tenders

Audit noticed that eight Units, instead of inviting open tenders, purchased items of ₹ 19.67 crore through supply orders of ₹ 26 lakh to ₹ 1.99 crore and executed 68 works through 273 work orders of ₹ 173.25 crore ranging from ₹ 10 lakh to ₹ 6.28 crore on the basis of sealed quotations/ limited tenders during 2011-12 to 2015-16.

The Management stated in the Exit conference (August 2016) that corrective actions had been taken to procure material/ execution of work after due tendering process.

Scheduled date of completion not fixed

2.2.43 Para 76 and 244 of the Manual provide for preparation of Bar chart based Programme Evaluation and Review Technique (PERT) for scheduling the activities, speedy completion and monitoring of the activities. It also helps in fixing of the scheduled date of completion.

Audit noticed that the Company did not prepare BAR chart based PERT for the works. The scheduled date for completion of the works were neither prescribed by the client department nor fixed by the Company in consultation with the client on the basis of PERT. As a result, the Company was not able to monitor the required pace of work in absence of any scheduled targets.

The Management stated (August 2016) that completion of each work depends on the flow of funds by the Government/clients against the sanctioned cost of the work. Further, as far as possible, BAR Chart/ PERT chart were prepared and submitted by each unit to its Zone. Reply was not acceptable as the Company or its zonal office did not have any construction plan supported with BAR chart approved by the competent authority.

Irregular charge of centage

2.2.44 As per order issued (February 2009 and January 2011) by GoUP, centage was not payable on the bought out items.

In contravention to the GoUP orders, the company charged inadmissible centage of ₹ 5.68 crore on bought out items

Audit noticed that in spite of the administrative and financial sanction accorded by GoUP after disallowing centage on bought out items, five Units[37] charged centage of ₹ 5.68 crore on the bought out items of ₹ 45.46 crore and booked in eight works during the year 2011-12 to 2015-16.

[37] Unit 18 Lucknow, Etawah, Varanasi, Bareilly and Haridwar.

The Management stated in Exit conference (August 2016) that the matter was being pursued with the GoUP to make a policy decision for identifying bought out items for applicability of centage.

Excess payment of Value Added Tax

2.2.45 The GoUP reduced[38] the rate of VAT on transformers and parts thereof from 14 *per cent* to 5 *per cent* effective from 19 December 2014.

Audit noticed that two[39] Units continued to make payment of VAT at the rate of 14 *per cent* instead of prevailing rate of five *per cent* during June 2015 to December 2015 which resulted in excess payment of VAT of ₹ 10.45 lakh on purchase of five transformers in two works during the period June 2015 to December 2015.

The Management stated (August 2016) that in case of Etawah unit, the transformers were supplied before the notification date and hence the reduced rate of VAT was not applicable. Reply was factually incorrect as the transformers were supplied after the notification date.

Internal control system and monitoring mechanism

2.2.46 Internal Control is a process designed to provide reasonable assurance about the efficiency of operations, reliability of financial reporting and compliance with applicable rules and regulations.

Audit noticed that the internal control mechanism prevalent in the Company was deficient as instances were noticed of not remitting the amount by the field units to the Head Office of the Company, excess expenditure over fund received from the clients, execution of works without obtaining prior TS, not adhering to the prescribed tender procedures, irregular release of mobilisation and other advances, excess payment of VAT and payment of VAT without obtaining tax invoices and not deducting Service Tax from the bills of the sub-contractors as discussed in paragraphs 2.2.13, 2.2.15, 2.2.16, 2.2.21, 2.2.27, 2.2.30, 2.2.33, 2.2.34, 2.2.35 and 2.2.45.

Besides these, the following other deficiencies were also found in the internal control system.

Material consumption statements not prepared

Units failed to prepare material consumption statements at the end of the financial year and at the close of the work due to which the excess/ short consumption could not be detected

2.2.47 Para 159 of the Manual requires that material consumption statements be prepared at the end of every financial year and at the close of the work.

Audit noticed that all the eight Units did not prepare material consumption statements at the end of the financial year and also at the close of the work resulting in excess/short consumption of materials which could not be detected. The Head Office of the Company also failed to monitor and ensure preparation of material consumption statements which was indicative of weak internal control.

38 KA.NI.-2-1797/XI-9(14)/97-U.P. Act-5.2008-order-(125)-2014 dated 19 December 2014.
39 Etawah and Bareilly.

The Management stated (August 2016) that due to shortage of technical staff and heavy work load, the annual consumption statements were not prepared; however, instructions had been issued to the field Units for the compliance.

Clients' accounts not closed

2.2.48 Paras 589 and 591 of the Manual provide that soon after the completion of the deposit works, the account of the concerned work shall be closed and sent to the Head Office for merger with Head Office account.

Audit noticed that although 111 works were handed over to the clients by eight Units during 2011-12 to 2015-16, its accounts were not closed so far (March 2016). Consequently, unspent balance of ₹ 10.77 crore was not refunded to the respective clients.
The Management stated (August 2016) that the closures of accounts were under process as the units were running short of accounts staff. Reply confirmed the audit findings.

Weak internal control due to shortage of manpower

2.2.49 The Manual prescribes different set of posts with different job responsibilities. The internal control weakens when the job responsibilities of different posts are performed by one officer holding multiple charges.

Audit noticed that due to shortage of manpower, the internal control system was not adequate as compared to turnover and size of the Company as:

- the separate job responsibilities were prescribed in the Manual for the posts of Financial Advisor, Controller of Accounts and Company Secretary. Audit noticed that responsibilities of these posts were being performed by one officer *i.e.* Financial Advisor;
- the Sub-Engineers in the field units were additionally performing the store-keeping functions due to which the internal checks of taking the material from stores after presenting proper indents were not documented; and
- no RE/ARE was posted in Almora and Srinagar Units to supervise the work of one to five Sub-Engineers during 2011-12 to 2015-16 and one to three Sub-Engineers in *Bareilly* Unit during 2011-12 to 2014-15.

Internal Audit

2.2.50 Internal audit is a system designed to ensure proper functioning as well as effectiveness of the internal control system/ mechanism in the Company. The internal audit of the Company is conducted by Chartered/ Cost Accountants engaged for the purpose.

Audit noticed that the internal audit was not adequate and effective as:

- the percentage of internal audit of the electrical Units ranged between 9.52 *per cent* and 73.68 *per cent* during 2011-12 to 2013-14. Further, internal audit of the Head Office was not conducted during the above years
- out of total 347 paras pointed out in the internal audit reports, only 42 paras (12.10 *per cent*) were settled by the Company and 305 paras[40] were outstanding as replies were not received from the field Units. This indicates lack of monitoring on the part of higher Management.

[40] 2011-12: 1 para; 2012-14: 67 paras: 2014-15: 237 paras.

- five Units[41] did not furnish records in 2012-13 and 2013-14 and two Units[42] did not furnish records in 2014-15 to the Internal Auditors due to which the internal audit of these Units could not be conducted. No action was taken against these Units for not furnishing the records.
- 'Exception Report' highlighting major discrepancies and serious irregularities noticed in internal audit were required to be put up to the MD under the provisions of para 156 of the Manual. The same was not prepared.

The Management stated (August 2016) that progress of compliance of internal audit paras were discussed in the audit committee meeting at regular intervals. The fact, however, remained that large numbers of paras were outstanding.

Conclusions

Audit concluded that:

- **planning of the Company was deficient as the Company failed to fix the targets and prepare budget in accordance with provisions of Manual, ensure subletting of works within the prescribed limit, obtain TS prior to start of the works, allocate the works to the units prudently and recruit the required manpower. The Financial Management was also weak as the Company could not utilise the available funds, restrict expenditure up to the amount of fund received from the clients and was deprived of potential interest of ₹ 9.57 crore due to not availing of flexi facility in its bank accounts;**
- **the Company started the works without obtaining financial sanctions of the clients and did not adhere to the provisions of the Manual, CVC guidelines and provided undue benefits of interest of ₹ 21.90 crore to sub-contractors by allowing interest free mobilisation advance, providing inadmissible price escalations of ₹ 5.36 crore and procurement of material and award of works at higher rates by ₹ 87.62 crore;**
- **the Company did not make provision for cost increase in the estimates despite directions of HLTC and GoUP. As a result, estimates of 54 works were revised during 2011-12 to 2015-16 involving cost overrun of ₹ 216.16 crore. The cost overrun was necessitated due to the excessive time of two years to 13 years taken in execution of the works; and**
- **the internal control and monitoring system was inadequate and ineffective as the Company failed to deduct Service Tax of ₹ 1.25 crore from the bills of the sub-contractors. It also failed to ensure preparation of material consumption statements and closure of accounts by the field units. Internal audit was not adequate and effective as it did not cover audit of the Head Office and of all units.**

Recommendations

Audit recommends that:

- **the Company should adhere to the provisions of the Manual for fixing of targets and preparation of budget, subletting of works up to the prescribed limit, obtaining technical sanction, allocation of work among**

[41] Electrical Units 17 Lucknow, 17 A Lucknow, 1 Lucknow, Varanasi and J.P. Nagar/ Meerut.

[42] Electrical Unit Noida-2 and Faridabad.

units prudently keeping in view the distance of the sites, recruit adequate manpower, utilise the available funds optimally, restrict expenditure up to the amount of fund received from the clients and avail flexi facility for the bank accounts;

- **the Company should start the works after obtaining financial sanctions of the clients and adhere to the provisions of the Manual and CVC guidelines for allowing interest free mobilisation advance, providing price escalations, conduct market survey and do a proper analysis prior to procurement of material and award of contracts and comply with directives of HLTC to avoid time and cost overrun; and**

- **the Company should ensure that the field units adhere to the provisions of the Manual for preparation of material consumption statements and closure of accounts. Internal audit should cover the audit of Head Office and of all field units and corrective action should be taken on the observations of internal audits.**

2.3 Audit on Metering System in Dakshinanchal Vidyut Vitran Nigam Limited

Introduction

2.3.1 Dakshinanchal Vidyut Vitran Nigam Limited (Company), incorporated in August 2003 under the Companies Act, 1956, works with an objective of distribution of electricity in 21 districts of Uttar Pradesh under the functional control of Uttar Pradesh Power Corporation Limited (UPPCL).

In power distribution system, ensuring metered supply of power is of utmost importance to prevent pilferage/theft of energy. This also helps in the correct assessment of revenue to be realised from the consumers. The Electricity Act, 2003 provides that no licensee shall supply electricity except through installation of a correct meter. The Company had total 22.80 lakh consumers at the end of March 2012 which increased to 32.29 lakh consumers at the end of March 2016.

With a view to assess whether procurement, installation, periodical checking of meters and assessment of revenue based on the consumption recorded in the meter have been done efficiently, effectively and economically, an audit was conducted (November 2015 to April 2016) covering the period from 2011-12 to 2015-16.

The system for procurement, installation, checking of meter, its reading and bill generation has been detailed in **Annexure 2.3.1.**

The records related to procurement of meters were examined at Material Management (MM) wing and four Electricity Store Divisions (ESDs) of the Company. The records related to installation, performance of meters and assessment of energy were examined in selected four Electricity Distribution Circles[1] (EDCs), four Electricity Test Divisions (ETDs)[2], and 12 Electricity Distribution Divisions (EDDs)[3], out of total 16 EDCs, 18 ETDs, and 58 EDDs respectively. The units were selected on the basis of Stratified Simple Random Sampling Method.

The methodology adopted for attaining the audit objectives consisted of explaining audit objectives to top management in the Entry conference held on 22 February 2016 and raising of audit queries. An Exit conference was held on 29 July 2016 with the Management and replies of the Management were received in July 2016 which had been duly considered. Reply of the Government was awaited (October 2016).

Audit findings

2.3.2 On the basis of detailed audit scrutiny of the records of MM wing and selected Circles/Divisions of the Company, the audit findings are discussed in the succeeding paragraphs.

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1 Electricity Distribution Circles Agra, Kanpur, Mainpuri and Etawah.

2 Electricity Test Divisions Agra, Kanpur, Mainpuri and Etawah.

3 Electricity Distribution Divisions (EDD) I Agra, EDD II Agra, EDD Fatehabad, EDD Akabarpur, EDD Chaubepur, EDD I Mainpuri, EDD II Mainpuri, EDD II Etawah, EDD Auraiya, EDD I Hathras, EDD II Hathras and EDD III Hathras.

High incidence of unmetered connections

2.3.3 Clause 5.1 of U.P. Electricity Supply Code 2005 (Supply Code) provides that no new connection shall be released without installation of meter. U.P. Electricity Regulatory Commission (UPERC) also directed (October 2012) the Company to submit a road map for hundred *per cent* metering in its licensed area. The position of metered and unmetered consumers in the Company at the end of each year during 2011-12 to 2015-16 is given in table 2.3.1.

Table 2.3.1
Details of metered and unmetered consumers

(Nos. in lakh)

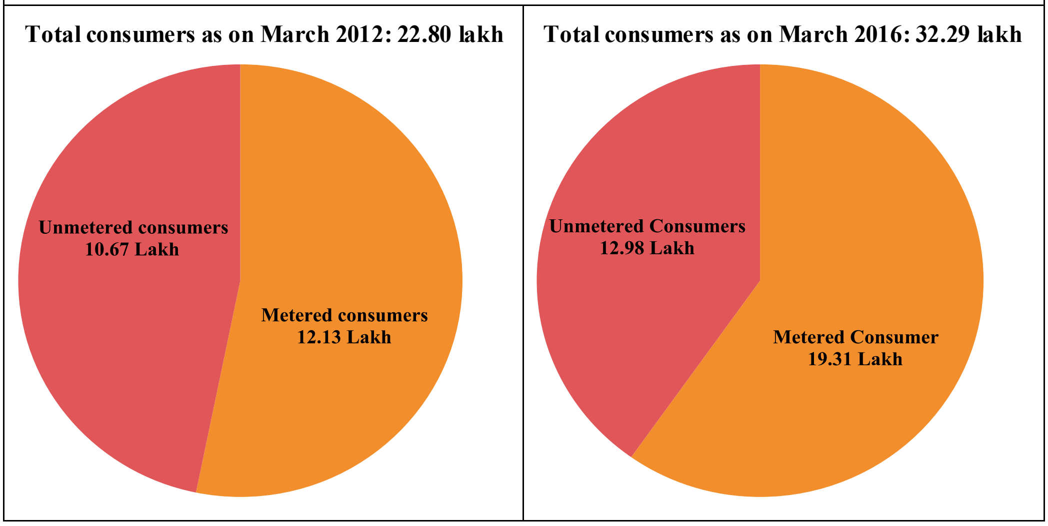
Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Total consumers	22.80	24.26	25.66	30.99	32.29
2.	Metered consumers	15.38	16.87	18.14	22.61	24.32
3.	No. of unmetered consumers shown as metered consumers	3.24	3.62	3.82	4.66	5.01
4.	No. of unmetered consumers	7.43	7.40	7.52	8.38	7.97
5.	Total unmetered consumers	10.67	11.02	11.34	13.04	12.98
6.	Percentage of unmetered consumers	46.80	45.42	44.19	42.08	40.20

Source: Commercial Statements and information furnished by the Company.

Number of unmetered connections increased from 10.67 lakh at the end of March 2012 to ₹ 12.98 lakh at the end of March 2016

Audit noticed that the Company did not submit road map to UPERC for ensuring hundred *per cent* metering for which no reason was on record. Further, the Company also continued to release new connections without installation of meters and in order to generate energy bills, provided presumptive meter numbers in billing system. As a result, number of unmetered connections increased from 10.67 lakh at the end of March 2012 to 12.98 lakh at the end of March 2016 as depicted in chart 2.3.1.

Chart 2.3.1
Details of metered and unmetered consumers



The Management stated (July 2016) that the meters on the premises were being installed speedily and the percentage of unmetered supply decreased from 33.17 *per cent* at the end of March 2012 to 25.18 *per cent* at the end of March 2016. Reply was not tenable as the Company included in metered consumers, those consumers where no meters were installed but only a presumptive meter number was provided for billing purpose. Hence such type of unmetered consumers should have been excluded from metered consumers. Thus, the percentage of unmetered consumers had improved only 6.60

per cent over a period of five years. Further, reply of the Management was silent about not submitting the roadmap to UPERC.

Procurement of meters

2.3.4 The MM wing of the Company assesses the total quantity of meters to be procured based on the annual requirement (AR) of meters received from ESC. After approval of the Board of Directors (BOD) for procurement of meters, the MM wing invites open tenders and finalises the same with the approval of Corporate Stores Purchase Committee (CSPC) of the Company.

The Company had (March 2016) 15 categories of 32.29 lakh consumers, out of which 12.98 lakh consumers were unmetered. Of these unmetered consumers, 12.80 lakh consumers (99 *per cent*) pertained to LMV-1 (domestic), LMV-2 (commercial) and LMV-5 (private tube well). The audit, therefore, focused on procurement of meters (single phase and three phase meters) required for these three categories of consumers.

The Company invited 18 tenders for procurement of 9.90 lakh meters during 2011-12 to 2015-16. Out of this, eight tenders were finalised for procurement of 9.56 lakh (98 *per cent*) single and three phase meters.

The deficiencies noticed in audit regarding procurement of meters are discussed in succeeding paragraphs.

Deficient planning for procurement of meters

2.3.5 As per the provisions of Supply Code and directives of UPERC, all connections should have been metered. It is also imperative in view of the fact that the Company recovers full cost of meter from the consumers at the time of release of connection. In order to achieve the target of 100 *per cent* metering, proper assessment of quantity of meters to be purchased was of utmost importance and should have been based on the number of existing unmetered connections, likely defective meters and new connections to be released.

The year-wise position of total requirement of meters, planned for procurement, actually procured and short procurement is as per **Annexure-2.3.2**. The summarised position of the requirement, planned and short procurement is as shown in table 2.3.2.

Table 2.3.2
Total requirement of meters and planned for procurement

(in numbers)

Year	Total requirement	Planned for procurement	Actually Procured	Short procurement against total requirement
2011-12	1315925	45000	355204	960721
2012-13	1153911	180000	222568	931343
2013-14	1116948	98005	200235	916713
2014-15	1484964	185689	442214	1042750
2015-16	1371956	525000	561326	810630

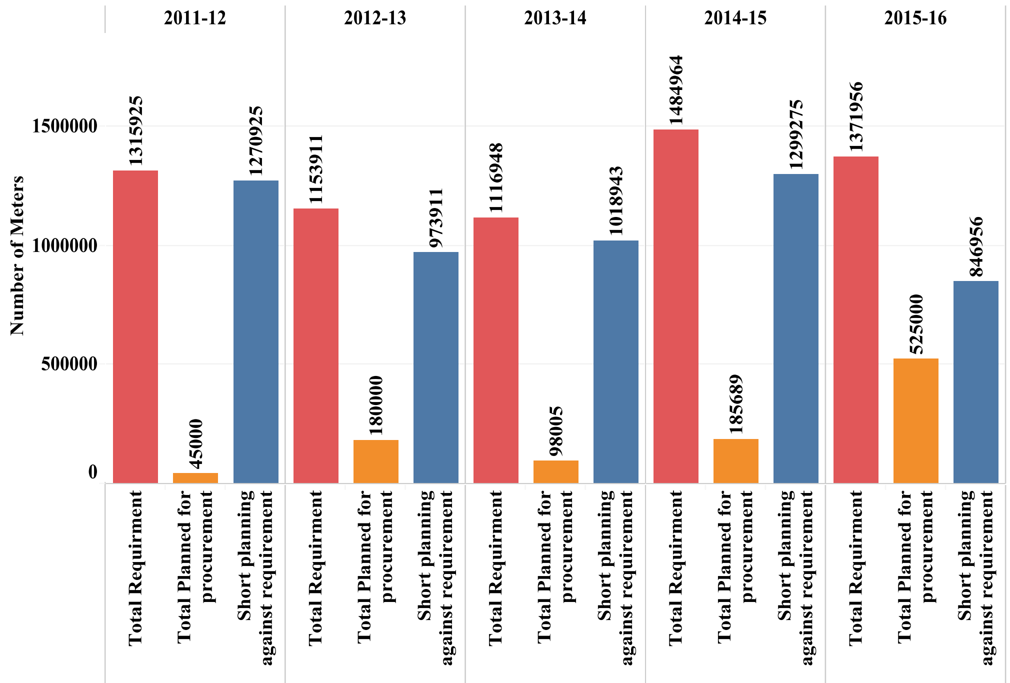
Source: Figures worked out by Audit and information furnished by the Company.

Analysis of Annexure-2.3.2 and table 2.3.2 revealed as under:

- the planning for procurement of meters was deficient as MM wing and Store Circle of the Company assessed the requirement of meters to be procured without working out the number of existing unmetered consumers, defective meters to be replaced and also new connections. Against the total requirement of 11.17 lakh to 14.85 lakh, the Company planned the procurement of 0.45 lakh and 5.25 lakh meters during 2011-12 to 2015-16 without specifying any reasons as depicted in chart 2.3.2.

Chart 2.3.2

Requirement, planning and shortfall in procurement of meters



Deficient planning in procurement led to short procurement of meters ranging between 8.11 lakh and 10.43 lakh during the five years ending March 2016

- though the actual procurement of meters was more than the planned number of meters, it was always less than the actual requirement leading to short procurement of meters ranging between 8.11 lakh and 10.43 lakh during the five years ending March 2016. Consequently, 12.80 lakh consumers of LMV-1, 2 and 5 categories were lying unmetered as of March 2016**.**

The Management stated (July 2016) that meters ranging between 0.56 lakh and 2.38 lakh were in stock at the end of each year during 2011-12 to 2015-16 and installation and replacement of meters were cyclic processes going on throughout the year. Reply did not address the issue and the reasons for failure to plan leading short procurement of meters against the requirement.

Delay in finalisation of tenders

2.3.6 As per prudent practice for procurement, the Company should ensure that tenders are finalised before start of the financial year so that required quantity of meters can be procured timely to meet out the annual requirement.

Audit noticed that the Company invited eight tenders for procurement of 9.56 lakh single and three phase meters during 2013-14 to 2015-16, out of which only two tenders for 2,75,000 meters were invited before start of the financial year 2015-16 and finalised timely. In respect of remaining six tenders, the Company initiated the tender invitation process with delay of three to four months without any reasons on record. This resulted in delayed finalisation of tenders by six to nine months after start of each financial year ***(Annexure-2.3.3)***.

The Management stated (July 2016) that before finalising the tender, sample meters were to be sent for testing in accredited meter test lab which took time for 10 to 15 days. Reply did not address the issue as to why the Management delayed initiating the tender invitation process, which was the main reason for delay in finalisation of tenders.

Procurement of meters at higher rate

2.3.7 The Company finalised the tender and issued (November 2013) purchase orders for procurement of 90,000 single phase meters at the rate of ₹ 936 per meter against tendered quantity of 1.50 lakh meters which were valid up to May 2014. The Company further placed (1 July 2014) supplementary orders on the existing firms for supply of 1.35 lakh single phase meters at the same rates after expiry of validity period of the tender finalised in November 2013.

Audit noticed that the trend of the prevailing market price of the single phase meter was declining as it reduced from ₹ 1,036 in June 2012 to ₹ 936 in November 2013 and ₹ 909 per meter in May 2014. Considering the declining trend of rates, the Company should have purchased the meters after inviting fresh tenders to get competitive rates instead of placing the order for purchase of 1.35 lakh single phase meters at the old rates of seven months before.

Audit further noticed that the Company finalised (September 2014) a rate of ₹ 884 per meter against the tender invited in July 2014. It established the fact that the rates further declined to ₹ 884 per meter in July 2014 when the Company had placed the order for 1.35 lakh meters at the rate of ₹ 936 per meter. This led to purchase of meters at higher rate.

Similarly in another case, the Company placed (August 2015) a supplementary order for purchase of 1.25 lakh single phase meters at old rate of ₹ 855 per meter against tender finalised in May 2015. Audit noticed that the Company again, ignoring the prevailing market price of ₹ 783 per meter as finalised (June 2015) by the sister concern *i.e.* Paschimanchal Vidyut Vitran Nigam Limited (PVVNL) placed the order for purchase of 1.25 lakh single phase meters at old higher rate whereas the Company was in process to finalise (August 2015) a fresh tender. As per the price bid opened in September 2015, the lowest rate found was ₹ 762 per meter.

Placing supplementary orders for purchase of 2.60 lakh single phase meters at old rates led to loss to the Company for ₹ 1.86 crore

Thus, due to placing supplementary orders for purchase of 2.60 lakh single phase meters at old rates instead of inviting fresh tenders to get benefit of declining market trend led to procurement of meters at higher rates and ultimately loss to the Company for ₹ 1.86 crore[4].

The Management stated (July 2016) that the Company had finalised the tender prior to date of tender being finalised by the sister concern (PVVNL). Reply did not address the issue as the Company failed to consider the decreasing trend in meter prices which was vindicated by the lower rate finalised in tender called for at the time of issue of supplementary orders.

Failure in replacement of the damaged meters under guarantee period

2.3.8 The terms and conditions of the agreements executed by the MM wing upto 2015-16 for supply of meters provided that the manufacturer shall undertake guarantee to replace the meters found defective/inoperative within a

[4] [1,35,000 single phase meters X ₹ 52 per meter] + [1,25,000 single phase meters X ₹ 93 per meter] = ₹ 1.86 crore.

period of 66 months from the date of supply or 60 months from the date of commissioning whichever is earlier.

Audit noticed in selected ETDs that 20,525 single phase meters and 2,932 three phase meters ***(Annexure-2.3.4)*** valuing ₹ 2.44 crore[5] were taken out from the consumers' premises during 2007-08 to 2013-14 and declared as damaged as these meters showed defect of "No Display". The meters were found defective within the guarantee period of five years but the ETDs did not take any action to get the damaged meters replaced from the supplier firms. This resulted in loss of ₹ 2.44 crore to the Company.

The Management stated (July 2016) that the meters got defective due to external fault and the cost of defective meters was charged from the consumers. Reply was not tenable as audit had pointed out only those meters which got defective due to internal fault and were covered under guarantee. Further, recovery of cost of these defective meters from the consumers was undue burden on consumers. Therefore, these defective meters should have been got replaced from the firms instead of charging the repair cost to consumers.

Meters lying unutilised

2.3.9 The Company purchased 24,011 static single phase meters valuing ₹ 1.84 crore and 23,742 three phase meters valuing ₹ 4.59 crore during 2002 to 2005. In the meantime, U.P. Power Corporation Limited (holding Company) directed (September 2004) that electronic meters be installed; hence, these meters could not be used and are lying in ESDs.

Audit noticed that the Company, even after a lapse of more than 10 years, did not take any decision to make alternate use of such meters like its installation in the rural areas where huge numbers of unmetered connections were existing and ad-hoc billing was being done. Thus, due to the failure to take any action for disposal/making alternate use of the meters, they remained unused for more than ten years and led to blockade of fund of ₹ 6.43 crore.

The Management stated (July 2016) that the meters could not be utilised due to old technology. Reply was not tenable as the Management did not specify the reasons for not initiating any action for disposal/alternate use of these meters even after lapse of ten years.

Loss due to not procuring replaceable covers for meters

2.3.10 The Company has been procuring single and three phase meters with covers. At the time of installation of meter, the cover is locked and then it becomes un-detachable. In case cable is disconnected from the meter due to any reason, cover has to be invariably broken to connect the cable and meter cover needs to be replaced with new one.

Due to not having a system for procurement of replaceable meter covers for damaged covers despite meters being functional, an avoidable expenditure of ₹ 21.64 crore was incurred on replacement of 3,03,038 single/three phase meters

Audit noticed that the Company had taken out 2,92,398 single phase and 10,640 three phase meters during 2011-12 to 2015-16 and declared it as damaged despite these being in functional condition because replaceable covers were not being purchased by the Company. However, the Company started procuring the replaceable covers from October 2015.

[5] Single phase meters = 20525 nos. X ₹ 855 per meter = ₹ 1.76 crore. Three phase meters = 2932 nos. X ₹ 2327.76 per meter = ₹ 0.68 crore.

Thus, due to not procuring replaceable meter covers, an avoidable expenditure of ₹ 21.64 crore (after adjusting ₹ 6.12 crore being value of covers) was incurred on replacement of 3,03,038 single/three phase meters.

The Management stated (July 2016) that replaceable covers had been procured and meters so removed were being reused by using replaceable covers. Reply did not address the issue as to why procuring replaceable coveres were not procured for damaged meters up to October 2015.

Installation, replacement and testing of meters

2.3.11 The work of installation of meters in the premises of consumers and replacement of defective meters with new ones is performed by ETDs on the advice of EDDs. Deficiencies in respect of installation and replacement of meters are discussed in succeeding paragraphs.

Installation of meters on distribution transformers

2.3.12 The UPERC directed (2012) the Distribution companies (DISCOMs) to install meters on Distribution Transformers (DTs) for identifying theft prone areas and to take corrective measures to reduce line losses. Deficiencies noticed in respect of meters on DTs are discussed below:

- Out of 26,133 DTs in selected Test Divisions, 17,846 DTs (68 *per cent*) were without meters as of March 2016, which indicated that the concerted efforts were not made by the Company to comply with the orders of UPPCL to mitigate line losses.

- In case of 8,287 DTs, where meters were installed, monthly readings of only 468 DTs (six *per cent*) were being taken and in respect of other 7,819 meters, no arrangement was made for taking meter reading and making use of these readings. Thus, the expenditure of ₹ 1.54 crore incurred on installation of 7,819 meters did not yield any result.

The Management did not furnish any reply on this issue.

Deficiencies in double metering system

2.3.13 UPPCL directed (August 2005) the DISCOMs to install a meter (referred to as double meter) outside the premises of the consumers (having load of 10 KVA and above) in addition to the meter installed in the premise of the consumer (main meter) to ensure accuracy of reading of main meter.

Audit noticed that out of total 5,135 consumers (having load of 10 KVA and above) in selected ETDs as of March 2016, double meters were installed for 4,208 consumers (82 *per cent*). However, meter readings were being taken only for 2,955 consumers (70 *per cent*). Therefore, the very purpose of installation of double meters to prevent line losses/theft of energy could not be achieved.

The Management stated (July 2016) that the work of double metering was in progress. Reply was self explanatory that double metering had not been completed so far (August 2016). Further, the Management did not furnish any reason for not taking reading of all consumers where double meters had been installed.

Slow replacement of defective meters

2.3.14 Clause 5.6 (C) (ii) of Supply Code provides that, in case the meter is found defective by the Licensee, the meter shall be replaced by a new meter within 15 days and a provisional bill may be issued on the basis of the average consumption of the previous three billing cycles. However, provisional billing should not extend to more than two billing cycles at a stretch.

Audit noticed that 38,845 meters of LMV-1, 2 and 6 category of consumers of selected EDDs were found to be defective at the end of March 2012 which increased to 77,587 at the end of March 2016. The main reason attributable to slow replacement of defective meters was insufficient procurement of meters as discussed in paragraph 2.3.5. This indicated that the Company failed to comply with the provisions of Supply Code regarding timely replacement of defective meters and to restrict the provisional billing.

The Management stated (July 2016) that due to shortage of staff the work of replacement could not be done. Reply was not tenable as the work of replacement of meters was also awarded to outside agencies, hence, shortage of staff was not an issue.

Cost of replacement of meters not realised

2.3.15 As per Clause 5.4 (C) of the Supply Code, if meter is supplied by the Licensee, including replacement of electromechanical meters, the cost of meter may be realised as specified in cost data book. As the installation/ replacement of meters is entrusted with the ETDs and billing with EDDs, the cost of meters was to be charged by EDDs on the advice of ETDs.

Out of 32,003 electromechanical meters replaced with new electronic meters, the cost of only 2,931 meters was recovered

Audit noticed that 32,003 electromechanical meters were replaced with new electronic meters by the selected ETDs during 2011-12 to 2015-16. However, the cost of only 2,931 meters against 32,003 replaced meters was recovered by the EDDs as the ETDs did not advise for recovery of cost of remaining 29,072 replaced meters. Thus, due to failure of the communication by the ETDs, recovery of ₹ 3.34 crore[6] in respect of replacement of 29,072 electromechanical meters could not be made from the consumers.

The Management stated (July 2016) that the electromechanical meters were replaced by the Department for system improvement and charges were recovered in case where the meters were found defective. Reply was not tenable as the cost for replacement of electromechanical meters was to be recovered from the consumers as per the provisions of Supply Code.

Periodical inspection of meters

2.3.16 Clause 5.5 of the Supply Code provides for inspection of single phase meters once in five years, three phase LT meters once in two years and HT meters once in a year to monitor the accuracy of meters and prevent the line losses.

Audit noticed that the selected ETDs carried out periodical checking of 841 single phase LT meters (0.26 *per cent*), 444 three phase LT meters (1.21 *per cent*) and 1,451 HT meters (27.66 *per cent*) against required number of 3,22,367, 36,669 and 5,245 meters respectively to be checked during 2011-12 to 2015-16 ***(Annexure-2.3.5)***. This indicated that monitoring of meters to

[6] 29072 X ₹1150 per meter cost = ₹ 3.34 crore.

judge the accuracy of meters was ignored by the Company whereas the inspection mechanism needed to be strengthened by the Company in view of huge line losses.

The Management stated (July 2016) that due to shortage of staff periodical testing of consumers' meters could not be done. Reply was not tenable as the issue of shortage of staff was to be addressed by the Management.

Testing of meters by outside agencies

2.3.17 The MM wing of the Company placed (July 2014) work order on Yadav Measurement Private Limited (YMPL), Udaipur for testing/checking of 1,00,000 single phase meters at the rate of ₹ 205 each and 14,300 three phase meters at the rate of ₹ 340 each.

Audit noticed that:

Award of work for meter testing and checking to an agency without considering the rate prescribed by the UPERC led to extra expenditure of ₹ 1.96 crore

- the UPERC in its tariff order for 2013-14 prescribed ₹ 50 per meter for recovery from the consumer as meter checking and testing charges from the consumer. The Company, however, without considering the rate prescribed by the UPERC, finalised the tender and awarded the work of meter testing/checking to YMPL at exorbitantly higher rate of ₹ 205 (300 *per cent*) for each single phase meter and ₹ 340 (580 *per cent*) for each three phase meter. Reason for not considering the rates prescribed by the UPERC, while finalising the rate for outside agency, were not mentioned. Thus, award of work to an agency without considering the rate prescribed by the UPERC for meter testing led to extra expenditure of ₹ 1.96 crore[7].
- the Company awarded (July 2014) the work of meter testing of 1.14 lakh consumers against 14.32 lakh metered consumers as of March 2014 without specifying any basis for selecting the consumers to be checked. In absence of any basis/criteria, YMPL on the basis of master data of the consumers checked the consumers randomly on its own and reported 94 *per cent* meters as OK. For a more correct assessment, the Company should have specified to the firm the criteria, consumer list or high risk meters/consumers to be tested.

The Management stated (July 2016) that the charges prescribed by UPERC were for testing of new meters which could not be compared with the rates awarded for checking and testing of existing meters installed at consumers' premises. Reply was not acceptable as the charges prescribed for checking and testing of meters by UPERC in tariff order were not applicable only for checking and testing of new meters.

Meter reading and bill generation

2.3.18 The generation of monthly bills as per correct meter reading and accountal of actual consumption of energy is the prime objective of an effective metering system. The Company has been carrying out the work of meter reading through the departmental staff and outside agencies. The deficiencies related to meter reading and bill generation are discussed below:

High incidence of ad-hoc billing of metered consumers

2.3.19 Clause 5.6 and 6.2 of the Supply Code provide that provisional billing should not extend to more than two billing cycles at a stretch in case of meter

7 Higher rate of single phase meters = 1,00,000 X higher rate of ₹ 155 = ₹ 1.55 crore
Higher rate of single phase meters = 14,300 X higher rate of ₹ 290 = ₹ 0.41 crore.

being defective or when meter reading was not available/accessible so as to minimise provisional billing.

The status of billing based on meter reading and on ad-hoc basis of domestic (LMV-1), commercial (LMV-2) and small and medium power consumers (LMV-6) in respect of 12 EDDs during 2011-12 to 2015-16 is shown in **Annexure-2.3.6.**

Audit noticed that the provisional billing against meters shown as defective or not available/accessible was as high as 93,002 (40 *per cent*) against 2,32,323 metered consumers in 2011-12 which further increased to 2,06,298 (46 *per cent*) against 4,43,703 metered consumer in 2015-16.

Audit further noticed that billing of consumers based on actual consumption of energy recorded by the meter was as low as 25.13 *per cent* in 2011-12 and 34.89 *per cent* in 2015-16 when compared with the total 5,54,291 (metered and unmetered) consumers in 2011-12 and 6,80,419 in 2015-16. The high incidence of ad-hoc billing by the Company was indicative of failure of adequate procurement of meters and monitoring. Besides, it was also a violation of the provisions of Supply Code for correct billing of consumers on actual consumption basis.

The Management accepted (July 2016) the audit observation and stated that the work of replacement of defective meters was in progress.

Award of the work at higher rate

2.3.20 The MM wing of the Company invited (November 2012) Circle wise open tenders for awarding the work of door to door meter reading by handheld machines and bill generation *etc.* in the area of EDC Etawah, Hathras, Mathura, Aligarh, EUDC, Aligarh and EUDC, Mathura. The LOIs were issued to the firms during May 2013 to August 2013.

The particulars of invitation of tenders, its finalisation and rates awarded are summarised in table 2.3.3.

Table 2.3.3

Details of award of work

Sl. No.	Name of the circles	Date of inviting tender	Date of opening price bid	Date of LOIs issued	Tendered quantity (in nos.)	Rate awarded (₹ per unit)	Extra Expenditure (in ₹)
1	EDC Etawah	10-11-12	27-02-13	08-08-13	--	6.23 (Lowest rate)	--
2	EDC Hathras	27-12-12	07-03-13	15-05-13	2937600	8.40	6374592
3	EDC Mathura	08-12-12	07-03-13	31-07-13	2712600	8.50	6157602
4	EDC Aligarh	10-11-12	27-02-13	19-08-13	711000	8.50	1613970
5	EUDC Aligarh	10-11-12	27-02-13	29-08-13	3594924	8.50	8160477
6	EUDC Mathura	10-11-12	07-03-13	31-07-13	2987532	7.95	5138623
Total					**12943656**		**27445264**

Source- Information furnished by the Company.

Audit noticed that the scope of the work in all Circles was same but the rates awarded were higher by 28 *per cent* to 36 *per cent* when compared with the lowest rate of ₹ 6.23 per unit awarded for EDC Etawah. The MM wing, however, did not make inter-Circle comparison of the rates while evaluating the tenders so as to get the work done at economical rates.

Failure to make inter-circle comparison of offered rates by MM wing led to extra expenditure of ₹ 2.74 crore

Thus, failure of the MM wing in making inter-Circle comparison of offered rates and negotiating with L-1 firms in the light of the rate (₹ 6.23 per unit) finalised for EDC Etawah, led to award of work at higher rates. This resulted in extra expenditure of ₹ 2.74 crore on 1,29,43,656 bills raised by the firms during the period from April 2013 to March 2016.

The Management stated (July 2016) that the rates of billing actually depend on various conditions such as geographical area, density of consumers *etc.* Reply was not tenable as the reasons stated above were not recorded while awarding the work at higher rate. Rather, the higher rates were awarded due to absence of inter-Circle comparison of rates offered by the tenderers.

Excess payment to the contractor for bill generation

2.3.21 The work of door to door meter reading and bill generation *etc.* was awarded (August 2013) to Vaibhu Infratech Private Limited in the area of EDC, Kanpur and Tera Software Limited in the area of EDC Etawah and Mainpuri for the contract period of 36 months.

Clause 5.26.1 of the agreement stipulated that the payment per consumer would be made based on complete activities and in case of defective meters reported or meter not installed, payment at the rate of 50 *per cent* of the rate awarded for meter reading (₹ 6.23 to ₹ 7 per consumer) would be made.

The payment made at full rates for provisional meter reading and bill generation resulted in excess payment of ₹ 1.48 crore

Audit noticed that 40,71,500 consumers out of total 54,11,228 consumers were billed by the firms in six EDDs on provisional basis as either their meters were defective or meters were not installed. As per terms of the agreement, payment to the firms was to be made at half of the rates awarded for meter reading. The EDDs, however, made the payment at full rates resulting in excess payment of ₹ 1.48 crore ***(Annexure-2.3.7)*** during the period from 2013-14 to 2015-16.

The Management stated (July 2016) that the excess payment made to contractor was being recovered from the contractors. Reply was not tenable as recovery of excess payment made to the contractor had not been done so far (October 2016).

Deficiencies in billing of metered consumers under LMV-7

2.3.22 The various connections of Tank Type Stand Post (TTSP) under Pay Jal Yojna (having load of 2 KW per connection) were released by EDDs during 2011-12 to 2015-16. Audit noticed that:

- there were 2,708 consumers of TTSP in four EDDs where the supply was being fed as per urban schedule. These consumers were shown as metered consumers but meters were not installed. Due to not installation of meters the consumers were provisionally billed on the basis of 100 units/KW per month only during April 2014 to March 2016. The Company, however, did not take any action to install the meters in premises of 2,708 consumers even after lapse of two years so that correct bill on actual consumption could be raised and revenue realised.

The Management stated (July 2016) that the billing of TTSP consumers was being done under metered category. Reply was not tenable as the billing was being done under metered category by booking provisional units as meters were not installed.

- the 161 metered consumers of TTSP in EDD, Auraiya were energised during 2013-14 but the ledgerisation and billing of these consumers was not started so far (March 2016). Consequently, the Company suffered loss of revenue of ₹ 50.77 lakh during 2014-15 and 2015-16.

The Management accepted (July 2016) the audit observation and stated that the ledgerisation and billing of the TTSP consumers of EDD Auraiya was under progress.

Billing of private tube well consumers under rural schedule instead of urban schedule

2.3.23 Rate Schedule LMV-5 applicable to private tube well (PTW) consumers provided separate rate of charge for consumers getting supply as per rural schedule[8] and other consumers getting supply as per urban schedule[1] (metered supply). The rate of charge for consumers getting supply as per urban schedule was higher than that prescribed for consumers getting supply as per rural schedule.

PTW consumers getting supply as per urban schedule were short assessed by ₹ 17.81 crore due to levy of charges applicable for rural schedule

Audit noticed that 8,462 to 9,301 consumers under the jurisdiction of EDD-I and II, Mainpuri were getting supply as per urban schedule during April 2013 to March 2016. The consumers, however, were billed as per rate applicable to rural schedule, whereas, these consumers should have been billed as per rate applicable to urban schedule.

As a result, the consumers were short assessed by ₹ 17.81 crore[9] ***(Annexure-2.3.8)*** during the period from April 2013 to March 2016.

The Management stated (July 2016) that the consumers in the area of Mainpuri were getting extra supply but through rural feeders. Reply was not tenable as the consumers were getting supply as per urban schedule, hence, the consumers should have been billed at the rates prescribed for urban schedule in rate schedule.

Conclusion

Audit concluded that:

- **the Company continued to release new connections without installation of meters in contravention of provision of the Electricity Act, 2003 as a result 12.98 lakh consumers (40.20 *per cent*) remained unmetered as of March 2016;**
- **the Company considered many unmetered consumers also as metered after providing presumptive meter numbers;**
- **the Company declared 3.03 lakh functional meters as damaged for want of meter covers and incurred avoidable expenditure of ₹ 21.64 crore on replacement of these meters;**
- **the Company failed to replace the meters valuing ₹ 2.44 crore damaged under guarantee period;**
- **the Company placed the orders for procurement of meters, awarded work of meter testing and meter reading without considering the prevailing market price, the rates of which were lower which led to loss of ₹ 6.56 crore;**

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[8] Rural schedule means the supply of electricity through feeders restricted to ten hours a day and if supply of electricity is more than ten hours a day is considered as urban schedule.

[9] Worked out at differential rates applicable to rural schedule and urban schedule

- **the periodical inspection of meters carried out by the Company was as low as 0.26 *per cent* to 1.21 *per cent* of prescribed quantum which led to huge number of defective meters and high incidence of ad-hoc billing; and**
- **excess payment to contractors for the work of meter reading and bill generation and incorrect billing of private tube well consumers led to loss of ₹ 22.03 crore.**

Recommendations

Audit recommends that:

- **the Company should plan the procurement of meters to comply with the requirement of the Electricity Act, 2003 to provide hundred *per cent* metering and procure accordingly so that the meters could be installed for all connections;**
- **the Company should procure sufficient quantity of replaceable covers for meters to avoid declaration of meters damaged for want of such covers;**
- **the Company should take necessary action to return and replace the meters damaged under guarantee period;**
- **the Company, while placing the additional orders for procurement of meters and awarding the work of meter reading, should take the notice of decreasing price trend and do inter-Circle comparison of rates so that benefit of lower prices can be availed;**
- **the mechanism for periodical inspection of meters should be strengthened in the light of provisions in Supply Code to avoid high incidence of ad-hoc billing and reduce line losses; and**
- **the excess payment to the contractors should be recovered and billing of private tube well consumers should be done under applicable tariff to avoid loss of revenue.**

2.4 Audit on Construction of solid waste management system in selected cities by Construction and Design Services wing of Uttar Pradesh Jal Nigam

Introduction

2.4.1 Uttar Pradesh Jal Nigam (Nigam) was incorporated in June 1975 as a Statutory Corporation under the Uttar Pradesh Water Supply and Sewerage Act, 1975 with the basic objectives of development and regulation of water supply and sewerage services and for matters connected therewith in the State. The administrative control of the Nigam is with the Urban Development Department, Government of Uttar Pradesh (GoUP). The Nigam, with a view to diversify its activities, set up a commercial wing named "Construction and Design Services" (C&DS) in April 1989. The C&DS was declared as an approved construction agency by the GoUP in June 1991. The organisational structure of C&DS is given in **Annexure-2.4.1**.

The Municipal Solid Waste (Management and Handling) Rules, 2000 notified (September 2000) by the Government of India (GoI) designated the Urban Local Bodies (ULBs) to regulate management and handling of municipal waste in their areas. The GoI sanctioned (September 2006 to January 2011) ₹ 419.61 crore, under Jawaharlal Nehru National Urban Renewal Mission (JNNURM), for construction of 27[1] Municipal Solid Waste Management (MSWM) projects in the State of Uttar Pradesh. The Government of Uttar Pradesh (GoUP) nominated (December 2007) Uttar Pradesh Jal Nigam as the executing agency for execution of these projects. The Nigam decided (March 2008) that these projects would be executed by its C&DS wing.

The C&DS decided (April 2008) to execute the MSWM projects on Public-Private-Partnership (PPP) model. The execution of MSWM projects on PPP model required involvement of GoUP, ULBs, C&DS and developers. Approval of the GoUP was required for selection of developers. Land for construction of the MSWM projects was to be provided by concerned ULBs. The C&DS was required to select developers by inviting tenders, enter into agreements with the selected developers and supervise construction works undertaken by the developers. The developers were required to construct, operate and maintain the MSWM projects. The C&DS had no role in operation and maintenance of the MSWM projects and the same was to be done by the developers under the supervision of concerned ULBs. The role of various agencies involved in execution of the MSWM projects is discussed in detail in **Annexure-2.4.2**.

As the role of C&DS was pivotal in execution of the MSWM projects, the present audit was conducted during November 2015 to May 2016 covering the period from 2011-12 to 2015-16 with focus on the activities undertaken by the C&DS in execution of the MSWM projects.

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[1] Seven projects (Agra, Allahabad, Kanpur, Lucknow, Mathura, Meerut and Varanasi) at a cost of ₹ 241.60 crore under Urban Infrastructure and Governance (UIG), 19 projects (Aligarh, Badaun, Ballia, Barabanki, Basti, Etawah, Fatehpur, Firozabad, Gorakhpur, Jaunpur, Jhansi, Kannauj, Loni, Mainpuri, Mirzapur, Moradabad, Muzaffarnagar, Raebareli and Sambhal) at a cost of ₹ 169.03 crore under Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) and one project (Pilkhuwa) at a cost of ₹ 8.98 crore under Urban Infrastructure Development Scheme for Satellite Towns (UIDSST).

The objectives of the audit were to assess whether the bidding process adopted to select the developers was fair, transparent and adhered to the prescribed rules/ regulations/guidelines of the GoUP regarding execution of projects on PPP model; supervision of construction activities, processing of claims of capital grant and other related activities were carried out efficiently and effectively; and the MSWM projects were completed within the scheduled time frame.

Audit examination involved scrutiny of records at the Headquarters of C&DS and of 15 MSWM projects[2], out of total 27 MSWM projects, selected on the basis of highest expenditure incurred. The methodology adopted for attaining the audit objectives consisted of explaining audit objectives to top management in the Entry conference held on 28 January 2016, raising of audit queries and joint physical inspection of the MSWM projects. An Exit conference was held on 22 July 2016 with the Management and Government and replies of the Management were received in September 2016 which had been duly considered. Reply of the Government was awaited (October 2016).

Financial and physical status of the MSWM projects

Financial status

2.4.2 The MSWM projects were to be financed by the GoI, GoUP and concerned ULBs in the ratio of 80:10:10 in case of 21 MSWM projects[3] and 50:20:30 in case of six MSWM projects[4]. The funds were released by the GoI and GoUP to the concerned ULBs which after including its share released it to the C&DS.

The ULBs had released ₹ 364.38 crore[5] to the C&DS for execution of the 27 MSWM projects against sanctioned cost of ₹ 419.61 crore[6] till March 2016. The C&DS incurred expenditure of ₹ 307.57 crore on execution of the 27 MSWM projects against the funds of ₹ 364.38 crore received till March 2016. Savings/ unspent balance of ₹ 56.81 crore were lying with the C&DS as on 31 March 2016.

The financial status of the 27 MSWM projects and sampled 15 MSWM projects is depicted in chart 2.4.1.

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[2] Agra, Allahabad, Kanpur, Lucknow, Varanasi, Aligarh, Barabanki, Etawah, Fatehpur, Jhansi, Mirzapur, Moradabad, Muzaffarnagar, Raebareli and Pilkhuwa.

[3] Aligarh, Badaun, Ballia, Barabanki, Basti, Etawah, Fatehpur, Firozabad, Gorakhpur, Jaunpur, Jhansi, Kannauj, Loni, Mainpuri, Mathura, Mirzapur, Moradabad, Muzaffarnagar, Raebareli, Sambhal and Pilkhuwa.

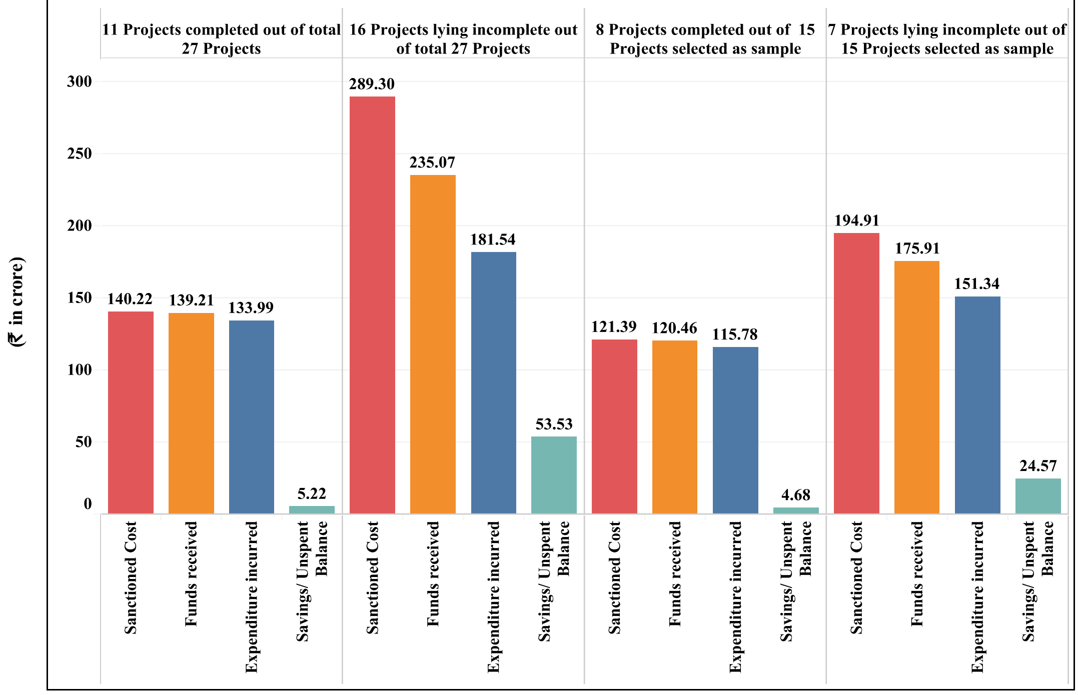
[4] Agra, Allahabad, Kanpur, Lucknow, Meerut and Varanasi.

[5] GoI – ₹ 222.24 crore; GoUP - ₹ 58.17 crore and ULBs - ₹ 83.97 crore.

[6] GoI - ₹ 266.18 crore; GoUP - ₹ 65.13 crore and ULBs - ₹ 88.30 crore.

Chart 2.4.1

Financial status of MSWM projects



As can be seen from chart 2.4.1, out of 27 MSWM projects for which ₹ 364.38 crore was received by C&DS, only 11 MSWM projects[7] were completed after incurring expenditure of ₹ 133.99 crore against funds received of ₹ 139.21 crore. Savings of ₹ 5.22 crore in respect of completed MSWM projects was still lying with the C&DS even after lapse of more than two to four years since completion of the MSWM projects instead of returning it to GoI/GoUP/ULBs. The remaining 16 MSWM projects[8], on which expenditure of ₹ 173.58 crore was incurred against funds received of ₹ 225.17 crore, were still incomplete as on March 2016 despite lapse of more than five to nine years since sanction.

Thus, ₹ 173.58 crore invested in 16 incomplete MSWM projects remained blocked/ unfruitful and the intended objective of the MSWM projects *i.e.* to dispose off 18.31 lakh tonne MSW per annum, in 16 cities, in a scientific manner could not be achieved even after five to nine years of sanction of the MSWM projects.

Physical Status

2.4.3 As per the Detailed Project Reports[9] (DPRs), the MSWM projects were to be completed within 12 months of sanction of DPR. Audit noticed inordinate delay in completion of MSWM projects, not starting of MSWM projects, abandonment of incomplete MSWM projects and MSWM projects still under progress as discussed in detail in paragraphs 2.4.9 to 2.4.12.

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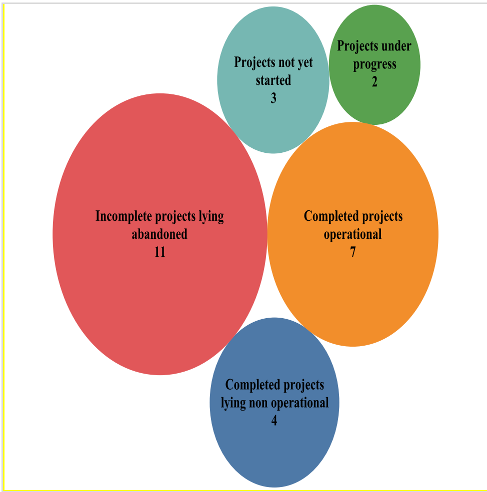
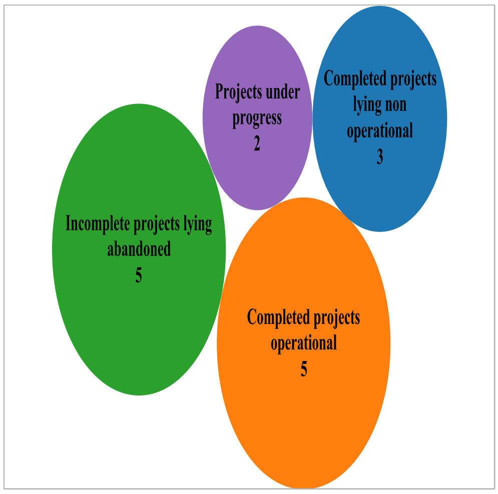
[7] Aligarh, Barabanki, Etawah, Fatehpur, Kannauj, Kanpur, Mainpuri, Mathura, Moradabad, Muzaffarnagar and Raebareli.

[8] Agra, Allahabad, Badaun, Ballia, Basti, Firozabad, Gorakhpur, Jaunpur, Jhansi, Loni, Lucknow, Meerut, Mirzapur, Pilkhuwa, Sambhal and Varanasi.

[9] DPRs of the MSWM projects were prepared by 'Regional Centre for Urban and Environmental Studies' an agency established by the Ministry of Urban Development, Government of India.

The physical status of the 27 MSWM projects and sampled 15 MSWM projects is depicted in chart 2.4.2.

Chart 2.4.2

Physical status of all 27 MSWM projects	**Physical status of selected 15 MSWM projects**
	

As can be seen from above chart, out of 27 MSWM projects only 11 MSWM projects[10] were completed till March 2016 with a delay of more than three to five years and the remaining 16 MSWM projects[11] were lying incomplete even after delay of more than four to eight years. The physical progress of the incomplete MSWM projects ranged from three to 90 *per cent* as on 31 March 2016. Out of the 16 MSWM projects lying incomplete, work on three MSWM projects[12] could not be started due to land being not available, two MSWM projects[13] were still in progress on 31 March 2016 and works of 11 MSWM projects[14] were abandoned mid-way by the developers.

The project-wise details of sanctioned cost, funds received, expenditure incurred and physical progress is given in **Annexure-2.4.3.**

Audit findings

2.4.4 The deficiencies noticed relating to execution of the MSWM projects by C&DS are discussed in succeeding paragraphs.

Selection of consultants and developers

2.4.5 The GoUP to ensure selection of consultants and developers, for execution of projects on PPP model in the State, in a transparent and competitive manner, formulated (June 2007) Guidelines (Guidelines 2007) prescribing the procedure to be followed by various Ministries, Departments and Government agencies of the State while selecting consultants and developers for projects to be executed on PPP model.

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[10] Aligarh, Barabanki, Etawah, Fatehpur, Kannauj, Kanpur, Mainpuri, Mathura, Moradabad, Muzaffarnagar and Raebareli.

[11] Agra, Allahabad, Badaun, Ballia, Basti, Firozabad, Gorakhpur, Jaunpur, Jhansi, Loni, Lucknow, Meerut, Mirzapur, Pilkhuwa, Sambhal and Varanasi.

[12] Basti, Firozabad and Loni.

[13] Lucknow and Pilkhuwa.

[14] Agra, Allahabad, Badaun, Ballia, Gorakhpur, Jaunpur, Jhansi, Meerut, Mirzapur, Sambhal and Varanasi.

The C&DS, which was assigned the work in March 2008, was responsible for fair selection of eligible consultants and developers as per Guidelines 2007.

Audit noticed that C&DS, without specifying any reason, ignored the provisions of Guidelines 2007 while executing the MSWM projects on PPP model as discussed in succeeding paragraphs.

Provisions of guidelines not complied in selection of consultants

2.4.6 As per Guidelines 2007, consultants were to be appointed to undertake feasibility and pre-feasibility studies. Further, consultants were also to be appointed for assistance[15] in selection of private developers. The selection of consultants was to be approved by the Empowered Committee (EC).

Audit noticed that:

- C&DS did not appoint consultants to undertake pre-feasibility and feasibility studies for any of the 27 MSWM projects. As a result, benefits of implementing the MSWM projects on PPP model and reasonability and justifiability of the financial support (tipping fee and capital grant) to the developers could not be ascertained.

In absence of pre-feasibility and feasibility studies, huge variations were noticed in the bids finalised for selection of developers as discussed below:

➢ the project cost quoted by the developers varied from ₹ 3.98 lakh to ₹ 36.01 lakh per tonne and the investment to be made by developers varied from 13.54 to 72.18 *per cent* of the total project cost. Further, there were wide variations in project cost per tonne and investment to be made by developers even in case of MSWM projects of same capacity as detailed in table 2.4.1.

Table 2.4.1

Project cost and investment to be made by developers

Project capacity (tonnes per day)	Name of the MSWM projects	Project cost per tonne (₹ in lakh)	Investment to be made by developers (in *per cent* of total project cost)
30	Barabanki and Mainpuri	18.97 and 30.01	26.36 and 67.35
55	Fatehpur and Badaun	22.23 and 22.23	40.19 and 59.27
75	Etawah and Sambhal	14.68 and 16.30	64.21 and 57.67
280	Gorakhpur and Moradabad	7.58 and 8.90	56.08 and 63.94
600	Allahabad, Varanasi and Meerut	4.84, 7.74 and 7.74	48.62, 40.29 and 71.31

Source: Agreements executed by C&DS with developers for execution of MSWM projects.

As noticed in audit, variations in project cost were due to not fixing any benchmark by the C&DS regarding project cost per tonne and proportionate investment required to be made by developers. The benchmarks were to be fixed on the basis of pre-feasibility/feasibility study which was not conducted.

➢ in case of ten MSWM projects, the total project cost and developers were same but the amount of capital grant quoted by them was not at par as detailed in **Annexure-2.4.4.**

[15] Preparing bid documents, finalising bid procedure and bid parameter, preparing draft concession agreement *etc.*

- in case of three[16] MSWM projects, operation and maintenance cost of sanitary landfill was approved at the rate of ₹ 75 to ₹ 95 per tonne whereas, no operation and maintenance cost was demanded by developers in other four[17] similar MSWM projects.

- C&DS appointed Deloitte Touche Tohmatsu India Private Limited (Deloitte) as consultant for assistance in selection of developers for 19 MSWM projects[18] whereas in case of eight MSWM projects[19], the C&DS directly invited bids from developers during April to July 2008 without appointment of consultants.

As consultants were not appointed in case of above eight MSWM projects, various deficiencies were noticed in tender process *viz.* no financial requirement/parameter *i.e.* minimum net worth, average turnover, net cash accruals etc was prescribed in the eligibility/qualification criteria for selection of developers. As a result, financial soundness of the participating bidders could not be ascertained. Further, the agreements were deficient as they did not contain provisions regarding (i) release of capital grant only after obtaining proof of investment made by developers in the MSWM projects; (ii) releasing capital grant in proportion to the total capital expenditure incurred *vis-à-vis* the total project cost quoted by the developers; (iii) rights and obligations of both parties in case of termination of agreement by either party; and (iv) dilution of interests of selected bidder/members of selected consortium in the MSWM projects. Deficient agreements resulted in release of capital grant (CG) of ₹ 51.16 crore without ascertaining the admissibility of due CG as discussed in paragraph 2.4.17.

- Approval of Empowered Committee (EC) for appointment of Deloitte as consultant for 19 MSWM projects[20] was not obtained. Therefore, the terms and conditions of appointment and remuneration payable to the consultant vis-à-vis scope of work could not be appraised by GoUP.

The Management stated (September 2016) that they were not aware of the Guidelines 2007, hence, requirements prescribed in the Guidelines 2007 for selection of consultants could not be complied with. Reply was not acceptable as the Guidelines 2007 were circulated to all departmental heads in June 2007, therefore, C&DS should have complied with the provisions of Guidelines 2007.

Provisions of guidelines not complied in selection of developers

2.4.7 As per Guidelines 2007, initial in-principle approval of Cabinet/ Department of Infrastructure Development (DID) was to be obtained on the draft concept of each project as well as the broad Terms of Reference (TOR) for detailed studies on the proposed PPP project. The Techno Economic Feasibility Reports (TEFRs) prepared on the basis of pre-feasibility and

[16] Agra, Kanpur and Muzaffarnagar.
[17] Etawah, Kannauj, Mainpuri and Raebareli.
[18] Allahabad, Aligarh, Badaun, Ballia, Barabanki, Basti, Fatehpur, Gorakhpur, Jaunpur, Jhansi, Loni, Lucknow, Mathura, Meerut, Mirzapur, Moradabad, Pilkhuwa, Sambhal and Varanasi.
[19] Agra, Etawah, Firozabad, Kanpur, Kannauj, Mainpuri, Muzaffarnagar and Raebareli.
[20] Allahabad, Aligarh, Badaun, Ballia, Barabanki, Basti, Fatehpur, Gorakhpur, Jaunpur, Jhansi, Loni, Lucknow, Mathura, Meerut, Mirzapur, Moradabad, Pilkhuwa, Sambhal and Varanasi.

feasibility studies were to be put up before the Cabinet for final in-principle approval for selection of developers. Two stage bidding process was to be adopted for selection of developers. In the first stage, prospective developers were to be shortlisted as per pre-qualification criteria fixed by C&DS and in the second stage, the shortlisted developers were to be invited to submit detailed technical and financial bids. Bids were to be evaluated by PPP Bid Evaluation Committee of GoUP and recommendations of the Committee were to be put up to Cabinet for final approval for selection of developers.

Audit noticed that:

- all 27 MSWM projects were taken up by C&DS on PPP model without obtaining in-principle approval of Cabinet/DID. As a result, the need and justification for implementation of the MSWM projects on PPP model with reference to possible alternatives was not appraised by or to Cabinet/DID.

- C&DS, without specifying any reason, selected developers for all 27 MSWM projects by adopting single stage bidding process, wherein both technical and financial bids were invited simultaneously, instead of two stage bidding. Two-stage bidding encourages competition and ensures that invitations are extended only to those who have adequate capabilities and resources. Adoption of single stage bidding not only resulted in violation of the provisions of the Guidelines 2007 but also compromised participation by a large number of eligible bidders to obtain the best possible terms.

- bids of all 27 MSWM projects were evaluated by Tender Committee of C&DS instead of PPP Bid Evaluation Committee. Further, final approval for selection of developers was not obtained from the Cabinet. As a result, reasonability of the procedure adopted for selection of developers, terms and conditions of appointment of developers and financial support (tipping fee and capital grant) to developer could not be assessed by the Cabinet.

The Management stated (September 2016) that they were not aware of the Guidelines 2007, hence, requirements prescribed in the Guidelines 2007 for selection of developers could not be complied with. Reply was not acceptable as the Guidelines 2007 were circulated to all departmental heads in June 2007, therefore, C&DS should have complied with the provisions of Guidelines 2007.

Execution of MSWM projects

2.4.8 As per DPRs sanctioned by GoI/GoUP, the MSWM projects were to be completed within 12 months from the date of sanction of DPR which included a period of five months for completion of tender process. After award of work to the selected developers, the C&DS had to supervise the construction works, to be undertaken by the developers and ensure that the MSWM projects were completed within the stipulated time frame. However, none of the 27 MSWM projects could be completed within the stipulated period of 12 months.

The main reasons for delay, as analysed by audit, were delay in nomination of executing agency by GoUP (eight to 23 months); delay in finalisation of tenders (three to 30 months); delay in obtaining land (two to 55 months); slackness on the part of developer in executing the works (nine to 34 months) and abandonment of MSWM projects by the developers (26 to 44 months[21]).

[21] From the month of abandonment

Project-wise reasons for delay in respect of 15 selected MSWM projects are detailed in **Annexure-2.4.5.**

Audit noticed that the supervisory framework of C&DS was ineffective as the MSWM projects were inordinately delayed as discussed in succeeding paragraphs.

Delay in completion of MSWM projects

2.4.9 Out of the 27 MSWM projects, only 11 MSWM projects[22] were completed at a cost of ₹ 133.99 crore with a delay of more than three to five years. The 11 completed MSWM projects included eight selected MSWM projects[23] which were completed with a delay of more than three to five years and involved an expenditure of ₹ 115.78 crore.

The main reasons for delay in completion of the MSWM projects were delay in nomination of executing agency by GoUP (nine to 23 months), finalisation of modalities for execution of the MSWM projects and finalisation of tenders for selection of developers (three to 23 months), providing project site by ULBs (five to 17 months) and slackness on the part of developers in execution of the works (nine to 31 months).

The Management accepted (September 2016) that there was delay due to the aforesaid reasons and further stated that delay was also due to the MSWM projects being new to the C&DS and its inexperience.

Blockade of funds due to MSWM projects not started as yet

2.4.10 Three MSWM projects[24] sanctioned (September 2006 to July 2007) for ₹ 24.81 crore could not be started due to failure of the ULBs in providing project site even after lapse of more than eight to nine years since sanction of the MSWM projects.

Expenditure of ₹ 3.23 crore on equipment and vehicles remained blocked as site was not available for three MSWM projects

C&DS, though site was yet to be made available, incurred an expenditure of ₹ 3.23 crore on procurement (March 2010 to July 2011) of equipment and vehicles[25] including ₹ 0.42 crore on other preliminary expenses, against funds received of ₹ 11.89 crore. Thus, ₹ 3.23 crore remained blocked and ₹ 8.66 crore lying unutilised was not refunded by C&DS to the Director, Local Bodies. Further, the intended objective of the MSWM projects *i.e.* to disposed off of 1.06 lakh tonne MSW per annum, in three cities, in a scientific manner could also not be achieved.

The Management stated (September 2016) that continuous efforts were being made to obtain land and MSWM projects would be started as soon as land was available. Reply was not acceptable as despite lapse of eight to nine years since sanction of the MSWM projects, the matter could not be resolved by the C&DS and the objective of MSWM projects was not achieved.

[22] Aligarh, Barabanki, Etawah, Fatehpur, Kanpur, Kannauj, Mainpuri, Mathura, Moradabad, Muzaffarnagar and Raebareli.
[23] Aligarh, Barabanki, Etawah, Fatehpur, Kanpur, Moradabad, Muzaffarnagar and Raebareli.
[24] Basti, Firozabad and Loni.
[25] Dumper placers, Refuse collector, Carcass trolley, tractor trolley, Bins, Compactors, JCBs, Cattle lifting machine, Dustpans *etc.*

Unfruitful expenditure due to abandonment of incomplete MSWM projects

2.4.11 Out of 27 MSWM projects, 13 MSWM projects[26] wherein expenditure of ₹ 178.31 crore had been incurred up to March 2016 were still (March 2016) lying incomplete even after more than five to nine years of sanction. Of the aforesaid 13 incomplete MSWM projects, 11 MSWM projects[27] involving expenditure of ₹ 126.50 crore were abandoned by the developers.

Out of total 11 abandoned MSWM projects, break-up of expenditure of ₹ 99.54 crore in five selected MSWM projects[28] is detailed in table 2.4.2.

Table 2.4.2
Break-up of expenditure in selected MSWM projects

(₹ in crore)

Sl. No.	Name of the project	Name of developer	Expenditure upto March 2016			Total
			on construction of compost plant and sanitary landfill	on procurement of equipment and vehicles	other miscellaneous expenditure	
Project abandoned						
1	Agra	Hanjer Biotech Energies Pvt. Ltd., Mumbai	11.47	3.84	7.03	22.34
2	Allahabad	Subhash Projects & Marketing Ltd., New Delhi	13.62	13.55	2.34	29.51
3	Jhansi	APR Projects Pvt. Ltd., Hyderabad	4.74	1.13	0.21	6.08
4	Mirzapur	A2Z Maintenance and Engineering Services Pvt. Ltd., Gurgaon	5.38	0.90	0.18	6.46
5	Varanasi	A2Z Maintenance and Engineering Services Pvt. Ltd., Gurgaon	14.8	17.54	2.81	35.15
Total			**50.01**	**36.96**	**12.57**	**99.54**

Audit noticed that six MSWM projects[29] (including two selected MSWM projects[30]) were abandoned by the developers due to stoppage of payments by C&DS and imposition of arbitrary condition of release of payment only upon construction of power generation plant which was not a part of scope of work provided in the agreement. The main reasons for abandonment of other three selected MSWM projects[31] were dispute with C&DS/ULBs, over payment of capital grant/tipping fee and not financially viable MSWM projects.

Expenditure of ₹ 126.50 crore remained unfruitful due to abandonment of 11 MSWM projects by the developers

Due to imposition of arbitrary condition for release of payments due and not making concerted efforts to resolve the dispute with the developers, ₹ 126.50 crore incurred on 11 abandoned MSWM projects remained unfruitful and 12.34 lakh tonne MSW per annum, in 11 cities, could not be disposed off in scientific manner, as envisaged in the scheme.

[26] Agra, Allahabad, Badaun, Ballia, Gorakhpur, Jaunpur, Jhansi, Lucknow, Meerut, Mirzapur, Pilkhuwa, Sambhal and Varanasi.
[27] Agra, Allahabad, Badaun, Ballia, Gorakhpur, Jaunpur, Jhansi, Meerut, Mirzapur, Sambhal and Varanasi.
[28] Agra, Allahabad, Jhansi, Mirzapur and Varanasi.
[29] Badaun, Ballia, Meerut, Mirzapur, Sambhal and Varanasi.
[30] Mirzapur and Varanasi.
[31] Agra, Allahabad and Jhansi.

The following photographs illustrate MSWM projects abandoned mid-way by developers at Agra and Varanasi.

Abandoned waste processing facilities

The Management stated (September 2016) that out of the five abandoned MSWM projects, retendering had been done in case of two MSWM projects (Jhansi and Agra) and another operator had been appointed in case of other two MSWM projects (Varanasi and Allahabad). The fact remained that expenditure of ₹ 34.87 crore incurred on three MSWM projects still remained unfruitful.

Unfruitful expenditure due to MSWM projects lying incomplete

2.4.12 Out of 27 MSWM projects, two MSWM projects (Lucknow and Pilakhuwa) involving expenditure of ₹ 51.81 crore were still (March 2016) incomplete and work was under progress even after more than five to nine years since sanction of the MSWM projects. Lucknow is the capital of State of Uttar Pradesh and Pilkhuwa comes within the ambit of National Capital Region. The GoUP as well as C&DS failed to ensure timely completion of these projects.

Expenditure of ₹ 51.81 crore incurred on two incomplete MSWM projects remained unfruitful

The main reasons for delay in completion of the MSWM projects were delay in nomination of executing agency by GoUP (nine months), finalisation of modalities for execution of the MSWM projects and finalisation of tenders for selection of developers (29 to 30 months), providing project sites by ULBs (20 to 32 months) and slackness on the part of developer (25 months) in executing the assigned works. Thus, ₹ 51.81 crore incurred on the two incomplete MSWM projects remained unfruitful as of March 2016. Besides, 4.91 lakh tonne MSW per annum, in two cities, was still being disposed off in an unscientific manner, defeating the purpose of the MSWM projects.

The following photographs illustrate unscientific disposal of MSW at Lucknow.

Dumping of MSW without processing at Lucknow

The Management stated (September 2016) that the work of Lucknow MSWM project had been started on trial basis and full fledged working will be started by the developer from December 2016. In case of Pilkhuwa MSWM project, 80 *per cent* work had been completed and the project will be completed within three months of receipt of final installment. The fact remained that both the MSWM projects could not be put to use as of September 2016 even after incurring an expenditure of ₹ 51.81 crore.

Implementation of provisions of the agreements with developers

2.4.13 C&DS entered into agreements with developers for execution of 24 MSWM projects (excluding three MSWM projects[32] where project sites were not available). The role of C&DS was to supervise and oversee the execution of works by developers and release of capital grant (CG) as per the terms and conditions of the agreements. Deficiencies in implementation of provisions of the agreements are discussed in succeeding paragraphs.

Undue benefit to developer by providing additional capital grant

2.4.14 Para 9.1 of the agreement executed (October 2010) for Lucknow MSWM project provided for release of capital grant (CG) of ₹ 42.92 crore to the developer for construction of waste processing and disposal facilities and procurement of prescribed equipment/vehicle. In case of any excess expenditure required for completion of the MSWM project, the same was to be borne by the developer from own sources.

Undue benefit of ₹ 7.96 crore was extended to the developer due to release of inadmissible additional capital grant

Audit noticed that despite there being no provision in the agreement, an additional CG of ₹ 9.91[33] crore was sanctioned (August 2014) to the developer[34] by GoUP unduly to cover enhanced cost of construction of waste processing plant, construction of sanitary landfill facility and procurement of vehicles and equipment for collection, storage and transportation of municipal solid waste. Out of the sanctioned additional CG of ₹ 9.91 crore, the C&DS

32 Basti, Firozabad and Loni.
33 Collection and transportation services: ₹ 1.56 crore and Construction of compost plant and landfill: ₹ 8.35 crore.
34 Jyoti Envirotech Private Limited.

had released ₹ 7.96 crore to the developer up to March 2016. Thus, an undue benefit was extended to the developer by providing additional CG.

The Management stated (September 2016) that in view of the enhancement in cost of the MSWM project due to delay in obtaining suitable land and changes required in transportation system due to change in project site, the GoUP sanctioned additional CG of ₹ 9.91 crore. Reply was not acceptable because as per agreement the amount of CG was fixed and any enhancement in cost was to be borne by the developer and not by the GoUP.

Excess payment of capital grant to developers

Excess payment of ₹ 3.04 crore was made to the developers due to not releasing proportionate capital grant

2.4.15 The MSWM projects were to be financed through Capital Grant (CG) payable by C&DS to the developers and investment by developers in proportion stipulated in the agreements. Therefore, the C&DS was required to release proportionate CG only in respect of work done by the developer.

Audit noticed that in case of Fatehpur and Mirzapur MSWM projects, the developers had executed works of ₹ 13.98 crore against which CG of ₹ 10.49 crore was due to be paid to the developers. The Project Manager of the C&DS, however, paid (January 2011 to December 2013) CG of ₹ 13.53 crore to the developers resulting in excess payment of ₹ 3.04 crore to the developers.

Premature release of capital grant to developers

2.4.16 Agreements executed (March 2010 to February 2011) for five MSWM projects[35] provided for release of CG to the developers at the rate of 15 *per cent* on signing of the agreement, 75 *per cent* at the time of submission of monthly claims and balance 10 *per cent* after the date of commercial operation. Thus, only 90 *per cent* of the total sanctioned CG was to be paid with the running bills and balance 10 *per cent* was to be paid on completion of the MSWM project. Further, as per agreement executed (November 2008) for construction of waste processing and disposal facilities of Agra MSWM project, security at the rate of five *per cent* was to be deducted from each running bill which was payable three months after completion of the MSWM project.

Undue benefit of ₹ 2.84 crore was extended to the developers due to irregular release of capital grant of ₹ 6.02 crore

Audit noticed that in case of the aforesaid five incomplete MSWM projects the C&DS released (February 2009 to December 2014) premature payments in excess of 90/95 *per cent* of the value of work done (ranging between ₹ 0.34 crore and ₹ 3.52 crore) resulting in premature release of ₹ 6.02 crore to the developers upto March 2016 ***(Annexure-2.4.6)***. Premature release of CG led to undue benefit of interest of ₹ 2.84 crore[36] ***(Annexure-2.4.6)*** to the developers.

The Management stated (September 2016) that ₹ 4.95 crore in respect of four MSWM projects had since been recovered from bank guarantees. However, reason had not been put forth in reply for not recovery of CG of ₹ 1.07 crore and interest of ₹ 2.84 crore.

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[35] Agra (agreement for procurement of equipment and vehicles for collection and transportation of MSW), Allahabad, Jhansi, Mirzapur and Varanasi.

[36] Calculated at the rate of 12 *per cent* per annum being the interest rate charged by other Government construction agencies on advances released to contractors.

Release of capital grant without ensuring committed investment by developers

2.4.17 The project cost was to be financed through CG to be released by C&DS (Government portion) and investment by the developers as stipulated, in the agreements. Therefore, it was necessary for C&DS to devise a mechanism to ensure that the developers invest their share in the MSWM project matching with the amount of CG to be released to them. Deficiencies noticed in audit in this regard are discussed below:

Capital grant of ₹ 51.16 crore was released without ascertaining the admissible capital grant payable to the developers

- Agreements entered into for execution of five MSWM projects[37] did not incorporate any condition for furnishing documents in support of the amount invested by the developers in the MSWM project so as to ensure release of CG in proportion to the expenditure actually incurred by them. Thus, due to faulty agreements, the C&DS released (September 2008 to October 2013) CG of ₹ 51.16 crore without ascertaining admissibility of amount of CG to be released to the developers.

In case of Etawah MSWM project, Audit noticed that CG of ₹ 3.83 crore was released (December 2008 to March 2013) against an admissible amount of ₹ 3.33 crore (worked out as per certificate of Chartered Accountant, submitted by the developer), resulting in excess release of CG of ₹ 0.50 crore and extension of undue benefit to the developer.

The Management stated (September 2016) that at the time of inviting tenders for the said five MSWM projects, provision to ensure investment of developer's share could not be included in the agreements due to lack of experience. The fact remained that due to faulty agreements, the CG was released without ensuring investment by the developers.

- The agreements entered into for execution of 12 MSWM projects[38] provided that monthly claims for release of CG should be supported by a certificate of Chartered Accountant (CA) certifying the total expenditure incurred and paid. It further provided that CG would be released to the developers in proportion to the expenditure incurred *vis-à-vis* project cost.

Capital grant of ₹ 186.35 crore was released without obtaining certificate of CA to ascertain the admissible capital grant payable

Audit noticed that in case of 10 MSWM projects[39] CG of ₹ 186.35 crore was released (April 2010 to August 2015) without obtaining certificate of CA, required to ascertain admissibility of amount of CG to be released to the developers.

In case of Lucknow and Moradabad MSWM projects, Audit noticed that CG of ₹ 54.06 crore was released (May 2010 to August 2015) against an admissible amount of ₹ 50.94 crore worked out as per certificate of Chartered Accountant, submitted by the developers. This resulted in excess release of CG of ₹ 3.12 crore and extension of undue benefit to the developers.

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[37] Agra, Kanpur, Etawah, Muzaffarnagar and Raebareli.

[38] Agra (agreement for procurement of equipment and vehicles for collection and transportation of MSW), Allahabad, Aligarh, Barabanki, Fatehpur, Jhansi, Kanpur (agreement for procurement of equipment and vehicles for collection and transportation of MSW), Lucknow, Mirzapur, Moradabad, Pilkhuwa and Varanasi.

[39] Allahabad, Aligarh, Barabanki, Fatehpur, Jhansi, Kanpur (agreement for procurement of equipment and vehicles for collection and transportation of MSW), Lucknow, Mirzapur, Moradabad and Varanasi.

The Management stated (September 2016) that due to fault/unawareness of the concerned Project Managers, CA certificates were not obtained, however, all payments were made according to actual measurement of work done. Reply was not acceptable as the C&DS had released payments on the basis of measurement of work done against capital grant portion only and not against measurement of total work done. Besides, it was also violation of the provision of the agreements.

Release of capital grant without measurement of total work

2.4.18 The project cost was to be financed through CG by C&DS (Government portion) and investment by developers in proportion which was stipulated in the agreement. Therefore, it was imperative for C&DS to take measurements of total work executed by the developers (against Government portion and developer's investment portion) prior to release of CG for the MSWM project from time to time.

Measurements of work executed against capital grant only were taken instead of measuring total work

Audit noticed that in case of 12 MSWM projects[40], the C&DS instead of taking measurements of total work, took measurement of works executed by developers against Government portion only. No measurement of works executed against developer's investment portion was taken to ensure proportionate release of CG to the developers. Thus, in absence of measurements of total works executed by developers, release of proportionate CG could not be ascertained in audit.

In case of Agra MSWM project, the work was stopped by the developer in October 2013 and various equipment, vehicles, plant and machineries were taken away by the developer. In the absence of measurements of work executed against developer's investment portion, over payment of CG cannot be ruled out.

The Management stated (September 2016) that due to inexperience in execution of MSWM projects on PPP model, measurement of work done against CG portion only was taken. The fact remained that measurements of work executed against developers' investment portion were not taken by the C&DS.

Release of inadmissible mobilisation advance

Undue benefit of ₹ 1.74 crore was extended to the developers due to irregular release of mobilisation advances of ₹ 8.41 crore

2.4.19 Agreements executed for five MSWM projects[41] did not contain any Clause for payment of mobilisation advance to the developers. The C&DS, however, released (September 2008 to June 2010) mobilisation advances of ₹ 8.41 crore to the developers. Further, interest of ₹ 1.74 crore[42] was also not charged from the developers on the mobilisation advances provided to them. Thus, an undue benefit was extended to the developers of these MSWM projects by releasing inadmissible and interest free mobilisation advances of ₹ 8.41crore.

The Management stated (September 2016) that in view of requests of developers, mobilisation advance was released in the interest of work after obtaining approval from competent authority (Director, C&DS). Reply was

[40] Agra, Barabanki, Etawah, Fatehpur, Jhansi, Kanpur, Lucknow, Mirzapur, Moradabad, Muzaffarnagar, Raebareli and Varanasi.

[41] Agra, Etawah, Kanpur, Muzaffarnagar and Raebareli.

[42] Calculated at the rate of 12 *per cent* per annum, being the interest rate charged by other Government construction agency *viz.*, Uttar Pradesh Rajkiya Nirman Nigam Limited.

not acceptable as mobilisation advance was released despite there being no provision in the tender documents/agreement.

Short recovery of liquidated damages

2.4.20 Agreements executed with the developers provided for levy of liquidated damages (LD), at the rates specified therein, for delay in completion of the MSWM projects.

Undue benefit of ₹ 19.19 crore was extended to the developers due to short recovery of liquidated damages

Audit noticed that there was delay of 15 to 50 months in completion of five selected MSWM projects[43] by the developers for which time extension was not granted by the C&DS till date (March 2016). The C&DS, however, without assigning any reason, recovered LD of ₹ 1.62 crore only against the recoverable amount of ₹ 20.81 crore from the developers which resulted in short recovery of LD of ₹ 19.19 crore and, thus, undue benefit to the developers.

The Management stated (September 2016) that in case of Agra, Jhansi and Mirzapur MSWM projects, necessary action against the developers would be taken after finalisation of pending arbitration cases. The Management, however, did not furnish reasons for short levy of LD in case of Lucknow and Varanasi MSWM projects.

Purchase of equipment and vehicles in advance

2.4.21 Para 9.1 of the agreements executed for six MSWM projects[44] provided that the developers would procure the equipment/vehicles in a manner so that delivery of the same would be made not before 45 days prior to date of commercial operation, unless otherwise agreed to by the C&DS.

Audit noticed that in case of four incomplete MSWM projects[45] the developers, violating the provisions of agreements, supplied (December 2010 to August 2015) to the concerned ULBs, equipment and vehicles[46] valuing ₹ 49.92 crore in advance by seven to 63 months as of March 2016. Further, in case of remaining two completed MSWM projects (Aligarh and Moradabad), the developers had supplied to the concerned ULBs the required equipment/vehicles valuing ₹ 3.10 crore in advance by 14 to 30 months of completion of the MSWM projects.

Procurement of equipment and vehicles of ₹ 53.02 crore in advance by seven to 63 months of completion of MSWM projects was not justified, as these equipment/vehicles were to be utilised after completion of the MSWM projects.

The following photographs illustrate unutilised vehicles lying at Varanasi:

[43] Agra, Jhansi, Lucknow, Mirzapur and Varanasi.
[44] Allahabad, Aligarh, Jhansi, Lucknow, Moradabad and Varanasi.
[45] Allahabad, Jhansi, Lucknow and Varanasi.
[46] Dumper placers, Refuse collector, Carcass trolley, tractor trolley, Bins, Compactors, JCB's, Cattle lifting machine, Dustpans *etc.*

Compactor

Mini Tripper

The Management stated (September 2016) that in view of the directions (April 2010) of the committee constituted under the chairmanship of Chief Secretary, the required equipment/vehicles were procured to start collection and transportation of solid waste from 1 May 2010. Reply was not acceptable because the committee had not directed that procurement of assets be done before completion of the MSWM projects.

Irregular procurement of equipment and vehicles

2.4.22 The C&DS was required to recheck the requirement of various components proposed in the approved Detailed Project Report (DPR) *vis-à-vis* available facilities and in case of any change, the same was to be got approved from the Director, Local Bodies.

Audit noticed that developers of five MSWM projects[47] procured equipment and vehicles[48] of ₹ 55.03 crore and supplied the same to the concerned ULBs, which were not provided for in the sanctioned DPRs. Approval of Director, Local Bodies, however, was not obtained in any case attributing to irregular procurement of vehicles/equipment of ₹ 55.03 crore.

The Management stated (September 2016) that vehicles/ equipment had been procured as per the business/development plan approved by the concerned ULBs. Reply was not acceptable as approval of Director, Local Bodies was to be obtained for any deviations which was not obtained.

MSWM projects not monitored by PPP Monitoring Committee

2.4.23 Guidelines 2007 stipulated that PPP Monitoring Committee (PMC) would monitor the progress of the projects, oversee that the projects were carried out as per agreed TOR and contractual conditions and levy appropriate liquidated damages or penalty if the project was not carried out as per the agreement.

Audit noticed that PMC did not monitor the MSWM projects. As a result, deficiencies such as delays in execution of MSWM projects, excess/irregular

[47] Agra, Aligarh, Kanpur, Lucknow and Varanasi.

[48] Dumper placers, Refuse collector, Carcass trolley, tractor trolley, Bins, Compactors, JCB's, Cattle lifting machine, Dustpans *etc.*

release of capital grant, failure to levy liquidated damages, irregular procurement of equipment and vehicles remained unchecked.

The Management stated (September 2016) that though monitoring by PMC was not done, the MSWM projects were monitored at GoUP, GoI and SLNA level from time to time. Reply confirmed that the MSWM projects were not monitored by PMC as provided in the Guidelines 2007.

Other deficiencies

2.4.24 Audit also noticed some other deficiencies in execution of the MSWM projects by the C&DS which are discussed in the succeeding paragraphs.

Centage not received

2.4.25 GoUP order of February 1997 stipulated that in case of deposit works Public Sector Enterprises, Corporations and other construction agencies/autonomous bodies shall charge centage at the rate of 12.5 *per cent* of the construction cost. It was further reiterated by the GoUP's order of January 2011 that centage would be charged on centrally sponsored schemes also.

Centage of ₹ 39.44 crore remained unrealised from GoUP

Audit noticed that though the C&DS had claimed centage in respect of the MSWM projects from GoUP, it has not yet released centage to the C&DS. Thus, centage of ₹ 39.44 crore remained unrealised from GoUP.

The Management stated (September 2016) that revised estimates incorporating the amount of centage had been sent to the GoUP but the same had not been sanctioned. The fact remained that centage of ₹ 39.44 crore remained unrealised from GoUP.

Short deduction of VAT

2.4.26 In compliance to Section 34 (13) of the Uttar Pradesh Value Added Tax Act, 2008, the C&DS was required to deduct tax at source equal to four *per cent* of the value of work from the bills of the developers.

VAT amounting to ₹ 3.31 crore was short deducted from the bills of the developers

Audit noticed that in case of seven MSWM projects[49], the C&DS paid (April 2010 to May 2016) ₹ 144.51 crore to the developers against which it was required to deduct VAT of ₹ 5.78 crore from their bills. The C&DS, however, without assigning any reason, deducted VAT of ₹ 2.47 crore only resulting in short deduction of VAT of ₹ 3.31 crore.

The Management stated (September 2016) that ₹ 2.14 crore in respect of six MSWM projects had since been recovered from encashed bank guarantees and amount payable to the developers. The fact remained that VAT of ₹ 1.17 crore in respect of two MSWM projects still remained unrecovered.

Short deduction of Welfare Cess

2.4.27 Rule 4 (3) of Building and Other Construction Workers' Welfare Cess Rules, 1998 and notification issued (February 2009) by the GoUP, provided for deduction of Cess at the rate of one *per cent* from the bills of the developers by the C&DS.

[49] Allahabad, Aligarh, Fatehpur, Jhansi, Lucknow, Mirzapur and Varanasi.

Welfare Cess of ₹ 1.88 crore was short deducted from the bills of the developers

Audit noticed that C&DS paid (April 2010 to November 2015) ₹ 194.18 crore to the developers of 12 MSWM projects[50] and deducted Cess of ₹ 5.60 lakh only from the bills of the developers, against deductible amount of ₹ 1.94 crore, resulting in short deduction of Cess of ₹ 1.88 crore.

The Management stated (September 2016) that the MSWM projects were approved before applicability of Cess. Reply was not acceptable, as in the cases pointed out by audit, tenders were invited and finalised after notification by the GoUP in February 2009, hence, provision regarding deduction of Cess was applicable and the C&DS was required to deduct the same from the bills of the developers.

Loss of interest due to not availing flexi/auto sweep facility

2.4.28 Banks provide flexi/auto sweep facility to their customers, on their request which carries higher rate of interest than the rate applicable to savings bank accounts.

Audit noticed that the funds received for execution of seven MSWM projects[51] were kept by the Units of C&DS in savings bank accounts without availing auto sweep/flexi facility; whereas, in case of other eight MSWM projects, auto sweep/flexi facility was availed. Thus, not availing auto sweep/flexi facility resulted in loss of interest of ₹ 1.34 crore[52] on project funds.

The Management stated (September 2016) that accounts of Etawah and Muzaffarangar MSWM projects had been closed and flexi/auto sweep facility had been obtained in remaining MSWM projects. The fact remained that not availing auto sweep/flexi facility resulted in loss of interest of ₹ 1.34 crore on project funds.

Conclusion

Audit concluded that:

- **Selection of eligible consultants and developers in a transparent and competitive manner was compromised as provisions of PPP Guidelines 2007 regarding selection of consultants and developers were not followed by C&DS;**

- **Due to ineffective supervision by C&DS, MSWM projects were delayed and only 11 MSWM projects out of 27 MSWM projects could be completed by the C&DS and that too with a delay of three to five years. The remaining 16 MSWM projects were still incomplete despite a lapse of more than five to nine years resulting in blockade of ₹ 173.58 crore. Thus, the intended objective of the MSWM projects *i.e.* to dispose off 18.31 lakh tonne MSW per annum in a scientific manner in 16 cities, could not be achieved even after five to nine years since the sanction of these projects; and**

50 Agra, Aligarh, Allahabad, Barabanki, Fatehpur, Jhansi, Kanpur, Lucknow, Mirzapur, Moradabad, Pilkhuwa and Varanasi.

51 Allahabad, Etawah, Fatehpur, Jhansi, Kanpur, Lucknow and Muzaffarnagar.

52 Calculated at the rate of 2.5 *per cent* per annum being difference between interest rate applicable on flexi/auto sweep facility and savings bank account.

- **C&DS failed to ensure compliance of provisions of the agreements regarding release of capital grant to developers, levy of liquidated damages and procurement of equipment/vehicles.**

Recommendations

Audit recommends that the C&DS should:

- **adhere to the provisions of PPP Guidelines 2007 for selection of eligible consultants and developers in a transparent and competitive manner;**

- **devise an effective supervision framework to ensure completion of the MSWM projects within specified timelines to achieve the intended objective of the projects *i.e.* disposal of MSW in a scientific manner; and**

- **develop suitable mechanism to ensure strict compliance with the terms and conditions of the agreements executed with developers.**

2.5 Audit on Recovery of dues by Uttar Pradesh Financial Corporation

Introduction

2.5.1 Uttar Pradesh Financial Corporation (Corporation) was established as a Statutory corporation on 1 November 1954 under Section 3 (1) of the State Financial Corporations (SFCs) Act, 1951 for providing loan assistance to small and medium scale industrial units in the State of Uttar Pradesh.

Managing Director (MD) is the Chief Executive of the Corporation who looks after the day-to-day affairs with the assistance of two Chief Managers (CM) at the Headquarters and 12 Regional Managers (RM) in the field offices responsible for effecting recovery of dues. The detailed organisational set up and role of MD, CM and RM has been depicted in Organisational chart (***Annexure-2.5.1)***.

The total investment in the Corporation in the form of equity and loans was ₹ 929.48 crore (Equity: ₹ 179.28 crore and Long/short term borrowings: ₹ 750.20 crore) and its turnover[1] was ₹ 15.58 crore as of March 2015. The Corporation had accumulated losses of ₹ 883.72 crore and external liabilities of ₹ 750.20 crore as on 31 March 2015.

It disbursed loans of ₹ 3,248 crore to 41,330 borrowers up to September 2007, out of which principal amount of ₹ 294.95 crore was pending for recovery from 5,812 borrowers besides interest of ₹ 29,762.37[2] crore as on 31 March 2016.

SIDBI had been refinancing the loans given by the Corporation to industrial units but due to default in repayment of dues by the Corporation, SIDBI stopped refinancing of loan in June 2007. Resultantly, the Corporation also stopped (September 2007) disbursement of loan to the units. Total dues of SIDBI amounted ₹ 544.14 crore (including interest of ₹ 173.14 crore) in November 2007. The Corporation approached SIDBI (December 2008) for OTS which offered (March 2009) OTS at ₹ 275 crore *i.e.* 74 *per cent* of the principal payable in five equal yearly installments. The Corporation accepted the offer although it did not have funds to make the payment which was evident from the fact that total bank balance and investments of the Corporation ranged between ₹ 22.59 crore and ₹ 43.22 crore during the five years from 2009-10 to 2013-14 and the total profit of the Corporation was ₹ 58.98 crore during the same period. To meet out OTS obligation, the Corporation approached (March 2009) the State Government for providing funds but could not get funds from the Government. The Corporation, however, paid (July 2010) ₹ 2.10 crore to SIDBI with the request to reschedule the payment period from five to 15 years, again without obtaining firm commitment of funds from any source. The request was not acceded to by the SIDBI. Ultimately, the Appellate Authority of Debt Recovery Tribunal ordered (February 2016) the Corporation to deposit entire dues of ₹ 661.48 crore within two months failing which the movable and immovable property of the Corporation would be attached. The Corporation had filed (April 2016) a review petition in the Appellate Authority of the Debt Recovery Tribunal which was still pending (September 2016).

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1 Turnover represents interest recovered on non-performing assets (NPA) accounts.

2 Interest of ₹ 29762.37 crore as on 31 December 2015.

Due to failure in settling dues of SIDBI, delay in approaching GoUP for revival of the Corporation and lack of response of GoUP to the Corporation, the Corporation was on the verge of closure

The Corporation had, however, not paid any amount to SIDBI against this order so far nor had its properties been sold (September 2016).

Although the financial position of the Corporation had deteriorated in 2007, concerted efforts were not made by the Corporation until 2013 to get financial support from the GoUP. The Corporation forwarded (December 2013) a revival package to the GoUP only after a period of more than six years which was pending before the GoUP as of March 2016. It may be mentioned that SFCs of West Bengal and Odisha had resumed disbursing activity with the financial support of their respective State Governments.

Thus, due to failure of the Corporation in settling the dues of SIDBI at a reasonable amount, delay in approaching GoUP for revival of the Corporation and lack of response of GoUP to the Corporation, the Corporation, entrusted with the objective of promoting industrial units of the State, was on the verge of closure.

A Performance Audit on "Liquidation of Non-Performing Assets" of the Corporation had featured in the Audit Report (Commercial) for the year 2007-08. The Performance Audit was not discussed so far (October 2016) by the Committee on Public Undertakings.

As the sanction of loan was stopped by the Corporation from September 2007, recovery of dues remained the main activity of the Corporation. Therefore, this audit was conducted with the objective to assess whether action taken for recovery of dues was as per the provisions of SFCs Act and OTS guidelines and the Corporation had an effective internal control and monitoring mechanism.

Audit examination involved scrutiny of records at the Headquarters of the Corporation and of five regions[3], out of total 12 regions, selected on the basis of highest recovery. The methodology adopted for attaining the audit objectives consisted of explaining audit objectives to top management in the Entry conference held on 3 February 2016 and raising of audit queries. An Exit conference was held on 26 August 2016 with the Management and replies of the Management and Government were received in August and September 2016 respectively which had been duly considered.

Audit findings

2.5.2 The audit findings relating to recovery of dues, internal control and monitoring mechanism are discussed in succeeding paragraphs.

Portfolio of outstanding loans

2.5.3 As per SIDBI guidelines 2005, Non-Performing Assets (NPA) are the loans against which installment of interest or principal remains due for more than 90 days. The NPA is further categorised as Sub-standard (default in payment continue up to 15 months), Doubtful-1 (default period ranges from 15 to 27 months), Doubtful-2 (default period ranges from 27 to 51 months), Doubtful-3 (default period continues for more than 51 months) and Loss category (loans against which no mortgaged asset is available). The assets-wise classification of dues of the Corporation as on 31 March 2016 is detailed in table 2.5.1**.**

3 Kanpur, Varanasi, Bareilly, Meerut and Noida.

Table 2.5.1
Assets-wise classification of dues

(₹ in crore)

Particular	1 April 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015	31 March 2016
Standard	0.04	0.00	0.02	0.00	0.00	0.00
Sub-standard	0.60	0.20	0.05	0.01	00.0	0.00
Doubtful-1	0.63	0.26	0.62	0.01	0.00	0.00
Doubtful-2 and Doubtful-3	211.38	195.4	172.30	163.96	149.98	138.80
Loss Assets	159.55	155.15	159.00	153.35	158.78	156.15
Total OSP	**372.20**	**351.01**	**331.99**	**317.33**	**308.76**	**294.95**

Source: Monthly statements of the Corporation

As can be seen from table 2.5.1 that entire outstanding principal (OSP) of ₹ 294.95 crore as at the end of 31 March 2016 was NPA; out of which, OSP of ₹ 156.15 crore (53 *per cent*) pertained to loss assets category of NPA where no assets existed/available with the Corporation against which recoveries can be affected. Therefore, chances of recovery of outstanding interest (OSI) of ₹ 29,762.37 crore from 5,812 borrowers was remote.

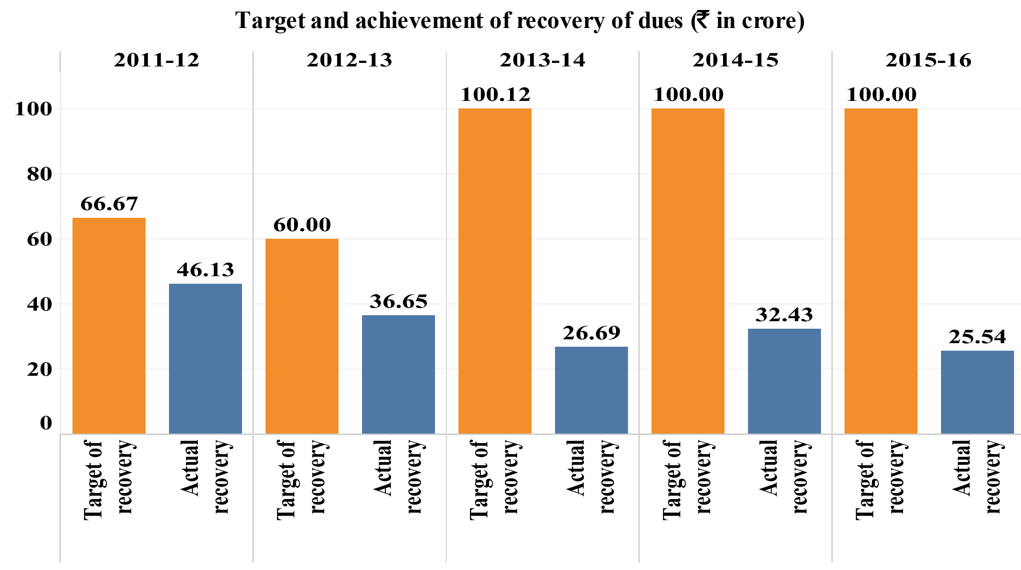
Mechanism for recovery of dues

2.5.4 The Corporation fixed annual targets for recovery of dues. The recovery mechanism adopted by the Corporation included pursuance with borrowers, sale of mortgaged assets, issuance of recovery certificate and One Time Settlement (OTS) of dues.

Targets fixed for recovery of dues from borrowers without basis

2.5.5 Fixation of targets for recovery of dues is one of the key functions of the Corporation. Audit found that the Corporation fixed target for recovery of dues up to 2012-13 on the formula at 100 *per cent* for standard, sub-standard, Doubtful-1 and Doubtful-2 categories of dues, 50 *per cent* for Doubtful-3 and 10 *per cent* for loss category dues. But, thereafter, targets were fixed for 2013-14 to 2015-16 at lump-sum amount of ₹ 100 crore per annum, as envisaged in the revival package proposed to GoUP in December 2013. The details of targets and recovery there against are depicted in chart 2.5.1.

Chart 2.5.1



The Corporation failed to achieve recovery targets in all the five years and recovery of dues declined from ₹ 46.13 crore in 2011-12 to ₹ 25.54 crore in 2015-16

The main activity of the Corporation was recovery of dues and hence, fixation of targets for recovery of dues should have been based on availability of manpower and realisability of dues. Audit noticed that the targets fixed were not based on any logical assessment and without considering constraints of the Corporation such as shortage of manpower, salary as per fourth pay commission, low rate of travelling allowance/dearness allowance for staff, lack of facilities *like* office vehicle, telephones *etc.* as also confirmed by the officers of the Corporation in feedback questionnaire issued by Aduit. Further, no incentive/disincentive was prescribed for achievement/ not achieving the targets.

As a result, in none of the years the Corporation could achieve its target of recovery of dues. In fact the achievement of target declined from ₹ 46.13 crore (69.19 *per cent*) in 2011-12 to ₹ 25.54 crore (25.54 *per cent*) in 2015-16.

Process of recovery of dues

2.5.6 In case of defaults in repayment, the Regional Manager (RM) issues demand notice to borrower in pursuance of repayment of the dues. As per Sale Guidelines, after continuing default of two quarters, a notice under section 29 of SFCs Act is issued for attachment of prime/collateral securities giving a time of 15 days. If there is no positive response from borrower, RM advertises within one month of notice for sale of borrower's unit. In case dues are not recovered by way of sale of assets, RC is issued by the Corporation for recovery of dues through District Revenue Authorities. Further, the Corporation has also introduced One Time Settlement (OTS) scheme to expedite recovery of dues.

The role of Managing Director, Chief Manager and Regional Managers in following the process of recovery is discussed in **Annexure-2.5.1**.

The deficiencies on the part of the Management in following the recovery process are discussed below:

Delay in issuing notices

2.5.7 The first step in the process of recovery is issue of demand notice. The loan agreements entered into with the borrowers provide that in case of default in repayment, the Corporation shall issue demand show cause notice to borrowers/guarantors and persuade them to repay the dues. In case borrower does not pay the dues on pursuance, the Corporation shall issue notice under section 29 of the SFCs Act to take possession of the assets of the borrower and take action for sale of assets.

Audit noticed that in 10 cases (OSP: ₹ 5.25 crore and OSI: ₹ 385.45 crore) out of 182 cases test checked, show cause notices were issued with delay of two months to 24 years and notice under section 29 were issued with delay of seven months to 24 years in 25 cases (OSP: ₹ 12.19 crore and OSI: ₹ 849.20 crore) out of 182 selected cases as detailed in **Annexures-2.5.2 and 2.5.3**.

The delay in issuing show-cause notices and notices under section 29 of SFCs Act, in turn, caused delay in recovery of the dues. The main reasons, as analysed by audit, were lack of system of reviewing severe default cases at regular intervals by Headquarters of the Corporation and lack of vigorous pursuance with the borrowers by the Regional offices.

The Management and Government stated (August/September 2016) that delay in issue of notice may occur in some cases due to initiation of recovery through issue of RC or stay by court. In some cases, delay may occur due to part payment by borrower and request for reschedulement. Reply was not acceptable as the Corporation did not comply with its own Sale Guidelines which provided for issue of notice during third quarter of default. Moreover, cases which were under litigation had not been considered by audit and the period of delay had been computed from the date of last payment by borrowers instead of date of first default.

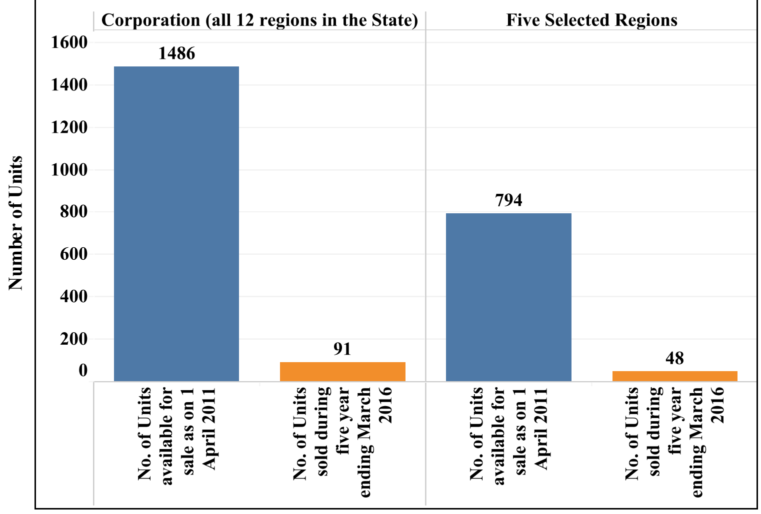
The process for recovery of dues was not followed diligently by the Corporation, as there was delay in issue of notices to borrowers, release of advertisements in newspapers and taking physical possession of mortgaged assets, which in turn resulted in delay in sale of mortgaged assets

Delay in sale of mortgaged assets

2.5.8 The second step in recovery is sale of mortgaged assets. Section 29 of SFCs Act empowers the Corporation to sell mortgaged assets *viz.* land, building and plant and machinery, in case of failure of the borrowers to repay the dues. The progress of sale of mortgaged assets in the Corporation as a whole and in five selected regions can be seen in chart 2.5.2.

Chart 2.5.2

Borrowers' units sold during five years ending March 2016

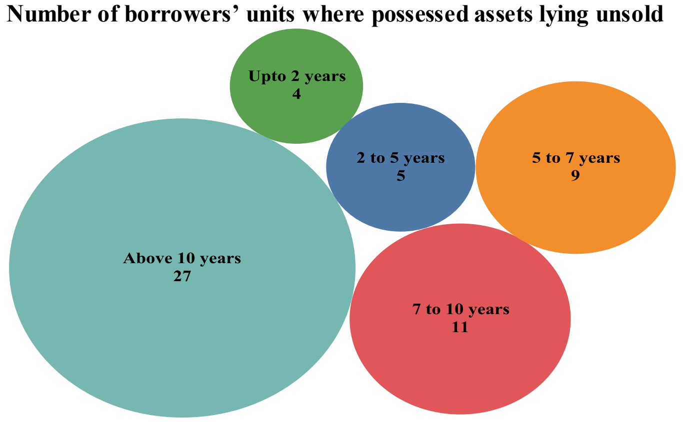


Audit noticed that out of 1,486 borrowers' units available with the Corporation as on April 2011 for sale, only 91 borrowers' units (6.12 *per cent*) were sold for ₹ 46.13 crore during the last five years up to March 2016. Similarly, in five selected regions, out of 794 borrowers' units (OSP: ₹ 128.54 crore) available with the Corporation for sale as of April 2011, only 48 borrowers' units which represents 6.05 *per cent* in terms of numbers, (OSP: ₹ 20.80 crore) were sold for ₹ 25.38 crore during the last five years.

Further, 56 borrowers' units (OSP: ₹ 23.67 crore) of which possession was taken over by the Corporation (including 35 borrowers' units in five selected regions) could not be sold even after a lapse of two to 30 years of possession of assets as of March 2016 as can be seen in the chart 2.5.3.

Chart 2.5.3

Number of borrowers' units where possessed assets lying unsold



The Reasons for poor sale, as analysed in detailed study of 182 sample cases, were delay of one to 13 years in publishing advertisements in newspapers, from the date of issue of notice in 38 cases, not publishing advertisements for sale of the assets for last three years in 15 cases**,** litigation in 30 cases and dispute in title of assets in three cases as discussed below:

Delay in publishing advertisements for sale

2.5.9 Audit noticed that in these 38 cases, disbursement of loan was made during 1977 to 2006. The borrowers defaulted in repayment of loan, hence, notice under section 29 for takeover of assets was issued to these borrowers during 1982 to 2012.

As per sale guidelines, advertisement for sale of the assets should be given within one month from the date of issue of notice under section 29 of the SFCs Act. The advertisements were, however, published with a delay of one to 13 years from the date of issue of notice. As a result, the plant and machinery was depreciated and could not be sold at reasonable prices or was sold as scrap. Therefore, dues of ₹ 1,246.97 crore (OSP: ₹ 25.33 crore, OSI: ₹ 1,221.64 crore) remained unrecovered so far (March 2016).

Advertisements not published for sale of assets in last three years

2.5.10 Audit noticed that in 15 cases, disbursement of loan was made during 1979 to 1998. The borrowers defaulted in repayment of loan, hence, notice under section 29 for takeover of assets was issued to these borrowers during 1995 to 2007.

As per sale guidelines, advertisement for sale of the assets should be given every year in at least two newspapers. The advertisements were, however, not published in last three years. As a result, assets could not sold and dues of ₹ 620.07 crore (OSP: ₹ 18.29 crore, OSI: ₹ 601.78 crore) remained unrecovered so far (March 2016).

Cases of Litigation

2.5.11 Audit noticed that in 30 cases, disbursement of loan was made during 1984 to 1998. The borrowers defaulted in repayment of loan, hence, notice under section 29 for takeover of assets was issued to these borrowers during 1989 to 2004. However, assets could not be sold due to litigation or stay granted by Courts on recovery. The Corporation did not make vigorous effort for early disposal of cases/out of court settlement.

As a result, assets could not sold and dues of ₹ 1,275.97 crore (OSP: ₹ 24.22 crore, OSI: ₹ 1,251.75 crore) remained unrecovered so far (March 2016).

Dispute in title of assets

2.5.12 Audit noticed that in three cases, disbursement of loan was made during 1995 to 1998. The borrowers defaulted in repayment of loan, hence, notice under section 29 for takeover of assets was issued to these borrowers during 1995 to 2002.

The title of mortgaged assets should be verified by the Legal Cell of the Regional Offices while sanctioning the loan. This was, however, not done and assets could not be sold owing to dispute in title. As a result, dues of ₹ 59.76 crore (OSP: ₹ 64 lakh, OSI: ₹ 59.12 crore) remained unrecovered so far (March 2016).

Photographs of some of unsold assets of the borrowers are given below:

Land of Veenus Loha Udyog Limited, Hamirpur lying unsold for 14 years

Building of Kamakhya Ispat & Finishing Private Limited, Dehradun lying unsold for 13 years

The Management and Government stated (August/September 2016) that the borrowers' units could not be sold even after lapse of considerable time as borrowers' units were located in remote area and suitable buyers were not available. Reply was not tenable as the main reasons for not selling of assets were delayed advertisement/not advertising for sale and dispute in title of assets.

Loss due to theft and deterioration in value of plant and machinery

2.5.13 The Sale Policy provides that physical possession of the borrower's unit shall be taken over by the RM if reasonable offer is received or there is apprehension of theft. Audit noticed that RMs did not make effort to identify machinery likely to be stolen based on factors like location of borrower's unit in isolated area, value and movability of machinery, safety of premises, integrity of borrower *etc.* During interviews, it was also accepted by RMs that physical possession of mortgaged assets was not taken to avoid expenses on security guards. Out of 182 selected cases, Audit noticed 42 cases (23 *per cent)* of stolen machinery valuing ₹ 8.94 crore, which resulted in loss to the Corporation (since 1991).

Further, in 18 cases, plant and machinery valuing ₹ 2.96 crore could not be sold even after lapse of 13 to 24 years from the date of notification under section 29 of SFCs Act for which there was no reason on record.

Some of the unsold plant and machinery of borrowers are depicted in the following photographs.

Plant and Machinery of ISM (India) Limited, Noida lying unsold for 14 years

Plant and Machinery of Mansa Ram Oil Mill, Muzaffarnagar lying unsold for 10 years

As analysed by audit, the Corporation did not make efforts to sell plant and machinery on priority to avoid loss owing to its obsolescence, theft and decay/disuse *etc.* Further, it was observed that regular inspection of mortgaged assets was not done and renewal of insurance of assets to be done by the borrowers was also not ensured by the RMs.

Despite recommendation made in previous Performance Audit for the period 2002-03 to 2006-07 for streamlining the system of pursuance of recovery *i.e.* issuance of demand show cause notice and prompt taking over of plant and machinery, the Corporation failed to take corrective action in this regard so far (October 2016).

During Exit conference (August 2016), while accepting the audit contention, the Management stated that they would reconsider the policy for sale of assets.

Poor recovery of dues through Recovery Certificates

2.5.14 One of the important methods of recovery is issue of Recovery Certificate (RC) against the borrower. The Hon'ble Supreme Court held (March 2004) that the MD of the SFCs could issue RC under section 32G of SFCs Act, 1951 after authorisation of the State Government.

Due to delay in taking authorisation from GoUP for issue of RC under Section 32G of SFCs Act, the Corporation could not effectively pursue the borrowers for recovery of dues through issue of RCs

Audit noticed that the Corporation approached the State Government in December 2012 for authorisation under Section 32G of SFCs Act. GoUP authorised the MD of the Corporation with a delay of two years in December 2014 for issue of RCs under SFCs Act. The Corporation, further applied (March 2015) to GoUP for approval of procedure for issue of RCs and did not start issue of RCs under the SFCs Act till August 2016 for want of approval of procedure for issue of RCs from GoUP. On being pointed out by audit (April 2016), the Corporation obtained legal opinion from its legal cell which opined that approval of procedure by GoUP was not required. Accordingly, after a lapse of 19 months, the MD of the Corporation issued (August 2016) instructions to RMs for issuing RCs under SFCs Act.

Thus, due to delay in taking authorisation from GoUP and delay in seeking clarification regarding procedure for the requirement of approval of GoUP for issue of RCs, the Corporation could not effectively pursued the borrowers for the recovery of dues.

As a result, out of total 1,069 RCs for recovery of dues of ₹ 83.45 crore pending on 1 April 2011, only ₹ 1.17 crore (1.40 *per cent*) could be recovered against 12 RCs during last five years up to March 2016.

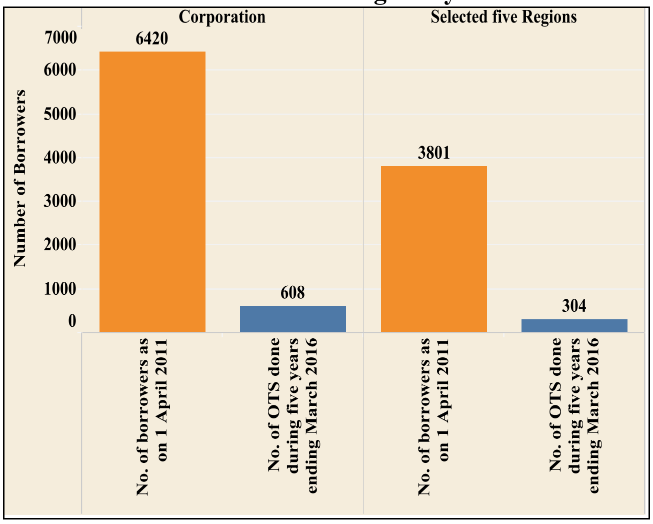
The Management accepted the audit observation and issued (August 2016) instructions to issue RC under Section 32G of SFCs Act.

Slow recovery of dues through One Time Settlement

2.5.15 In order to liquidate NPAs expeditiously, the Corporation evolved a policy for one time settlement (OTS) with borrowers. The OTS scheme was introduced in 1999 which was amended in 2009, 2010 and 2012. As laid down in OTS guideline of 2012, the amount payable by borrower is determined according to the matrix defined in the guideline which shall not exceed the value of mortgaged assets.

Chart 2.5.4

OTS finalised during five years



The Corporation, out of 6,420 borrowers (OSP: ₹ 372.20 crore and OSI: ₹ 12,784.58 crore) as on 1 April 2011, finalised OTS with 608 borrowers at ₹ 113.03 crore against total due amount of ₹ 2,551.21 crore during five years up to March 2016. Thus, the recovery of dues through OTS was as low as 0.86 *per cent* (in terms of numbers) as depicted in chart 2.5.4.

Details of OTS finalised and recovery made there against in selected regions during 2011-12 to 2015-16[4] are summarised in table 2.5.2.

Table 2.5.2

OTS finalised and recovery made there against

(₹ in crore)

Region	Dues on 1 April 2011		Amount of OTS				Principal written off	Interest waived off
	Borrowers' units (in nos.)	OSP	No. of OTS cases	Principal + Expenditure	Interest	Total		
Bareilly	465	33.58	46	7.30	4.79	12.09	0	398.37
Kanpur	653	68.25	60	22.02	1.16	23.18	0.19	211.01
Meerut	1769	57.76	118	12.51	10.11	22.62	0.03	603.66
Noida	693	50.23	64	5.95	3.04	8.99	0	349.52
Varanasi	221	26.19	16	4.60	3.64	8.24	0	137.19
Total	**3801**	**236.01**	**304**	**52.38**	**22.74**	**75.12**	**0.22**	**1699.75**

Source: Information provided by regional offices

4 Up to December 2015.

It may be seen from table 2.5.2 that out of 3,801 outstanding cases as of April 2011, only 304 cases (eight *per cent)* were settled during five years. Further, against total interest of ₹ 1,722.49 crore pending against these 304 cases, recovery of interest through OTS was only ₹ 22.74 crore (1.32 *per cent*) and ₹ 1,699.75 crore (98.68 *per cent*) was waived off.

The main reasons for slow recovery through OTS, as analysed by audit, were that coercive action could not be taken by regional offices to pressurise the borrowers for OTS in absence of authority of the Corporation to issue RC under SFCs Act. There was absence of mechanism such as cross check with other Government Departments *like* Income Tax Department, Sales/Trade Tax Department, Pollution Control Board *etc.* to identify and pursue defaulting borrowers with high net worth and having potential to pay for OTS. In addition, OTS guidelines itself were cumbersome, wide publicity of OTS scheme was not done and limited period special drives were also not undertaken by the Corporation for encouraging borrowers for OTS and ensure speedy clearance of dues. This was also stressed upon (September 2016) by the RMs, Recovery Officers and borrowers in their feedback.

The Management and Government stated (August/September 2016) that the Corporation already had a mechanism to determine high net worth borrowers through field offices. Reply was not acceptable as net worth of the borrower was estimated only at the time of OTS and the Corporation did not have mechanism to pursue the high net worth borrowers to pay their OTS.

Inaction against defaulters of OTS

2.5.16 Clause 11 and Clause 20 (iii) of OTS Guidelines- 2012 provide that in case the OTS applicant defaults to pay 25 *per cent* of OTS amount within one month from the date of approval of the OTS or fails to deposit at least 50 *per cent* of OTS amount within scheduled period (maximum two years), the OTS will be cancelled and amount deposited shall be adjusted towards interest.

Audit noticed that in six out of 304 OTS cases, out of OTS amount of ₹ 1.05 crore, only ₹ 30.01 lakh was paid by the borrowers within the stipulated period. The Regional offices did not initiate any action for cancellation of OTS and for sale of assets of the defaulted borrowers as per guidelines. This resulted in dues of ₹ 74.99 lakh remaining unrecovered.

The Management and Government stated (August/September 2016) that there was inbuilt provision in sanction letter of OTS for automatic cancellation of OTS in case borrower failed to adhere to the terms and conditions of OTS. Reply was not acceptable as delay in cancellation of OTS resulted in delay in initiation of sale process of mortgaged assets.

Loss due to finalisation of OTS below the value of mortgaged assets

2.5.17 In cases, where value of mortgaged assets is more than OTS amount computed as per OTS guidelines, it would be in the interest of the Corporation that recovery is made by sale of mortgaged asset of the borrower instead of OTS so that maximum amount is recovered.

It was observed that in five cases, the OTS was finalised for ₹ 2.16 crore against total dues of ₹ 3.88 crore despite the value of mortgaged assets being ₹ 11.36 crore. This resulted in loss of ₹ 1.72 crore to the Corporation (***Annexure 2.5.4***).

Further, in three cases, involving total dues of ₹ 59.30 crore, OTS was finalised for ₹ 6.57 crore against which value of mortgaged assets was ₹ 7.53 crore resulting in loss of ₹ 96 lakh (***Annexure 2.5.4***).

Finalisation of OTS below value of mortgaged assets in eight cases resulted in loss of ₹ 2.68 crore to the Corporation

Thus, despite being aware that the value of mortgaged assets was more than the amount of dues/OTS amount, the regional offices accepted OTS instead of sale of mortgaged assets. This resulted in loss of ₹ 2.68 crore to the Corporation.

Despite the recommendation made in previous Performance Audit that OTS should be done in accordance with the valuation of available mortgaged security, no corrective action was taken.

The Management and Government stated (August/September 2016) that the Corporation being a developmental institution, recovered more than principal *plus* expenses *plus* simple interest amount in OTS which covered the borrowing cost of the Corporation. Reply was not acceptable as sale of assets instead of OTS was more beneficial for the Corporation in these cases as value of mortgaged assets was significantly higher than the total dues/OTS amount.

Failure in recovery of interest on outstanding loans

2.5.18 The main source of earning of the Corporation was recovery of interest on loans given to borrowers. Due to delay in initiation of recovery proceedings and not taking timely action for realisation of dues, the Corporation could recover interest of only ₹ 79.85 crore during 2011-12 to 2015-16 against total outstanding interest of ₹ 12,784.58 crore from 6,420 borrowers as on 1 April 2011.

The main reason for negligible recovery against interest was lack of monitoring of interest recovery by Headquarters as details of interest due were neither maintained at Headquarters nor reported by regional offices in their monthly statements submitted to Headquarters. Delay in recovery procedure also contributed to accumulation of interest and its meager recovery. Because of the failure to recover the interest amount, the Corporation suffered financial loss and had to stop its main activity of lending from September 2007.

The Management and Government stated (August/September 2016) that the recovery of the interest amount appeared to be on lower side because 70 to 75 *per cent* of the interest amount was penal and compound interest which was notional and not recoverable. Reply was not tenable as agreement with borrowers provided for recovery of penal and compound interest in case of default. Moreover, accumulation of interest was due to delay in recovery of dues.

Internal Control and Monitoring mechanism

2.5.19 The Corporation has not framed recovery manual in order to streamline the recovery process and specify the course of action to be taken for regular monitoring and pursuance of defaulting cases.

Audit noticed weakness in internal control with regard to following:

- The monthly statements submitted by Regional offices to Headquarter did not contain information regarding outstanding OSI and number of borrowers. In absence of updated outstanding position of dues of individual borrowers, the Headquarter could not monitor the recovery of interest which was the main source of its income.

- The Corporation did not evolve any system for verification of addresses of borrowers at regular intervals. Out of 182 cases test checked, in 39 cases, borrowers (OSP: ₹ 18.90 crore and OSI: ₹ 1022.86 crore) were not traceable at their given addresses.

- Out of 182 cases test checked, there was no communication with 25 borrowers (OSP: ₹ 3.37 crore and OSI: ₹ 306.07 crore) for three years.

- The Internal Audit wing at Headquarters with present staff position of one officer and seven officials, was defunct as no internal audit was conducted since the last 10 years. The position of outstanding previous reports of internal audit as well as compliance to the same was not produced to audit.

- The Udyog Bandhu (UB) was created as a society in the State by Government of Uttar Pradesh to facilitate investment in industrial and service sector, besides solving various problems of existing and upcoming industries related to different Government Departments. UB had lost its role after discontinuance of sanction/disbursement of loan to industrial units by the Corporation from September 2007 but due to ineffective internal control, the Corporation continued to contribute to UB and made avoidable payment of ₹ 70 lakh between 2008-09 and 2014-15.

Conclusion

Audit concluded that:

- **the Corporation failed to settle the dues of SIDBI at a reasonable amount as OTS was accepted without ascertaining source of fund. This, along with the delay in approaching GoUP for revival of the Corporation and lack of response of GoUP brought the Corporation on the verge of closure;**

- **the Corporation failed to achieve recovery targets in all the five years due to ineffective efforts regarding recovery of dues at every stage *viz,* pursuance with borrowers, sale of mortgaged assets, issuance of RC and one time settlement. As a result, recovery of dues declined from ₹ 46.13 crore (69.19 *per cent)* in 2011-12 to ₹ 25.54 crore (25.54 *per cent)* in 2015-16; and**

- **the Corporation did not develop any mechanism to ensure follow-up of the recommendations made by audit. Irregularities/shortcomings commented upon in previous Performance Audit still existed.**

Recommendations

Audit recommends that:

- **the Corporation should vigorously pursue with GoUP for revival of Corporation in line with other States, for lifting of restriction on disbursement of loan and for settlement of dues with SIDBI; and**

- **the Corporation should revise sale and OTS policies from time to time for quick liquidation of NPAs; limited period drives may be introduced; willful defaulters may be identified and efforts for recovery be made from them.**

2.6 Follow-up Audit of Performance Audit on Functioning of Uttar Pradesh State Road Transport Corporation

Introduction

2.6.1 Performance Audit on "Functioning of Uttar Pradesh State Road Transport Corporation" covering the period from April 2004 to March 2009 was featured as paragraph 3.1 of Chapter-III of the Audit Report (Commercial) of the Comptroller and Auditor General of India for the year ended 31 March 2009, Government of Uttar Pradesh (GoUP).

The Audit Report was laid in the State Legislature in February 2010. The Performance Audit has not been discussed by the Committee on Public Undertaking (COPU) so far (October 2016).

The following recommendations of the performance audit were accepted by the Uttar Pradesh Road Transport Corporation (Corporation)/GoUP.

For the Corporation

- expand its operation on routes not nationalised by increasing hired buses to provide adequate, economical and effective service in the State;
- take steps to frame action plan with the State Government for timely recovery of dues;
- Speed up the efforts for tapping other than conventional sources of Revenue on a large scale under Public Private Partnership (PPP) which will result in steady inflow of revenue without additional investment; and
- Top management should monitor the important operational parameters and take remedial measures for improvement.

For the Government

- formulate State Transport Policy on the lines of National Transport Policy;
- appoint Chief Executive of the Corporation for a considerable period in view of consistency and continuity for the purpose of formulation and execution of Corporate Plan; and
- appoint an independent regulator to regulate fares and formulate standards for transport services in the State.

Scope of Audit and Methodology

2.6.2 The main objective of conducting a follow-up audit was to assess the progress made towards implementation of the accepted recommendations of the previous performance audit by the Corporation/GoUP. The audit was conducted during October 2015 to March 2016.

Audit methodology included examination of the records of Headquarters, five selected Regional Offices[1] and seven related Depots[2] that were previously covered during the performance audit in the year 2009 and records of the transport department of GoUP for the period 2009-10 to 2015-16.

In order to explain the objectives of the follow-up audit, its methodology, scope and elicit views of the Corporation/GoUP, an Entry conference was held

[1] Ghaziabad, Agra, Moradabad, Azamgarh and Varanasi.
[2] Sahibabad, Kaushabmi, Idgah, Peetal Nagari, Dr. Ambedkar, Kashi and Varanasi Cantt.

on 20 January 2016 with Managing Director of the Corporation and Special Secretary, Transport Department of GoUP. Exit conference was held on 14 July 2016 with Additional Managing Director of the Corporation and Special Secretary, Transport Department of GoUP and their views were duly incorporated at appropriate places. Replies of the Management were received in July 2016 which had been duly considered. Reply of the Government was awaited (October 2016).

Accepted recommendations and its compliance by the Corporation

2.6.3 Recommendation-wise audit findings for four out of five recommendations made for the Corporation are discussed in the succeeding paragraphs.

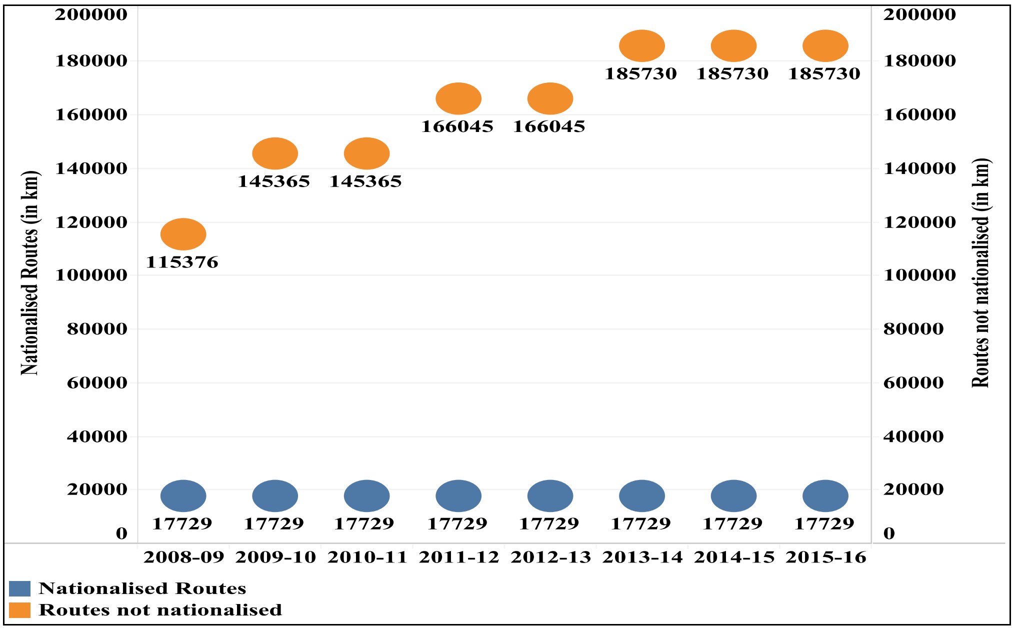
Operation of buses on routes not nationalised

2.6.4 As per accepted recommendations, the Corporation was required to expand its operation on routes not nationalised by increasing hired buses to provide adequate, economical and effective service in the State.

During course of audit it was noticed (November 2015) that length of nationalised routes remained the same (17,729 km) at the end of March 2016, whereas, length of routes not nationalised increased by 70,354 km after March 2009, as can be seen in chart 2.6.1.

Chart 2.6.1

Position of nationalised and routes not nationalised



Neither any plan was drawn nor any action was taken by the Corporation for expansion of operation of buses on routes not nationalised

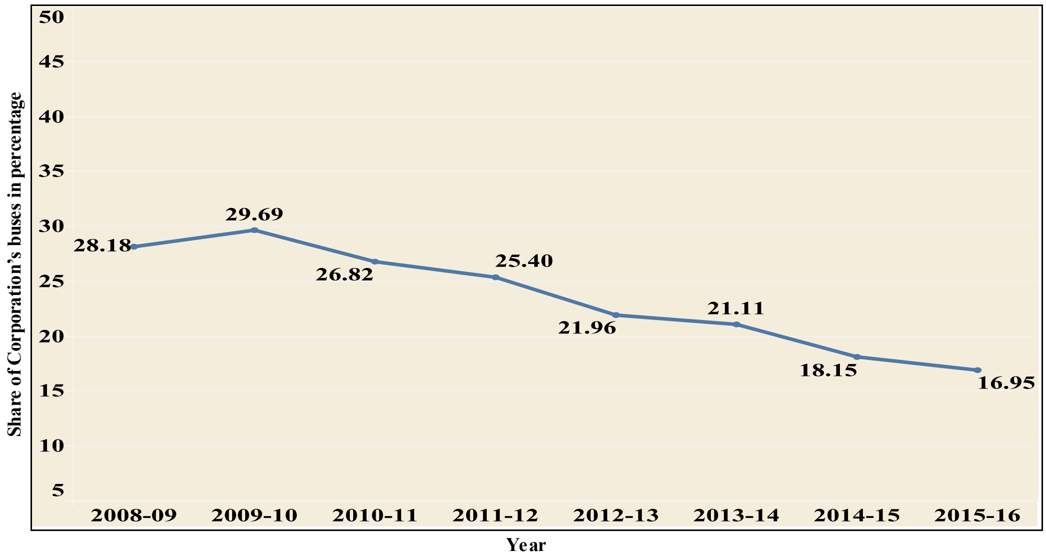
The Corporation, however, did not make efforts to cover the routes not nationalised for operation of its buses as discussed below:

- The Corporation had a fleet of 7,710 buses (6,831own and 879 hired) at the end of March 2009. Thereafter, 1,867 buses (446 own and 1,421 hired) were added in the fleet during seven years. The Corporation, however, did not make efforts to induct operation of its own/hired buses on the routes not nationalised. All the 1,867 buses added in the fleet during seven years were deployed for plying on the nationalised routes only. The Corporation was not operating even a single bus on routes not nationalised out of its fleet of 9,577 buses; whereas, private operators were plying 46,938 stage carriages on these routes. Thus, transport services on the routes not nationalised in the State was totally in the hands of the private operators.

Decision for expansion of operation of buses on routes not nationalised was to be taken by the Board of Directors (BoD) of the Corporation. However, neither any action was taken nor any concrete plan drawn by the BoD of the Corporation to implement the audit recommendation.

- A graph depicting percentage share of Corporation's buses (owned and hired) to total buses in the State during 2008-09 to 2015-16 are given in chart 2.6.2.

Chart 2.6.2
Share of Corporation's buses in percentage



As can be seen from the chart 2.6.2, percentage share of Corporation's buses was 28.18 *per cent* at the end of 2008-09, which slightly increased to 29.69 *per cent* in 2009-10 but decreased to 16.95 *per cent* up to the end of March 2016.

- A comparative density of public and private buses per one lakh population in the State has been given in the table 2.6.1.

Table 2.6.1

Density of public and private buses

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Corporation's total buses (own and hired)	8,349	8,560	8,746	8,893	9,600	9,415	9,577
2	Private stage carriages	19,775	23,362	25,682	31,608	35,873	42,451	46,938
3	Total buses for public transport	28,124	31,922	34,428	40,501	45,473	51,866	56,515
4	Vehicle density per one lakh population of total buses in State	14.37	15.99	16.90	19.50	21.46	24.05	26.10
5	Vehicle density of corporation buses per one lakh population	4.27	4.29	4.30	4.28	4.53	4.37	4.42

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
6	Vehicle density of private buses per one lakh population	10.10	11.70	12.60	15.22	16.93	19.68	21.68

As can be seen from table 2.6.1, the density level of vehicles of the Corporation remained stagnant between 4.27 and 4.53 buses in the subsequent seven years after recommendation made in the previous performance audit. Whereas, Maharashtra State Road Transport Corporation, which was serving in less populous State of Maharashtra, had vehicle density of 15.53 buses per one lakh population in 2016. Thus, the Corporation was not able to keep pace with the growing demand for public transport.

Thus, the recommendation made in previous performance audit to expand its operation on routes not nationalised by increasing hired buses has not been complied with.

The Management stated (July 2016) that request had been sent (August 2015) to the Transport Commissioner of GoUP for issuing permits of private buses in favour of the Corporation for operation on routes not nationalised. Reply was not acceptable as 54 permits were issued by the Transport Department for operation of busses on routes not nationalised but the Corporation failed to operate even a single bus on routes not nationalised as of August 2016.

Action plan for timely recovery of dues

2.6.5 As per accepted recommendation, the Corporation needed to take steps to frame action plan with State Government for timely recovery of dues.

To analyse response of the Corporation to this recommendation, Audit checked (November 2015) the position of dues in the Corporation. However, the observation reflected the dismal position as the outstanding dues have risen from ₹ 40.74 crore in 2009-10 to ₹ 83.02 crore as end of the March 2016.

Some of the chronic cases pending of dues are discussed below:

- On account of claims for losses on operation of buses in area of NOIDA/Greater NOIDA Authorities, ₹ 7.65 crore was pending at the end of March 2009 which increased to ₹ 9.56 crore at the end of March 2016.
- In Varanasi, Moradabad and Agra regions, an amount of ₹ 44.79 lakh was pending against a political party {Congress-(I)} since 1982.
- During test check of five regions, it was noticed that the bills amounting to ₹ 3.74 crore sent to various Government departments up to March 2016 (age-wise details not available) were not got verified from the Government departments ***(Annexure-2.6.1)***.

The Corporation did not frame action plan for timely recovery of dues. Due to this, outstanding dues of ₹ 46.58 crore could be recovered against total dues of out of ₹ 83.02 crore

Inspite of heavy dues pending with NOIDA/Greater NOIDA Authorities, the Corporation continued providing services of operation of buses on loss. Further, the Corporation neither pursued the realisation of dues nor took any action to write it off.

The Management stated (July 2016) that out of pending dues of ₹ 83.02 crore, proposal for re-appropriation of ₹ 30.25 crore had been sent (June 2016) to the Finance Department of GoUP. It was further stated that efforts were being made for recovery of balance dues of NOIDA, dues pertaining to political party could not be recovered due to sub-judice case, bills of ₹ 2.02 crore were got verified from the client departments out of ₹ 3.74 crore. In exit conference (14 July 2016), Management also stated that 59 *per cent* dues would be recovered till July 2016.

Reply was not acceptable as the proposal for re-appropriation was awaiting sanction of the GoUP and only ₹ 46.58 crore was recovered upto October 2016 which was 56.10 *per cent* of the total outstanding dues.

Tapping of other than conventional sources of revenue under PPP model

2.6.6 As per accepted recommendation, the Corporation needed to speed up the efforts for tapping other than conventional sources of revenue on a large scale under Public Private Partnership (PPP), which would have resulted in steady inflow of revenue without additional investment.

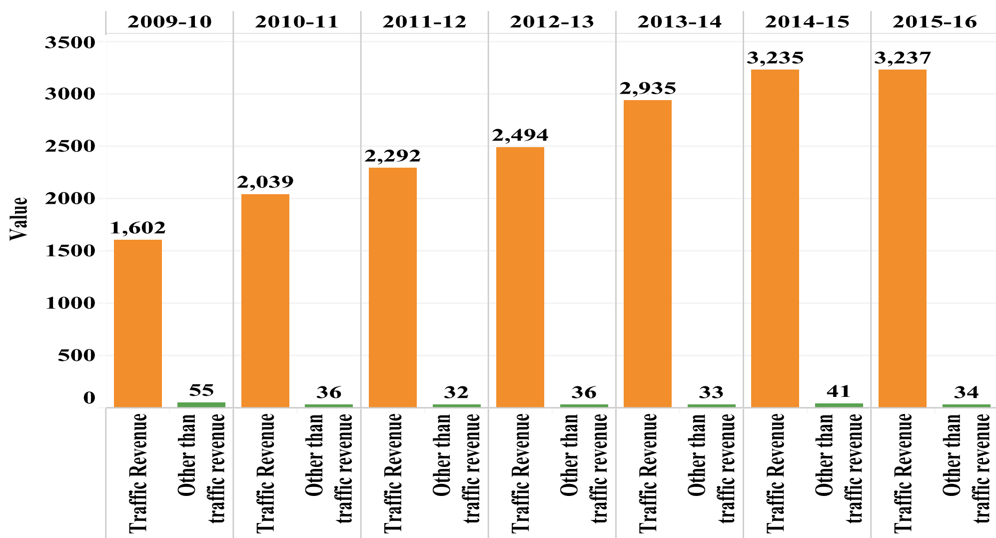
During the course of audit it was noticed (November 2015) that the Corporation started (November 2009) the process to develop 242 bus stations under PPP model and invited (October/November 2014) tender for development of 12 bus stations but only one tender for construction of Alambagh Bus Station was finalised in October 2014. The work of Alambagh Bus Station was, however, in progress (August 2016). Further, the BoD decided (January 2016) to freeze the whole process of development of bus stations under PPP model due to litigation and lack of bidders.

The Corporation failed to bring up PPP projects for tapping other than traffic revenue sources

The Corporation has to cater to uneconomical routes to fulfill its social obligation and also keep the fares affordable. In such situation, it was imperative for the Corporation to augment other than traffic revenue sources to cross subsidise its operation. The Corporation, however, failed to expand PPP projects for tapping other than traffic revenue sources. The other than traffic revenue earned from traditional sources remained insignificant during the period of seven years (2009-10 to 2015-16) after audit recommendation, as can be seen from chart 2.6.3.

Chart 2.6.3

Traffic and other than traffic revenue (₹ in crore)



As can be seen from the above graph, the other than traffic revenue decreased from 3.30 *per cent* in 2009-10 to 1.05 *per cent* in 2015-16 whereas in some other successful corporations like Odisha and Punjab Road Transport

Corporation[3], other than traffic revenue ranged between 11.68 and 16.46 *per cent* and 4.29 and 5.05 *per cent* respectively during 2009-10 to 2015-16. This indicated that the Corporation failed to tap other than traffic revenue. Thus, the Corporation incurred losses in the range between ₹ 34.57 crore and ₹ 131.54 crore during six years due to uneconomical operations, which could not be given set off from other than traffic revenue to be earned from PPP projects, as was recommended in performance audit.

The Management stated (July 2016) that process to develop 242 bus stations under PPP mode was started by the Nigam in November 2009 but due to litigation and lack of bidders, the BOD decided (January 2016) to freeze the whole process. Thus, the reply confirmed the fact that Corporation had failed to implement the audit recommendation.

Monitoring of important operational parameters by top management

2.6.7 As per accepted recommendation, top management of corporation needed to monitor important operational parameters. During course of audit it was noticed (November 2015) that important operational parameters were satisfactorily monitored as discussed below:

- At the depot and region level, important parameters such as revenue earned, kilometres done, bus utilisation, load factor, fuel average were monitored on daily basis. This was also monitored against the same dates and month of previous year to assess decrease/increase and requisite measures, directions, explanation, appreciation, *etc*. were issued.
- At the Headquarters level, monthly meetings of regional managers/service managers are convened. In the monthly meetings, detailed monitoring of all important parameters *viz.* profitability, bus utilisation, load factor, fuel average, spare parts and tyre consumption, production of tyre shops, addressing disciplinary and legal cases, hiring of buses and permits, *etc.* were carried out.
- Quarterly/half yearly and annual performance on all important parameters was placed for review before the Board of Directors.

Accepted recommendations and their compliance by the Government

2.6.8 Recommendation-wise audit findings are discussed in the succeeding paragraphs.

Formulation of State Transport Policy

2.6.9 As per accepted recommendation, the Transport Department of the Government of Uttar Pradesh was required to frame a policy on the lines of National Transport Policy.

GoUP neither formulated any State transport policy on the lines of National Transport Policy nor taken any initiative to do so

The Transport Department of the GoUP was required to frame a policy for modal mix of Public Transport focusing on increasing mass transport option *viz.* buses, metro and commuter rail *etc.* Audit noticed (November 2015) that even after lapse of seven years, the State Government has neither formulated any policy for modal mix of public transport nor taken any initiative to do so. Further, State Transport Authority (STA) is authorised for fixation of tariff in the State for public and private operators. STA had fixed and revised the tariff for public operator from time to time, but for private operators it had fixed

[3]Information of other than traffic revenue for the year 2014-15 and 2015-16 was not provided.

tariff only in November 2012 and thereafter no revision in the tariff was made till date (October 2016).

In the State of Uttar Pradesh, approximately 40,000 private individual operators operated 46,938 buses which constitute 83.05 *per cent* of the total buses being operated in the State but due to not revising tariff from November 2012, STA failed to provide economic transport facility to the public. Thus, the audit recommendation has not been carried out by the Government and the State has no transport policy to regulate the services for the private operators.

The Special Secretary, Transport Department in Exit conference (14 July 2016) confirmed that no State transport policy has been separately issued on the lines of National Transport Policy. Rather, as and when required time to time, instructions for policy/rules are issued under the Central Motor Vehicles Act, 1988 and Central Motor Vehicles Rules, 1989. Fact remains that reasons for not formulating State transport policy on the lines of National Transport Policy was not stated by the Government.

Appointment of Chief Executive for a considerable period and execution of Corporate Plan

2.6.10 As per accepted recommendation, Government needed to appoint the Chief Executive of the Corporation for a period of at least three years as prescribed by the State Government in the policy document issue in 1994 in view of consistency and continuity for the purpose of formulation and execution of Corporate Plan.

GoUP did not follow the provisions of policy document issued in 1994 as the tenure of the Managing Director of the Corporation varied from 18 days to one year nine months and 19 days

During course of audit it was noticed (November 2015) that the Government posted 11 Managing Directors during the period of seven years (2009-10 to 2015-16). The tenure of each Managing Director varied from 18 days to one year nine months and 19 days. Thus, the Government did not implement its own policy.

Audit is of the opinion that short duration of Chief Executive adversely affects the overall performance of the organisation. In the case of the Corporation, indicative adverse impact can be interpreted as below:

- During 2009-10 to 2013-14, Managing Directors were changed two to three times in each of all the five financial years. The Corporation incurred loss throughout five years which aggregated to ₹ 339.17 crore.
- The whole financial year 2014-15 was monitored and controlled by one Managing Director during which the Corporation showed some improved result and yielded profit of ₹ 2.48 crore[4].

Reply of the Government was awaited (October 2016).

Appointment of independent transport regulator

2.6.11 As per accepted recommendation, the Transport Department of the State Government was required to appoint an independent transport regulator in the State.

During course of audit it was noticed (November 2015) that earlier the Corporation was revising the fare considering increase in the price of the

[4] As per provisional account of 2014-15.

GoUP did not appoint independent transport regulator though recommendation made by Audit in this regard was accepted by the GoUP

diesel only. The Government, however, by Notification in November 2012, authorised the Chairman of the State Transport Authority (STA) to revise the fare keeping in view the increase in cost of operation (fuel, salary and allowances only), number of passenger based on average load factor in accordance with the formula prescribed in the Notification.

Audit observed that the Government has not taken up the audit recommendation in its spirit as discussed below:

- The formula of revision of the fare had been streamlined to some extent but not fully. The formula considers the fuel, salary and allowances but does not consider other factors such as depreciation of buses, fixed expenses and interest on capital expenditure *etc.* This indicates that the formula proved ineffective to compensate the financial losses of the Corporation ranged between ₹ 34.57 crore and ₹ 131.54 crore during 2009-10 to 2013-14.

- The revised fares fixed by STA still cannot be implemented without approval of the Government; therefore, STA is not independent for revision of fare in an objective and transparent manner.

Audit further observed that there had been decreasing trend in Corporation's share of total buses and increasing share of private buses. Therefore, the Government should have a policy for fixation of fare transparently and regulation of transport services in the State through an independent transport regulating body.

Reply of the Government was awaited (October 2016).

Conclusion

The Follow-up audit disclosed that one recommendation has been complied by the Corporation and six accepted audit recommendations were yet to be implemented by the Corporation as well as GoUP as the shortcomings noticed earlier still persist as detailed below:

- **the Corporation did not induct operation of even a single bus on the routes not nationalised of 1,85,730 km in the State. Whereas, 46,938 private stage carriages (91 *per cent* of the total buses in the State) were plying on routes not nationalised;**

- **the Corporation did not make sincere efforts to realise the old dues. As a result, dues of ₹ 36.44 crore remained pending at the end of October 2016;**

- **the Corporation failed to implement Audit recommendation to speed up PPP projects for tapping other than traffic revenue sources for cross subsidisation of uneconomical operation of buses. As a result, the Corporation's net loss of ₹ 34.57 crore to ₹ 131.54 crore during last six years could not be set off from other than traffic revenue;**

- **the Government did not formulate its own transport policy on the line of National transport policy;**

- **the Government continued posting of Managing Directors for very short periods of 18 days to one year nine months; and**

- **the Government had not appointed independent transport regulator for the Corporation.**