Chapter-III
Social and Economic Sectors
(Public Sector Undertakings)

Chapter-III

Social and Economic Sectors (Public Sector Undertakings)

3.1 Functioning of State Public Sector Undertakings

3.1.1 Introduction

State Public Sector Undertakings (PSUs) consist of State Government companies and statutory corporations. State PSUs are established to carry out activities of commercial nature and occupy an important place in the State's economy. As on 31 March 2017, there were 22 working PSUs. Of these, no company was listed on the stock exchange. During the year 2016-17, no PSU was either incorporated or closed down. Details of the State PSUs in Uttarakhand as on 31 March 2017 are given in **Table-3.1.1** below.

Table-3.1.1: Total number of PSUs as on 31 March 2017

Type of PSUs	Working PSUs	Non-working PSUs[1]	Total
Government Companies	19	04[2]	23
Statutory Corporations	03[3]	-	03
Total	***22***	***04***	***26***

The working PSUs registered a turnover of ₹ 7,323.64 crore ***(Appendix-3.1.2)*** as per their latest finalised accounts as of 30 September 2017. This turnover was equal to 3.75 *per cent* of the Gross State Domestic Product for 2016-17. The working PSUs incurred an aggregate loss of ₹ 235.23 crore as per their latest finalised accounts as of 30 September 2017. They had 20,693 employees ***(Appendix-3.1.2)*** as at the end of March 2017. As on 31 March 2017, working PSUs had paid up capital of ₹ 5,636.99 crore and the four non-working PSUs had paid up capital of ₹ 0.35 crore.

3.1.2 Accountability framework

The audit of Government companies is governed by Section 139 and 143 of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, a Government company means any company in which not less than 51 *per cent* of the paid up share capital is held by Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary company of such a Government Company. Further, as per sub-Section 7 of Section 143 of the Act, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, the Comptroller and Auditor General of India (CAG) may cause an audit to be conducted of the accounts of such Company, and Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to such audit. The audit of the financial

---

1 Non-working PSUs are those which have ceased to carry on their operations.

2 Kumtron Limited, Uttar Pradesh Hill Phones Limited, Uttar Pradesh Hill Quartz Limited and UPAI Limited (under liquidation since 31 March 1991).

3 Uttarakhand Parivahan Nigam, Uttarakhand Forest Development Corporation and Uttarakhand Peyjal Sansadhan Vikas Evam Nirman Nigam.

statements of a Company in respect of the financial years that commenced on or after 31 March 2014 shall be governed by the provisions of the Companies Act, 2013.

3.1.3 Statutory Audit

The financial statements of Government companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by statutory auditors, who are appointed by CAG under Section 139 (5) or (7) of the Act. The statutory auditors shall submit a copy of the Audit Report to the CAG which, among other things, includes the directions issued by the CAG, the action taken thereon and its impacts on the accounts. The financial statements are subject to supplementary audit by CAG within 60 days from the date of receipt of the Audit Report under Section 143 (6) of the Act.

Audit of statutory corporations is governed by their respective legislations. Out of the three statutory corporations, CAG is the sole auditor for the Uttarakhand Parivahan Nigam and the Uttarakhand Forest Development Corporation. In respect of Uttarakhand Peyjal Sansadhan Vikas Evam Nirman Nigam, the audit was entrusted to the CAG initially from 2003-04 to 2008-09 and then extended upto 2018-19 under Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

3.1.4 Role of Government and Legislature

The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature monitors the accounting and utilisation of Government investment in the PSUs. For this purpose, the Annual Reports together with the Statutory Auditors' Reports and the comments of the CAG, in respect of State Government companies and Separate Audit Reports in case of statutory corporations, are to be placed before the State Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

3.1.5 Stake of State Government in the Public Sector Undertakings

The State Government has substantial financial stake in these PSUs which is mainly of three types:

- **Share Capital and Loans**- In addition to Share Capital Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State Government guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

3.1.6 Investment in State PSUs

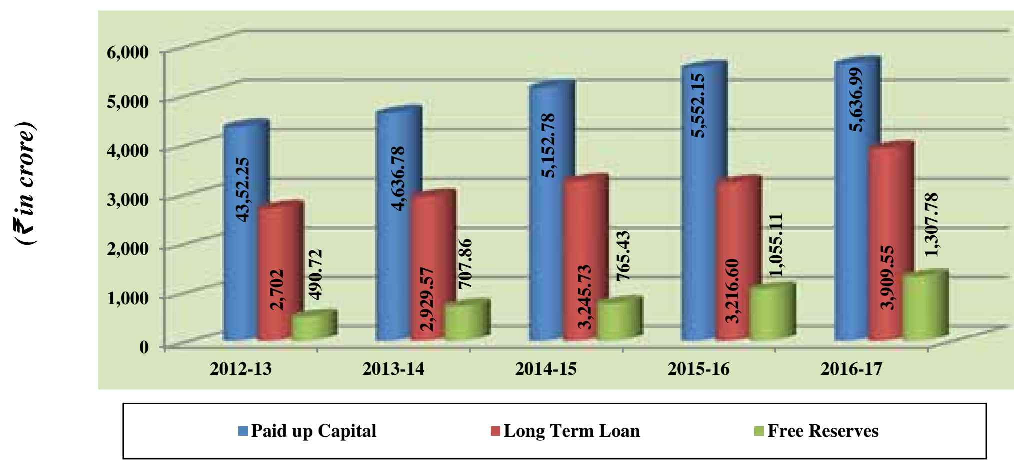
As on 31 March 2017, the Investment (paid up capital, free reserves and long-term loans) in all PSUs was ₹ 10,854.32 crore as per details given in **Table-3.1.2** below.

Table-3.1.2: Total Capital Employed in PSUs *(₹in crore)*

Type of PSUs	Government Companies				Statutory Corporations				Grand Total
	Paid up Capital	Long Term Loans	Free Reserves	Total	Paid up Capital	Long Term Loans	Free Reserves	Total	
Working PSUs	2,968.39	3,829.78	970.23	7,768.40	2,668.25	79.77	337.55	3,085.57	10,853.97
Non-working PSUs	0.35	-		0.35	-	-		-	0.35
Total	***2,968.74***	***3,829.78***	***970.23***	***7,768.75***	***2,668.25***	***79.77***	***337.55***	***3,085.57***	***10,854.32***

As on 31 March 2017, 99.99 *per cent* of the total Investment in State PSUs was in working PSUs and the remaining 0.01 *per cent* in non-working PSUs. The total Investment consisted of 51.95 *per cent* towards paid up capital, 12.05 *per cent* towards free reserves and 36 *per cent* in long-term loans. The Investment has grown by 49.70 *per cent* from ₹ 7,250.93 crore in 2012-13 to ₹ 10,854.32 crore in 2016-17 as shown in the **Graph-3.1.1** below.

Graph-3.1.1: Total Investment in PSUs



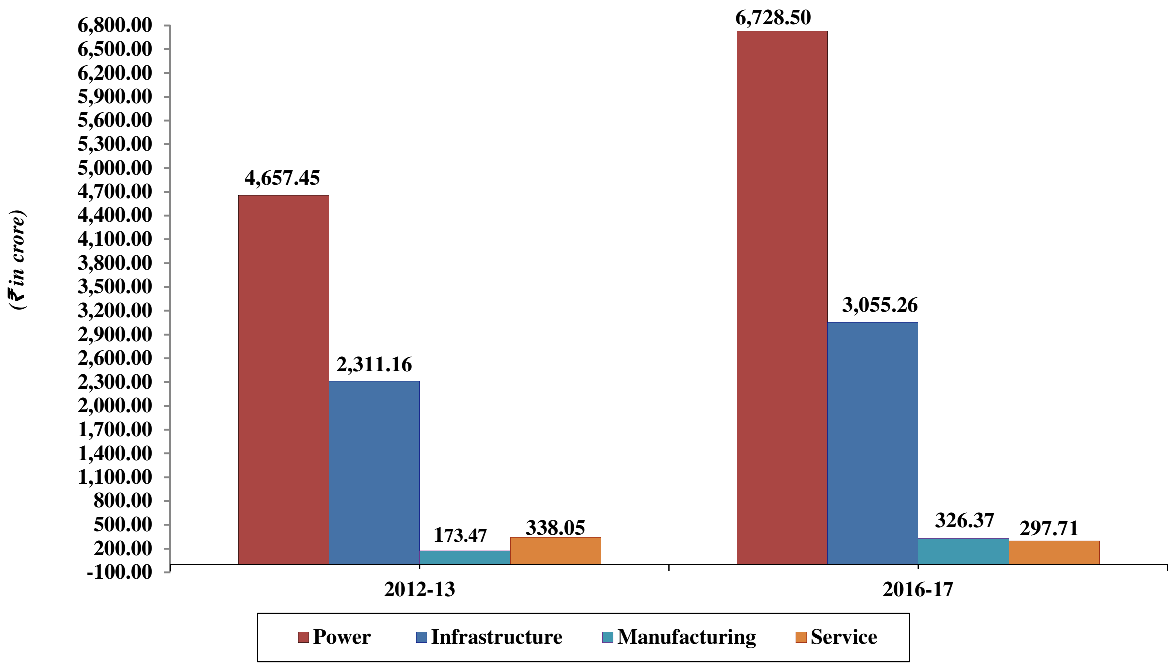
3.1.6.1 The sector wise summary of Investment in the PSUs as on 31 March 2017 is given in **Table-3.1.3** below.

Table-3.1.3:Sector-wise Investment in PSUs

Name of Sector	Government companies		Statutory corporations	Total no. of PSUs	Total Investment
	Working	Non-Working	Working		*(₹in crore)*
Power	3	-	-	3	6,728.50
Manufacturing	6	3	-	9	326.37
Finance	3	-	-	3	31.67
Miscellaneous	2	-	1	3	391.63
Service	2	-	1	3	297.71
Infrastructure	2	-	1	3	3,055.26
Agriculture & Allied	1	1	-	2	23.18
Total	***19***	***4***	***3***	***26***	***10,854.32***

The Investment in four significant sectors at the end of 31 March 2013 and 31 March 2017 is indicated in **Graph-3.1.2** below.

Graph-3.1.2: Sector wise Investment in PSUs



During the period 2012-13 to 2016-17, the highest growth in Investment was in the Manufacturing sector, ₹ 173.47 crore in 2012-13 to ₹ 326.37 crore (88.14 *per cent*) in 2016-17. The investment in power sector increased by ₹ 2,071.05 crore (44.47 *per cent*) while it increased in infrastructure sector from ₹ 2,311.16 crore in 2012-13 to ₹ 3,055.26 crore (32.19 *per cent*) in 2016-17. The Investment in Service sector decreased (11.93 *per cent*) from ₹ 338.05 crore in 2012-13 to ₹ 297.71 crore in 2016-17 due to repayment of loan by the Companies/Corporations.

3.1.7 Special support and returns during the year

The State Government provides financial support to PSUs in various forms through its annual budget. The summarised details of budgetary outgo towards share capital, loans, grants/subsidies, loans written off and interest waived in respect of State PSUs are given in **Table-3.1.4** below for three years ending 31 March 2017.

Table-3.1.4: Details regarding budgetary support to PSUs

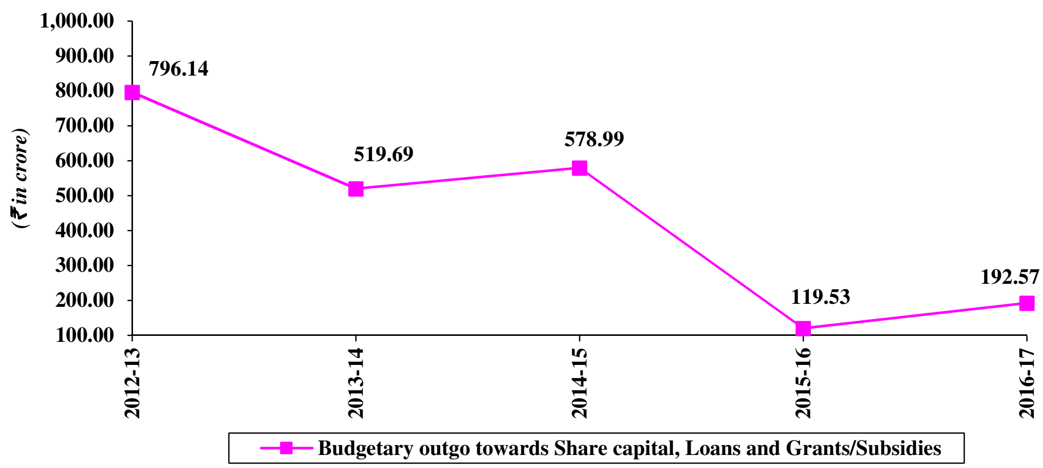
(₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Share Capital outgo from budget	4	171.96	4	57.76	3	93.50
2.	Loans given from budget	5	374.43	3	17.35	2	29.84
3.	Grants/Subsidy from budget	3	32.60	4	44.42	7	69.23
4.	**Total Outgo (1+2+3)**		**578.99**		**119.53**		**192.57**
5.	Waiver of loans and interest	-	-	-	-	-	-
6.	Guarantees issued	2	57.87	4	509.52	5	683.40
7.	Guarantee Commitment	4	1,471.97	4	852.55	3	2,245.31

Source: Information provided by the PSUs/Companies.

The details regarding budgetary outgo towards share capital, loans and grants/subsidies for the past five years are given in the **Graph-3.1.3** below.

Graph-3.1.3: Budgetary outgo towards Share capital, Loans and Grants/Subsidies



The budgetary outgo of the State Government towards share capital, loans and grants/subsidies had shown a fluctuating trend. It decreased from ₹ 796.14 crore in 2012-13 to ₹ 519.69 crore in 2013-14, ₹ 578.99 crore in 2014-15, ₹ 119.53 crore in 2015-16 and ₹ 192.57 crore in 2016-17.

The amount of Guarantee commitments as on 31 March 2015 was ₹ 1,471.97 crore (four PSUs) which decreased to ₹ 852.55 crore (three PSUs) as on 31 March 2016 and then increased to ₹ 2,245.31 crore as on 31 March 2017, due to the guarantee given by the State Government on Restructured Accelerated Power Development Reforms Programme (R-APDRP) loan to the Uttarakhand Power Corporation Limited. During the current year, loans aggregating ₹ 683.40 crore of five[4] PSUs were guaranteed by the State Government.

In order to enable PSUs to obtain financial assistance from banks and financial institutions, State Government provides guarantee and charges guarantee fee from zero *per cent*[5] to one *per cent.* Only one PSU, namely Uttarakhand Jal Vidyut Nigam Limited paid guarantee fee of ₹ 4.89 crore during 2016-17.

3.1.8 Reconciliation with Finance Accounts

The figures in respect of share capital, loans and guarantees outstanding as per the records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. The position in this regard as at 31 March 2017 is given in **Table-3.1.5** below.

---

4 Uttarakhand Power Corporation Limited (₹ 233.70 crore), Uttarakhand Jal Vidhyut Nigam Ltd (₹ 423.45 crore), Kichha Sugar Company Limited (₹ 6.25 crore), Uttarakhand Alpsankhyak Kalyan Tatha Waqf Vikas Nigam (₹ 5.00 crore) and Uttarakhand Bahudeshia Vitta Evam Vikas Nigam Limited (₹ 15.00 crore).

5 Guarantee fee for Uttarakhand Bahudeshia Vitta Evam Vikas Nigam Limited is zero *per cent*.

Table-3.1.5: Share Capital, loans, guarantees outstanding as per the Finance Accounts *vis-à-vis* records of PSUs

(₹in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Share capital	3,123.73	3,205.11	81.38
Loans	494.45	626.17	131.72
Guarantees	988.83	2,245.31	1,256.48

There was a mismatch between figures furnished by the State PSUs and those depicted in the Finance Accounts. The concerned PSUs and the Finance Department were requested (October 2017) to take necessary action to reconcile the differences.

3.1.9 Arrears in finalisation of accounts

3.1.9.1 The financial statements for every financial year are required to be finalised by the companies within six months from the end of the relevant financial year *i.e.* by 30 September in accordance with Section 96 (1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act. In case of Statutory corporations, their accounts are finalised, audited and presented to the State Legislature as per the provisions of their respective Acts.

The details of progress made by working PSUs in finalisation of accounts as of 30 September 2017 are given in **Table-3.1.6** below.

Table-3.1.6: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Number of Working PSUs/Other Companies	20	21	21	21	22
2.	Number of accounts finalised during the year	10	23	16	16	42
3.	Number of accounts in arrears	150	148	153	158	138
4.	Number of Working PSUs with arrears in accounts	20	20	20	18	19
5.	Extent of arrears (numbers in years)	1 to 26 years	1 to 27 years	1 to 28 years	1 to 29 years	1 to 30 years

The administrative departments have the responsibility of overseeing the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The concerned Departments were regularly updated on the status of the arrears. In addition, the Accountant General also took up the matter with the Chief Secretary and the Secretary (Finance), Government of Uttarakhand in July 2016, August 2017 and October 2017 for liquidating the arrears of accounts. However, no significant improvement has been noticed. As a result, the net worth of those PSUs whose accounts were in arrear could not be assessed in audit (December 2017).

3.1.9.2 The State Government had invested (share capital, loans and grants) ₹ 127.06 crore in six PSUs for which accounts have not been finalised as detailed in ***Appendix-3.1.1***. In the absence of finalisation of accounts and their audit, it could not be ensured whether the investments made and expenditure incurred have been properly accounted for and whether the purpose for which the amount was invested had been achieved.

3.1.9.3 As on 30 September 2017, there were also arrears in finalisation of accounts by non-working PSUs as depicted in **Table-3.1.7** below.

Table-3.1.7: Position relating to arrears of accounts in respect of non-working PSUs

Name of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
UPAI Limited	Since 1989-90	28
Kumtron limited	Since 1990-91	27
Uttar Pradesh Hill Phones Limited	Since Formation (1987-88)	30
Uttar Pradesh Hill Quartz Limited	Since Formation (1989-90)	28

Out of four non-working PSUs, one PSU namely UPAI Limited was in the process of liquidation since 31 March 1991 and the remaining three non-working PSUs[6] had arrears of accounts for 27 to 30 years.

3.1.9.4 In respect of Statutory Corporations, the Uttarakhand Parivahan Nigam, Uttarakhand Forest Development Corporation and Uttarakhand Peyjal Sansadhan Vikas Evam Nirman Nigam have finalised their accounts upto 2015-16.

3.1.10 Placement of Separate Audit Reports

The status of placement of Separate Audit Reports (SARs), issued by the CAG (up to 30 September 2017) on the accounts of Statutory corporations, in the State Legislature is given in **Table-3.1.8** below:

Table-3.1.8: Status of placement of SARs in Legislature

Sl. No.	Name of statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature	
			Year of SAR	Present Status
1.	*Uttarakhand Parivahan Nigam*	2009-10	2010-11 to 2014-15	Not yet placed
2.	*Uttarakhand Peyjal Sansadhan Vikas Evam Nirman Nigam*	2013-14	-	-
3.	*Uttarakhand Forest Development Corporation*	2009-10 & 2010-11	2011-12 to 2015-16	Not yet placed

The concerned administrative departments were also informed in (December 2016 and October 2017) of the arrears in finalisation of accounts. However, no remedial measures were taken. As a result, the net worth of these PSUs could not be assessed in audit.

3.1.11 Impact of non-finalisation of accounts

Delay in finalisation of accounts raises the risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the arrears of accounts, the actual contribution of the PSUs to the GSDP for the year 2016-17 could not be ascertained.

3.1.12 Performance of PSUs as per their latest finalised accounts

3.1.12.1 The financial position and working results of working Government companies and statutory corporations are detailed in ***Appendix-3.1.2.*** The ratio of PSU turnover to Gross State Domestic Product (GSDP) shows the contribution of PSUs in the State economy. The details of working PSUs turnover and GSDP for a period of five years ending 31 March 2017 are given in **Table-3.1.9** below.

Table-3.1.9: Details of working PSUs turnover *vis-à-vis* GSDP

(₹in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Turnover[7]	4,042.00	5,103.24	5,741.42	7,173.33	7,323.64
GSDP[8]	1,31,835	1,49,817	1,61,985	1,84,091	1,95,192
Percentage of Turnover to GSDP	*3.07*	*3.41*	*3.54*	*3.90*	*3.75*

6 Kumtron limited, Uttar Pradesh Hill Phones Limited and Uttar Pradesh Hill Quartz Limited.

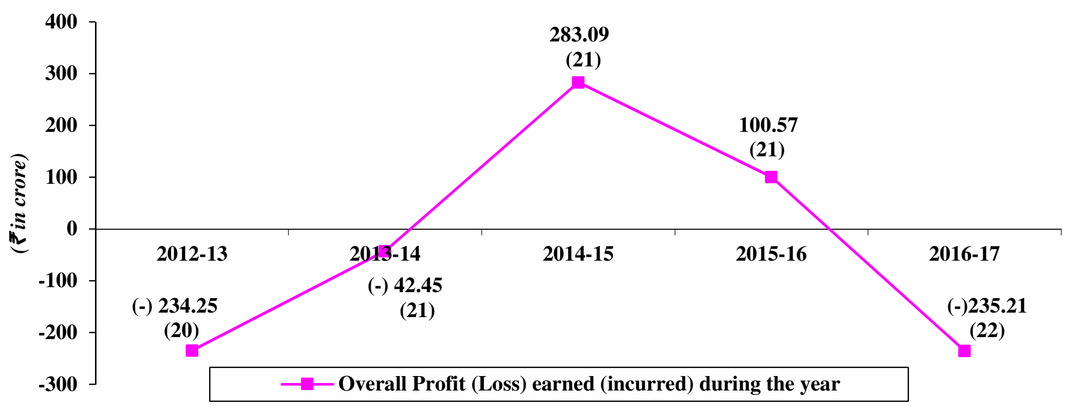
7 Turnover as per the latest finalised accounts as of 30 September 2017.

8 GSDP figures taken from the Report on State Finance for the year ended March 2017.

During the last five years, the turnover of working PSUs increased from ₹ 4,042.00 crore in 2012-13 to ₹ 7,323.64 crore in 2016-17 and its percentage to the GSDP also increased from 3.07 *per cent* in 2012-13 to 3.75 *per cent* in 2016-17.

3.1.12.2 Overall profits earned and losses incurred by working State PSUs during 2012-13 to 2016-17 are given in **Graph-3.1.4** below.

Graph-3.1.4: Profit/(-) Loss of working PSUs



(Figures in brackets show the number of working PSUs in respective years)

During the year 2016-17, out of 22 working PSUs, nine PSUs earned a profit of ₹ 211.41 crore and 13 PSUs incurred a loss of ₹ 446.62 crore. The contributors to profit were Uttarakhand Jal Vidyut Nigam Limited (₹ 74.59 crore), State Industrial Development Corporation of Uttarakhand Limited (₹ 50.88 crore) and Power Transmission Corporation of Uttarakhand Limited (₹ 39.17 crore). Losses were incurred by Uttarakhand Power Corporation Limited (₹ 288.78 crore), Doiwala Sugar Company Limited (₹ 36.04 crore), and Uttarakhand Parivahan Nigam (₹ 34.94 crore).

3.1.12.3 Some other key parameters of PSUs are given in **Table-3.1.10** below.

Table-3.1.10: Key Parameters of State PSUs (*₹ in crore*)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Return on Equity[9] (*per cent*)[$]	0.07	10.87	(-)11.17	3.51	(-)6.94
Return on Investment[10] (*per cent*)[$]	8.37	3.41	5.42	10.61	5.92
Debt	2,702.00	2,929.57	3,245.73	3,216.60	3,909.55
Turnover[$]	4,042.00	5,103.24	5,741.42	7,173.33	7,323.64
Debt/Turnover Ratio	0.67:1	0.57:1	0.57:1	0.45:1	0.53:1
Interest Payments	276.93	281.65	358.33	391.13	428.73
Accumulated Profits/Losses	(-)2,081.42	(-)2,034.59	(-)1,883.90	(-)1,948.47	(-)2,510.27

([$] Figures pertain to working PSUs only as per latest finalised accounts as of 30 September of the respective years).

3.1.12.4 The State Government had not formulated any dividend policy under which PSUs would be required to pay a minimum return on the paid up share capital contributed

9 Return on Equity = Net Profit after tax minus preference dividend/Shareholders funds where shareholders' funds = Paid up capital + Free Reserves and Surplus-Accumulated Loss-Deferred Revenue Expenditure.

10 Return on Investment = Net Profit before dividend, tax and Interest/Investment where Investment = Paid up capital + Free Reserves + Long term loans.

by the State Government. During the year 2016-17, one PSU, Uttarakhand Jal Vidyut Nigam Limited paid dividend amounting to ₹ 12.21 crore against the profit of ₹ 181.90 crore for previous year 2015-16.

3.1.13 Winding up of non-working PSUs

3.1.13.1 There were four non-working PSUs/companies as on 31 March 2017. Of these, one PSUs liquidation process, namely, UPAI Limited commenced on 31 March 1991. The number of non-working PSUs/companies at the end of each year during past five years has remained at four.

3.1.13.2 The stages of closure in respect of non-working PSUs are given in **Table-3.1.11** below.

Table-3.1.11: Closure of non-working PSUs

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working PSUs	04	-	04
2.	Of (1) above, the No. under	-	-	-
(a)	liquidation by Court (liquidator appointed)	01	-	01
(b)	Voluntary winding up (liquidator appointed)	-	-	-
(c)	Closure, *i.e.* closing orders/instructions issued but liquidation process not yet started.	03	-	03

During the year 2016-17, no company/corporation was finally wound up. The only company *i.e.* UPAI Limited which had taken the route of winding up by Court order is under liquidation for more than 25 years. The Government may take a decision regarding commencement of liquidation process in respect of other three non-working PSUs.

3.1.14 Accounts Comments

Thirteen working companies forwarded 34 audited accounts to the Accountant General during the year 2016-17. Of these, 33 accounts of 12 companies were selected for supplementary audit. The details of aggregate money value of comments of CAG and statutory auditors are given in **Table-3.1.12** below.

Table-3.1.12: Impact of audit comments on working Companies (*₹in crore*)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	5	22.94	7	34.73	11	55.14
2.	Increase in loss	2	0.76	5	192.62	20	189.51
3.	***Total***		***23.70***		***227.35***		***244.65***
4.	Non-disclosure of material facts	2	72.39	1	0.31	16	5.25
5.	Errors of classification	3	290.27	10	172.29	15	199.83

As a result of the accounts comments, there would be an overall decrease in profit/ increase in loss in 12 PSUs by ₹ 244.65 crore during the year 2016-17.

During the year, the statutory auditors had given qualified certificates for 15 accounts and adverse certificates for 19 accounts[11]. CAG gave qualified reports containing comments for 33 accounts during the supplementary audit and Non Review Certificate was issued in respect of one company[12]. The compliance of the Companies with the accounting

[11] State Infrastructure and Industrial Development Corporation of Uttarakhand Limited (2013-14), Uttar Pradesh Hill Electronics Corporation Limited (1998-99 to 2013-14) and Garhwal Mandal Vikas Nigam Limited (2006-07 & 2007-08).

[12] Bridge, Ropeway, Tunnel and other Infrastructure Development Corporation of Uttarakhand Limited earlier known as Uttarakhand State Infrastructure Development Corporation Limited.

standards remained poor. There were 123 instances of non-compliance in 20 accounts during the year.

Similarly, three working statutory corporations *viz.* Uttarakhand Parivahan Nigam, Uttarakhand Peyjal Sansadhan Evam Vikas Nirman Nigam and Uttarakhand Forest Development Corporation forwarded their eight accounts pertaining to the years 2011-12 to 2015-16 to the Accountant General between October 2016 and September 2017. These accounts pertained to sole audit by CAG which was completed. The details of aggregate money value of comments of CAG and statutory auditors are given in **Table-3.1.13** below.

Table-3.1.13: Impact of audit comments on Statutory Corporations

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of accounts	Amount (₹ *in crore*)	No. of accounts	Amount (₹ *in crore*)	No. of accounts	Amount (₹ *in crore*)
1.	Decrease in profit	2	49.49	-	-	5	165.34
2.	Increase in loss	6	87.40	2	12.66	3	48.33
3.	Non-disclosure of material facts	-	-	2	11.73	4	38.49
4.	Errors of classification	2	0.88	-	-	4	145.97

The impact of comments which was ₹ 137.77 crore in 2014-15, decreased to ₹ 24.39 crore in 2015-16 and increased to ₹ 398.13 crore in 2016-17.

3.1.15 Response of the Government to Audit

Paragraphs pertaining to the PSUs

For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2017, six compliance audit paragraphs including one Theme Based Compliance Audit[13] were issued to the Principal Secretaries of the respective Departments with a request to furnish replies within six weeks. However, replies in respect of five audit paragraphs[14] were awaited from the State Government (December 2017).

3.1.16 Follow up action on Audit Reports

The Reports of the Comptroller and Auditor General of India (CAG) represent the culmination of the process of statutory audit. It is, therefore, necessary that they elicit appropriate and timely response from the executive. All Administrative Departments are required to submit replies/explanatory notes to paragraphs/performance audits included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature, in the prescribed format, without waiting for the report to be discussed by the Committee on Public Undertaking (COPU). The status of receipt of explanatory notes is given in **Table-3.1.14** below.

Table-3.1.14: Explanatory notes not received as on 30 September 2017

Year of the Audit Report (Commercial/PSU)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs/Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2010-11	December 2012	01	04	01	04
2011-12	September 2013	01	02	01	02
2012-13	November 2014	01	02	01	02
2013-14	November 2015	-	06	-	06
2014-15	November 2016	-	06	-	06
2015-16	May 2017	-	02	-	02
Total		***03***	***22***	***03***	***22***

13 Bill Generation and Revenue Collection by UPCL.

14 In case of remaining one paragraph recovery of ₹ 21.25 lakh was effected (2017-18) by the Company.

3.1.17 Discussion of Audit Reports by Committee on Public Undertakings

The status as on 30 September 2017 of performance audits and paragraphs that appeared in Audit Reports (PSUs) and were discussed by the COPU is depicted in **Table-3.1.15** below.

Table-3.1.15: Performance Audits/paragraphs that appeared in Audit Reports *vis-à-vis* discussed as on 30 September 2017

Period of Audit Report	Number of Performance Audits/paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2010-11	01	04	01	02
2011-12	01	02	01	-
2012-13	01	02	01	01
2013-14	-	06	-	-
2014-15	-	06	-	-
2015-16	-	02	-	-
Total	***03***	***22***	***03***	***03***

3.1.18 Compliance to Reports of Committee on Public Undertakings

Action Taken Notes (ATN) to 17 paragraphs pertaining to six Reports of the COPU presented to the State Legislature between March 2011 and March 2017 had not been received (December 2017) as given in **Table-3.1.16** below.

Table-3.1.16: Compliance to COPU Reports

Year in which the COPU meeting held	No. of meetings held	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2014-15	05	02	07	No ATNs were received.
2015-16	06	02	08	
2016-17	01	02	02	
2017-18	No meeting was held			
Total	***12***	***06***	***17***	

It is recommended that the Government may ensure: (a) sending of replies to draft paragraphs/performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule and (b) revamping of the system of responding to audit observations to ensure timely response.

3.1.19 Recoveries at the instance of audit

Audit findings involving recoveries that came to notice in the course of test-audit of accounts of the PSUs were referred to the PSUs/State Government through Audit Inspections Reports for further investigation. In case of recovery, the same was required to be intimated to Audit. As a result, recovery of ₹ 0.67 crore on account of non-deduction of work contract tax was made by the Uttarakhand Power Corporation Limited during the year 2016-17.

3.1.20 Disinvestment, Restructuring and Privatisation of PSUs

During the year 2016-17, there was no case of privatisation of Government Companies and Statutory Corporations. The State Government has not prepared any policy on disinvestment of Government equity invested in the State PSUs.

3.1.21 Coverage of this Chapter (PSUs Chapter)

The PSUs Chapter contains five paragraphs[15] including one Theme Based Compliance Audit[16] with financial implication of ₹ 368.91 crore.

---

15 In case of one paragraph recovery of ₹ 21.25 lakh was effected (2017-18) by the Company.

16 Bill Generation and Revenue Collection by UPCL.

COMPLIANCE AUDIT

UTTARAKHAND FOREST DEVELOPMENT CORPORATION

3.2 Award of work without verifying credentials of agency

Corporation could not obtain Forest Stewardship certification after incurring an expenditure of ₹22.29 lakh.

With a view to create brand value and enhance revenue earning potential of produce from its forests, the Uttarakhand Forest Development Corporation (Corporation) planned (April 2010) to get Forest Management Certification under the Forest Stewardship Council (FSC) for timber rich areas of Dehradun, Kalsi, Ramnagar and Haldwani .

The Corporation approved[17] the proposal for FSC certification, which projected increase in revenue of the Corporation from ₹ 203.16 crore to ₹ 242.38 crore (increase of 19.31 *per cent*), post obtaining FSC certification. In pursuance of this objective, the Corporation entered into an agreement (20 June 2012) with an agency[18] for providing consultancy and conducting certification, at a contract value of ₹ 52.89 lakh.

The Corporation released (December 2012) ₹ 14.86 lakh as first installment of the consultancy and certification contract. The matter was *suo-motu* considered by the Quality Council of India[19] (QCI) which intimated (April 2013) the Corporation that the same body should not be entrusted with the task of providing consultancy and certification due to inherent conflict of interest. The Corporation ignored the suggestion of QCI and released further ₹ 7.43 lakh (July 2013) to the Agency. The Corporation approached (February 2014) the FSC, to ascertain the status of accreditation of the Agency, who informed (February 2014) that the Agency was a sub-contractor of Scientific Certification System (SCS) (an accredited body) and was not directly accredited to the FSC. This implies that the agency was not competent to issue forest stewardship certificate.

Audit observed (February 2016) that the Corporation failed to verify the credentials and status of accreditation of the Agency with the FSC prior to award of work. Since, the Agency was not a directly accredited body, the payment of ₹ 22.29 lakh[20] was rendered unfruitful and the Corporation could not avail the benefits envisaged in the proposal.

On this being pointed out, the Management accepted (April and August 2017) the observation and stated that the work of FSC accreditation was carried out for the first time by the Corporation and attributed this irregularity to lack of experience. It was

---

[17] In its 38th Board meeting held in December 2011.

[18] Green Initiatives Certification & Inspection Agency.

[19] An Autonomous Body set up by the Government of India to establish and operate national accreditation structure and promote quality.

[20] ₹ 14.86 lakh + ₹ 7.43 lakh.

further intimated that the process for cancellation of the agreement was underway. The Corporation had also issued (March 2016) orders to follow standards and directions of Quality Council of India while inviting and accepting tenders in future, to prevent recurrence of such irregularities.

The matter was referred to Government (April 2017); Reply was awaited (December 2017).

3.3 Irregular contribution of Employees Provident Fund

Corporation incurred an extra expenditure of ₹18.79 lakh by compensating employees for their mandatory EPF contribution of 12 per cent which was to be borne by the employees as per the Act.

As per the Employees' Provident Fund Act, 1952 (Act), it is mandatory for the employers to deduct 12 *per cent* from the wages drawn[21] by labourers as Employees' Provident Fund (EPF) contribution and deposit the same with the Employees' Provident Fund Organization (EPFO) along with the employer's share of contribution.

In order to carry out its day to day activities related to cutting, loading, and unloading of timber, the Corporation engages labour departmentally, who are entitled to benefits of provident fund in terms of the Act, *ibid*.

Audit observed (February 2017) that since inception (2001), the Corporation had neither been recovering the employees' share of contribution from the actual wages paid to the labourers engaged departmentally nor depositing its own share towards EPF.

The Corporation decided (December 2014) to bear the EPF contribution amount of all labourers (12 *per cent)* on its own account and book the same as Labour Welfare Expenses, to ensure that EPF deduction was made in respect of all departmentally engaged labourers.

The Corporation, therefore, ended up bearing both the employer's as well as the employees' shares of provident fund. This resulted in an extra expenditure of ₹ 18.79 lakh[22] on account of employees' share of EPF that was borne by the Corporation during the period December 2014 to February 2015.

The Corporation accepted (April 2017) the audit observation and stated that it had issued an office order (31 March 2017) to discontinue the compensation of employees' share of EPF with effect from 1 April 2017. However, the fact remains that the Corporation had already borne an extra expenditure of ₹ 18.79 lakh on account of payment of employees' share of EPF which was not recoverable.

The matter was referred to the Government (April 2017); Reply was awaited (December 2017).

---

[21] Upto a maximum of ₹ 15,000 per month. For workers drawing wages more than ₹ 15,000 per month the scheme was optional.

[22] ₹ 6.74 lakh (December 2014) + ₹ 4.83 lakh (January 2015) + ₹ 7.22 lakh (February 2015).

UTTARAKHAND JAL VIDYUT NIGAM LIMITED

3.4 Cost overrun due to delay in completion of project within the scheduled time frame

Uttarakhand Jal Vidyut Nigam Limited failed to execute the project in a planned manner resulting in cost overrun of ₹38.10 crore which could not be reckoned by the UERC towards fixation of tariff as it was attributed to controllable factors. The Nigam also had to forgo an additional component of project cost of ₹ 34.53 crore further reducing its claim for tariff determination.

One of the main functions of project management is to forecast and track costs to avoid cost overruns. Project management should concretely focus on timely completion of the project as any delay in the same can lead to increased costs. Further, in case of cost overruns, the controllable expenditure claims are not reckoned towards tariff determination as per Clauses 14 and 15 of the Uttarakhand Electricity Regulatory Commission (UERC), (Terms and Conditions for determination of tariff) Regulation, 2011.

Audit observed (February 2017) that the Uttarakhand Jal Vidyut Nigam Limited (Nigam) took over (November 2001) the proposed hydro project of Maneri Bhali - II (Project) from the Government of Uttar Pradesh and Uttar Pradesh State Electricity Board (UPSEB)[23]. The Nigam signed supplementary agreements[24] with the original contractors in July 2002. Audit noticed that the project execution suffered delays (***Appendix-3.4.1)*** ranging from 25 months to 30.5 months. As a result, the project could not be completed by the scheduled date (January 2006). It was eventually commissioned in March 2008. Scrutiny of project documents revealed that there was an avoidable delay in grouting work of Head Race Tunnel (HRT) and other non-critical construction activities. Audit also noticed that the Nigam did not deploy adequate resources (additional dumpers) required in the construction of the Head Race Tunnel from Dharasu Adit (12-16 kms). There were delays in construction of the control room and switchyard. Bharat Heavy Electricals Limited (BHEL), a major contractor, could not start its part of the work due to delay of 25 months in civil works. Audit observed that the Nigam did not face fund shortage at any point of time nor did it face any problems in respect of acquisition of land or resistance from the public. The delays were, therefore, attributable to poor planning and slow execution of work by the Nigam. After commissioning of the project, during 2007-08 to 2013-14, UERC provided provisional tariff to the Nigam. The Nigam approached (November 2014) the Uttarakhand Electricity Regulatory Commission

---

[23] The original estimate of the project was ₹ 43.33 crore and was approved by Central Water and Power Commission (CWPC) in 1972. It was revised to ₹ 45.71 crore in 1973. By 1993, an expenditure of ₹ 153 crore had been incurred on the project. A revised estimate of ₹ 1,249.18 crore was approved by Central Electricity Authority (CEA) on 21.02.2000. The same was funded by Power Finance Corporation at a cost of ₹ 1,714.41 crore.

[24] Erstwhile UPSEB awarded the contract before creation of Uttarakhand State (November 2000) and UJVNL signed supplementary agreement with the same contractor in July 2002.

(UERC) for the true up[25] of previous period and final tariff determination. The Commission approved (April 2015) project cost of ₹ 1,889.22 crore only against ₹ 1,958.13 crore claimed by the Nigam treating the delay of last six months as avoidable and controllable as detailed in ***Appendix-3.4.2***. The Nigam filed a review petition (No. 58 of 2015) before the UERC against this award which was turned down (January 2016). The Nigam, subsequently, reduced its claim from ₹ 1,958.13 crore to ₹ 1,923.60 crore[26] forgoing claim of ₹ 34.53 crore. The UERC finally approved ₹ 1,885.50 crore[27] as project cost towards tariff determination.

The Management accepted the facts and stated (March 2017) that the UERC had approved only ₹ 1,885.50 crore out of the claimed amount of ₹ 1,923.60 crore and that they were regularly taking up the issue with the UERC. However, the fact remains that the Nigam had failed to complete the project as per schedule despite availability of funds and with no other recorded hurdles in project execution as ascertained from scrutiny of documents. Further, it also had to bear on its own account, cost overrun of ₹ 38.10 crore[28] which could not be reckoned towards fixation of tariff as it was attributed to controllable factors. The Nigam also had to forgo an additional component of project cost of ₹ 34.53 crore further reducing its claim for tariff determination.

The matter was referred to the Government (August 2017); Reply was awaited (December 2017).

3.5 Loss due to failure to take an appropriate insurance policy

Uttarakhand Jal Vidyut Nigam Limited could not claim loss of ₹ 2.18 crore as it failed to take Industrial All Risk Policy.

As a prudent business practice, the Uttarakhand Jal Vidyut Nigam Limited (Nigam) takes Industrial All Risk (IAR) policy for its commissioned projects. Such a policy covers loss of an asset as well as indemnifies loss of revenue due to consequent reduction in the turnover of the project for a maximum period of six months. Kaliganga-I (4 MW) Small Hydro Project (SHP) of the Nigam was commissioned in July 2012 and commenced its commercial operation from September 2012. However, major project structures were damaged/washed away in June 2013 due to a natural calamity resulting in cessation of power generation.

Audit revealed (February 2017) that instead of taking an IAR policy for the SHP after its commissioning in July 2012, as is the usual practice, M/s SCL-BFL Joint Venture (the Contractor[29]) and the Nigam took a Standard Fire and Special Perils policy (for the period from 31.08.2012 to 30.08.2013) for the project. This policy did not indemnify loss of revenue

---

25 True up of tariff means refixing of the provisional tariff on the basis of revised expenditure/investment figures. The impact of the true-up is reflected in the current year tariff.

26 Items of Reduced claim: ₹ 18.81 crore as penalty on late payment of guarantee fee, ₹ 12 crore paid as guarantee fee after date of commissioning and ₹ 3.72 crore wrongly included as R & M (Repair & Maintenance) expenses = ₹ 34.53 crore.

27 ₹ 1,889.22 crore - ₹ 3.72 crore wrongly included as R&M expenses = ₹ 1,885.50 crore.

28 ₹ 1,923.60 crore - ₹ 1,885.50 crore = ₹ 38.10 crore [₹ 30.16 crore {Interest during Construction (IDC)} + ₹ 7.94 crore {Price Variation (PV)}].

29 Responsible for operation and maintenance of the SHP for one year after commissioning.

due to cessation of power generation. The project was severely affected in the natural calamity in June 2013 resulting in total loss of generation of power. During its period of operation from July 2012 to June 2013, the project had generated a total of 11.60 MUs with an average monthly generation of 0.966 MUs. However, upon damage to the SHP, the Nigam could not claim revenue loss of ₹ 2.18 crore[30] from the insurance company as the existing policy did not indemnify loss of power generation.

The Management stated (March 2017) that an insurance policy was taken by the contractor which was valid for a period of one year of operation and maintenance. So it was not appropriate to take two different policies as insurance premium would have increased for the same property/project. Further, the loss of generation was due to stoppage of project operation due to silt etc. which is an exclusion in the IAR policy as well.

Reply of the Management is not acceptable. The project was badly damaged due to a natural disaster as per the report of the Nigam team that visited (September 2013) the site of the SHP. The report states that the power house, the control room, the switch yard, the approach road and the office building were completely washed away due to flash flood and landslides, which indicates that the generation loss in the SHP was not due to silt alone as stated by the Management. Further, the Nigam had departed from its practice of taking an IAR Policy and instead settled for a Standard Fire and Special Perils policy after commissioning of the said SHP in July 2012.

Thus, failure to take an Industrial All Risk Policy disregarding its own standard practice deprived the Nigam of claiming revenue loss of ₹ 2.18 crore from the insurance company consequent upon loss of the SHP and the power generated by it.

The matter was referred to the Government (May 2017); Reply was awaited (December 2017).

UTTARAKHAND POWER CORPORATION LIMITED

3.6 Bill Generation and Revenue collection by Uttarakhand Power Corporation Limited

UERC levied a penalty on UPCL amounting to ₹6.52 crore due to its failure to release new connections in time. The distribution loss of UPCL was ₹240.91 crore in six divisions. The Vigilance team of UPCL carried out checks only to the extent of 0.18 per cent to 0.54 per cent of consumers in 14 divisions. Additional security amounting to ₹58.60 crore, initial security amounting to ₹2.87 crore and delayed payment surcharge amounting to ₹132.58 crore could not be recovered by UPCL.

3.6.1 Introduction

Uttarakhand Power Corporation Limited (UPCL) incorporated on 12 February 2001 under the Companies Act, 1956, is the state power distribution utility. It supplies power to over 1.89 million consumers of the State.

[30] 0.966 MUs (9,66,787.50 Units) x 6 months x at the rate of ₹ 3.75 per unit = ₹ 2.18 crore. It is the practice of the Nigam to take insurance policy covering generation loss for period of six months. Therefore, loss has been calculated for a period of six months.

UPCL has categorised its consumers, based on their domestic, non-domestic, agricultural and industrial loads, into nine categories. The billing data of the consumers of UPCL are maintained on two different platforms relating to Key Consumer Cell (KCC)[31] and non-KCC. The non-KCC[32] platform caters to 18.66 lakh consumers whereas 23,000 consumers are billed using KCC platform.

3.6.2 Billing and Revenue collection process of UPCL

UPCL purchases power from the power generators and distributes the same to the end consumers, through its 36 distribution divisions. These divisions raise electricity bills on the consumers, as per their jurisdiction. Consumers can deposit their electricity bills in any division or through online payment process. The amounts, thus collected, are transmitted to central accounts of UPCL.

3.6.3 Scope and methodology of audit

For analysing bill generation and revenue collection activities of UPCL, audit selected 14 distribution divisions[33] out of 36 distribution divisions, on the basis of weighted stratified sampling[34] and the data sets received were analysed[35] using data analytics.

Thereafter, the records pertaining to consumers were reviewed, during June to August 2017 covering the period from 2014-15 to 2016-17.

Audit Findings

3.6.4 Release of connections

Uttarakhand Electricity Regulatory Commission (UERC) (Release of new LT connections, Enhancement and reduction of loads) Regulation, 2013 provide that the licencee *i.e.*, UPCL shall be under obligation to energise the connection through a correct meter, within 30 days from the date of application for connection. Further, the distribution divisions and test-divisions of UPCL are jointly responsible for release of new connections in time.

3.6.4.1 Delay in release of new connections

The *ibid* Regulations, 2013 provide that if the licensee fails to provide connection to an applicant within specified period it shall be liable to pay penalty at the rate of ₹ 10 per ₹ 1,000 (or part thereof) of the amount deposited by the applicant subject to a maximum of ₹ 1,000 for each day of default.

---

31 For consumers with sanctioned load of 5 KW or above.

32 For consumers with load below 5 KW.

33 Rudrapur, Sitarganj, Haldwani Urban, Haldwani Rural, Tehri, Dehradun Rural, Dehradun South, Roorkee Urban, Roorkee Rural, Haridwar Urban, Haridwar Rural, Kotdwar, Kashipur and Bazpur.

34 Weighted stratified sampling was done by assigning weights based on criticality of various risk parameters like arrear, defects in meter, realisation gap, commercial and industrial consumer, connected load, total number of consumers.

35 As on March 2017, the number of consumers in 14 sampled divisions was 10,39,127, which is 54.98 *per cent* of the total consumers of UPCL. The revenue of the sampled divisions was ₹ 4,230.01 crore against the total revenue of ₹ 5,572.89 crore which is 75.90 *per cent* of the total revenue of UPCL.

Scrutiny of the records revealed that in seven divisions[36], 6,337 connections were released after the due date of release of connection during 2014-15 to 2016-17. This delay resulted in accumulation of penalty of ₹ 2.72 crore on UPCL in respect of these divisions (***Appendix-3.6.1***). UERC levied (January 2016) a penalty of ₹ 6.52 crore on UPCL because of failure to comply with the above regulation. The UPCL paid penalty of ₹ 0.65 crore. It was also noticed that one of the divisions[37] failed to provide connections to essential services[38] for more than five years and residents of the area were deprived from availing the benefit of Government welfare measures.

3.6.4.2 Non-compliance with UERC load regulation

UERC (Release of HT and EHT connections, Enhancement and Reduction of Load) Regulation, 2008 provides that industrial connection above 88 KVA should be released on 11 KV line and all steel/furnace consumers shall be sanctioned load at 33 KV or above and through independent feeder only. In this regard, it was noticed that:

- In two divisions[39] of UPCL, the connections of steel consumers[40] were released on 11 KV Line instead of 33 KV line independent feeder.
- In Dehradun (Rural) division, the load of a consumer[41] was enhanced from 40 KVA to 175 KVA but the connection was released on 0.4 KV Line instead of 11 KV line. Similarly, in Haridwar (Urban), a connection was released to a consumer[42] on 0.4 KV Line with a contracted load of 119 KV instead of 11 KV line.

This resulted in violation of UERC Regulation as well as loss to the UPCL in form of centage charges at the rate of 18 *per cent* of the construction cost which was recoverable from the consumers. Further, the new lines which could have been developed at the cost of consumers would have also augmented the distribution network of UPCL.

3.6.5 Loss of energy in distribution

3.6.5.1 A substantial amount of energy is lost by way of distribution losses. The distribution losses should not exceed the norms[43] fixed by the UERC.

The details in respect of input energy received, energy billed/sold, energy not billed and billing efficiency of UPCL during 2014-15 to 2016-17 are given in **Table-3.6.1** below:

---

36 Haldwani (Rural), Kashipur, Rudrapur, Tehri, Haridwar Urban, Haridwar Rural and Rural Dehradun.
37 New Tehri.
38 Havel Ghati Pumping Peyjal Yojana (load 810 KW) pending from March 2012 and Ghantakaran Peyjal Yojana (load 1,493 KW) is pending from March 2015.
39 Sitarganj and Haldwani (Rural).
40 M/s Kumaon Ispaat Udyog limited and M/s Pal Alloy and Steel Casting Pvt. Ltd.
41 M/s Samiksha Industries.
42 M/s Gurukul Pharmacy.
43 15.5 *per cent* in 2014-15, 15.0 *per cent* in 2015-16 and 15.0 *per cent* in 2016-17 was, fixed by UERC.

Table-3.6.1: Details in respect of input energy received, energy billed/sold, energy not billed and billing efficiency during 2014-17

Sl.No.	Particulars	2014-15	2015-16	2016-17
1.	Input Energy (in MUs)	11,888.23	12,559.59	12,780.31
2.	Energy Billed/Sold (in MUs)	9,685.16	10,298.14	10,571.68
3.	Energy not Billed (in MUs)	2,203.07	2,261.45	2,208.63
4.	Billing Efficiency (in *per cent*)	81.47	81.99	82.72

Source: Information compiled from data of UPCL

It was evident from the above that the billing efficiency of UPCL ranged between 81.47 *per cent* and 82.72 *per cent* during the last three years. Also, the average power purchase cost (including repair and maintenance expenses, administrative expenses, *etc*) increased from ₹ 4.58 per unit to ₹ 5.13 per unit during 2014-15 to 2016-17, against which per unit realisation ranged between ₹ 4.61 per unit and ₹ 4.89 per unit. As a result, UPCL had to bear the losses on the billed energy which ranged between nine paisa per unit and 27 paisa per unit during the same period. This is reflected in the accumulated losses of the UPCL, which increased from ₹ 1,955.09 crore in 2014-15 to ₹ 2,339.50 crore in 2016-17.

It was also noticed that the overall distribution loss of UPCL ranged between 16.68 *per cent* and 18.64 *per cent* during 2014-15 to 2016-17 which was in excess of the norms fixed by UERC. Out of the selected units, distribution losses of six divisions[44] ranged between 23.39 *per cent* and 26.99 *per cent.* The losses above the acceptable norm amounted to ₹ 240.91 crore during 2014-15 to 2016-17 (***Appendix-3.6.2***). The reasons of distribution loss are discussed below:

3.6.5.2 Loss of energy and revenue due to theft/pilferage

Section 135 of Electricity Act, 2003 provides that theft of energy is a punishable offence. Further, Section 163 of Electricity Act, 2003 provides that the licensee may enter in the premises of a consumer for inspection and testing of apparatus.

It was observed that the Vigilance team of UPCL carried out checks of only 11,306 consumers during 2014-15 to 2016-17 in selected 14 divisions. The percentage of checking with respect to the total number of consumers ranged between 0.18 *per cent* and 0.54 *per cent* only. Theft cases detected as percentage of checked cases was, however, significant and ranged between 41.01 *per cent* and 60.60 *per cent* (***Appendix-3.6.3***). An assessment of ₹ 15.60 crore was made on the defaulting consumers against which ₹ 10.78 crore was realised and remaining amount of ₹ 4.82 crore was still pending for realisation as on March 2017.

Scrutiny of records further disclosed that the size of the vigilance team of UPCL was not commensurate with the size of the organisation and the consumer base. UPCL has sanctioned strength of only 12 officers for vigilance work *i.e.*, DIG/SSP (1 post), DSP (2 posts), Inspector (3 posts) and Sub Inspector (6 posts). The post of DIG/SSP was lying vacant since the constitution of Vigilance Cell in September 2003. The other posts were vacant from time to time. At present (November 2017), only three Inspectors and one Sub

[44] Sitarganj, Haldwani, Bazpur, Roorkee Urban, Roorkee Rural and Tehri.

inspector is posted. Had the UPCL strengthened its vigilance team and fixed norms for checking, it could have plugged the leakage of revenue due to theft more effectively.

3.6.5.3 Poor maintenance of Distribution Transformer Metering

UPCL envisaged metering and automatic data logging for all installed Distribution Transformers (DTR) so as to acquire energy data for accurate billing purpose and take corrective action pertaining to distribution losses at DTR level.

It was noticed that in four divisions[45], 573 meters/modems were installed against which only 284 (49.56 *per cent*) meters/modems were working/communicative. The remaining 289 (50.44 *per cent*) meters/modems were not working/communicative (***Appendix-3.6.4***) which adversely affected the recording of energy inflow/outflow and measurement of distribution losses. In the absence of communicative meters/modems, the accuracy of distribution losses at DTR level could not be ascertained.

3.6.6 Quality metering

UPCL installs electric meters at consumer's premises to measure electric energy delivered to consumers for billing purposes. Good quality meters are required for credibility, accuracy and consistency in recording power consumed by consumers. In this regard, following points were noticed:

3.6.6.1 Non-replacement of defective meters

Clause 3.1.4 of UERC Electricity supply code 2007 provides that identified defective meter (IDF) shall be replaced by UPCL within 15 days and it shall necessarily be rectified within a maximum period of three months.

Scrutiny of the billing records for the month of July 2017 revealed that 32,507 consumers of selected 14 divisions were billed on IDF basis during the month of July 2017 and in these cases electricity bills amounting to ₹ 81.50 crore[46] were generated on assessment basis. The meters of the consumers were defective since the last 1 to 115 months. It was noticed that absence of co-ordination between the Test Division (responsible for replacement of defective meter) and Distribution Division (responsible for billing) left scope for overuse of power by the concerned consumers and recurring loss to the UPCL. The UPCL did not follow the norms of UERC supply code and billing was done on

---

45 Sitarganj, Haldwani (Urban), Kotdwar and Dehradun (Rural).

46 Central Dehradun (No. of cases: 508 amount of assessment: ₹ 15.27 lakh), South Dehradun (No. of cases: 99 amount of assessment: ₹ 13.44 lakh),Rural Dehradun (No of cases: 1,921 amount of assessment: ₹ 52.12 lakh), Rudrapur (No. of cases: 9,371 amount of assessment: ₹ 1,893.47 lakh), Sitarganj (No. of cases: 2,969 amount of assessment: ₹ 3,024.66 lakh), Kashipur (No. of cases: 519 amount of assessment: ₹ 379.45 lakh), Bazpur (No. of cases: 756 amount of assessment: ₹ 82.39 lakh), Rural Haldwani (No. of cases: 1,203 amount of assessment: ₹ 334.97 lakh), Urban Haldwani (No. of cases: 1,210 amount of assessment: ₹ 204.60 lakh), Rural Roorkee (No. of cases: 3,009 amount of assessment: ₹ 700.87 lakh), Urban Roorkee (No. of cases: 4,072 amount of assessment: ₹ 840.25 lakh), Rural Haridwar (No. of cases: 1,644 amount of assessment: ₹ 403.65 lakh), Urban Haridwar (No. of cases: 630 amount of assessment: ₹ 96.00 lakh) and Kotdwar (Number of cases: 4,596 amount of assessment: ₹ 109.11 lakh).

assessment basis and not on actual basis. Due to absence of actual meter reading, the loss could not be quantified.

3.6.6.2 Non-replacement of mechanical meters

UERC vide its order dated 11 April 2015 directed UPCL to replace all mechanical meters with electronic meters by 31 December 2015. The electronic meters are accurate and tamper proof and, therefore, are helpful in reduction of line loss because of their inherent accuracy. It was noticed that in seven divisions out of 14 sampled divisions, 21,123[47] mechanical meters were pending for replacement as on March 2017. Non-replacement of the mechanical meters affected the quality of metering. The UPCL could not replace the mechanical meters because of lack of coordination between test division and distribution division.

3.6.6.3 Inadequate meter reading through MRI

In the premises of consumers with heavy load, UPCL installs Time of Day (ToD) meters with modem and an attached sim (in these types of electricity meters, the consumption data is communicated to the central servers for billing purposes automatically) or ToD meters without modem & sim (in these type of meters electricity consumption data is recorded using an electronic meter reading instrument). Clause 3.1.2 of UERC Supply code 2007 provides that Time of Day (ToD) meters[48] without modem and sim, wherever installed, shall be read only through a Meter Reading Instrument[49] (MRI). The MRI of a meter details the working and health of a meter. Also, if the meter is tampered or if the meter is recording less energy than consumed, the same can be detected through MRI.

It was noticed that reading through MRI of low and high tension consumers was due for 4,540 consumers in March 2015, 4,951 consumers in March 2016 and of 5,112 consumers in March 2017, in five divisions[50]. Against this, the divisions were able to do reading through MRI of only 2,805 (61.78 *per cent*), 2,917 (58.45 *per cent*) and 2,894 (56.61 *per cent*) consumers respectively **(*Appendix-3.6.5*).** Shortage of MRI left scope for leakage of revenue due to short billing or meter tampering.

3.6.6.4 Insufficient number of Automatic Meter Reading Instruments

In the Tariff order of 2016-17, UPCL had stated that installation of Automatic Meter Reading[51] (AMR) instruments is one of the essential requirements for reduction of line losses. UPCL had also committed that all connections above 5 KW shall be billed by AMR meters. AMR records electricity consumption and sends the same using SIM and Modems to a server for real time recording of power consumption by consumer. This process of meter reading through AMR instrument reduces human intervention and the chance of errors in billing.

---

[47] Haldwani Urban (766), Rudrapur (95), Sitarganj (3,612), Kashipur (463), Kotdwar (12,228), Haridwar Urban (2,282) and Bazpur (1,677).

[48] "Time of day" meter allows electric rates to be changed during a day, to record usage during peak hours (high rates) and off-peak (low rates).

[49] MRI is hand held portable machine used for meter reading and for checking health of meter.

[50] Rudrapur, Haldawani Urban, Roorkee rural, Roorkee urban and Bazpur.

[51] AMR captures the consumption data and transmits it to the power company.

Scrutiny of records revealed that in 12 divisions[52], out of 12,149 Key Consumer Cell consumers above 5 KW, billing of only 2,385 consumers (19.63 *per cent*) was done through AMR and 9,764 consumers were billed manually in 2016-17 (***Appendix-3.6.6***).

3.6.7 Billing Efficiency[53]

UERC issues tariff for each year and bills of consumers are required to be prepared as per the prescribed tariff for each category of consumers. Under billing of power consumed is a loss for UPCL whereas overbilling is against the interest of the consumers. Any abnormal billing should be analysed and corrective measures should be initiated.

3.6.7.1 Non-realisation of Initial Security Deposit

As per UERC LT Regulation 2013, UPCL collects security deposit from all categories of consumers at the time of releasing connections. During scrutiny of the records of 14 divisions[54], it was observed that as on March 2017, there were 800 consumers of different categories to whom connections were released without the required initial security deposit. This resulted in non-realisation of ₹ 2.41 crore and violation of UERC regulations (***Appendix-3.6.7***).

The Management stated that initial security deposit of some consumers might not have been recorded in the system at the time of transfer of data from manual to computerised system and in some cases it was not yet deposited. It further added that initial security deposit of these connections would be reconciled and realised. The reply indicates poor data management by the UPCL besides lack of control over realisation of revenue.

3.6.7.2 Non-levy of shunt capacitor surcharge

As per General conditions of Supply, a surcharge of five *per cent* on the current energy charges shall be levied on the consumers with inductive load who do not have Electronic Tri Vector Meters[55] or who have not installed shunt capacitors[56] of appropriate ratings and specifications.

It was noticed that in Rudrapur Division, connections of Public Water Works were billed on assessment basis and meter number and meter make of these consumers were not available on record. This means the Tri Vector meters were not installed. As such, the division should have levied five *per cent* surcharge on the electricity charges for the period from 2014-15 to 2016-17. This resulted in under billing of ₹ 24.98 lakh[57].

---

52 Haldwani Rural, Haldwani Urban, Rudrapur, Bazpur, Sitarganj Kotdwar, Tehri, Dehradun Rural, Roorkee Urban, Roorkee Rural, Haridwar Urban and Haridwar Rural.

53 Billing efficiency refers to total unit billed against total units input.

54 Rudrapur, Sitarganj, Haldwani Urban, Haldwani Rural, Tehri, Dehradun Rural, Dehradun South, Roorkee Urban, Roorkee Rural, Haridwar Urban, Haridwar Rural, Kotdwar, Kashipur and Bazpur.

55 The Trivector Meter is designed for metering of HT/LT consumers. The meter has advanced data and tamper attempt recording capabilities.

56 Shunt capacitor is an electronic device which is used for reducing line losses and improving voltage stability.

57 Electricity charge for 2014-15 - ₹ 72,73,728 + Electricity charge for 2015-16 - ₹ 4,12,30,796 + Electricity charge for 2016-17 - ₹ 14,48,208= ₹ 4,99,52,732 x5 *per cent* = ₹ 24.98 lakh.

The division stated (June 2017) that correspondences were being made with Test Division to install meters on connections of State Tube-wells. It further stated that instructions had been issued to the concerned Sub divisional officers and Junior Engineers to charge shunt capacitor surcharge in bills after installation of meters.

3.6.8 Revenue collection by UPCL

The power supplied by the divisions of UPCL is billed on the basis of the tariff fixed by UERC. Efficient realisation of the bills raised is vital as it is the only major source of revenue for the UPCL. Non-realisation of electricity bills on time results in accumulation of arrears and adversely affects the financial health of the company.

3.6.8.1 Non-recovery of electricity dues

Clause 4.1 of UERC electricity supply code 2007 provides that the UPCL may issue a disconnection notice in writing, as per Section 56 of the Electricity Act 2003, to the consumer who defaults on his payment of dues, giving him 15 clear days to pay the dues. It may disconnect the supply of the consumer on expiry of the said notice period. If the consumer does not clear all the dues including arrears within six months of the date of disconnection, such connections shall be disconnected permanently.

Scrutiny of records of UPCL relating to electricity dues of domestic, non-domestic, private tube-well, low tension and high tension industrial consumers disclosed that uncollected electricity dues had increased from ₹ 1,353.30 crore in 2014-15 to ₹ 1,420.47 crore in 2016-17 as detailed in **Table-3.6.2** below:

Table-3.6.2: Details of electricity dues of domestic, non-domestic, private tube-well, low/high tension industries during 2014-17

(₹in crore)

Sl. No.	Particulars	2014-15	2015-16	2016-17
1.	Balance outstanding at the beginning of the year	1,346.47	1,353.30	1,317.42
2.	Revenue assessed/Billed during the year	3,918.63	4,525.40	5,047.65
3.	Total amount due for realisation (1+2)	5,265.10	5,878.70	6,365.07
4.	Total amount adjusted/waived off/rebate	107.37	56.28	31.94
5.	Amount realised during the year	3,804.43	4,505.00	4,912.66
6.	Balance outstanding at the end of the year	1,353.30	1,317.42	1,420.47

Source: Information compiled from the records of UPCL.

The Management stated that efforts were being made for realisation of dues from the consumers. The reply is not convincing as UPCL did not take effective steps to realise the dues from the defaulting consumers by issue of Recovery Certificates (RCs) under section 170 of Electricity Act, 2003. Scrutiny of the records in respect of RCs revealed that during 2014-15 to 2016-17, UPCL issued RCs to private consumers amounting to ₹ 43.54 crore only against which it could realise only ₹ 1.29 crore (2.96 *per cent*) as detailed in ***Appendix-3.6.8***.

3.6.8.2 Non-realisation of delayed payment surcharge

In the event of electricity bill not being paid in full within 15 days' grace period after the due date, a surcharge of 1.25 *per cent* on the principal amount of the bill which has not been paid, shall be levied from the original due date for each successive month or part thereof until the payment is made in full in accordance with Section 56 of the Electricity Act, 2003.

It was noticed that the UPCL failed to recover the delayed payment surcharge amounting to ₹ 132.58 crore as on March 2017 from 4,429 different consumers[58] with connected load of 1,65,388 KW. This resulted in extra burden on the already strained financial resources of the UPCL. It was also observed that during 2014-15 to 2016-17, UPCL had to pay ₹ 57.89 crore in form of interest on overdraft to meet its expenses. Had the UPCL recovered the delayed payment surcharge from the concerned consumers, it could have lessened its financial burden in the form of payment of interest to that extent.

3.6.8.3 Non-recovery of additional Security

Paragraph 2.3.1 of UERC Regulations 2007 provides that security amount should be reviewed as per the consumption pattern of the consumers for the adequacy of security deposit of the previous year. A consumer is required to maintain a sum equivalent to estimated average consumption of two billing cycles. The differential amount is demanded as additional security by giving a notice to the consumers for making payment. Audit noticed that in 14 divisions[59], UPCL failed to recover the additional security amount of ₹ 57.53 crore (since April 2016) in respect of 3,431 large and heavy consumers as on 31 March 2017 (***Appendix-3.6.9***). The divisions neither recovered the additional security nor disconnected the electricity supply of such consumers. The Management replied that the demand notices had been issued for recovery. However, recovery of the additional security amount was still pending (August 2017) and the UPCL failed to protect its financial interest.

3.6.9 Other Issues

3.6.9.1 Non-installation of prepaid meters

As per order issued by the UERC dated 11 April 2012, on retail tariff of UPCL for 2012-13, approval was accorded for implementation of pre-payment metering with effect from October 2012. As per UERC, the use of pre-payment meters was expected to provide better services to the consumers and improve the cash flow of the UPCL.

Audit noticed that UPCL placed (July 2014) a supply order[60] for 5,000 single phase and 1,000 three phase pre-payment meters and associated accessories amounting to ₹ 3.90 crore. Out of the above, 1,000 single phase and 200 three phase meters with associated accessories amounting to ₹ 77.99 lakh[61] were received in first phase in 2014-15. These meters were issued by UPCL to its five Test Divisions[62] for use during release of new temporary connections.

---

58 Public lamp (1,325), Jal Sansthan (1,268), Jal Nigam (74), State tube-well (1,376), Pump canal (156), Lift irrigation (29), Railway traction (02), Recycling plant (109) and World bank tube-well (90).

59 Rudrapur, Sitarganj, Haldwani (Urban), Haldwani (Rural), Kashipur, Bazpur, Tehri, Kotdwar, Dehradun (South), Dehradun (Rural), Haridwar (Urban), Haridwar (Rural) Roorkee (Rural) and Roorkee (Urban).

60 Order number 999/UPCL/CE/CCP-II/23/2012-13 (Secure) dated 31 July 2014.

61 Cost of single phase pre-payment meters : ₹ 4,039.78 x 1,000 = ₹ 40,39,780/-, Cost of three phase pre-payment meters ₹ 9,360.05 x 200 = ₹ 18,72,010/-, In-house display unit @ ₹ 640.62 x 1,200 = ₹ 7,68,744/-, Pilfer-proof meter box (single phase & three phase) @ ₹ 932.35 x 1,200 = ₹ 11,18,820/-.

62 Divisions at Rudrapur, Haridwar, Dehradun Urban, Dehradun Rural and Roorkee.

It was noticed that out of 1,200 pre-payment meters received, only 622 meters were installed by UPCL during 2014-15. Due to difficulties faced in calibrating new tariff rates effective from April 2015 in pre-payment meters, UPCL decided (18 April 2015) to discontinue further installation of these meters. UPCL was unable to use the pre-payment meters due to its failure to envisage and build in the basic requirement of annual tariff revision in these meters rendering the expenditure of ₹ 77.99 lakh unfruitful. Besides, UPCL was also deprived of the additional benefits of improved cash flows expected through the use of pre-payment meters.

Conclusion

The UPCL was forced to bear losses in the distribution of the power supply. The reasons of distribution losses above the norms were non-replacement of mechanical meters, inadequate vigilance, non-replacement of defective meters in time and non-compliance with UERC Supply Code in metering. UPCL also could not realise the required initial and additional security amounts from the consumers; shunt capacitor charges; delayed payment surcharges; and electricity charges during the last three years which resulted in increase in arrears.

The matter was referred to the Government (September 2017); Reply was awaited (December 2017).

S. Alok

Dehradun **(S. ALOK)**
The 21 March 2018 **Accountant General (Audit)**
Uttarakhand

Countersigned

New Delhi **(RAJIV MEHRISHI)**
The 23 March 2018 **Comptroller and Auditor General of India**