

## Overview

This Report contains two parts. Part-A of the Report comprises of five chapters relating to general information about the Public Sector Undertakings, Audit on “Construction of new sub-stations and augmentation of capacity of the existing sub-stations by the Uttar Pradesh Power Transmission Corporation Limited” and Compliance Audit paragraphs of the Public Sector Undertakings. Part-B of the Report comprises of two chapters relating to general information and Compliance Audit paragraphs relating to Government Departments and Entities other than Public Sector Undertakings under Economic Sector of Uttar Pradesh.

### Part-A Functioning of Public Sector Undertakings

Audit of Government companies is governed by Sections 139 and 143 of the Companies Act, 2013. The financial statements of Government companies are audited by the Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG). These financial statements are also subject to supplementary audit by the CAG.

As on 31 March 2018, Uttar Pradesh had 107 State Public Sector Undertakings (PSUs) consisting of six Statutory Corporations and 101 Government companies (including 46 non-functional Government companies) under the audit jurisdiction of the Comptroller & Auditor General of India. As on 31 March 2018, the total investment (capital and long term loans) in 107 PSUs was ₹ 1,99,807.67 crore. The power sector received 85.60 *per cent* out of total investment of ₹ 69,554.02 crore made during the period from 2015-16 to 2017-18.

### Chapter-I: Functioning of Power Sector Undertakings

#### *Stake of Government of Uttar Pradesh*

As on 31 March 2018, the total investment (equity and long terms loans) in 15 Power Sector Undertakings was ₹ 1,83,202.93 crore. The investment consisted of 58.25 *per cent* towards equity and 41.75 *per cent* in long-term loans. The long term loans advanced by the State Government constituted 12.88 *per cent* (₹ 9,848.09 crore) of the total long term loans whereas 87.12 *per cent* (₹ 66,636.35 crore) of the total long term loans were availed from other financial institutions.

#### *Performance of Power Sector Undertakings*

The overall loss of ₹ 18,127.40 crore incurred by the Power Sector PSUs in 2015-16 increased to ₹ 18,534.62 crore in 2017-18. As per latest finalised accounts up to the year 2017-18 of the Power Sector PSUs, three PSUs earned profit of ₹ 449.01 crore and 10 PSUs incurred loss of ₹ 18,983.63 crore. The remaining two PSUs incurred marginal profit/loss<sup>1</sup>.

The accumulated losses of the Power Sector companies were ₹ 1,33,638.98 crore as against the capital investment of ₹ 94,157.20 crore as on 31 March 2018. Of the 15 Power Sector undertakings, the net worth of 11 PSUs were completely eroded (₹ -60,616.92 crore) during 2017-18.

<sup>1</sup> Southern UP Power Transmission Company Limited: ₹ 682 and Yamuna Power Generation Company Limited: ₹ 91,611.

### ***Financial Turnaround of DISCOMS under Ujwal DISCOM Assurance Yojana (UDAY)***

A Memorandum of Understanding (MoU) was signed (30 January 2016) among the Ministry of Power (MoP), the Government of Uttar Pradesh (GoUP) and Uttar Pradesh Power Corporation Limited on behalf of DISCOMS (PuVVNL, PVVNL, DVVNL, MVVNL and KESCO<sup>2</sup>) for providing assistance to the State owned Power Sector PSUs. As per provisions of the UDAY Scheme and MoU, out of total outstanding debt (₹ 53,935.06 crore) pertaining to DISCOMS as on 30 September 2015, the GoUP took over total debt of ₹ 39,133.76 crore during the period 2015-16 and 2016-17 by providing equity of ₹ 9,783.44 crore, grant of ₹ 19,566.88 crore and loan of ₹ 9,783.44 crore. In addition, GoUP also provided subsidy of ₹ 409.93 crore during 2017-18 for meeting out the future financial losses.

#### ***Quality of accounts***

The quality of accounts of Power Sector companies needs improvement. Out of 21 accounts finalised during 1 October 2017 to 30 September 2018, the Statutory Auditors gave qualified opinion on three accounts. There were 15 instances of non-compliance with Accounting Standards in three accounts by the Power Sector undertakings.

## **Chapter-II: Audit relating to Power Sector Undertaking**

### **Audit of “Construction of new sub-stations and augmentation of capacity of the existing sub-stations by the Uttar Pradesh Power Transmission Corporation Limited”**

Transmission of electricity is defined as bulk transfer of power over long distances at high voltages, generally at 132 KV and above. Electric power generated at relatively low voltages in the power generating plants is stepped up to high voltage power before the same is transmitted through transmission lines. The sub-stations (SSs) are facilities within the high voltage electric system (transmission system) used for stepping-up/stepping down voltages from one level to another and connecting the electric systems of the distribution companies (DISCOMS) with the generation systems.

In Uttar Pradesh, the management of the intra-state power transmission system and of the Grid operations are vested with the Uttar Pradesh Power Transmission Corporation Limited (Company).

The present audit was conducted from March 2018 to November 2018 to evaluate the performance of the Company in planning and execution of the construction/augmentation of sub-station projects during 2013-14 to 2017-18.

### **Physical and Financial progress of the Company**

During the last five years ending March 2018, the Company had invested an amount of ₹ 17,788.43 crore in capital assets for strengthening its transmission networks. The Company constructed 172 new substations (SSs) of 20,045 MVA capacity and augmented the capacity of existing 486 SSs by

<sup>2</sup> Purvanchal Vidyut Vitran Nigam Limited (PuVVNL), Paschimanchal Vidyut Vitran Nigam Limited (PVVNL), Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL), Madhyanchal Vidyut Vitran Nigam Limited (MVVNL) and Kanpur Electricity Supply Company Limited (KESCO).

23,638 MVA. As a result, transmission capacity of the Company increased by 74 per cent and actual power transmitted increased by 55 per cent.

**(Paragraphs 2.7 to 2.8)**

The main audit findings are as follows:

### **Project Planning**

- The Company did not have any Project Planning and Management Manual (Manual) to guide its planning process. Absence of the Manual led to ad-hoc decision making in planning and execution of various projects. As a result, some SSs became overloaded within a year of their construction while in some cases either idle capacity was created or the SSs constructed could not be put on commercial load.

**(Paragraphs 2.13 and 2.14)**

### **Contract and Procurement Management**

- In absence of purchase policy/procurement manual and periodic procurement plan, supply of material valued at ₹ 85.26 crore was received by the field units much before the projected utilisation of these materials. Procurements made without ensuring synchronisation with erection activities led to an avoidable burden of payment of interest of ₹ 5.45 crore.

**(Paragraphs 2.15 and 2.16)**

- The Company failed to avail the benefit of the lower rates received in subsequent tender. This resulted in avoidable expenditure of ₹ 2.77 crore.

**(Paragraph 2.18)**

- The Company failed to take appropriate action against the defaulting firm for non-lifting of 15 transformers valued at ₹ 24.75 crore damaged under the guarantee period despite passage of one year to five years.

**(Paragraph 2.20)**

### **Award and execution of project**

- There was a delay of 1 to 37 months in construction/augmentation of 165 sub-stations out of 402 sub-stations planned for construction/augmentation during 2013-14 to 2016-17. The main reasons for the delay were non-execution of parallel activities, delay in identification and acquisition of land, negligence in the execution of civil work and poor performance of the firms. The Company failed to review inordinately delayed projects and address the constraints delaying these projects.

**(Paragraphs 2.22 to 2.25)**

- In case of four transmission projects, SSs and lines valuing ₹ 200.08 crore were completed but related components of these SSs and lines were still incomplete. As a result, expenditure incurred on the completed components valuing ₹ 200.08 crore was lying unutilised for the period ranging from nine months to eighteen months which resulted in avoidable payment of interest of ₹ 9.37 crore.

**(Paragraph 2.26)**

- Due to deficiencies in the agreement with Power Grid Corporation of India Limited (PGCIL), the Company failed to deduct liquidated damages of ₹ 215.85 crore against the executed work of ₹ 2,456 crore by PGCIL despite delays ranging from 12 weeks to 64 weeks in the completion of works.

**(Paragraph 2.27)**

- Due to failure of the Company in instituting a mechanism to safeguard its financial interest before issue of material to the contractors and inaction on part of the Company in taking back the store material timely after the termination of the contract, material worth ₹ 31.31 crore was misappropriated by the defaulting turnkey contractors.

**(Paragraph 2.28)**

- A turnkey contractor of the Company supplied material valuing ₹ 1.32 crore at Electricity Transmission Division (ETD)-II, Kanpur but submitted bills for the same to two divisions viz. ETD-II, Kanpur and ETD, Banda. The ETD-II, Banda recorded the receipt of material without its actual receipt and made the payment.

**(Paragraph 2.30)**

#### **Fund Management and Monitoring Mechanism**

- Due to imprudent decision in issuing of Letter of Intents (LoI) before formal sanction of the works under Power System Development Fund Scheme by Ministry of Power, Government of India, the Company could not receive the grant of ₹ 69.21 crore.

**(Paragraph 2.33)**

- The Company did not have its own Internal Audit Wing resulting in ineffective internal audit mechanism.

**(Paragraph 2.35)**

#### **Summary of Recommendations:**

- **The Company should have a Project Planning and Management Manual in place. It should have a long term planning for the transmission projects with due consideration of future requirements.**
- **The Company should have a Purchase Policy/Procurement Manual in place. It should have a procurement plan in synchronisation with the execution of the projects. It should put in place a mechanism to ensure strict compliance of the provisions of the contracts.**
- **The Company should initiate all parallel activities relating to implementation of the projects to avoid delay in their completion. It should have a review mechanism to revalidate the justification of the construction of substations which were inordinately delayed. It should devise and implement contract conditions in a manner to safeguard the financial interest of the Company.**
- **The Company should strengthen its fund management and monitoring mechanism. It should have its own Internal Audit Wing.**

### Chapter-III: Compliance Audit Observations relating to Powers Sector Undertakings

Compliance Audit observations included in this Chapter highlight deficiencies in the management of Power Sector undertakings. The irregularities pointed out are broadly of the following nature:

- The **Madhyanchal Vidyut Vitran Nigam Limited** suffered loss of revenue of ₹ 3.26 crore due to incorrect billing to a consumer.

(Paragraph 3.1)

- The **Purvanchal Vidyut Vitran Nigam Limited, Madhyanchal Vidyut Vitran Nigam Limited and Uttar Pradesh Power Transmission Corporation Limited** recovered revenue of ₹ 5.89 crore in three cases after being pointed out by Audit.

(Paragraphs 3.2, 3.3 and 3.4)

### Chapter-IV: Functioning of State Public Sector Undertakings (other than Power Sector)

As on 31 March 2018, Uttar Pradesh had 92 State Public Sector Undertakings (other than Power Sector) consisting of 49 functional PSUs (43 functional companies, six functional Statutory corporations) and 43 non-functional PSUs (all companies). Out of 92 PSUs, 21 PSUs which were functional and prepared their accounts up to 2015-16 or later periods, were selected for detailed financial analysis. These 21 PSUs registered a turnover of ₹ 7,725.28 crore during 2017-18 as per their latest finalised accounts. This turnover was equal to 0.56 per cent of the State Gross Domestic Product.

#### *Stake of Government of Uttar Pradesh*

As on 31 March 2018, the total investment in these 21 PSUs was ₹ 9,407.26 crore (equity ₹ 4,495.12 crore and long term loans ₹ 4,912.14 crore). The investment consisted of 47.78 per cent towards equity and 52.22 per cent in long-term loans. The long term loans advanced by the State Government constituted 34.51 per cent (₹ 1,694.98 crore) of the total long term loans (₹ 4,912.14 crore) whereas 65.49 per cent (₹ 3,217.16 crore) of the total long term loans were availed from Central Government and other financial institutions.

#### *Performance of Functional State PSUs (other than Power Sector)*

Out of 21 PSUs covered in this Chapter, 16 PSUs earned profit (₹ 423.52 crore), all of which were either having monopolistic advantage or were having assured source of income from budgetary support, centage, commission, interest on bank deposits etc. The top profit making companies in 2017-18 were Uttar Pradesh Awas Evam Vikas Parishad (₹ 158.95 crore), Uttar Pradesh State Road Transport Corporation (₹ 97.19 crore), Uttar Pradesh State Warehousing Corporation (₹ 51.23 crore) and Uttar Pradesh Purva Sainik Kalyan Nigam Limited (₹ 38.73 crore). Out of total loss of ₹ 56.58 crore incurred by five PSUs during the year 2017-18, loss of ₹ 30.54 crore was incurred by three PSUs in monopolistic sector despite not being in open to market competition.

Further, the two PSUs<sup>3</sup> working in competitive environment incurred losses totaling ₹ 26.04 crore during 2017-18. These PSUs had continuously suffered losses during 2015-16 to 2017-18 and their accumulated losses increased from ₹ 618.63 crore in 2015-16 to ₹ 630.32 crore in 2017-18. Net worth of these two PSUs had been completely eroded by accumulated losses and it stood at (-) ₹ 401.50 crore against equity investment of ₹ 228.82 crore as on 31 March 2018. This reflects adversely on the sustainability of these PSUs.

### ***Quality of accounts***

The quality of accounts of PSUs needs improvement. Out of 33 accounts finalised during the period 1 October 2017 to 30 September 2018 for functional PSUs, the Statutory Auditors had issued qualified opinion on 16 accounts and in case of accounts of Uttar Pradesh State Spinning Company Limited for the year 2016-17, the Statutory Auditors had given an adverse Report. There were 69 instances of non-compliance with Accounting Standards in 22 accounts. The CAG had also issued adverse certificates in five accounts namely Uptron Powertronics Limited (2016-17), Shretron India Limited (2016-17), Allahabad City Transport Services Limited (2014-15), Uttar Pradesh Electronic Corporation Limited (2016-17) and Uttar Pradesh State Industrial Development Corporation Limited (2013-14).

### ***Arrears in accounts and winding up***

Out of 49 functional PSUs only five PSUs have submitted their accounts for 2017-18. 44 functional PSUs had arrears of 191 accounts as on 30 September 2018. Out of 43 non-functional PSUs, 41 PSUs had 627 accounts in arrears. The Government may take a decision regarding winding up of the non-functional PSUs.

## **Chapter-V: Compliance Audit Observations relating to State PSUs (other than Power Sector)**

Compliance Audit observations included in this Chapter highlight deficiencies in the management of Public Sector Undertakings (other than Power Sector). The irregularities pointed out are broadly of the following nature:

- The **Uttar Pradesh State Road Transport Corporation**, in contravention to the provisions of the Service Tax Act, did not levy and collect Service Tax from passengers of Air Conditioned buses which resulted in loss to the Public Exchequer amounting to ₹ 18.31 crore.

**(Paragraph 5.1)**

- The **Uttar Pradesh Avas Evam Vikas Parishad** had to pay avoidable compensation of ₹ 11.38 crore to the allottees due to violation of tendering process.

**(Paragraph 5.2)**

- The **Uttar Pradesh Avas Evam Vikas Parishad** was deprived of ₹ 2.27 crore due to incorrect fixation of Reserve Price of auctioned plots.

**(Paragraph 5.3)**

<sup>3</sup> Uttar Pradesh State Spinning Company Limited and The Pradeshiya Industrial and Investment Corporation of UP Limited.

- The **Uttar Pradesh Avas Evam Vikas Parishad** suffered a loss of interest amounting to ₹ 1.50 crore due to release of mobilisation advance of ₹ 40.86 crore to the contractor against the provision of Financial Hand Book of the Government of Uttar Pradesh and before the necessary Environmental Clearance was received.

(Paragraph 5.4)

- The **Uttar Pradesh State Industrial and Development Corporation Limited** initiated the land acquisition proposal without entering into an agreement with the Bharat Electronics Limited, which required the land, and consequently suffered a loss of ₹ 6.49 crore on account of cancellation of the acquisition process.

(Paragraph 5.5)

- The **Uttar Pradesh State Industrial and Development Corporation Limited** selected unsuitable land and ignored revised high rates of compensation due to applicability of the new Land Acquisition Act which resulted in loss to the extent of ₹ 2.92 crore.

(Paragraph 5.6)

- Execution of extra items of work of timbering at higher rate by the **Uttar Pradesh Jal Nigam** resulted in undue benefit to the contractor to the extent of ₹ 4.05 crore.

(Paragraph 5.7)

- The **Uttar Pradesh Jal Nigam** extended undue favour to the contractor by allowing inadmissible escalation resulting in loss to the Government of Uttar Pradesh of ₹ 4.09 crore.

(Paragraph 5.8)

## **Part-B Departments and Entities (other than Public Sector Undertakings) under Economic Sector**

### **Chapter-VI: Introduction**

Eighteen departments of Government of Uttar Pradesh fall under the Economic Sector. The trend of expenditure of major departments under the Economic Sector during 2015-16 to 2017-18 is given in following Table.

**Table: Trend of Expenditure of major departments under the Economic Sector**

(₹ in crore)			
Department	2015-16	2016-17	2017-18
Energy	48,218.81	33,976.69 <sup>4</sup>	17,265.50 <sup>5</sup>
Infrastructure and Industrial Development Department	3,080.27	6,296.11 <sup>6</sup>	1,740.56 <sup>7</sup>
Housing and Urban Planning	2,213.97	2,888.06	723.39 <sup>8</sup>
Revenue (Except Collectorate)	2,495.16	2,721.56	2,987.80
Forest	840.46	1,231.72	808.21 <sup>9</sup>

*Source: Appropriation Accounts of respective years*

**(Paragraph 6.2)**

**Chapter-VII: Compliance Audit Observations relating to Departments and Entities (other than Public Sector Undertakings) under Economic Sector**

Compliance Audit observations included in this Chapter highlight deficiencies in the management of Departments and Entities under Economic Sector which resulted in serious financial implications. The irregularities pointed out are as follows:

- The **Housing and Urban Planning Department** extended undue benefit to the developers by altering the land use indicated in the Master Plan without levy of land use conversion charges, which resulted in undue benefit of ₹ 572.48 crore to the Hi-tech Township Developers at the cost of Ghaziabad Development Authority.

**(Paragraph 7.1.1)**

- The **Ghaziabad Development Authority** failed to levy additional land use conversion charges on the increase in net area of land resulting not only in undue favour to the Hi-tech Township Developer, but also loss to the Authority to the extent of ₹ 6.83 crore.

**(Paragraph 7.1.2)**

- The **Ghaziabad Development Authority** failed to initiate action for revision of City Development Charges on the basis of prevalent cost index and its recovery which resulted in loss of ₹ 18.91 crore.

**(Paragraph 7.1.3)**

- The **Ghaziabad Development Authority** short levied land use conversion charges on Police City Sahkari Samiti amounting to ₹ 10.91 crore.

**(Paragraph 7.2)**

<sup>4</sup> ₹ 24,232.47 crore spent on Ujwal DISCOM Assurance Yojana (UDAY) in 2015-16 and ₹ 14,801.29 crore in 2016-17.

<sup>5</sup> Reduction in expenditure during 2017-18 was mainly due to decrease in power subsidy, capital expenditure and loans for power projects.

<sup>6</sup> ₹ 2,882.25 crore released for Purvanchal Expressway in 2016-17.

<sup>7</sup> Reduction in expenditure during 2017-18 was mainly due to decrease in capital expenditure on roads and bridges.

<sup>8</sup> Reduction in expenditure during 2017-18 was mainly due to decrease in expenditure on urban development, other general economic services; capital expenditure on education, sports, arts & culture, housing and urban development and decrease in loans for urban development.

<sup>9</sup> Reduction in expenditure during 2017-18 was mainly due to decrease in capital expenditure on forestry and wildlife.



- The **Ghaziabad Development Authority** suffered a loss of ₹ 70.73 crore due to its failure in fixing the reserve price of Group Housing plots as per the Floor Area Ratio allowed in violation of the Model Guidelines for costing of properties of the Government of Uttar Pradesh.

**(Paragraph 7.3.1)**

- The **Ghaziabad Development Authority** suffered a loss of ₹ 10.74 crore due to non-inclusion of corner charges in reserve price for auction of corner assets in violation of Government orders.

**(Paragraph 7.3.2)**

- The **Ghaziabad Development Authority, Meerut Development Authority and Lucknow Development Authority** failed to levy Infrastructure Surcharge of ₹ 70.51 crore intended for development of infrastructure facilities.

**(Paragraph 7.3.3)**

- The **Ghaziabad Development Authority** suffered a loss of ₹ 22.14 crore by extending an undue benefit of incentive scheme to the promoter of a medical college.

**(Paragraph 7.4)**

- The **Lucknow Industrial Development Authority** failed to assess and collect Labour Cess amounting to ₹ 5.86 crore at the time of sanction of maps as per orders of the Government of Uttar Pradesh.

**(Paragraph 7.5)**

- The **Uttar Pradesh New and Renewable Energy Development Agency** failed to levy liquidated damages on the defaulting firms resulting in an undue favour to them amounting to ₹ 1.73 crore.

**(Paragraph 7.6)**