

## CHAPTER - 2

# Audit Approach

### 2.1 Scope of Audit

The present Performance Audit covers all the activities from conceptualization to implementation of all the hydro projects selected by four CPSEs along with its Joint Ventures for adding a capacity of 11,813 MW<sup>17</sup> during the XI Five Year Plan (2007-2012). The focus is thus essentially on the efforts by the CPSEs in meeting with capacity addition targets.

Performance Audit titled “Implementation of X Plan hydel projects in North Eastern and Eastern Regions by NEEPCO and NHPC” covering award, execution and monitoring for the period from 2002-03 to 2007-08 was carried out by Audit and the Performance Audit Report was included in Report No. PA 27 of 2009-10.

### 2.2 Audit Objectives

The objectives of the Performance Audit were to assess:

- Whether the process of conceptualization, formulation and planning of the projects was adequate and in line with the Hydro Policy of the GOI;
- Whether the projects and contracts processed and concluded were transparent, competitive and equitable.;
- Whether the projects were executed efficiently and expeditiously, the reasons of delays and impact thereof; and
- Whether the systems and procedures for monitoring were adequate and effective at all levels.

### 2.3 Audit Criteria

The audit criteria from various sources adopted for the Performance Audit included:

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<sup>17</sup> 10,341 MW (NHPC), 412 MW (SJVN), 400 MW (THDC) and 660 MW (NEEPCO)

- Provisions of National Electricity Policy (2005) and Hydro Policies of GOI (1998 and 2008),
- Targets as per the Corporate Plans of the respective CPSEs,
- Decisions taken in the meetings of the Board of Directors (BOD) and their sub-committees,
- Timelines and benefits envisaged in the Feasibility Reports (FRs)/Detailed Project Reports,
- Work and Procurement Policies and Procedures, and
- Provisions of the Contract Agreements.
- Best practices adopted by the Industry.

## 2.4 Audit Methodology

Entry conferences<sup>18</sup> were held with the Managements of all CPSEs in March 2011, wherein the scope, objectives, criteria of audit and audit sample were discussed. Audit examined the relevant records in the MOP and the CPSEs during March 2011 to August 2011 and arrived at audit conclusions discussed in the subsequent Chapters. Exit conference was held with the MOP and Management of the CPSEs on 17<sup>th</sup> February 2012 to discuss the audit findings and recommendations. Their responses have been suitably incorporated in the report.

## 2.5 Audit Sample

The projects covered under capacity addition programme of the above CPSEs were to be completed by March 2012. As such, a representative sample of 45 *per cent* was drawn from the list of awarded contracts for the projects identified for capacity addition during 2007-12 by Monetary Unit Sampling technique using Interactive Data Extraction and Analysis (IDEA) software for examination of Contract awarding activities.

All the 16 projects, slated for completion by March 2012, taken up by these CPSEs for execution have been covered in the Performance Audit. However, for examination of contract awarding activities, a representative sample of 24 contracts

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<sup>18</sup> 4<sup>th</sup> March 2011 (NHPC and THDC), 7<sup>th</sup> March 2011 (SJVN) and 15<sup>th</sup> March 2011 (NEEPCO)

across these four CPSEs was drawn from a total of 53 contracts pertaining to 15 projects<sup>19</sup> as detailed below:

Name of CPSE	Population			Sample selected	
	No. of contracts	Value (₹ in crore)	Period of award	No. of contracts	Value (₹ in crore)
NHPC	41	12,942.65	March 2001 to August 2011	16 (39.02%)	9,891.95 (76.43%)
SJVNL	03	1447.95	Feb. 2007 to August 2011	03 (100%)	1447.95 (100%)
THDC	06	684.02	Nov. 2002 to August 2011	03 (50%)	389.40 (56.30%)
NEEPCO	3	151.07	June 2008 to Dec. 2009	2 (66.67%)	119.67 (79.21%)
<b>Total</b>	<b>53</b>	<b>15225.69</b>		<b>24 (45%)</b>	<b>11,848.97 (78%)</b>

## 2.6 Audit findings

This report presents the findings and recommendations from our audit examination in following seven chapters:

- Chapter III:** Framework for initiation and allotment of hydro power projects,
- Chapter-IV:** Survey, Geo-technical investigation and Investment Approval,
- Chapter V:** System of award of contracts,
- Chapter VI:** Execution of Projects,
- Chapter VII:** Monitoring mechanism and Impact Assessment, and
- Chapter VIII:** Conclusion and Recommendations.

## 2.7 Acknowledgment

Audit acknowledges the cooperation extended by Management of CPSEs and MOP in facilitating the conduct of Performance Audit.

<sup>19</sup> This does not include Tuirial Project of NEEPCO because contracts awarded by the Company were covered in the previous Performance Audit upto March 2008 and no new contract was awarded April 2008 onwards.