CHAPTER-III

3. Compliance Audit Observations

Important audit findings emerging from test check of transactions of the State Government Companies are included in this Chapter.

GRIDCO Limited

3.1 Capital Expenditure Programme of GRIDCO Limited

Introduction

3.1.1 The erstwhile Odisha State Electricity Board (OSEB) was unbundled consequent to reform in power sector in Odisha. Transmission and distribution activities were entrusted (April 1996) to GRIDCO Limited, a wholly owned Company of Government of Odisha (GoO). Subsequently, the distribution activities were transferred (November 1998) to four[53] Distribution Companies (DISCOMs) incorporated as wholly owned subsidiaries of GRIDCO. The DISCOMs were then privatised (April/September1999) by divesting 51 *per cent* of shareholding in favour of private partners. The transmission activities were later transferred (1 April 2005) to another newly created State owned utility, Orissa Power Transmission Corporation Limited (OPTCL). GRIDCO was mainly engaged in business of purchase and bulk supply of power in the State of Odisha.

The electrical networks in the State were 30 to 35 years old at the time of privatisation of DISCOMs. Subsidy provided by State Government to OSEB was withdrawn subsequent to reform and restructuring of electricity sector. There was no infusion of funds to the distribution sector either by GoO or privately managed DISCOMs. Drawal of energy had increased considerably due to increase in consumer base from 13 lakh in 1999 to 26 lakh by 2008-09. There had been very little up-gradation and addition to the existing distribution assets to keep pace with the increased demand. This necessitated a substantial Capital Expenditure (CAPEX) by GoO and privately managed DISCOMs on the distribution system in the State.

Government of Odisha approved (October 2010) a CAPEX programme in the distribution sector to ensure reduction of Aggregate Technical and Commercial (ATC) losses[54]. The CAPEX aimed at reduction of ATC losses to a minimum of three *per cent* per annum during implementation period of the programme. This would also improve the quality of power supply to the consumers of the State. The CAPEX programme envisaged renovation and modernisation of existing distribution systems. It also included installation of new primary distribution substations. GoO engaged GRIDCO as nodal agency for implementation of the programme under the overall guidance of the

[53] Central Electricity Supply Utility (CESU), North Eastern Electricity Supply Company of Odisha Limited (NESCO), Western Electricity Supply Company of Odisha Limited (WESCO) and Southern Electricity Supply Company of Odisha Limited (SOUTHCO)
[54] Sum total of transmission, distribution, billing and collection losses

Department of Energy, Government of Odisha. GoO had also constituted (November 2010) a Monitoring Committee to oversee the implementation of the programme. The CAPEX programme was to be implemented in two phases[55]. The programme envisaged an investment of ₹2,400 crore with the following funding pattern:

- Grant of ₹500 crore from Thirteenth Finance Commission of Government of India (GoI);
- Budgetary support of ₹700 crore[56] by GoO; and
- Counterpart funding of ₹1,200 crore by DISCOMs.

Audit was conducted during April to June 2017 through test check of records at Head Office of GRIDCO and four DISCOMs. The objective of the audit was to assess whether envisaged reduction of ATC losses was achieved and quality of power supply to the consumers was improved.

Deficiency in Planning

Planning is an important aspect for successful implementation of any programme. Audit observed the following deficiencies in planning for the programme:

Preparation of Detailed Project Report

3.1.2 Detailed Project Report (DPR) is a complete document for decision making, planning and approval for any investment plan. DPR is the base document for planning and implementing projects. The focus of the CAPEX programme was on improvement of distribution systems, reduction of ATC losses and establishment of reliable system.

The scope of the programme *inter alia* included:

- renovation/modernisation of existing and installation of primary distribution substations,
- re-conductoring of lines in theft prone areas,
- replacement of electromagnetic energy meters with tamper proof digital meters,
- energy audit and IT system implementation,
- ring fencing of different project areas etc.

Government of Odisha had not prepared any DPR before approval of the investment plan in October 2010. It had entrusted (November 2010) the task of preparation of DPR for the project to DISCOMs. As instructed by

[55] Phase-I (2011-14): ₹960.83 crore and phase-II (2014-16): ₹1439.17 crore

[56] Matching State share of ₹166.67 crore with zero *per cent* interest, counterpart funding to Finance Commission grant on behalf of GRIDCO for ₹166.67 crore as loan to GRIDCO with four *per cent* interest and budgetary support of ₹366.66 crore in shape of soft loan with four *per cent* interest

Monitoring Committee, DISCOMs prepared DPR only for phase-I of the programme for implementation.

Audit observed that DPR prepared by DISCOMs did not spell out the loss making areas which required prioritisation of the investment in phase-I. Thus, priority of the works executed in phase-I by the DISCOMs could not be established. GRIDCO and Monitoring Committee had not ensured justification for selection of sites before approval of DPR. Consequently, the target of reduction of ATC losses in the specific project area could not be achieved.

Government stated (October 2017) that selection of sites was carried out based on prioritisation, but the same were not documented. The reply indicated that detailed analysis of prioritisation was not documented in the DPR.

3.1.3 Lack of preparatory arrangements

Government of Odisha planned implementation of the CAPEX programme in four years (2010-14). As per the notification of GoO, DISCOMs were required to implement the projects strictly within time schedule to ensure timely completion of the project. GoO subsequently revised (August 2013) the implementation period to 2011-16. The phase-I of the programme was also revised to 2011-14.

Audit observed that lack of following necessary preparatory arrangements caused delay in kick start of the project and revision in its schedule from 2010-14 to 2011-16:

- Delay in finalisation of technical specifications of materials resulted in delay in issue of purchase orders by the DISCOMs.
- Delay in fixation of eligibility criteria for selection of bidders, finalisation of terms and conditions of the turnkey contracts resulted in delay in issue of work orders.
- Procurement of materials and issue of work orders for execution of work could be effected only from March 2012 and June 2012 respectively. This resulted in delay of 12 to 15 months from the date of release (March 2011) of funds. Consequently, this resulted in further delay in completion of work and revision of target date of completion of the programme.

Government accepted the audit observations. It stated (October 2017) that there were various lacunae in the initial stage of the programme as CAPEX programme was a first project in the distribution sector after a long time.

The reply was not acceptable as lack of necessary preparatory arrangements resulted in delay in implementation of the project.

3.1.4 Deficient funding mechanism

The CAPEX programme envisaged equal investment of ₹1,200 crore each by GoO (including contribution by GoI) and DISCOMs. GoO, initially prescribed (October 2010) the following funding mechanism for the programme:

Table 3.1: Source of funding for CAPEX programme

(₹ in crore)

Source	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**Total**
	Phase-I		**Phase-II**		
Finance Commission	0	200	150	150	**500**
Government of Odisha	300	200	100	100	**700**
DISCOMs	0	200	400	600	**1200**
Total	**300**	**600**	**650**	**850**	**2400**

(Source: Notification of Government of Odisha)

Government of Odisha subsequently revised (August 2013) the funding mechanism and the implementation period to 2011-16. The year wise targets and actual sources of funding as per the revised funding mechanism were as under:

Table 3.2: Revised target and actual source of funding for CAPEX programme

(₹ in crore)

Source		**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**Total**
		Phase-I			**Phase-II**		
Finance Commission (GoI)	**Target**	125.00	125.00	125.00	125.00	-	**500.00**
	Actual	125.00	125.00	125.00	75.00	-	**450.00**
Government of Odisha	**Target**	295.83	10.00	196.66	197.51	-	**700.00**
	Actual	295.83	10.00	0.00	0.00	-	**305.83**
DISCOMs	**Target**	-	-	83.34	216.66	900.00	**1200.00**
	Actual	-	-	0.00	0.00	0.00	**0.00**
Total	**Target**	420.83	135.00	405.00	539.17	900.00	**2400.00**
	Actual	420.83	135.00	125.00	75.00	0.00	**755.83**
Interest on CAPEX funds released by GoO during 2015-16							**121.66**
Total funds released for the programme							**877.49**

(Source: Notification of Government of Odisha and data furnished by GRIDCO)

In this regard, audit observed that:

- The initial notification (October 2010) prescribed that the DISCOMs would contribute ₹200 crore in the phase-I. GoO, however, revised (August 2013) the counterpart funding by the DISCOMs from ₹200 crore to ₹83.34 crore in the phase-I. The reduction was due to inability of DISCOMs to arrange counterpart funding at the initial stage of the implementation of the programme. However, GRIDCO failed to implement the revised funding pattern. DISCOMs did not contribute ₹83.34 crore out of total outlay of ₹960.83 crore during phase-I. Further, there was a reduction in funding for implementation of the programme by reducing its scope.

- Government of Odisha decided (May 2015) to foreclose the programme midway after release of ₹877.49 crore for phase-I up to 2014-15. The programme was foreclosed mainly due to slow pace of implementation and failure of DISCOMs to arrange counterpart funding. Further, Finance Commission did not release the balance grant of ₹50 crore for the programme as per the plan due to non-completion of work within scheduled time. The foreclosure of the programme led to non-achievement of intended objective of reduction of ATC losses to the targeted level.

Government accepted the facts. It stated (October 2017) that DISCOMs could not raise loan for arranging counterpart funding as their fixed assets were already hypothecated with GRIDCO.

The reply was not acceptable as GoO was well aware of the fact of hypothecation of fixed assets before the launching of CAPEX programme. GoO, despite knowing the fact, planned equal financial contribution by DISCOMs in the CAPEX programme and failed to ensure the same. Implementation of the programme without any contribution from DISCOMs also resulted in extension of unintended benefit to DISCOMs.

Deficiency in Implementation

Audit observed the following deficiencies in implementation of the programme.

3.1.5 Poor utilisation of funds

The phase-I of the CAPEX programme with a proposed investment of ₹960.83 crore was scheduled to be implemented during 2011-14. DISCOMs, however, could not complete the phase-I work within stipulated time. The implementation period for phase-I was extended up to February 2018. As nodal agency, GRIDCO was responsible for coordinating with GoO, DISCOMs and Monitoring Committee with regard to release of funds and monitoring the end use of funds. The receipt and utilisations of funds in respect of phase-I of the programme were as under:

Table 3.3: Receipt and utilisation of funds during phase-I of CAPEX programme

(₹ in crore)

Year	Receipt	Cumulative receipt	Utilisation	Cumulative utilisation	Balance fund	Percentage of cumulative utilisation
2011-12	420.83	420.83	-	-	-	-
2012-13	135.00	555.83	104.87	104.87	450.96	19
2013-14	125.00	680.83	206.28	311.15	369.68	46
2014-15	75.00	755.83	192.17	503.32	252.51	67
2015-16	-	755.83	129.50	632.82	123.01	84
2016-17	121.66	877.49	48.97	681.79	195.70	78

(Source: Information submitted by GRIDCO)

Audit observed that:

- DISCOMs utilised only 46 *per cent* of the funds allotted up to the due date of completion of the phase-I, i.e. March 2014. The low utilisation was mainly due to lack of preparatory arrangements as discussed in **Paragraph 3.1.3**. This resulted in reduction of ATC losses only by 0.4 *per cent* against the target of nine *per cent* by March 2014.

- DISCOMs could not utilise an amount of ₹195.70 crore as on March

2017. GRIDCO, being the nodal agency for implementation of the project, had not ensured end use of the funds allotted within specified time period.

Government accepted the facts. It stated (October 2017) that DISCOMs were not equipped with the skills and expertise to handle CAPEX projects.

The reply was not acceptable. GRIDCO, being the nodal agency, should have ensured the utilisation of funds by the DISCOMs within stipulated time period by equipping with necessary skills and expertise.

Delayed execution and non-adherence to timeline

3.1.6 Government of Odisha notified that DISCOMs shall implement the project strictly within the time schedule to ensure quality and timely completion of the project. The CAPEX programme was executed by dividing the entire erection works into 71 packages[57] based on number of divisions/circles in each DISCOM. The packages included construction and up-gradation of sub-stations, re-conductoring of lines, replacement of conductors, metering etc. Twenty seven out of 71 packages were awarded to National Small Industries Corporation (NSIC)/Odisha Small Industries Corporation (OSIC). The award to NSIC/OSIC was on negotiation basis due to non-availability of suitable bidders. Thirty seven packages were allotted after following due tendering procedures and seven packages were executed departmentally. All the 71 packages were awarded during the period June 2012 to August 2015 with scheduled completion period of August 2013 to January 2017.

Audit observed that:

- Only one package, out of 20 completed packages, was completed within the scheduled period of completion. The rest 19 packages were completed with a delay ranging from 104 to 1158 days.
- Fifty-one packages were not completed (March 2017).
- DISCOMs awarded 15 out of 71 packages after the scheduled date of completion of the phase-I of the programme (March 2014).

This indicated non-adherence to timelines prescribed in the programme.

The delay was mainly due to delay in finalisation of technical specifications of materials and inadequate response from the bidders, delay in execution by contractors and revision in scope of work. The delay in completion of work resulted in extension of completion of phase-I project from March 2014 to February 2018. It also resulted in delay in achievement of desired objective of reduction of ATC losses.

Government accepted the facts and stated (October 2017) that steps were being taken to complete the balance work by the extended period of February 2018.

[57] CESU -22, NESCO-16, WESCO-15 and SOUTHCO-18

Procurement of materials were not synchronised with the execution of work

3.1.7 Monitoring Committee had decided to procure all major materials separately in advance and execute the work through turnkey contract. This was to ensure quality and avoid delay in implementation. During the period of implementation, DISCOMs had placed purchase orders of ₹525.04 crore towards procurement of materials.

Audit observed that:

- Procurement of materials were not synchronised with the execution of work. Materials valuing ₹106.14 crore remained idle as on March 2017. Consequently, guarantee period of unutilised materials like conductors, distribution transformers and cables valuing ₹83.94 crore as on March 2017 had already expired. This would lead to additional expenditure on rectification of defect, if any, noticed after expiry of the guarantee period. The useful life of the materials was also reduced to that extent.

- NESCO and WESCO procured materials worth ₹139.56 crore without any detailed survey. As a result, procurement exceeded requirement and materials valuing ₹31.44 crore were not utilised as on March 2017.

Government accepted the facts and stated (October 2017) that materials for the programme could not be utilised due to non-availability of suitable contractors for execution of the work.

The reply was not acceptable as Monitoring Committee had decided (June 2012) that in case of non-availability of suitable contractors, the work could have been taken up departmentally to complete the same in time.

Non-achievement of execution targets as per the DPR

3.1.8 The execution of works mainly involved renovation/ modernisation of existing distribution networks and provision of new substations and lines. DPR envisaged execution of works within the scheduled time in order to achieve the desired objective of system upgradation and reduction of ATC losses. The physical progress of works as against the target fixed in the DPR was as under:

Table 3.4: Target and achievement of physical progress of works

Works particulars	Target as per DPR	Achievement as on March 2014 (Phase-I)	Percentage of achievement as on March 2014	Achievement as on March 2017	Percentage of achievement as on March 2017
33/11 KV substation (in Nos)	194	102	53	187	96
33 KV and 11 KV lines/ re-conductoring (in Km)	7237	610	8	5040	70
Distribution Transformers (in Nos)	3330	404	12	3054	92
AB Cable (in Km)	6983	273	4	4667	67
Three Phase Meter (in Nos)	26933	1528	6	23168	86
Single Phase meter (in Nos)	561094	2800	0.5	502900	90

(Source: Monthly progress report submitted by DISCOMs to GRIDCO)

Audit observed that:

- Re-conductoring of lines involves replacement of old and worn out conductors of lower capacity. This would reduce the technical losses. This would also result in increase in billing efficiency by 0.5 *per cent*. DISCOMs completed only eight *per cent* by March 2014 of phase-I and 70 *per cent* of total DPR target by March 2017. This resulted in loss of 13.55 Million Units (MU) of energy with consequential loss of ₹3.69 crore during 2014-17.

- Low Tension (LT) bare conductors are susceptible to theft. Replacement of bare conductors with AB cables was proposed in the DPR to reduce commercial losses. This would prevent theft of energy by hooking to a large extent resulting in saving of 12,000 units of energy per KM per year. DISCOMs completed only four *per cent* by March 2014 of phase-I and 67 *per cent* of total target of replacement of conductors by March 2017. The delay resulted in loss of 195.68 MU of energy with consequential loss of ₹53.33 crore during 2014-17.

- Installation of Distribution Transformer (DT) in a substation results in voltage improvement. DISCOMs completed only 12 *per cent* by March 2014 of phase-I and 92 *per cent* of total DPR target of DT by March 2017. As a result, the desired objective of improvement of voltage could not be fully achieved.

- Replacement of every defective single and three phase meter would result in saving of 120 units and 3,600 units of energy per year respectively. DISCOMs completed only 0.5 *per cent* and six *per cent* single phase and three phase meters respectively by March 2014 of phase-I. They completed 90 *per cent* and 86 *per cent* single phase and three phase meters respectively by March 2017. Delay in replacement of meters resulted in loss of 358.17 MU of energy with consequential loss of ₹97.48 crore during 2014-17.

- Implementation of Information Technology (IT) was one of the elements in the scope of the CAPEX programme. It was mainly intended to prevent human intervention and increase in billing efficiency. The entire provision of ₹92.49 crore made in DPR for IT implementation was, however, diverted for other system improvement measures. Consequently, the intended objectives of prevention of human intervention and increase in billing efficiency could not be achieved.

Government stated (October 2017) that the physical target could not be achieved mainly due to:

- non-availability of suitable contractors;

- non- availability of shut down time for replacement of conductors;

- right of way problems in laying new lines; and

- resistance from public for laying AB cable.

The reasons cited by the Government are not convincing as field realities were known to the Government while formulating the programme. Further, effective monitoring by the nodal agency and Monitoring Committee could have resolved the bottlenecks.

Non-achievement of Objective

3.1.9 The CAPEX programme aimed at reduction of ATC losses to a minimum of three *per cent* per annum in the area of project implementation. The programme aimed at overall reduction of 15 *per cent* during 2011-16. Each one *per cent* reduction in ATC losses was expected to generate additional revenue of about ₹50 crore *per annum*. The DISCOMs were required to ring fence[58] the identified project area at the beginning of the programme. This would facilitate evaluation of the actual reduction of ATC losses due to CAPEX programme. GRIDCO had to appoint Third Party Independent Evaluation Agencies (TPIEA) for verification of baseline data[59] and subsequent verification of ATC losses figure during the implementation period.

Audit observed that DISCOMs had not ring fenced the project area at the beginning of the programme. GRIDCO engaged (October 2011) three consultants as TPIEA for verification of baseline data for calculating ATC losses. Baseline data, however, was not furnished to GRIDCO by TPIEA for verification and validation. As a result, actual reduction of ATC losses in each project area could not be evaluated. In the absence of detailed analysis of ATC losses of project areas, audit had to depend on the combined ATC losses calculated by DISCOMs. The combined ATC losses in respect of all DISCOMs were 39.75 *per cent* during 2011-12. The same were reduced to 34.17 *per cent* during 2016-17.

It was seen that the ATC losses were reduced only by 5.58 *per cent* (2011-17). The envisaged targeted reduction of 15 *per cent* could not be achieved. This resulted in loss of opportunity to earn additional revenue of ₹471 crore[60]. The additional revenue could have helped DISCOMs to further invest on system upgradation to improve efficiency.

Government accepted (October 2017) the fact that reduction of ATC losses could have been better, had the entire funds been invested in the CAPEX programme.

Monitoring and Evaluation

3.1.10 A Monitoring Committee was formed (November 2010) comprising of eight members under the chairmanship of Commissioner-cum-Secretary of Department of Energy. The committee was to meet as frequently as required or at least once in a month to take stock of progress of work. It was also to sort

[58] Installation of export/import meters at the boundary of those lines that are feeding outside as well as inside the area of the utility so that import and export of energy can be measured for the project area

[59] Initial collection of data which serves as a basis for comparison with the subsequently acquired data

[60] (15-5.58) x ₹50 crore

out the bottlenecks in implementing the project. GRIDCO as nodal agency was responsible for monitoring the release and the end use of the funds. It was also to coordinate with the different departments of GoO and DISCOMs.

Audit observed that:

- Monitoring Committee met only 36 times, as against the requirement of 77 meetings during the period 2010-17. The committee met only on eight[61] occasions during 2013-14, 2015-16 and 2016-17 but had not met at all during 2014-15. Meeting of Monitoring Committee was held as and when the DISCOMs raised any issue during implementation of the programme.

- Monitoring Committee/GRIDCO did not evolve any mechanism for fixation and achievement of milestones during implementation of the programme *vis-à-vis* targets.

The above facts indicated that Monitoring Committee was not effective in overseeing the implementation of the programme in a systematic manner.

Government accepted (October 2017) the facts.

Conclusion

The CAPEX programme was launched with a total proposed outlay of ₹2,400 crore for strengthening the electricity distribution system of the State. This was to increase the quality of power and reduction in Aggregate Technical and Commercial losses. There were defects in the funding mechanism of the programme. Government of Odisha short-closed[62] the programme with an investment of ₹877.49 crore as Distribution Companies did not contribute any funds. The programme was executed by dividing the entire work into 71 packages. Nineteen packages were completed with a delay ranging from 104 to 1158 days and 51 packages were not completed (March 2017). This indicated non-adherence to timelines prescribed in the programme. The reduction of Aggregate Technical and Commercial losses was only 5.58 *per cent* against a target of 15 *per cent.* This had resulted in loss of opportunity to earn additional revenue of ₹471 crore.

[61] 5 times (2013-14), 2 times (2015-16) and 1 time (2016-17)

[62] Closure of the programme before scheduled period of completion or without expending the budgeted outlay of the programme

Odisha Hydro Power Corporation Limited

3.2 Extra expenditure

Failure to take timely action for reduction of government guarantees resulted in excess payment of guarantee commission of ₹14.98 crore

As per the guidelines issued[63] by Government of Odisha (GoO), Borrowing Institutions (BI) availing government guarantee from GoO were liable to pay Guarantee Commission (GC) to the State Government. The GC was payable at the rate of 0.5 *per cent* per annum on the maximum amount guaranteed on 1 April of each year. The guidelines also stipulated that the guarantee could be reduced/ closed on account of repayment of loan and surrender of unutilised guarantee by the BI. Clearance of the lending institution and prior concurrence of the Finance Department (FD), GoO would be required for reduction/ closure of guarantee. The Administrative Department (AD) of the BI was responsible for obtaining concurrence from Finance Department.

Odisha Hydro Power Corporation Limited (OHPC) had obtained[64] government guarantee of ₹615.04 crore for availing loans for its hydro electric projects. It had availed four[65] loans of ₹557.19 crore against the guarantee and the balance guarantee of ₹57.85 crore remained unutilised. OHPC was paying GC on the basis of reduced outstanding guarantee against the loans availed and repaid by it from time to time.

Consequent to full repayment of one loan[66], OHPC requested (August 2007) Energy Department (ED) to obtain concurrence from FD for closure of guarantee against that loan. FD, however, stated (January 2008) that OHPC and ED did not initiate action to reduce the guarantee in the respective years of repayment of the loans. As a result, GC on the maximum amount of guarantee sanctioned would be payable. Subsequently, OHPC took up[67] the matter with ED to obtain concurrence from FD for reduction/ cancellation of guarantee. ED, however, belatedly submitted (November 2015) the proposal to FD for post facto approval on year wise calculation of guarantee commission paid by OHPC. FD rejected the proposal of ED as there was no provision in the guidelines to accord such *post-facto* approval. FD also directed (November 2015) ED to recover GC of ₹14.03 crore outstanding as on 31 March 2015 from OHPC. OHPC deposited (March 2016) ₹7.02 crore being 50 *per cent* of the amount demanded under protest.

OHPC submitted (April 2016) a fresh proposal to ED for reduction of GC on prospective basis for reduction of guarantee with effect from 1 April 2016. FD agreed for the reduction with stipulation that OHPC should deposit GC of ₹7.96 crore outstanding as on 31 March 2016. OHPC deposited (February

---

[63] April 1980/ November 2002/ June 2003

[64] July 1994-May 2001

[65] Hirakud Hydro Electric Project (Unit-1&2) - ₹76.12 crore, Hirakud Hydro Electric Project (Unit-3&4) - ₹65.15 crore, Upper Indravati Hydro Electric Project - ₹320.00 crore, Balimela Hydro Electric Project - ₹95.92 crore

[66] Hirakud Hydro Electric Project (Unit-1&2) - ₹76.12 crore

[67] April and December 2008, February 2011, June 2012, May 2013, July 2014, March 2015

2017) the demanded amount of GC. OHPC had recovered the GC paid by it through tariff by claiming the same in its Aggregate Revenue Requirement.

In this regard, audit observed the followings:

- Energy Department, being the Administrative Department for OHPC was responsible to obtain concurrence from FD for reduction of government guarantee. However, it did not move the proposal for reduction of government guarantee to FD on year to year basis. Consequently, OHPC had to pay the GC applicable on the maximum guarantee sanctioned by GoO.

- OHPC had not moved any proposal to surrender the un-availed guarantee of ₹57.85 crore to ED. It calculated the GC on reduced loan outstanding assuming that guarantee would be reduced by the amount of surrender or repayment of loan.

Thus, lack of timely action by OHPC/ ED in obtaining concurrence from FD resulted in extra expenditure of ₹14.98 crore towards GC. It had also resulted in additional tariff burden on the consumers of the State as OHPC recovered the GC paid by it through its Aggregate Revenue Requirement.

Government stated (October 2017) that due to lack of coordination between Energy Department and Finance Department, the matter was delayed. Government, however, assured that ED would be careful in future to avoid such type of delays.

Odisha State Police Housing & Welfare Corporation Limited

3.3 Extra expenditure

Unauthorised construction deviating from the approved plan had resulted in additional liability of ₹1.94 crore

The State Government decided (March 2008) to set up a training academy at Jamujhori of Khurda district. The objective was to impart training to prison officers and staff. The Directorate of Prison (DoP) accorded administrative approval[68] of the work at ₹12.73 crore. The work was entrusted to Odisha State Police Housing & Welfare Corporation Limited (OSPHWC) for execution with scheduled completion by June 2013. The project, however, remained incomplete as of February 2017 after utilising ₹11.01 crore.

Audit observed that the project *inter alia* included construction of ladies hostel up to first floor at ₹2.57 crore. OSPHWC, however, constructed up to second floor by utilising ₹2.91 crore. The deviation occurred due to construction on the basis of an old plan and design, in which the ladies hostel had the provision of three floors. OSPHWC stopped the works in August 2012 as the allocated funds were exhausted. Thereafter, it revised the estimated cost of the project to ₹19.04 crore, which included ₹1.94 crore towards construction of second floor of the hostel. OSPHWC requested (June 2014) DoP for release of

[68] April 2009 to March 2011

additional funds of ₹6.31 crore. The approval of the DoP had not been received as of April 2017.

OSPHWC had not fixed responsibility on the erring officials for such unauthorised construction. As the extra expenditure was attributable to OSPHWC, the same would be borne by it.

Thus, unauthorised construction deviating from the approved plan led to additional liability of ₹1.94 crore. It also delayed the completion of the work. The objective of setting up of the Prison Academy to impart training to prison staff also remained unfulfilled.

Government while admitting the fact stated (July 2017) that OSPHWC would be held responsible for cost and time overrun in completion of the project.

3.4 Avoidable expenditure

Construction of building deviating from the approved design and lack of supervision over execution resulted in avoidable expenditure of ₹0.64 crore

Government of India released ₹1.92 crore during 2009-13 under a centrally sponsored scheme[69] for construction of a civil defence training institute as well as purchase of equipment and vehicle. The Director of Civil Defence accorded (October 2013) administrative approval for ₹1.56 crore and released (January 2014) ₹1.46 crore to OSPHWC for the purpose.

The approved plan and design envisaged for construction up to 1st floor, with foundation for construction up to 5th floor (G+4). The plan and design of the project had provision for construction of 48 columns. OSPHWC started (February 2014) execution of the work scheduled to be completed by February 2015.

Photograph of incomplete civil defence training institute at Bhubaneswar

Audit observed (October-November 2016) that the concerned Engineer of OSPHWC constructed 64 columns against the provision of 48 columns. The concerned engineer had also not taken approval of the Chief Engineer (CE) or consent of the Director, Civil Defence for the deviation. Further, the GM (Technical) had not pointed out the deviation during inspection of the work. After executing work valued at ₹1.22 crore, OSPHWC stopped construction (May 2015) on the ground of non-availability of funds. As a result, OSPHWC could not execute the unfinished work[70].

69 Revamping the civil defence set up in the country
70 Flooring, plastering, electrification, sanitary works and approach roads

OSPHWC submitted a revised estimate of ₹2.20 crore to the Director, Civil Defence in January 2017 for approval. However, the Director, Civil Defence asked (February 2017) OSPHWC to complete the work at their own cost, since the latter was responsible for escalation of cost. Thus, deviation from the approved plan had resulted in avoidable expenditure of ₹0.64 crore[71] for construction of the building which is lying incomplete since May 2015. The incomplete building may also suffer damage due to weathering etc. However, OSPHWC had not fixed responsibility for such lapse (March 2017). The objective of construction of civil defence training institute to impart training also remained unachieved.

The Joint Manager, OSPHWC attributed the increase in number of columns and change of design to advice of the Principal, Fire Training Institute, Bhubaneswar. However, the Director General (Fire Service, Civil Defence and Home Guard) denied that they had issued any such instruction.

The Home Department stated (July 2017) that the OSPHWC would bear the extra cost and the Managing Director of OSPHWC was being requested to fix responsibility for the lapse.

3.5 Deficient monitoring

Deficient management of stores resulted in damage and pilferage of materials worth ₹0.31 crore and non-completion of project

Government of India (GoI) sanctioned ₹6.68 crore[72] during 2009-12 for construction of 250-men barrack and allied facilities at Soroda for Central Armed Police Forces (CAPF). The Home Department released (2009-12) the entire amount of ₹6.68 crore to the Odisha State Police Housing and Welfare Corporation Limited (OSPHWC) for execution of the project. OSPHWC completed 100-men barrack and allied facilities during December 2014 to December 2015 at a cost of ₹5.15 crore. Construction of the 150-men barrack had not been completed as of December 2016.

Audit observed the following:

- The State Government had handed over the site of the project to OSPHWC in March 2013. However, OSPHWC had placed order for the pre-fabricated structural materials[73] for the 150-men barrack in March 2010 much before the site was handed over. It received materials during May and July 2010 and paid ₹0.31 crore to the supplier. Materials were stored in the premises of Mohana Police Station under the custody of the then Assistant Project Manager. The Assistant Project Manager neither safeguarded the procured materials nor conducted periodical physical verification of stores. As a result, some of the materials were found damaged and some stolen. The Joint Manager of OSPHWC reported about missing materials in August and

[71] Difference between the administratively approved cost (₹1.56 crore) and revised estimated cost (₹2.20 crore)

[72] 2009-10: ₹1.53 crore for construction of 150-men barrack; 2010-12: ₹5.15 crore for construction of 100-men barrack

[73] Truss, GCI sheet, doors, windows and ventilators

October 2015. OSPHWC stopped construction of 150-men barrack in September 2016 due to the missing of materials. On the basis of audit observation, OSPHWC lodged an FIR belatedly in January 2017.

- Despite completing construction of the other works[74], CAPF, the user agency, declined to take over the completed assets on account of non-completion of 150-men barrack.

Procurement of material before taking possession of land was in violation of the codal provisions. Deficient management of stores resulted in damage and pilferage of materials worth ₹0.31 crore. The objective of setting up secured camping ground for CAPF also remained unfulfilled, even five years after release of funds.

Government accepted the observation and stated (May 2017) that due to prolonged storage, some materials were damaged and some fitting and fixture materials were found stolen. They also stated to have filed (January 2017) FIR for detailed investigation into the matter.

Odisha Power Transmission Corporation Limited

3.6 Extra expenditure

Failure to take timely action for construction of transmission lines resulted in extra expenditure of ₹0.71 crore

Odisha Power Transmission Corporation Limited awarded (May 2013) contract for construction of a grid substation at Samangara in Puri. The grid substation was constructed to improve power supply to Puri town for Nabakalebar festival held during July 2015. The power to the substation was to be supplied by constructing a transmission line from the proposed grid substation of Power Grid Corporation of India Limited (PGCIL) at Pandiabil.

OPTCL held (August/September 2014) meeting with PGCIL wherein PGCIL shared progress of work of their substations and lines. Considering the progress of work by PGCIL, OPTCL apprehended that PGCIL would not be able to complete its grid substation before Nabakalebar festival. Hence, OPTCL decided[75] to supply power to its substation at Samangara by constructing an alternate transmission line from another grid substation of OPTCL at Atri.

OPTCL invited (November 2014) tender for construction of transmission line from Atri to Pandiabil against which only one tender was received. The quoted price (₹26.94 crore) was 64.37 *per cent* higher than the estimated cost (₹16.39 crore). OPTCL cancelled the tender and decided (December 2014) to execute the work departmentally through its empanelled Rate Contract Holders (RCHs). OPTCL also decided (December 2014) to allow 50 *per cent* additional amount over the normal rate contract price for the erection work. The additional amount was allowed on the ground that the contractors would have to work overtime for completing the project within short period. OPTCL

[74] 100-men barrack and allied facilities
[75] September 2014

issued (January/ March 2015) work orders to five RCHs with additional 50 *per cent* over normal rate contract price. The work was completed (June 2015) at a total erection cost of ₹4.02 crore and the contractors were paid ₹1.34 crore extra over the normal rate contract price.

Audit observed that PGCIL had issued (September 2014) work order for construction of its substation at Pandiabil scheduled for completion by September 2015. The substation was actually completed (July 2016) after one year of Nabakalebar festival. This indicated that construction of substation by PGCIL was not synchronised with Nabakalebar festival. OPTCL had not obtained confirmation from PGCIL while awarding work (May 2013) that the grid substation would be available before the festival. It belatedly held (August/September 2014) meeting with PGCIL wherein PGCIL indicated about non-completion of its grid substation before the target date. As a result, OPTCL had to make alternate arrangement for supply of power. For this, OPTCL executed the work by paying additional amount over the rate contract for emergency work, on the ground of urgency. This resulted in extra expenditure of ₹ 0.71 crore.

This indicated the failure of the management to take timely action for construction of line.

Government while accepting the fact stated (October 2017) that PGCIL had confirmed non-availability of their substation only in August 2014. As a result, the alternative arrangement had to be made on emergency basis. Government further stated that the expenditure incurred was less than the quoted price obtained through tender.

The reply was not acceptable as OPTCL had not regularly followed up the progress of construction work with PGCIL. This resulted in execution of the work on emergency basis. Further, the quoted price obtained through tender was higher due to urgency of work with short completion time period and hence not comparable. Alternatively, OPTCL could have ensured execution of work as per the approved rates for emergency works thereby avoiding extra expenditure of ₹0.71 crore.

3.7 Undue favour

Imprudent fixation of rate contract price resulted in extension of undue benefit of ₹0.59 crore to the contractors

Odisha Power Transmission Corporation Limited (OPTCL) executes normal and emergency works through its rate contract holders selected by open tender[76]. The Rate Contract Price (RCP) approved in July 2012 was valid up to July 2014. OPTCL floated (March 2014) tender for fresh enlistment of rate contract holders for a period of two years. The Contract Scrutiny Committee (CSC) observed that the item-wise rates quoted by the lowest bidder were not workable. CSC recommended (November 2014) to fix the new RCP by increasing the existing RCP by 11.58 *per cent* based on variation in Wholesale Price Index (WPI). The recommendation was based on the increase in WPI of

[76] A bidding process that is open to all qualified bidders and where the sealed bids are opened in public for scrutiny and are chosen on the basis of price and quality

September 2014 (185) with base index of July 2012 (165.80). As a result, the Price Scrutiny Committee (PSC) recommended (December 2014) for increase in RCP by 12.91[77] *per cent.* The recommendation was based on proportionate increase in the WPI from July 2012 to December 2014 as the WPI for December 2014 was not available.

Audit observed that the proportionate increase in WPI resulted in assumption of WPI for December 2014 as 187.20[78] instead of actual WPI for December 2014 which was 179.80. Board of Directors (BoD) approved (December 2014) the RCP recommended by PSC. The BoD also decided that the RCP for the first year would be kept firm and RCP for second year would increase based on variation in WPI during the first year of contract. The RCP for the first year was effective from 3 February 2015.

Subsequently, while fixing the RCP for the second year, PSC recommended (April 2016) for reduction of existing RCP by 0.91 *per cent.* The recommendation was made considering variation in WPI from February 2015 (175.6) to February 2016 (174). The new RCP for the second year was approved (June 2016) by BoD and made effective from 16 June 2016.

Audit observed that:

- RCP for the first year was fixed considering increase in WPI from July 2012 to December 2014. OPTCL, however, fixed terms and conditions for fixation of RCP for the second year considering variation in WPI from February 2015 to February 2016. It had not considered the variation in WPI from December 2014 while fixing the RCP for the second year.
- RCP for second year was fixed considering variation in WPI up to February 2016, though it was made effective from 16 June 2016. WPI for the month of May 2016 was available when the RCP for the second year was made effective. Hence, OPTCL should have considered the WPI for the month of May 2016, instead of February 2016 while fixing RCP for the second year.

Thus, OPTCL should have calculated RCP considering variation from December 2014 (187.20) to May 2016 (179.40) instead of February 2015 (175.6) to February 2016 (174). The RCP was to be decreased by 4.17[79] *per cent* instead of 0.91 *per cent*. This resulted in fixation of RCP on higher side by 3.26 *per cent*. Audit test checked records relating to 48 works valuing ₹18.01 crore awarded during June 2016 to December 2016. Audit observed that OPTCL extended undue benefit of ₹0.59[80] crore to the contractors due to fixation of RCP on higher side.

Government, during discussion on the paragraph stated (October 2017) that the deficiencies in procedure for fixation of RCP had since been rectified. They agreed to implement the same from subsequent rate contract.

---

77 11.58 *per cent* x 29 months (July 2012 -December 2014)/26 months (July 2012-September 2014)

78 [(165.8x12.91)+(165.8*100)]/100

79 (187.20-179.40)/187.20*100

80 ₹18.01 crore*3.26/100)

Odisha Film Development Corporation Limited

3.8 Loss of revenue

Failure to take timely action to let out the vacant space resulted in loss of revenue of ₹0.63 crore towards rental income

Odisha Film Development Corporation Limited (OFDC) was incorporated as the nodal agency of the State Government for promotion of the film industry in the State. The ancillary objective of OFDC *inter alia* included lease or mortgage of all or any part of its property. Income from leasing out the properties was the second major source of revenue of OFDC.

The corporate office building of OFDC consisted of four floors, out of which the first floor was occupied by OFDC. The rest of the floors were let out on lease to earn revenue from utilisation of vacant space. The second floor of the building was occupied by Registrar of Companies (RoC). RoC vacated (July 2011) the premises with prior intimation to OFDC. OFDC published (September 2011) advertisement in one local newspaper to lease out the vacated space, against which no response was received. Subsequent advertisement (January 2012) also did not receive any response. OFDC did not make any further effort to let out the vacant space due to non-receipt of any response to its earlier advertisements.

Subsequently, Debt Recovery Tribunal (DRT) informed (August 2013) OFDC about their willingness to hire the vacant space. They requested OFDC to execute certain repair works before taking possession. OFDC belatedly engaged (August 2014) Odisha Small Industries Corporation Ltd (OSIC) to carry out the work at an estimated cost of ₹16.40 lakh. OSIC, however, completed only part of the work by February 2015. OFDC withdrew (March 2015) the repair work from OSIC and entrusted the balance repair work to IDCO[81] for early completion. IDCO completed (June 2015) the balance repair work at a cost of ₹20.24 lakh. OFDC requested (June/October 2015) DRT to take possession of the vacant space, as it was losing rental income of ₹0.86 lakh per month. DRT, however, expressed (October 2015) their unwillingness to take possession as Odisha High Court had granted stay order (May 2015) on shifting of their office. OFDC had not taken any further steps to lease out the renovated vacant space stating that the matter was sub-judice.

In this regard, audit observed the followings:

- OFDC published advertisement to lease out the vacant space only on two occasions and only in one local newspaper. As a result, wide publicity was not given to attract more bidders. No further advertisements were made by OFDC after January 2012 to let out the vacant space.

- OFDC took action after a delay of 12 months from the receipt of request of DRT to issue work order for repair work. OFDC did not

[81] Industrial Development Corporation of Odisha

monitor the progress of repair work undertaken by OSIC. As a result, the repair work could be completed only in June 2015.

- OFDC had not signed any agreement with DRT to lease out the vacant space before undertaking repair work as per the requirement of DRT. Further, OFDC was not a party in the court case pertaining to shifting of DRT office to OFDC premise. High court had also not given any direction to OFDC to keep the vacant space reserved for DRT. OFDC, however, did not take any action to let out the vacant space to others on the ground that the matter was sub-judice.

Thus, failure to take timely action to let out the vacant space resulted in loss of rental income to the extent of ₹0.63 crore[82].

Government stated (September 2017) that OFDC did not make further advertisements as it wanted to avoid private tenants and lease out the space to governmental offices.

The reply was not acceptable as Board of Directors of OFDC has not taken any decision to let out the property only to governmental offices. The reply also indicated lack of serious efforts on the part of OFDC to lease out the space despite it remaining vacant for more than six years.

Industrial Development Corporation of Odisha Limited

3.9 *Loss of revenue*

Failure to take decision within validity period of the offer resulted in sale of iron ore fines at lower rate and loss of ₹0.46 crore

Industrial Development Corporation of Odisha Limited (IDCOL) was holding mining lease of one iron ore mine and one chrome ore mine. IDCOL floated (3 March 2015) a tender for sale of 20000 Metric Tonne (MT) iron ore fines. The price bid of the tender was opened on 11 March 2015. Brahmani River Pellets Limited (BRPL) became the highest (H1) bidder with quoted price of ₹795 per MT (exclusive of royalty). As per terms and conditions of the tender, the offer was valid for 30 days from the date of opening of the price bid, i.e., up to 10 April 2015. The Tender Committee recommended (13 March 2015) for allotment of tendered quantity in favour of H1 bidder.

Chairman-cum-Managing Director (CMD) of IDCOL, however, did not approve the recommendation of Tender Committee. CMD decided (21 March 2015) to refer the matter to Odisha Mining Corporation Limited (OMC) to ascertain the reasonableness of the offered price. The matter was referred (26 March 2015) to OMC as it was also selling iron ore fines. OMC, in turn intimated (9 April 2015) IDCOL that they were selling iron ore fines of different grade. The selling price of iron ore fines of OMC was ₹1,500 per MT inclusive of royalty. The Tender Committee, based on the sale price of iron ore fines in OMC and applicable royalty, worked out (15 April 2015) the sale price of its own grade of iron ore fines. The worked out price came to ₹830 per MT

---

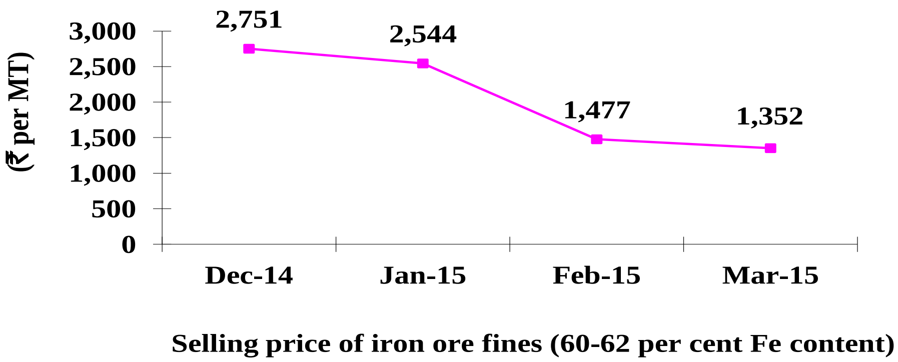
[82] 7776.90 square feet (floor area of vacant space) x ₹11 per square feet x 74 months (August 2011 to September 2017)

which was higher than the H1 price by ₹35 per MT. CMD, IDCOL, however, decided (16 April 2015) to send the analysis of sale price of Tender Committee to Department of Steel & Mines, Government of Odisha for vetting. IDCOL had not received any response from the Department in this regard.

IDCOL subsequently decided (13 May 2015) to float a fresh tender for sale of iron ore fines as the validity of offer of BRPL had expired on 11 April 2015. It cancelled two tenders floated during May 2015, as the H1 prices received were on much lower side. IDCOL finally sold (July 2015) iron ore fines at a price of ₹565 per MT exclusive of royalty. The selling price was lower by ₹230 per MT than the price offered by BRPL resulting in loss of ₹0.46 crore[83].

Audit observed that the average sale price of iron ore fines in the State had decreased by 50 *per cent* from December 2014 to March 2015 as depicted in the following graph:

Chart 3.1: Average selling price of iron ore fines



IDCOL was aware that OMC sells different grade and size of iron ore fines than IDCOL and average sale price of iron ore fines in the State was on downward trend. CMD, IDCOL despite knowing the above facts, referred the matter to OMC/Government for their opinion on H1 price. IDCOL, while referring the matter to OMC and Government had not ensured receipt of clarification within validity period of the offer. It also did not seek extension of validity period from BRPL to safeguard against delay in receipt of communication from OMC/Government.

Thus, failure on the part of management to decide the reasonableness of H1 price within the validity period of the offer had resulted in loss of ₹0.46 crore.

Government accepted (July 2017) the fact of non-receipt of information from OMC/Government within the validity period. It stated that loss or gain would always arise when compared with previous tender price as market behaviour could not be predicted.

[83] 20000 MT * ₹230 per MT (₹795 per MT -₹565 per MT)

The reply was not acceptable as the average sale price of iron ore fines was on a downward trend since December 2014 and thus the market behaviour was predictable during this period. Further, IDCOL had not ensured receipt of information from OMC/Government within the validity period of the offer. It had also not sought extension of validity period from H1 bidder.

Bhubaneswar

The : 16 February 2018

(YASHODHARA RAY CHAUDHURI)
Principal Accountant General
(Economic and Revenue Sector Audit), Odisha

Countersigned

New Delhi

The: 20 February 2018

(RAJIV MEHRISHI)
Comptroller and Auditor General of India