

Overview

This report contains three Chapters. Chapter-I contains functioning of State Public Sector Undertakings, Chapter-II includes Report of one Performance Audit on Implementation of Restructured Accelerated Power Development and Reforms Programme in Chhattisgarh and one Audit on Mining and Marketing of Minerals by Chhattisgarh Mineral Development Corporation Limited. Chapter-III contains nine Transaction Audit Paragraphs on Government companies. The total financial impact of audit findings is ₹ 521.68 crore.

1. Functioning of State Public Sector Undertakings

Audit of Government companies is governed by Section 139 and 143 of the Companies Act, 2013. As on 31 March 2016, the State of Chhattisgarh had 21 Government companies and one Statutory Corporation¹. The accounts of Government companies are audited by Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG). These Accounts are also subject to supplementary audit conducted by CAG. Audit of Chhattisgarh State Warehousing Corporation is governed by the Warehousing Corporations Act, 1962. The State PSUs registered a turnover of ₹ 21579.75 crore and incurred loss of ₹ 1108.05 crore as per their latest finalised accounts as of 30 September 2016. They had 20317 employees as on 31 March 2016.

(Paragraph 1.1)

Investments in State PSUs

As on 31 March 2016, the investment (Capital and Long term loans) in 22 State PSUs (including one Statutory corporation) was ₹ 27881.71 crore. It grew by 57.22 *per cent* from ₹ 17734.35 crore in 2011-12. Out of total investment, 44.28 *per cent* was towards Capital and 55.72 *per cent* was towards long term loans. The thrust of PSU investment was mainly in power sector which increased from ₹ 17301.26 crore in 2011-12 to ₹ 25157.36 crore in 2015-16. The State Government contributed ₹ 2524.42 crore towards loans and grants/subsidies during 2015-16.

(Paragraphs 1.6, 1.7 and 1.8)

Performance of State PSUs as per their latest finalised accounts

As per latest finalised accounts, out of 22 PSUs, 12 PSUs earned total profit of ₹ 488.93 crore and eight PSUs incurred total loss of ₹ 1596.98 crore. One PSU earned neither profit nor loss and one PSUs did not finalise its first accounts. The losses were mainly incurred by Chhattisgarh State Power Distribution Company Limited (₹ 1554.17crore) and Chhattisgarh State Power Transmission Company Limited (₹ 40.32 crore).

(Paragraph 1.15)

¹Chhattisgarh State Warehousing Corporation

Accounts Comments

Out of 23 accounts finalised by 20 working PSUs (including one Statutory corporation) during October 2015 to September 2016, the Statutory Auditors had given qualified certificates for six accounts and unqualified certificates for 17 accounts. There were 26 instances where compliance of Accounting Standards was not done in 15 Accounts. The Audit reports of Statutory Auditors and the supplementary audit by the CAG indicate that the quality of accounts needs to be improved substantially.

(Paragraphs 1.18 and 1.19)

Arrears in finalisation of Accounts

Fifteen PSUs had arrears of 33 Accounts as of September 2016. The extent of arrears ranged from one to five years. The PSUs need to set targets for the work relating to preparation of accounts with special focus on clearance of arrears.

(Paragraph 1.10)

2. Performance Audit relating to Government Companies

2.1 Implementation of Restructured Accelerated Power Development and Reforms Programme in Chhattisgarh

Introduction

During 2009-10, the losses in distribution networks of Chhattisgarh State Power Distribution Company Limited (Company) were significantly high at an average of 36.29 *per cent*. To address such issues in Power Sector, Accelerated Power Development and Reforms Programme (APDRP) was modified and renamed (July 2008) as "Re-structured Accelerated Power Development and Reforms Programme (R-APDRP)" by Government of India (GoI) and introduced in Chhattisgarh in September 2009. The main objectives of R-APDRP were to reduce the loss of power in distribution network {Aggregate Technical and Commercial (AT&C)loss} on sustainable basis to 15 *per cent*, to establish reliable and automated systems for collection of accurate base line data, and to adopt Information Technology (IT) for energy accounting and auditing. The Power Finance Corporation (PFC) was designated as the Nodal Agency of GoI for implementation of the Scheme. The total project cost of R-APDRP was ₹ 873.75 crore.

The projects under R-APDRP consist of Part-A (IT enabled system) implemented in 20 selected towns of Chhattisgarh with a project cost of ₹ 122.45 crore, Supervisory Control and Data Acquisition System (SCADA) implemented in two selected towns for a project cost of ₹ 41.06 crore and Part-B (strengthening of distribution network) implemented in 19 selected towns with a project cost of ₹ 710.24 crore.

Part-A included establishment of baseline data, IT applications for energy accounting/ auditing and IT based consumer service center with 17 modules for implementation. SCADA/ Distribution Management System (DMS) were being established in two large towns of Chhattisgarh. Part-B included regular distribution system strengthening works. Part-A of the Scheme was completed in August 2015. However, there was no progress in implementation of SCADA till March 2016. Physical progress made in respect of Part-B of the Scheme was 84 *per cent* till March 2016.

Power Distribution losses (AT&C losses)

Audit observed that during 2009-10, the Power Distribution losses of 20 project towns ranged between 8.57 *per cent* and 63.52 *per cent*. Despite an expenditure of ₹ 540.46 crore (as on March 2016), only four out of 20 towns in Chhattisgarh could achieve the target of 15 *per cent* AT&C losses during 2015-16. Further, in respect of five project towns, instead of decrease, the towns witnessed increased AT&C losses in 2015-16 as compared to 2014-15. In remaining 11 towns, though the losses were reduced, the target of 15 *per cent* could not be achieved. The reasons for failure to bring down the AT&C losses were mainly poor execution of works, high rate of theft of electricity, lack of action against the defaulting consumers etc. Thus, the Company failed to achieve the primary objective of the Scheme.

(Paragraph 2.1.13.1)

Go-live without completion of projects

A project town is declared go-live on establishment of IT enabled system as per System Requirement Specifications and online generation of AT&C losses report without human intervention. Under Part-A of the Scheme (IT enabled system), the Company declared all the towns as go-live by August 2015.

However, in respect of the 17 modules provided under Part-A of the Scheme, there were deficiencies in three modules. Customer Care Services module does not have a provision for customer's feedback, Maintenance Management module was not recording all the feeder trippings and New Service Connection module was not being fully utilised for new service connections. As a result, resolution of complaints could not be monitored by the Company, maintenance data was not available and consumers could not avail online connection facility.

A beneficiary survey by audit revealed that in 10 towns, 61 *per cent* of the consumers (out of 500 consumers surveyed) were not aware about the benefits of Customer Care Services. As a result, they were not using online or telephone facility to register their complaints, query and other billing related problems. Further, 16 *per cent* (82 consumers out of 500) of surveyed consumers in 10 towns complained that their meter reading was not being taken regularly and received bills for energy charges on average consumption basis. The survey also revealed that nine *per cent* of consumers (47 out of 500) were not receiving energy bills in time. Despite delays in resolving complaints the Government and

Chhattisgarh State Electricity Regularity Commission (CSERC) have not issued any instructions to the Company for prompt resolution of complaints.

(Paragraphs 2.1.10.1, 2.1.10.4, 2.1.10.5, 2.1.10.6 and 2.1.10.8)

Updation of consumer database

The Company did not complete the updation of database of consumers as consumer indexing was not done in respect of 1.99 lakh (21 *per cent*) out of 9.51 lakh consumers as the Company has not developed a system for updation of database of consumers on regular basis.

(Paragraph 2.1.10.7)

Modems for obtaining energy data

Out of 10361 modems installed in Distribution Transformers (DTRs) and feeders for obtaining energy data, only 3240 modems were communicating the data as of 31 March 2016 due to network problems, fault in cables, interruption in power supply, defective modems etc. This resulted in poor communication of energy data from DTRs and feeders compelling the Company to fill gaps in the energy data through manual entries thereby defeating the Scheme objective of eliminating human intervention in energy accounting/auditing.

(Paragraph 2.1.10.3)

Implementation of SCADA

SCADA was to be implemented in two towns as per guidelines of the Scheme with the sanction cost of ₹ 41.06 crore. However, there was no physical progress in projects even after a lapse of more than four years due to delay in appointment of SCADA Implementing Agency (SIA), inaction on the part of SIA and not providing of SCADA enabling infrastructure by the Company. Thus, the Company failed to improve system reliability under the Scheme through remote operation.

(Paragraphs 2.1.11 and 2.1.11.1)

Financial Management

The Company deposited Scheme funds of ₹ 317.33 crore in its overdraft account instead of Scheme account in violation of the Scheme guidelines causing a loss of interest income of ₹ 1.70 crore in Scheme account. Further, Scheme funds amounting to ₹ 312.09 crore were drawn without immediate requirement and kept in fixed deposits of more than 180 days. Due to payment of higher rate of interest on funds drawn than the interest earned on fixed deposits, there was an avoidable interest burden of ₹ 6.23 crore on the Scheme. Also, interest income of ₹ 21.02 crore earned on Scheme funds was not credited to Scheme account.

(Paragraphs 2.1.8.1 and 2.1.8.2)

Internal Control, Monitoring and Training

The State Level Distribution Reform Committee (SLDRC) meetings were not conducted regularly. This resulted in ineffective monitoring by SLDRC of

compliance of conditions of Scheme and achievement of milestones to improve the effectiveness of the Scheme.

(Paragraph 2.1.14.1)

2.2 Audit of Mining and Marketing of Minerals by Chhattisgarh Mineral Development Corporation Limited

Chhattisgarh Mineral Development Corporation Limited (Company) was incorporated in June 2001 with the objective of exploitation, mining and marketing of minerals.

Outsourcing of mining and marketing activities by the Company

The Company did not carry out mining and marketing of minerals on its own and awarded the same to private contractors. During 2011-12 to 2015-16, the Company carried out mining and marketing of Bauxite ore only through private contractors and trading (purchase and sale) of tin-ore. The pre-mining activities viz preparing feasibility reports, prospecting and obtaining statutory clearances etc. were also carried out through outsourced agencies without any cost benefit analysis of outsourcing of these activities.

(Paragraph 2.2.2)

Development of Coal blocks

The Company failed to develop the Coal blocks and commence mining though the milestones for commencement of production were missed by nearly two years to over seven years and substantial expenditure was incurred by the Company on these blocks. The failure was mainly due to inordinate delays in preparation of Geological Reports, delays in applying for various requirements such as mining lease, forest clearance, environmental clearance and land acquisition etc. The directive of the Hon'ble Supreme Court (September 2014) to cancel the allotment of five Coal blocks to the Company rendered the expenditure of ₹ 339.24 crore incurred by the Company for pre-mining works, infructuous.

(Paragraph 2.2.4.1)

Mining and marketing of Bauxite ore

Undue extension of pre-mining activity period

In the contract for mining and marketing of Kesra II, III, IV, Barima VI and Nagadand Bauxite mines, the Company unduly extended the period for completion of pre-mining activities. As a result, the Company suffered loss of revenue ₹ 9.30 crore during January 2009 to December 2013.

(Paragraph 2.2.5.2)

Failure to comply with agreement and mining plan

The Company did not monitor and initiate timely action regarding payments to be made by the contractor under contractual provisions. As a result, the contractor for mining and marketing of Bauxite at Daldali Bauxite mine made payments for the actual quantity mined instead of the monthly scheduled quantity as per agreement and the approved mining plan.

(Paragraph 2.2.5.10)

Mining of Iron ore

MoU with Steel Authority of India Limited

As the Company did not implement the MoU with Steel Authority of India Limited (SAIL) for development of Eklama Iron-ore deposit despite submission of final draft Joint Venture Agreement by SAIL after incorporating the suggestions of the high level committee and delayed the submission of application for mining lease of iron ore, the Company lost the opportunity to exploit the estimated Iron ore reserve of 100 million tonnes.

(Paragraph 2.2.6.1)

Standing instructions in preparation of pre-feasibility report

The Company failed to operationalise the Aridongri Iron-ore mine in Kanker District as the mining lease could not be obtained due to failure of the Company to adhere to the standing instructions in preparation of prefeasibility report. As a result expenditure of ₹ 75.30 lakh incurred on prospecting, drilling and preliminary investigation works of the mine remained blocked for a period ranging from four to eight years.

(Paragraph 2.2.6.2)

Trading of Columbite

Conditions for renewal of license

Failure of the Company to comply with the conditions for renewal of license for trading of Columbite resulted in loss of revenue of ₹ 3.35 crore.

(Paragraph 2.2.8)

Compliance to Environmental regulations

The Company failed to ensure compliance to the environmental regulations in respect of ambient air quality, noise pollution and tree plantation in Daldali Bauxite mine.

Joint inspection of the Daldali Bauxite mine revealed that:

- No analysis was being carried out by the contractor to assess the ambient air quality;
- There was no system in place for recording /monitoring the noise level in the mines and no ear plugs/air tight operation cabins were provided to the workers;
- No plantation was done in the mined out area, though plantation of 1000 trees per hectare was required to be carried out.

(Paragraph 2.2.9)

3. Transaction Audit Observations

Transaction audit observations included in the Report highlight deficiencies in the management of Public Sector Undertakings involving serious financial implications. The irregularities pointed out are broadly of the following nature:

There was loss of ₹ 127.98 crore in six cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 3.1, 3.2, 3.4, 3.5, 3.6 and 3.9)

Loss of ₹ 3.16 crore was incurred in two cases due to defective/ deficient planning.

(Paragraphs 3.3 and 3.8)

Gist of some important audit observations in respect of other transaction audit paragraphs are given below:

The Chhattisgarh State Beverages Corporation Limited finalized purchase price of foreign liquor for the years 2014-15 and 2015-16 at higher rates in violation of terms and conditions of tender as well as directives of Board of Directors resulting in grant of undue benefit of ₹ 112.87 crore to the suppliers of foreign liquor.

(Paragraph 3.1)

The Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited made payment for business expenditure of more than ₹ 20000 in cash and also made payments without effecting TDS in violation of provisions of Income Tax Act resulting in payment of extra income tax of ₹ 2.02 crore by the Company as the business expenditure of ₹ 6.10 crore was disallowed.

(Paragraph 3.2)

The Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited suffered loss of ₹ 2.18 crore due to lack of proactive marketing strategy for sale of surplus paddy seed.

(Paragraph 3.3)

The Chhattisgarh State Industrial Development Corporation Limited awarded civil works valuing ₹ 44.40 crore at exorbitant rate based on two price bids at first call and without assessing the reasonability of rates resulting in avoidable extra expenditure of ₹ 5.19 crore.

(Paragraph 3.4)

The Chhattisgarh State Industrial Development Corporation Limited recovered land premium at lower rate resulting in loss of ₹ 75.46 lakh to the Company and extension of undue benefit to a private party.

(Paragraph 3.5)

The Chhattisgarh State Civil Supplies Corporation Limited failed to enforce provisions of MoU for advance payment and incorporate suitable clause in MoU

towards penal interest for delayed payment. As a result, interest of ₹ 6.18 crore could not be recovered from KFCSCCL causing loss to the Company.

(Paragraph 3.6)

The Chhattisgarh State Civil Supplies Corporation Limited failed to timely submit the lower interest rate proposal of ICICI bank before the State Level Committee for approval resulting in extra expenditure ₹ 98.27 lakh towards interest on cash credit limit.

(Paragraph 3.8)