Overview

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This report contains three Chapters. Chapter – I contains functioning of State Public Sector Undertakings, Chapter – II includes Report of one Performance Audit on 'Working of Tenughat Vidyut Nigam Limited' and one Audit on 'Billing and Revenue collection in respect of High Tension Services Consumers' of Jharkhand Bijli Vitaran Nigam Limited. Chapter – III contains six Transaction Audit Paragraphs on Government companies. The total financial impact of audit findings is ₹ 2025.36 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 Jharkhand had 19 unlisted Government Companies (all working). 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 the CAG.

The State PSUs registered a turnover of ₹ 1865.69 crore and incurred loss of ₹ 164.92 crore as per their latest finalised accounts as of September 2016. They had 5544 employees as at the end of March 2016

(Paragraphs 1.1 and 1.3)

Investments in State PSUs

As on 31 March 2016, the investment (Capital and Long term loans) in 19 State PSUs was ₹ 2,361.43 crore. It decreased by 61.87 *per cent* from ₹ 6,192.40 crore in 2011-12 because investment in erstwhile JSEB had not been transferred to its successor companies after its unbundling into four companies *viz*. Jharkhand Urja Vikas Nigam Limited (JUVNL), Jharkhand Bijli Vitran Nigam Limited (JBVNL), Jharkhand Urja Sancharan Nigam Limited (JUSNL) and Jharkhand Urja Utpadan Nigam Limited (JUUNL) in January 2014. The thrust of investment was mainly in power sector which was 94.92 *per* cent of total investment as of 31 March 2016. The Government contributed ₹ 829 crore towards equity, loans and grants/subsidies to PSUs 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 19 working PSUs, six PSUs earned profit of ₹ 37.69 crore and eight PSUs incurred loss of ₹ 202.61 crore. Five working PSUs had not finalised even their first accounts. The losses were mainly incurred by Tenughat Vidyut Nigam Limited (₹ 110.22 crore) and Jharkhand Bijli Vitran Nigam Limited (₹ 70.98 crore).

(Paragraph 1.14)

Accounts Comments

Out of 13 accounts finalised by nine working companies during October 2015 to September 2016, the Statutory Auditors had given qualified certificates for nine accounts and unqualified certificates for four accounts. There were 31 instances where compliance of Accounting Standards was not done in nine Accounts. The Audit reports of Statutory Auditors and the supplementary audit by the CAG indicates that the quality of accounts needs to be improved substantially.

(Paragraph 1.17)

Arrears in finalisation of Accounts

Nineteen PSUs had arrears of 66 accounts as of September 2016. The extent of arrears was one to ten 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 of Government Companies

2.1 Working of Tenughat Vidyut Nigam Limited

Tenughat Vidyut Nigam Limited (Company) is a power generating company incorporated in November 1987 under the Companies Act, 1956 with the main objectives of construction, generation and maintenance of thermal power station and sells the power so generated to licensees/traders and other agencies. The Company has its thermal power station *viz*. Tenughat Thermal Power Station (TTPS) with installed capacity of 420 MW (210 MW x 2 units) located at Lalpania in Bokaro district.

The Performance Audit of the Company revealed multiple and chronic deficiencies affecting its finances and efficient operation. The Company is plagued by disputed ownership, weak governance, lack of finances, deficient planning, weak internal controls, and general apathy of most stakeholders which are showcased in this report.

Financial health of the Company

As of 31 March 2016, the Company has accumulated losses of ₹ 824.53 crore due to its poor operational performance since inception. The main reasons for the poor performance were (a) failure to achieve the projected output against the installed capacity (Plant Load Factor), (b) lower actual operation hours of the plant against maximum hours available (Plant Availability Factor), (c) consumption of excess auxiliary power (d) excess consumption of coal and oil etc.

The Company earned a profit of ₹ 0.02 per unit of energy sold in 2011-12 which increased to ₹ 0.33 per unit in 2012-13 as highest generation of power was achieved during that year. However, it suffered losses while selling energy during 2013-14 to 2015-16 at ₹ 0.66, ₹ 0.07 and ₹ 0.86 per unit of energy sold respectively. This was mainly due to increase in provision for penal interest on loans, prior period adjustments relating to outstanding energy dues, provisions for depreciation *etc.*

(Paragraphs 2.1.8.2 and 2.1.8.3)

Finalisation of Annual Accounts

The annual accounts of the company for the years 1994-95 to 2010-11 were finalised belatedly during 2011-12 to 2015-16. However, the annual accounts for the years 2011-12 to 2015-16 were not finalised till December 2016. The failure to finalise the accounts was mainly due to ownership dispute over the Company between GoJ and Government of Bihar. The delay in finalisation of accounts violated the provisions of the Companies Act, 1956/2013 and rendered it difficult for the Company to detect/prevent any lapse/fraud.

(Paragraph 2.1.8.1)

Financial Management

The State Government had not taken any proactive steps to create a common platform to bring together the Generator and the Distributor (JUVNL) and resolve the payment disputes arising out of outstanding dues of ₹ 3082.72 crore that had resulted in default in repayment of loans and accumulation of avoidable penal interests and losses to the Company. Further, unnecessary restraint to invoke the existing agreement clauses has resulted in inordinate delay in realisation of sales revenue leading to poor debt servicing on Government loans (₹ 665.89 crore) and accrual of interest amounting to ₹ 2181.79 crore.

Further, Ministry of Heavy Industries and Public Enterprises, Department of Public Enterprises, Government of India issued model Memorandum of Understanding (MoU) to be executed by State Governments for monitoring the performance of State PSUs through setting targets. However, the Energy Department, GoJ has not adopted any such MoU with the Company. As a result, GoJ could not set operational and financial targets for the Company and monitor its performance so as to improve the financial position and profitability.

The Company has also failed to utilise the opportunity to expand its sales to others (50 MW) despite available opportunities.

(Paragraphs 2.1.7.2, 2.1.8.2, 2.1.8.6 and 2.1.8.7)

Plant Load Factor

The Plant Load Factor (PLF) of the Company ranged between 61.32 *per cent* and 79.42 *per cent* only during the years 2011-12 to 2015-16 as against the target of 85 *per cent* set by Jharkhand State Electricity Regulatory Commission (JSERC). This resulted in generation loss of 2809.48 MU of electricity valued at ₹ 870.78 crore during 2011-12 to 2015-16. The reasons for the low PLF were evacuation system constraints resulting in plant shutdowns, obsolete machines, lack of preventive and regular maintenance and use of poor grade coal in the plant.

The low PLF also caused financial losses to the Company as tariff had been calculated taking into account the PLF as 85 *per cent* instead of the actual PLF being worked out each year. Thus, during 2015-16, the Company suffered a financial loss of ₹ 0.446 per unit on 2328.28 MU of energy generated as compared to the tariff which was worked out with 85 *per cent* PLF instead of the actual PLF of 71.46 *per cent*.

The actual losses in 2015-16 were even more at ₹ 0.86 per unit. It was also observed that the Company failed to apprise JSERC that 85 *per cent* PLF was on the higher side and it had never been able to achieve this. The failure to finalise accounts since 2011-12 meant that higher cost of debt servicing (higher penal interest on loan) and prior period adjustments etc. could not be considered by JSERC while fixing the tariff.

(Paragraph 2.1.9.1)

Auxiliary Power Consumption (APC)

During 2011-12 to 2015-16, the Company consumed excess Auxiliary Power than the JSERC norms by 173.80 MU valued at ₹ 56.79 crore owing to ageing of machines, failure to conduct timely overhauling of machines and frequent tripping of transmission lines. The Company claimed that the APC was high because they could not take up overhauling of machines due to paucity of funds. However, it was observed that during 2011-16, the Company kept funds ranging from ₹ 275.26 crore to ₹ 392.41 crore under Short Term Deposits which could have perhaps been utilised. Further, the JSERC did not approve the higher Auxiliary Power Consumption (APC) of the Company while truing up the Aggregate Revenue Requirement (ARR) for the years 2011-12 to 2013-14 as it was a controllable parameter as per the Generation Tariff Regulations, 2010. Truing up for the subsequent years was yet to be done by JSERC.

(Paragraph 2.1.9.3)

Repairs, Maintenance and Capital overhauling

Capital overhauling of Unit I of the Plant was taken up after a delay of 49 months from its due date and that of Unit II is yet to be taken up though overdue for 28 months. This has caused frequent breakdowns of boiler and rotor of the generation units causing plant shut downs. During 2011-12 to 2015-16, the plant shutdowns exceeded the JSERC norms by 7095 hours resulting in generation loss of 1490 MU valued at ₹ 409.10 crore. This could have been controlled by timely repair and maintenance and capital overhauling of the plant and equipment.

(Paragraphs 2.1.9.2 and 2.1.9.4)

Capacity expansion

The envisaged capacity expansion of TTPS could not be undertaken even after 19 years of its commissioning despite an investment of ₹ 359 crore due to deficient planning and indecision by the Government of Jharkhand/Company.

(Paragraph 2.1.13.1)

Merry-Go-Round rail system and other projects

The Merry-Go-Round (MGR) rail system of the Company meant for transportation of coal was commissioned in October 2015 after a delay of 24 years at an additional cost of ₹ 51.34 crore. The delay was due to delayed acquisition of land, funding constraints *etc*. During this period, the coal requirement for the plant had to be transported by road. Though the MGR rail system was commissioned in October 2015, transportation of coal is still being done partially by road due to shortage of wagons. Though the Company paid an advance of ₹ 2.88 crore in 1998 for 34 wagons, it could not take delivery of a single one till date.

(Paragraphs 2.1.13.3 and 2.1.13.4)

Upgradation of Switchyard of the power plant

Switchyard upgradation was left incomplete by the contractor, M/s Bharat Heavy Electricals Limited at the time of erection of the plant in the year 1997. When taken up again by the Company (July 2010), it was delayed by further 52 months and remained incomplete as of December 2016. This led to backing down of generation units caused by power evacuation constraints. As a result, Company suffered loss of power generation of 971 MU and a revenue loss of ₹ 267.51 crore during 2011-12 to 2015-2016. However, JSERC has directed (September 2016) the Company to complete the upgradation by March 2017.

(Paragraph 2.1.10.1)

Procurement of coal and quality of coal

The power plant suffered generation loss of 326 MU valued at ₹ 50.24 crore during 2011-12 to 2015-16 due to coal shortage and poor quality of coal such as grade slippage, higher percentage of moisture, and oversized stones supplied by Central Coalfields Limited (CCL). However, the Company could not realise the claims of ₹ 49.62 crore from CCL as it failed to conduct joint sampling of coal for quality testing. CCL also confirmed that in many cases, the Company did not participate in joint sampling at loading points. The Company stated (November 2016) that Central Institute of Mining and Fuel Research have been authorised to conduct sampling at loading and unloading points.

(Paragraphs 2.1.12.1 and 2.1.12.2)

The Company suffered a loss of ₹ 8.14 crore during 2011-12 to 2015-16 due to its failure to claim loss of 43,857 MT of coal due to wind, rain, and evaporation of moisture in the tariff petitions.

(Paragraph 2.1.12.5)

During 2011-12 to 2015-16, there was high unburnt carbon in bottom ash ranging from 9.96 *per cent* to 12.66 *per cent* against the plant design norm of two *per cent.* During the period, the unburnt carbon in fly ash ranged between 4.87 *per cent* and 5.53 *per cent* against plant design norm of 0.5 *per cent.* This led to excess consumption of coal measuring 1,68,545 MT which increased the cost of generation by ₹ 35.10 crore. Also, there was excess consumption of 7329 Kilo litre of Light Diesel Oil valuing ₹ 38.57 crore over the JSERC norms during 2011-12 to 2015-16.

(Paragraphs 2.1.11.1 and 2.1.11.2)

Monitoring and Internal Control

The Energy Department, GoJ has not signed any Memorandum of Understanding (MoU) with the Company. As a result, Energy Department could not set operational and financial targets for the Company and monitor its performance so as to improve its financial position and profitability.

Effective monitoring of the activities of the Company was not done by the Board of Directors as its meetings were not held regularly. Further, the proposed appointment of the two functional directors and induction of independent directors was not done to strengthen the functioning of the Board.

(Paragraphs 2.1.7.2 and 2.1.15.3)

Human Resource Management

The Human Resource Management of the Company was deficient. As against a sanctioned strength of 510 technical manpower there were only 258 in place *i.e* deficit of 252 employees which would adversely impact the operational performance of the Company.

(Paragraph 2.1.12.7)

Thus, the failure of the Government/Management to strengthen the finances of the Company and augment its power generation contributed to the poor power supply in the State. This could adversely affect the overall business environment of the State. Consequently the State may jeopardise its position as seventh rank holder in 'Ease of Doing Business' as reported by the World Bank in its report for the period ending June 2016.

2.2 Audit on 'Billing and Revenue Collection in respect of High Tension Service Consumer' of Jharkhand Bijli Vitaran Nigam Limited.

Audit on Billing and Revenue Collection in respect of High Tension Service consumers of Jharkhand Bijli Vitaran Nigam Limited included in the Report highlights deficiencies in billing and revenue collection in respect of High Tension Services (HTS) and High Tension Special Services (HTSS) consumers of Jharkhand Bijli Vitaran Nigam Limited.

In Jharkhand, electricity sold to HT consumers ranged between 30 *per cent* and 38 *per cent* of total energy sold and revenue billed against HT consumers ranged between 36 *per cent* and 55 *per cent* of total energy billed during 2011-12 to 2015-16. Jharkhand State Electricity Regulatory Commission (JSERC) had framed the tariff, with effect from January, 2004, for the High Tension Service (HTS) consumers having contract demand (CD) of 100 Kilo Volt Ampere (KVA) and above and separately for the High Tension Special Service (HTSS) consumers having electric induction furnace with a contract demand of 300 KVA or more.

The important audit findings are detailed below:

- Four HTSS consumers were utilising load for other purposes in addition to induction furnace, however, the Company had not segregated the load into HTSS and HTS tariff as required under JSERC (Electric Supply Code) Regulation, 2005 and suffered a loss of ₹ 9.90 crore;

(Paragraph 2.2.2.1)

- In five cases the Company failed to provide new connections/enhancement of load within the time limit of 153 days as prescribed in JSERC Regulations resulting in revenue loss of ₹ 5.43 crore;

(Paragraph 2.2.3.2)

- Actual Demand of 61 HTS consumers exceeded the Contract Demand for continuous three months during the period 2011-12 to 2015-16; however, the Company failed to increase the contract demand as per JSERC tariff orders resulting in revenue loss of ₹ 3.42 crore;

(Paragraph 2.2.4.1)

- The Company failed to collect additional security deposits of ₹ 54.03 crore against 62 HTS/HTSS consumers based on their actual billing as per JSERC Regulations; and

(Paragraph 2.2.4.2)

- As of 31 March 2016, dues of ₹ 1487.11 crore were outstanding against 873 HTS/HTSS consumers including ₹ 450 crore against 468 running consumers in seven test checked Electric Supply Circles of the Company.

(Paragraph 2.2.4.9)

3 Transaction Audit Observations

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

- There were three cases of violation of statutory obligations amounting to ₹ 18.53 crore.

(Paragraphs 3.2, 3.5 and 3.6)

- There were two cases of defective/ deficient planning leading to avoidable and wasteful expenditure of ₹ 31.75 crore.

(Paragraphs 3.1 and 3.4)

- There was one case of inadequate/deficient monitoring resulting in extra cost of ₹ 4.95 crore.

(Paragraph 3.3)

Gist of important paragraphs is given below:

- Jharkhand Bijli Vitran Nigam Limited incurred avoidable expenditure of ₹ 31.19 crore towards transmission charges in the absence of dedicated transmission system.

(Paragraph 3.1)

- Jharkhand Bijli Vitran Nigam Limited failed to deduct income tax and works contract tax from the running accounts bills of the contractors and deposited/paid the same from its own funds thereby causing loss of ₹ 15.31 crore.

(Paragraph 3.2)

- Jharkhand Police Housing Corporation Limited failed to recover from the contractor, the extra cost of ₹ 4.95 crore, incurred on execution of left over incomplete works due to failure to verify the genuineness of the bank guarantees submitted by the contractor.

(Paragraph 3.3)

- Jharkhand Urja Utpadan Nigam Limited incurred infructuous expenditure of ₹ 38.24 lakh due to its failure to inspect the procured materials before dispatch and to get the defective materials replaced. The Company also incurred extra expenditure of ₹ 17.94 lakh on subsequent procurement of the material on nomination basis.

(Paragraph 3.4)

- Jharkhand Urja Vikas Nigam Limited incurred wasteful expenditure of ₹ 1.27 crore for failure to adhere to the provisions of Employees' Provident Fund and Miscellaneous Provisions Act, 1952.

(Paragraph 3.5)

- Jharkhand State Beverages Corporation Limited failed to pay advance income tax resulting in avoidable payment of interest of ₹ 1.95 crore.

(Paragraph 3.6)