Overview

1. Functioning of Government Companies and Statutory Corporations

Audit of Government companies is governed by Sections 139 and 143 of the Companies Act, 2013. The accounts of Government companies are audited by Statutory Auditors appointed by Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective Legislations. The working results of 88 State Public Sector Undertakings (PSUs) comprising 84 State Government companies and four Statutory Corporations are discussed in this report. The turnover of 66 working PSUs was ₹ 86,319.25 crore in 2016-17 as per their latest finalised accounts. This turnover was equal to 3.81 *per cent* of the State Gross Domestic Product indicating the important role played by the State PSUs in the economy. The working PSUs incurred an overall net loss of ₹ 17,354.54 crore in 2016-17 and they had accumulated losses of ₹ 36,770.82 crore as on 31 March 2017.

(Paragraphs 1.1, 1.2, 1.3, 1.14, 1.15 and 1.16)

As on 31 March 2017, the investment (Capital and long term loans) in 88 PSUs was ₹ 2,29,830.42 crore. It grew by 142.90 *per cent* from ₹ 94,619.69 crore in 2012-13 mainly because of increase in investment in power sector. The Government contributed ₹ 3,123.99 crore towards equity, loans and grants/subsidies during 2016-17.

(Paragraphs 1.5 and 1.7)

Fifty three working PSUs had arrears of 137 accounts as of September 2017. The extent of arrears was one to 18 years. There are 22 non-working companies of which two are under liquidation.

(Paragraphs 1.9 and 1.11)

During the year 2016-17, out of 66 working PSUs, 39 PSUs earned profit of ₹ 2,986.73 crore and 16 PSUs incurred loss of ₹ 20,341.27 crore. Eight working PSUs prepared their accounts on a 'no profit no loss' basis and three companies had not yet started commercial operations and therefore not prepared statement of profit and loss. The major contributor to profit was M.S.E.B. Holding Company Limited (₹ 2,570.46 crore) whereas heavy losses were incurred by Maharashtra State Electricity Distribution Company Limited (₹ 15,021.09 crore) and Maharashtra State Electricity Transmission Company Limited (₹ 4,082.08 crore).

(Paragraph 1.15)

During the year, the Statutory Auditors had given unqualified certificates for 31 accounts, qualified certificates for 19 accounts and adverse certificates (which mean that accounts do not reflect a true and fair view) for three accounts.

(Paragraph 1.20)

2. Performance Audit of Government Company

Performance Audit of **Augmentation of Thermal Power Generation Capacity of Maharashtra State Power Generation Company Limited** was conducted. Highlights of the Audit findings are given below**:**

2.1 Maharashtra State Power Generation Company Limited

Executive Summary

Introduction

Maharashtra State Power Generation Company Limited (Company) was incorporated (May 2005) under the Companies Act, 1956 as a wholly owned Government Company and was engaged in the business of generation of electricity. As on 31 March 2017, the Company had an installed capacity of 13,817 Mega Watts (MW).This comprised seven coal based Thermal Power Stations (TPS) of 10,380 MW, a gas based TPS of 672 MW, 180 MW from Solar Power Plants and 26 Hydro Electric Projects of 2,585 MW.

Thermal capacity addition plan

The Company had planned/taken up 13 thermal power projects of 13,900 MW for completion/implementation during 2007-17 as against the capacity addition requirement of 7,891 to 9,664 MW during the same period. The Company completed seven projects having capacity of 5,730 MW (2007-17) while remaining six projects of 8,170 MW on which the Company had incurred ₹ 112.09 crore towards various pre-order activities, were proposed either for cancellation or deferred/pending decision of the Board of Directors (BoD) citing surplus power scenario in the State.

Project implementation

The Company completed five thermal power projects (Koradi, Parli, Chandrapur, Bhusawal and Khaperkheda) involving 4,730 MW during the period 2012-17. All the five projects were constructed by awarding two comprehensive Engineering, Procurement & Construction (EPC) contracts comprising Boiler, Turbine and Generator (BTG) package and Balance of Plant (BoP) package. The Company awarded 10 EPC contracts worth ₹ 20,867 crore for five projects.

Deficiencies in pre-implementation planning

➢ Construction of an additional unit in Parli despite water shortage and without ensuring permanent water supply for existing units was not justified.

➢ Detailed Project Report (DPR) of Bhusawal was defective as it did not provide for construction of railway siding which contributed to delayed project execution.

➢ Coal requirement of three projects (Koradi, Chandrapur and Parli) was to be met from development of a coal block. Even before development of coal block could commence, issues related to coal quality and cost effectiveness have cropped up raising doubts about its economic viability. As per the prevailing policy, the Ministry of Coal (MoC) had granted Bridge Linkage (BL) for meeting 75 *per cent* coal requirement for period up to March 2019. Thus, existing coal arrangements were inadequate for running the plant to full capacity and there was lack of firm allocation of coal for operation of the three new projects (3,230 MW) beyond March 2019. The Company had not prepared a concrete alternative plan for procurement of coal.

Time overrun

According to terms and conditions of contract, successful completion of trial run of the units was to be considered as completion date of the contract for the project. Delay in completion of trial run of the units ranged between 20 and 49 months from the scheduled completion date. Delayed project execution was attributed to poor performance and financial crisis of EPC contractors. None of the major milestones/activities were completed within the time period stipulated in the contracts.

There was lack of coordination between the BTG and BoP works which affected interrelated works. Further, there was avoidable delay due to factors within management control like delay in awarding BoP contracts; delay in completion of railway siding due to defective DPR and delay in commencement of commercial operation of units in absence of timely obtaining of requisite statutory permissions and Environmental Clearance (EC)/non-compliance with environmental conditions.

Cost analysis

As against the estimated cost of ₹ 25,048 crore for five projects, the actual cost as on date of commercial operations was ₹ 35,012 crore leading to increase in cost by ₹ 9,964 crore.

- Major increase in cost (56 *per cent*) of ₹ 5,620 crore was on account of increase in Interest During Construction (IDC) on loans. Of which, ₹ 1,871.93 crore was disallowed by Maharashtra Electricity Regulatory Commissions (MERC) on the grounds that delay in project execution was not entirely beyond the control of the Company.

- There was loss of equity contribution of ₹ 235.54 crore from the Government of Maharashtra (GoM) in three projects (Koradi, Chandrapur and Parli) consequent to delay in execution of projects.

- The Company incurred excess expenditure of ₹ 19.92 crore on overheads (establishment expenditure) over and above the industry norms in Parli project which was disallowed by the MERC.

Deficiencies during project construction

Audit noticed instances of deficiencies in project execution like pre-mature commissioning of units and issues related to quality of material/workmanship of EPC contractors. This had contributed to low capacity utilisation of new units and consequent irrecoverable loss of revenue on account of disallowance of fixed cost and loss of generation. Other issues like financing of a non-viable water supply scheme, non-adjustment of interest free advance against water charges, blocking of funds and extra expenditure while providing ash disposal arrangements were also observed.

Payments and recoveries

- Abnormal delay was noticed in recovery of liquidated damages of ₹ 2,296.91 crore from the EPC contractors which led to irrecoverable loss of interest of ₹ 237.30 crore.
- There was non-recovery of labour cess of ₹ 154.84 crore from the EPC contractors in three projects.

Financial management

- Failure to obtain payment security mechanisms from Maharashtra State Electricity Distribution Company Limited facilitated payment defaults and accumulation of huge arrears. This impacted liquidity/cash flow position of the Company thereby affecting project financing and repayment of loans.
- The Company paid penal interest of ₹ 78.86 crore for non-payment of loan instalments within due dates, burden of which was passed on to the consumers against tariff principles.
- The Company could not avail equity contribution to the extent of ₹ 80.10 crore from GoM due to non-inclusion of installation of Flue Gas Desulphurisation (FGD) plant in the project cost.
- There were delays in filing petitions with MERC for approval of tariff/capital costs led to delayed realisation of revenue/returns.
- Return on Equity (RoE) of ₹ 1,041.83 crore on new projects for the years 2016-18 was foregone without fulfilment of mandatory pre-conditions laid down by the BoD.

Monitoring

The monitoring system was ineffective in minimising delays in the project and IT based monitoring system was not implemented.

Operational efficiency of new units

- Performance of new units was below the norms prescribed by MERC for Plant Availability (PA), Plant Load Factor, Auxiliary Energy Consumption (AEC), Station Heat Rate, consumption of oil and Operation & Maintenance (O&M) expenses. Non-achievement/adherence to operational norms fixed by MERC resulted in non-recovery of fixed costs, excess AEC, excess consumption of coal and oil and excess expenses on O&M of plants. Low capacity utilisation of new units due to forced outages led to loss of generation of 20,391 Million Units (MUs) during 2012-17.
- Availability of the generation capacity was as important as to get it dispatched in the Merit Order considering surplus power available in the State.

The units having least cost were scheduled/dispatched first and in case power was not required, generating units having higher cost were backed down. Audit observed loss of generation on account of backing down of units of the Company had increased from 143 MUs in 2012-13 to 9,311 MUs in 2016-17 (total loss: 17,313 MUs), leading to loss of revenue (energy charges) to the Company besides burdening the consumers with fixed charges. In respect of new projects, cost of generation was highest at Bhusawal and hence suffered maximum backing down of generation.

Environmental compliances

There was instance of non-compliance with conditions of EC regarding installation of FGD and ozonisation plant at Koradi project. None of the new projects achieved target of 100 *per cent* fly ash utilisation.

3. Compliance Audit Paragraphs

Gist of some of the important audit observations is given below:

City and Industrial Development Corporation of Maharashtra Limited having selected the Navi Mumbai site for development of Greenfield airport project with scheduled commencement of operation in 2012-13 could not complete the various activities such as pre-development works, land acquisition, necessary clearances, development of Rehabilitation & Resettlement (R&R) sites and R&R of 3,000 project affected families even after more than 10 years from the receipt of approval for the project. Non-completion of the required activities by CIDCO has resulted in cost and time overrun on the project.

(Paragraph 3.1)

Haffkine Bio-Pharmaceuticals Corporation Limited did not file the Income Tax returns on due dates and had to forgo the set off benefit of carry forward loss which resulted in loss of ₹ 1.21 crore. The Company also did not get the refund of excess tax paid ₹ 43 lakh.

(Paragraph 3.2)

Maharashtra State Electricity Distribution Company Limited paid Load factor incentive of ₹ 9.69 crore to 76 HT consumers whose load factor exceeded more than 100 *per cent*. The Company did not adopt the formula as prescribed by MERC while calculating the PF incentive/penalty to HT consumers. The collection efficiency of the Company by considering the total billed demand and collection during each financial year was varying from 70.87 to 74.53 *per cent*.

(Paragraph 3.3)

Maharashtra State Electricity Distribution Company Limited made excess payment of ₹ 5.45 crore towards fixed charges, at higher rates, to the co-generator.

The Company purchased costly power from Bagasse based power generators by backing down other economic power producing units.

(Paragraphs 3.4 and 3.5)

Injudicious decision of **Maharashtra State Electricity Transmission Company Limited** to convert 25 MVA Power Transformers to 50 MVA resulted in extra expenditure of ₹ 3.12 crore as compared to the cost of new 50 MVA transformer. The Company did not execute the work for which material costing ₹ 14.50 crore was procured during January to March 2014 resulting in loss of interest of ₹ 4.93 crore.

(Paragraphs 3.6 and 3.7)

Shivshahi Punarvasan Prakalp Limited went ahead with the rehabilitation of slum dwellers without proper mechanism for implementation. Though, the Company allotted 1,128 flats to a society for allotment to slum dwellers, the intended objective of vacating the encroached land could not be achieved and the slum dwellers were still occupying the land even after allotment of flats.

(Paragraph 3.9)

Maharashtra Industrial Development Corporation granted undue benefit to the plot holder by reducing the additional premium resulting in a loss of revenue of ₹ 6.48 crore.

(Paragraph 3.10)