OVERVIEW

Overview

This Report contains the following chapters:

Chapter-1: General information on functioning of State Public Sector Undertakings (PSUs),

Chapter-2: Performance Audit on construction of extra high tension (EHT) sub-stations and transmission lines by Madhya Pradesh Power Transmission Company Limited, and,

Audit on fuel management in thermal power generating stations of Madhya Pradesh Power Generating Company Limited

Chapter-3: 11 Compliance Audit Paragraphs on PSUs.

The total financial impact of the audit findings is ₹ 2,150.74 crore.

1. Functioning of State Public Sector Undertakings

Investment in State PSUs

There are 72 PSUs in Madhya Pradesh. As on 31 March 2017, the investment (Capital and Long Term loans) in these PSUs was ₹ 81,529.50 crore. The thrust of the State government investment in PSUs during the last five years was in the Power sector (₹ 27,618.74 crore).

Of the 72 PSUs, 52 Government companies and two statutory corporations are working PSUs. Of the 18 non-working PSUs, 17 are Government companies and one is a statutory corporation.

Out of the 72 PSUs, 15 PSUs had arrears in accounts for three years or more ranging from 1990-91 onwards. Delays/ non-preparation of accounts are fraught with risk of misrepresentation of facts, fraud and misappropriation.

As per the latest finalised accounts of the 57 PSUs, that had finalised their accounts in the last three years, 29 PSUs earned profit of ₹ 397.74 crore, 19 PSUs incurred loss of ₹ 5,625.52 crore, and the remaining nine PSUs had no profit or loss. These 57 PSUs registered a turnover of ₹ 77,588.17 crore.

The 57 PSUs, that had finalised their accounts in the last three years, generated an average negative Return on Investment (paid-up capital, free reserves and long-term loans) of 0.88 *per cent* on the investments made by the State Government. As against this, the average cost of borrowings of the State Government was 6.72 *per cent* during 2014-15 to 2016-17. Thus, the approximate loss to the public exchequer as a result of the investment in these 57 PSUs amounted to ₹ 3,672.26 crore over the past three years. The loss, if any, incurred by the remaining 15 PSUs who have not finalised their accounts could not be assessed.

(Paragraphs 1.1, 1.5, 1.6, 1.9 and 1.10)

Arrears in finalisation of accounts

The Companies Act, 2013, stipulates that the annual financial statements of companies are to be finalised within six months from the end of the relevant financial year i.e., by September end. Failure to do so may attract penal provisions, under which, every officer of the defaulting company shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to ₹ five lakh, or with both.

Out of 54 working PSUs, only 25 PSUs finalised their accounts for the year 2016-17 while 29 PSUs had arrears of 54 accounts as of 31 December 2017 with the extent of arrears ranging from one to 13 years. Out of 18 non-working PSUs, five PSUs were in the process of liquidation and the remaining three PSUs had arrears of 42 accounts for six to 27 years. The State Government had extended Budgetary support (Equity, Loans, Grants and Subsidy etc.) of ₹ 13,977.68 crore to 17 working PSUs, during the period for which accounts were in arrears, out of which ₹ 266.77 crore was extended to three working PSUs, whose accounts were in arrears for more than three years.

As per the dividend policy (July 2005) of the State Government, all State PSUs are required to pay a minimum dividend of 20 *per cent* of profit after tax. However, out of 29 PSUs which earned profit as per their latest finalised accounts during 2014-17, only four PSUs proposed dividend of ₹ 43.38 crore and in violation of the dividend policy of GoMP, 25 profit earning PSUs did not declare dividend of ₹ 37.49 crore on their profit of ₹ 187.45 crore, in 2016-17.

(Paragraphs 1.9, 1.10, 1.11 and 1.14)

Recommendations

- **The Finance Department and the concerned administrative departments should ensure that the State PSUs take immediate action to make their accounts current, so that the directors of these PSUs do not continue to fall foul of the Companies Act and the relevant Acts governing State Statutory Corporations.**
- **The Finance Department and the concerned administrative departments should ensure that budgetary support is not extended to such PSUs whose accounts are not current.**
- **The State Government should direct the profit making PSUs to remit the arrear dividend (amounting to ₹ 474.46 crore) from the date of adoption of dividend policy (July 2005) to Government account.**

Winding up of non-working PSUs

Out of 18 non-working PSUs (17 companies and one statutory corporation), five PSUs[i] have commenced liquidation process in the last one to 27 years, which are pending with the official liquidator. Further, the State Government had proposed (February 2005) to initiate liquidation of the Madhya Pradesh

[i] Dada Dhuniwale Khandwa Power Limited, Madhya Pradesh Film Development Corporation Limited, Madhya Pradesh Panchayati Raj Vitta Evam Gramin Vikas Nigam Limited, Madhya Pradesh Vidyut Yantra Limited and Optel Telecommunication Limited.

Road Transport Corporation (MPSRTC). However, the Government of India (GoI) rejected (November 2009) the proposal and advised for restructuring/ revival of the corporation but further action is still pending and MPSRTC continues to be a non-working statutory corporation. Orders have been issued (January 2018) for amalgamation of Crystal IT Park limited and SEZ Indore limited with their holding company {M.P. Audyogik Kendra Vikas Nigam (Indore) Limited} and the State Government has not yet decided on closure/ revival of the remaining 10 companies[ii] having net worth[iii] of ₹ 14.69 crore.

(Paragraph 1.16)

Recommendations

- **Since the continued existence of loss making and non-working PSUs causes substantial drain on the public exchequer, the State Government may (i) review the functioning of all loss making PSUs and (ii) examine the possibility of winding up non-working PSUs; and (iii) assess whether employees of non-working companies can be sent on reverse deputation to Government departments having vacancies, as has been done by the Government of Rajasthan.**
- **As 10 years had already gone by since GoI suggested restructuring of MPSRTC, which has not been taken up so far, GoMP may review expeditiously whether it would be possible to restructure the Corporation as suggested by GoI. The State Government should evaluate the viability of 10[iv] non-working PSUs for deciding their liquidation.**

Accounts comments

The quality of accounts of companies needs improvement. The Statutory auditors had given qualified certificates for 25 accounts finalised by 18 companies. Compliance to the Accounting Standards by the companies remained poor as there were 65 instances of non-compliance to Accounting Standards in 22 accounts of 15 companies.

(Paragraph 1.17)

Recommendation

- **The Finance Department and the concerned administrative departments should immediately review the working of the 18 companies where the Statutory Auditors have given qualified comments.**

Follow-up action on Audit Reports

In terms of extant instructions, Administrative departments are required to submit replies/explanatory notes to audit paragraphs/performance audits included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature. There was no backlog for Audit Reports upto 2014-15. Out of 18 audit paragraphs/performance audits included in Audit Report 2015-16 placed in the State Legislature on

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[ii] C3, C5 and C8 to C15 of *Annexure 1.1.*

[iii] Paid up capital + reserves and surplus-accumulated losses.

[iv] 18 non-working PSUs (minus) five PSUs where liquidation has commenced (minus) one PSU where GoI has advised for revival (minus) two PSUs under amalgamation.

24 March 2017, explanatory notes to two paragraphs/ performance audits in respect of two departments (Food, Civil Supplies and Consumer Protection department and Horticulture and Food Processing department), were still awaited (March 2018).

(Paragraph 1.19)

Restructuring of PSUs

Consequent to the reorganisation of the erstwhile Madhya Pradesh State into the states of Madhya Pradesh and Chhattisgarh w.e.f. 1 November 2000, the assets and liabilities of 19 PSUs[v] (out of the then existing 28 PSUs[vi]) were to be divided amongst the successor states. However, the division have been completed only in respect of 13 PSUs[vii] as of December 2017.

(Paragraph 1.22)

Reforms in power sector under Ujwal Discom Assurance Yojna (UDAY)

Memorandum of Understanding (MoU) were signed (August 2016) between Ministry of Power, GoI, Government of Madhya Pradesh and MP Power Management Company Limited (MPPMCL) for and on behalf of its subsidiaries, the three State DISCOMs viz., Madhya Pradesh Paschim Kshetra Vidyut Vitran Company Limited (MPPaKVVCL); Madhya Pradesh Poorv Kshetra Vidyut Vitran Company Limited (MPPoKVVCL) and Madhya Pradesh Madhya Kshetra Vidyut Vitran Company Limited (MPMKVVCL) for implementation of the scheme with identified financial and operational targets.

The three DISCOMs failed to achieve financial targets in respect of reduction of aggregate transmission and commercial (AT&C) losses and collection efficiency. Operational targets (for electricity access to un-connected households, rural feeder metering and rural feeder audit) were achieved by the three DISCOMs. The performance of DISCOMs was unsatisfactory in respect of distribution transformer metering, smart metering and distribution of LED lights. Further, MPPoKVVCL and MPMKVVCL could not achieve targets in respect of feeder segregation.

(Paragraph 1.23)

2. Performance Audits relating to Government Companies

2.1 Performance Audit on construction of extra high tension (EHT) sub-stations and transmission lines by Madhya Pradesh Power Transmission Company Limited

The Madhya Pradesh Power Transmission Company Limited, Jabalpur (Company) was incorporated in November 2001 as a wholly owned government company under the administrative control of the Energy Department of the Government of Madhya Pradesh (GoMP). The main

[v] Sl. No. A1, A2, A11, A12, A13, A14, A17, A28, A31, A32, A34, A45, A46, A47, C1, and C5 of *Annexure 1.1 (the remaining three companies no longer exist)*

[vi] Sl. No. A1, A2, A3, A4, A5, A6, A8, A11, A12, A13, A14, A17, A28, A31, A32, A34, A45, A46, A47, C1, C4 and C5 of *Annexure 1.1 (the remaining six companies no longer exist)*

[vii] Sl. No. A1, A2, A14, A28, A31, A32, A34, A45, A47, and C5 of *Annexure 1.1 (the remaining three companies no longer exist)*

objective of the Company is to provide an efficient, adequate and properly coordinated power transmission system in the State of Madhya Pradesh.

This performance audit covers the activities of the Company relating to construction of extra high tension (EHT) sub-stations and transmission lines (132 KV, 220 KV and 400 KV), including formulation and planning of projects, procurement, construction and commissioning of sub-stations and transmission lines during 2012-13 to 2016-17.

The following are the main audit findings:

Monitoring and internal controls

Absence of system in the Company of submitting progress reports of works to the Board of Directors (BoD) resulted in lack of monitoring of projects by BoD. Consequently, important issues arising during execution of works such as right of way, land acquisition, delay in execution of works and poor performance of the contractors etc, could not be addressed by BoD.

(Paragraph 2.1.9)

Due to delay in the implementation of enterprise resource planning (ERP), the objective to integrate all operational functions including project planning and monitoring, strengthening its business intelligence reporting, improved workflow and increased efficiency could not be achieved.

(Paragraph 2.1.10)

Planning and project conceptualisation

The Company has not prepared the ten-year perspective plan for transmission systems as per the Madhya Pradesh Electricity Regulatory Commission (MPERC) Guidelines for Capital Expenditure. The annual capital expenditure plans were not submitted to the Board of Directors and MPERC for approval. The Company could not achieve physical targets of works as envisaged in five year plans due to non-inclusion of those works in annual plans, not taking up planned works of approved DPRs and delay in execution of works.

(Paragraphs 2.1.11 and 2.1.12)

Project implementation and execution

The delay in completion/ non-completion of works deprived the Company of the envisaged reduction of transmission losses amounting to ₹ 71.61 crore during audit period. The main reasons for poor progress of works were commencement of works without conducting detailed survey, awarding of works without ensuring land availability, deficiencies in finalising layout and drawings, awarding multiple contracts simultaneously to single contractor and poor performance of contractors.

(Paragraphs 2.1.17, 2.1.18, 2.1.19, 2.1.20, 2.1.21 and 2.1.22)

Nine sub-stations had not been connected to feeders by Discoms and six sub-stations were connected to feeders with delays ranging from four to 18 months due to non-construction of connecting lines by Discoms. As a result, these sub-stations remained unutilised for considerable periods and their stated objective of meeting additional load demand and improving voltage profile could not be achieved.

(Paragraph 2.1.24)

Three 220 KV sub-stations remained under-utilised as the load of these sub-stations was very low due to non-synchronisation of construction of related 132 KV transmission lines.

(Paragraph 2.1.25)

Investment of ₹ 6.16 crore on the Eshagarh - Guna line remained idle due to construction of alternate Ashoknagar - Eshagarh line. Further, there was unfruitful expenditure of ₹ 1.25 crore on unutilised stringing of multi circuit towers on 132 KV Panagar-Katangi line.

(Paragraphs 2.1.26 and 2.1.27)

Project Funding and Financial Management

Non-adherence to the drawal schedule of loans due to delay in execution of projects attracted liability to pay commitment charges of ₹ 8.29 crore. Further, due to non-adherence to conditions stipulated in bank guarantee (BG), the Company failed to encash BG against mobilisation advance of ₹ 25.27 crore.

(Paragraphs 2.1.30 and 2.1.31)

Summary of recommendations

The Company should:

- **take necessary steps for completion of ERP project without further delay so as to obtain the benefits of improved workflow and effective monitoring of operations;**
- **adhere to the CAPEX Guidelines of MPERC on preparation of ten year perspective plan, five year plan and annual plans;**
- **award works only after completion of detailed surveys, route alignment and preparation of detailed estimates as stipulated in the Works Department Manual;**
- **ensure completion of preparatory activities such as identification of land, seeking approvals and clearances in advance for speedy implementation of projects;**
- **ensure timely finalisation of drawings and layout of works and monitor the performance of the contractors to ensure timely execution of works;**
- **take prompt action against the defaulting contractors as per terms of the contract to ensure timely completion of works;**
- **ensure synchronization of construction of sub-stations and associated transmission lines so as to avoid under-utilisation of commissioned sub-stations.**

2.2 Audit on fuel management in thermal power generating stations of Madhya Pradesh Power Generating Company Limited

The Madhya Pradesh Power Generating Company Limited (Company) operates four thermal power stations (TPSs) with a total installed capacity of 4,080 Mega Watt with coal and oil as the primary and secondary fuel respectively. During the period 2014-17, the Company incurred ₹ 13,263.17 crore on procurement of fuel which constituted 56 *per cent* of the total generation cost. The audit covered the Company's activities relating to fuel management in all the four TPSs during the period 2014-17.

The audit findings on the Fuel Management by the Company during 2014-17 were as under:

Planning and procurement of coal

- The Company failed to reduce its contracted quantity of coal from South Eastern Coalfields Limited (SECL) even when the Central Electricity Authority had approved the retirement of two units of Amarkantak Thermal Power Station in March 2016. Consequently, the Company became liable to pay compensation of ₹ 17.21 crore for short lifting of 6.27 lakh metric tonnes (LMT) of coal.

(Paragraph 2.2.9)

- The Company failed to swap coal from the more distant SECL to the nearer Western Coalfields Limited (WCL) for supply of 13.37 LMT coal for its Shri Singaji TPS resulting in avoidable expenditure of ₹ 80.10 crore towards transportation.

(Paragraph 2.2.10)

- At Satpura TPS, the Company had to pay incentive on account of excess supply of coal in one agreement and penalty on account of short lifting of coal in another agreement to WCL due to failure in judiciously rearranging the supply of coal among the agreements. This resulted in avoidable loss of ₹ 50.96 crore.

(Paragraph 2.2.11)

- The Company short lifted 12.68 LMT of indigenous coal while 1.76 LMT of costlier imported coal was procured. This resulted in extra expenditure of ₹ 51.24 crore.

(Paragraph 2.2.12)

Transportation of coal

- The Company did not maintain a centralised e-payment account with the Banks for payment of freight charges to Railways. As a result, in case of diversion of rakes, the Railways collected two full freights (one for original destination and second for changed destination) instead of charging differential freight for the changed destination. This resulted in excess payment of ₹ 45.15 crore during 2014-17 which remained blocked with the Railways. Consequently, the Company suffered loss of interest of ₹ 6.30 crore.

(Paragraph 2.2.18)

Coal handling

- The Company did not unload coal rakes within the prescribed time limit. Out of 7,495 coal rakes, unloading of 4,627 coal rakes (61.73 *per cent*) was delayed by all four TPSs for which the Company had to pay demurrage charges of ₹ 21.35 crore to the Railways. This was mainly due to limited coal conveying capacity of the conveyor belt and non-construction of alternative coal path at Sanjay Gandhi TPS and delay in unloading of coal by the contractors.

(Paragraph 2.2.22)

Consumption of coal

- The actual station heat rate (SHR) was higher than the norms prescribed by Madhya Pradesh Electricity Regulatory Commission (MPERC) in all TPSs during 2014-17 (except in Amarkantak TPS during 2015-17). The reasons for higher SHR and consequent excess coal consumption were, inadequate maintenance and failure to ensure timely overhauling of TPSs, partial loading of the plant and deviations in the technical parameters. Higher SHR resulted in excess consumption of 26.88 LMT of coal costing ₹ 866.12 crore.

(Paragraph 2.2.26)

Consumption of fuel oil

- During the period 2014-17, TPSs (except Amarkantak TPS and Sanjay Gandhi TPS Power House-III) consumed fuel oil of 20,123 kilo litre costing ₹ 95.80 crore, in excess of the norms prescribed by MPERC. This was due to higher consumption of oil on regular start-up, frequent shut down of plant, partial loading, coal flow interruption and coal mill outages.

(Paragraph 2.2.30)

Summary of recommendations

The Company should:

- **assess and procure coal as per actual requirement of units in operation in its TPSs;**
- **ensure swapping of coal of decommissioned units for the power plants situated nearer to mines in future;**
- **lodge MRPs judiciously under different agreements of a TPS and coordinate with the coal companies to minimise short lifting/ excess delivery of coal;**
- **lift available indigenous coal and avoid procurement of costlier imported coal;**
- **take immediate steps to open centralised e-payment account with Central Railway to avoid further blockage of funds and consequent loss of interest;**
- **adhere to the terms and conditions of O&M/unloading contract and also complete the alternative coal path works at the earliest to avoid further payment of demurrage;**
- **take effective steps to adhere to operational norms in respect of SHR and fuel oil prescribed by MPERC.**

3. Compliance Audit Observations

Gist of some of the important compliance audit paragraphs are given below:

Madhya Pradesh Road Development Corporation Limited caused release of Viability Gap Fund (VGF) of ₹ 14.98 crore to the Concessionaire in violation of the Concession Agreement. Besides, the Company did not recover independent engineers (IE) fees of ₹ 2.57 crore.

(Paragraph 3.2)

Madhya Pradesh Road Development Corporation Limited failed to recover IE fees of ₹ 8.39 crore and did not levy interest of ₹ 4.01 crore on delayed payment from 12 concessionaires.

(Paragraph 3.5)

Madhya Pradesh Power Management Company Limited procured costly power from Torrent Power Limited deviating from the approved methodology which resulted in extra expenditure of ₹ 27.66 crore and extension of undue benefit to the supplier to that extent.

(Paragraph 3.6)

Madhya Pradesh Power Generating Company Limited made avoidable payment of penal water charges of ₹ 6.70 crore due to delay in execution of water supply agreement with Water Resources Department.

(Paragraph 3.7)

Madhya Pradesh Power Generating Company Limited failed to revise the contracted quantity of water after decommissioning of two thermal power units, which resulted in avoidable expenditure of ₹ 1.66 crore on water charges.

(Paragraph 3.8)

Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited did not avail Corporate liquid term deposit (CLTD) facility leading to loss of interest of ₹ 9.79 crore.

(Paragraph 3.11)