

## Chapter-II

### Compliance Audit Observations relating to Power Sector Undertakings

This Chapter includes important audit findings emerging from test check of transactions of the Power Sector Undertakings.

#### Jaipur Vidyut Vitran Nigam Limited, Ajmer Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited

##### 2.1 *Delay in deposit of cess attracted avoidable penal interest*

**The three DISCOMs did not devise a mechanism to deposit the Water Conservation Cess (WCC) according to schedule prescribed in the Rajasthan Electricity (Duty) Act, 1962 and Rules framed thereunder. Absence of proper mechanism led to delay in deposit of WCC collected from electricity consumers and attracted liability of penal interest of ₹ 55.42 crore.**

A cess known as “water conservation cess” (WCC) was levied under Section 3B<sup>1</sup> of the Rajasthan Electricity (Duty) Act, 1962 (RED Act 1962) on the energy consumed by a consumer or by a person other than a supplier generating energy for his own use or consumption, at the rate of ten *paise* per unit to be paid to the State Government. Rule 3 of RED Rules 1970 provided that the WCC is to be recovered by the supplier from its consumers through energy bill and deposited to the State Government within 30 days of expiry of the month of its realisation. Further as per Section 5 of the RED Act 1962, the supplier shall be liable to pay interest at the rate of 12.5 *per cent* per annum for not-depositing the collected WCC within the stipulated time.

The three<sup>2</sup> distribution companies (DISCOMs) being supplier of electricity to consumers in the State, are required to collect the WCC from their consumers at the prescribed rate and deposit the amount so collected to the State Government within the prescribed time schedule.

Scrutiny of records relating to deposit of WCC for the period 2009-10 to 2017-18 disclosed that the three DISCOMs did not adhere to the prescribed schedule and deposited the collected WCC with a delay<sup>3</sup> ranging between four days and 2404 days. Audit noticed that while finalising the assessments, the Commercial Tax Department, Government of Rajasthan (CTD, GoR) imposed (August 2015 and March 2017, February 2016 and September 2016) penal interest of ₹ 48.65 crore on the three DISCOMs for delay in depositing the WCC for the period 2009-10 to 2015-16 and issued demand notices in this regard. On receipt of demand notices, the three DISCOMs filed (November 2015 and May 2017, February 2016 and November 2016) four applications for

1 Inserted by Finance Act 2009 with effect from 8 July 2009.

2 Jaipur Vidyut Vitran Nigam Limited (JVVNL), Ajmer Vidyut Vitran Nigam Limited (AVVNL) and Jodhpur Vidyut Vitran Nigam Limited (JdVVNL).

3 JVVNL: 18 days and 2404 days, AVVNL: Four days and 374 days and JdVVNL: Seven days and 576 days.

waiver of interest to the Commissioner, CTD, GoR, Jaipur. The CTD rejected (August 2017) one application<sup>4</sup> on the plea that the RED Act 1962 does not have a provision for waiver of penal interest and accordingly, directed to deposit the requisite amount without further delay. After rejection of the application, JdVVNL requested (February 2018) the Energy Department, GoR to intervene in the matter but it also endorsed (March 2018) the views expressed by the CTD. Alternatively, it also advised the concerned DISCOM to intimate about the legal provisions under which the waiver had been sought. However, the DISCOMs neither intimated the same nor deposited the penal interest till March 2019.

Audit observed that despite receipt and non-settlement of demand notices for prior period, the DISCOMs did not devise a mechanism to ensure/monitor payment of WCC within the stipulated time and continued to delay the deposit of WCC for further period *i.e.* for 2016-17 to 2018-19 in JdVVNL, 2015-16 to 2018-19 in AVVNL and 2016-17 to 2018-19 in JVVNL. The DISCOMS are liable for further penalty of ₹ 6.77 crore<sup>5</sup> for these delays. Thus, delay in deposit of WCC for the period 2009-10 to 2018-19 in violation of statutory provisions led to creation of avoidable interest liability of ₹ 55.42 crore (₹ 48.65 crore + ₹ 6.77 crore) on the three DISCOMs.

The Government while accepting the facts stated (August 2019) that as per Rajasthan Finance Bill 2019, Section 8A (Power of State Government to waive penalty and interest in certain cases) shall be inserted in the RED Act 1962 according to which the State Government, in public interest, may reduce or waive any interest or penalty payable under this Act. In view of this amendment, one of the DISCOMs (JVVNL) had already requested (24 July 2019) the Energy Department, GoR for waiver of the interest/penalty on WCC imposed on it. Besides, the DISCOMs assured to deposit the WCC in time in future.

The reply was not acceptable as new Section (8A) inserted in the Act does not empower the State Government to reduce/waive any interest or penalty with retrospective effect. Further, the DISCOMs did not develop a mechanism to ensure/monitor the deposit of collected WCC with the concerned revenue authorities as per provisions of the RED Act/Rules which led to abnormal delay in deposit of WCC during 2009-10 to 2018-19 and avoidable interest liability of ₹ 55.42 crore.

## **Jodhpur Vidyut Vitran Nigam Limited**

### **2.2 Systemic lapses in financial closure of the contracts awarded by Jodhpur Vidyut Vitran Nigam Limited**

#### **Introduction**

**2.2.1** Jodhpur Vidyut Vitran Nigam Limited (Company) is engaged in distribution of electricity in 10 districts<sup>6</sup> of the State. The Company has a Material Management (MM) wing for procuring materials and a Turnkey

4 Application filed by JdVVNL in November 2015 for the period 2009-10 to 2013-14 against notice issued by CTD, GoR in August 2015.

5 JdVVNL (₹ 1.20 crore), AVVNL (₹ 2.28 crore) and JVVNL (₹ 3.29 crore).

6 Barmer, Bikaner, Churu, Hanumangarh, Jaisalmer, Jalore, Jodhpur, Pali, Sirohi and Sriganganagar.

Works (TW) wing for executing, monitoring the turnkey works/projects relating to electrification and augmentation/strengthening of the distribution system under the control of the Chief Engineer (MM) and the Chief Engineer (TW) respectively. The Company formed (May 2018) a separate wing namely Centrally Sponsored Scheme (CSS) wing for executing the turnkey works being funded by the Government of India through various schemes under the control of the Chief Engineer (CSS).

All the three wings played vital role in executing Company's capital works as 83 per cent (₹ 6314.56 crore) of its total budgeted capital expenditure (₹ 7618.68 crore) for the period 2014-19 pertained to these wings. Review of contracts executed by these wings disclosed that out of total 4175<sup>7</sup> contracts eligible for financial closure during 2008-09 to 2017-18, financial closure of 538<sup>8</sup> contracts (12.89 per cent) only was completed.

### Audit Objectives and Scope

**2.2.2** The present study was conducted (January 2019 to May 2019) to evaluate whether norms and guidelines relating to submission of final bills and financial closure of contracts are well defined, works were financially closed as per prescribed procedure and the contract clause relating to financial closure were properly applied to safeguard financial interest of the Company.

The study assessed efficiency and effectiveness of the process of financial closure of purchase orders (POs) and turnkey works (TW) contracts<sup>9</sup> awarded by the MM and TW wings respectively. The audit involved scrutiny of records relating to POs/TW contracts placed by these two wings during 2008-09 to 2017-18 and financially closed/pending for financial closure upto 31 March 2019. Out of 4108 POs<sup>10</sup> (as detailed in *Annex-4*) and 67<sup>11</sup> TW contracts eligible for financial closure during 2008-09 to 2017-18, 513 POs and 25 TW contracts were financially closed whereas 3595 POs and 42 TW contracts were pending for financial closure at the time of sample selection (January 2019).

During selection of POs/TW contracts for detailed audit, out of financially closed cases, 49 POs (20 per cent) and five TW contracts (20 per cent) were selected for detailed scrutiny whereas out of the cases pending for financial closure, 111 POs (10 per cent) and nine TW contracts (20 per cent) were selected for detailed scrutiny. Selection of these cases were done on random basis and adopting multi-level selection methodology for POs relating to MM wing as cases relating to five major items procured by MM wing viz. transformers, meters, vacuum circuit breakers (VCB), steel items and cable/conductors were selected.

7 It includes 4108 purchase orders and 67 turnkey works contracts awarded by MM and TW wing respectively.

8 It includes 513 purchase orders and 25 turnkey works contracts belonged to MM and TW wing respectively.

9 A turnkey contract includes the contract awarded for supply and erection work under one tender.

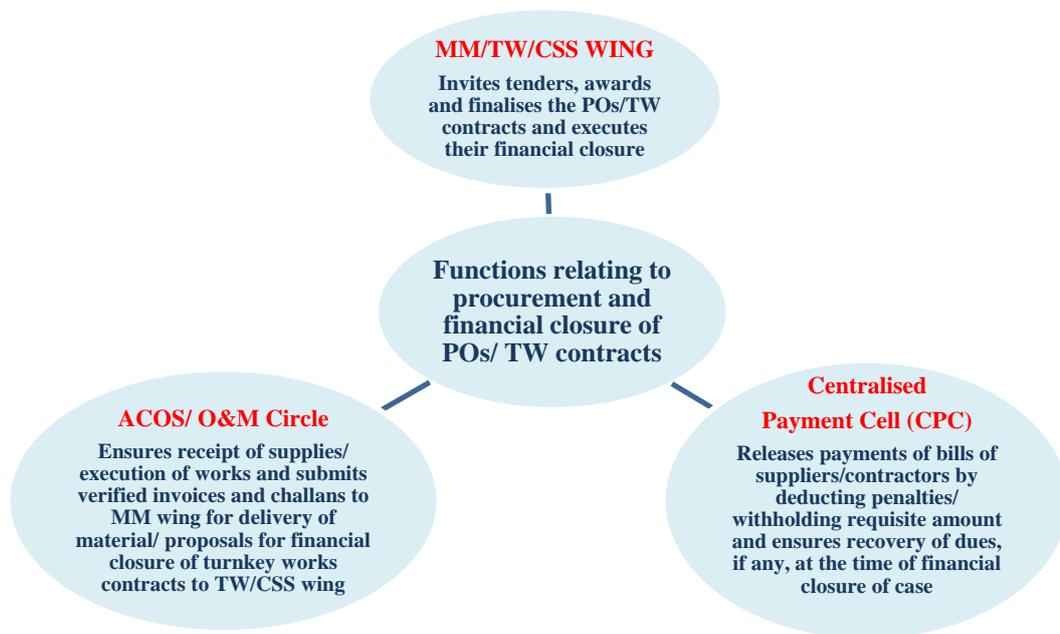
10 It includes 347 additional POs eligible for financial closure, information of which was provided during the course of audit.

11 It includes three additional TW contracts eligible for financial closure, information of which was provided during the course of audit.

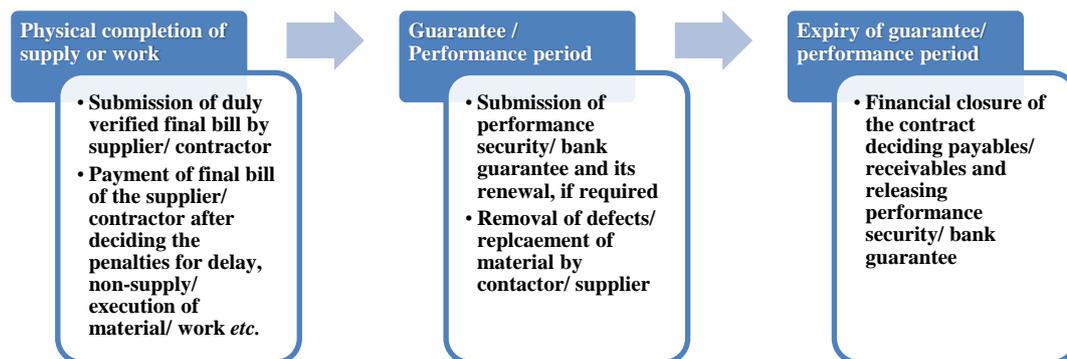
**Functions relating to financial closure of contracts**

2.2.3 MM wing centrally procures material for annual requirement of the Company. The procurement process mainly involves assessment and finalisation of requirement, invitation and finalisation of tenders, awarding of POs, issuing dispatch instructions *etc.* TW and CSS wings centrally process tenders and award contracts for execution of turnkey works and the awarded works are executed by the concerned contractor under supervision of respective Operation and Maintenance (O&M) Circle. After execution of ordered supplies/turnkey works, financial closure of a contract is executed by the concerned wing.

Besides these three<sup>12</sup> wings, the procurement process also involves other wings/ offices *viz.* Assistant Controller of Stores (ACOS), O&M Circles and Centralised Payment Cell (CPC) of the Company. Allocation of functions relating to procurement process (including financial closure of contracts) among different wings/offices of the Company is depicted below:



After execution of awarded supplies/works, process of financial closure of POs/TW contracts commences which can be divided into three stages as shown below:



12 MM, TW and CSS wings.

## Audit Findings

**2.2.4** The audit findings which broadly cover issues relating to non-adoption of Procurement Management Information System (PMIS), lack of well defined and extensive procedure for financial closure of contracts, delayed/deficient financial closure of POs/TW contracts *etc.* are discussed under paragraph **2.2.5 to 2.2.15**.

These audit findings are based on Audit analysis of sample cases only and there is a possibility of more such cases occurring in the Company. Therefore, the Government/Company is expected to review all other cases having possibility of similar deficiencies/irregularities and required to take corrective action in cases where similar deficiencies/irregularities are found.

The paragraph has been finalised after considering the reply (September 2019) of the Government/Company.

## Adoption of Procurement Management Information System (PMIS)

**2.2.5** A procurement management information system (PMIS) collates information relating to procurement process on periodic basis for tracking the performance of procurement process. It also helps in monitoring the procurement cases eligible for financial closure and ensuring closure of these cases in a time bound manner. Audit noticed that Rule 9 of the Rajasthan Transparency in Public Procurement (RTPPP) Rule 2013 also provided for development and maintenance of PMIS by each procuring entity.

During review of records, Audit observed that the Company did not develop an information system for management and monitoring of procurement procedure. In absence of consolidated information relating to procurement cases, the requisite data for monitoring of such cases was not available with the Company. Audit further observed that:

- In respect of POs which became eligible for financial closure during 2008-09 to 2017-18, MM wing initially provided (November 2018) details of 3761 cases whereas it subsequently provided (March 2019) details of 3987 cases wherein details of 121 initial cases were missing whereas details of 347 new cases were included.
- On the basis of information provided by MM wing, total 160 POs<sup>13</sup> were selected for detailed scrutiny as elaborated at paragraph **2.2.2**. While reviewing these 160 cases, Audit observed that the information provided by MM wing was not correct as the cases stated to be financially closed included 31 POs where financial closure was pending whereas the cases stated to be pending for financial closure included 14 POs where financial closure had already been done (June 2019).

Thus, due to absence of a structured system, MM wing of the Company was not in a position to provide the correct information relating to POs eligible for financial closure during 2008-09 to 2017-18. Resultantly, information

<sup>13</sup> 49 POs where financial closure have been finalised and 111 POs where financial closure was pending.

provided by MM wing regarding total eligible cases, financially closed cases and cases pending for closure was not reliable.

The Government accepted the facts that the Company had provided the corrected lists of POs to the audit at a later stage. It further stated that the Company had awarded (June 2019) the work for implementation of an Enterprise Resource Planning (ERP) system and the same is under process.

### **Procedure for closure of contracts**

**2.2.6** Closure of a contract is an important milestone of the procurement process, which symbolizes that liabilities of either purchaser or supplier/contractor under the contract stand settled. A contract is said to be completed in all respects only after successful completion of the warranty/defect liability period (DLP). Therefore, a contract shall be considered to be closed only after its successful completion and the performance security of the supplier/contractor is returned/discharged. Further, the Company is also expected to lay down a well defined and time bound procedure for closure of contracts after completion of the concerned contracts.

Audit observed that the General Conditions of the Contract (GCC) of the Company included certain provisions for release of security/performance bank guarantee and imposition of penalty for delay in delivery/repair/replacement of the material and execution of the work *etc.* However, the Company did not spell out a well defined and extensive procedure for financial closure of the awarded contracts. Further, it did not define a timeline for finalisation of recoveries/ penalties for delay in delivery/repair/replacement of the material and execution of the work and release of security/bank guarantee *etc.* Audit also observed that the Company also did not institute a monitoring mechanism to ensure timely financial closure of contracts and to review the cases pending after a particular time period.

For the purpose of comparing the contract closure process, Audit analysed the process in sister DISCOMs in neighboring States. Audit noticed that the DISCOM of Madhya Pradesh State in its Procurement Manual (revised upto June 2012) defined the procedure of contract closing. It provides that as a matter of policy, all the contracts shall be closed immediately after expiry of warranty/DLP of respective contracts. It provides a time frame of 12 months and a comprehensive list of the activities which are required to be completed before closing of a contract. It also provides that the concerned wing shall maintain a list of contracts approaching completion where the list shall contain salient particulars of the contract *viz.* expected date of physical completion and taking over, warranty period *etc.* and in respect of all such contracts, the progress of various associated activities shall be reviewed by the In-charge on monthly basis. Though the Company in its Purchase Manual/Works Manual defined certain norms for such activities in relevant parts but it did not include a defined and time bound procedure and monitoring mechanism for closure of contracts in these manuals.

Audit also observed that the MM, TW and CSS wings of the Company inordinately delayed financial closure of contracts. Audit observed that in selected cases delay in financially closed cases and cases pending for financial

closure as on 31 March 2019 ranged between six months and 76 months and six months and 107 months respectively from expiry of the performance period. Thus, absence of well-defined procedure containing prescribed timeline and monitoring mechanism led to lethargic approach of the concerned wing discussed in succeeding paragraphs.

The Government accepted the facts and assured to adopt a well-defined procedure for time bound financial closure of contracts.

### **Financial closure of purchase orders/ turnkey works contracts**

**2.2.7** During review of the selected cases, Audit observed instances where finalisation/financial closure of POs/TW contracts was delayed/deficient as detailed under:

#### ***Non-furnishing of verified invoices and receipted challans***

**2.2.8** As per General Conditions of Contract (GCC), after placement of POs by the MM Wing and completion of contractual formalities the supplier is required to produce invoices along with receipted challans and other requisite documents to the consignee *i.e.* concerned Assistant Controller of Stores (ACOS) and the consignee is required to forward one copy of the verified invoices and receipted challans along with other requisite documents to each of MM wing, Centralised Payment Cell (CPC) and the concerned supplier. Besides, a copy of invoice and receipted challans must immediately be sent by the supplier to the MM wing.

Audit observed that after receipt of supplies and verification of invoices and receipt challans furnished by respective suppliers, the ACOS provided one copy of the verified invoices and receipt challans to the supplier as well as CPC but the ACOS did not provide copy of these documents to MM wing. Similarly, the suppliers also did not comply with the provision which provided for furnishing a copy of such documents for each consignment to MM wing immediately after verification of such documents is done by the concerned ACOS. Further, copies of the verified invoices and receipt challans relating to total material supplied by the suppliers were provided to MM wing with delay ranging from two months to 71 months (including 17 cases where verified invoices were submitted beyond the DLP). Non-compliance of the laid down procedure/norms by ACOS and suppliers led to delay in finalisation of penalties by MM wing on account of delayed/ deficient supplies, negative price variation *etc.* and consequential delay in finalisation of contracts.

During review of selected 160 POs, Audit observed that MM wing finalised only 83 POs whereas 55 POs were pending for financial closure as on 31 March 2019. Further, in case of remaining 22 POs, financial closure was not required in 15 cases due to non-initiation of supplies, performance period was not complete in one case and six cases could not be finalised due to lack of reconciliation with concerned suppliers *i.e.* two Central Public Sector Undertakings (PSUs) as discussed at subsequent paragraph **2.2.12**. Detailed analysis of 83 POs finalised by the MM wing revealed that delay in finalisation of 17, 31, 11 and three purchase orders ranged between three months to one year, one year to three years, three years to five years and more

than five years respectively from the date of expiry of the DLP. Further, due to absence of submission of requisite documents by the ACOS/suppliers, MM wing could not finalise other 55 POs despite lapse of a period which ranged between six months and 107 months from expiry of their performance period.

Thus, non-ensuring compliance of the provision prescribed in GCC resulted in inordinate delay in finalisation/financial closure of the POs. However, the MM wing did not take any action against the concerned ACOS/supplier in this regard.

The Government assured that the ACOS and suppliers are being directed to submit the requisite documents relating to material received/supplied by them from time to time so that financial closures may be done timely.

### ***Poor Communication System and lethargic approach for effecting recoveries***

**2.2.9** As per practice in vogue, after finalising recoveries for a purchase order MM wing intimates the applicable recoveries to CPC through '*letter for finalisation of recoveries*' and the CPC is required to effect due recoveries from the concerned supplier and intimate the MM wing for releasing the performance bank guarantee of the respective supplier.

During review of selected cases, Audit noticed that:

- MM wing finalised (June 2009 to December 2018) recoveries in 83 cases on account of delayed/short/defective supplies, negative price variation *etc.* and issued '*letter for finalisation of recoveries*' to CPC in all such cases. However, such letter was available for 60 POs only whereas in remaining 23 cases involving recovery of ₹ 50.11 lakh, '*letter for finalisation of recoveries*' were not available in the records of CPC despite lapse of a period which ranged between six months and 120 months from issue of letters upto June 2019. Thus, poor communication resulted in inordinate delay in finalisation of POs. Further, in 14 of these 23 cases, CPC had financial hold of ₹ 13.80 lakh only against recoverable amount of ₹ 39.29 lakh.
- In 15<sup>14</sup> selected cases, MM wing finalised and communicated recoveries of ₹ 1.72 crore to CPC (between August 2016 and September 2017) however, CPC did not effect recovery in these cases till June 2019 for which justification was not found on records of MM wing whereas CPC wing failed to provide records relating to three<sup>15</sup> of these selected cases involving recovery of ₹ 1.64 crore. This indicates that CPC was not prompt in effecting recoveries in the cases referred by the MM wing. Further, MM wing did not evolve a mechanism to monitor the status of recoveries done by CPC against the recoveries pointed out by it. Thus, deficient system and lethargic approach of the Company led to non-finalisation of these 15 POs despite lapse of more than two years from communication of recoveries by MM wing.

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14 PO-4103 and 3609 under TN-590, PO-5258 under TN-739, PO-3876 under TN-473, PO-3600 under TN-611, PO-4610 under TN-2050, PO-3565 under TN-555, PO-8199 under TN-4399, PO-6503 under TN-4386, PO-6431 under TN-4361, PO-3448 under TN-4188, PO-3806 under TN-551, PO-3884 under TN-565, PO-4236 under TN-649 and PO-4516 under TN-2054.

15 PO-4103 and 3609 under TN-590 and PO-3876 under TN-473.

The Government assured that the communication system for effective recoveries in time is being strengthened. Further, pending recoveries pointed out by audit have also been taken up.

***Lack of proper and timely action for financial closure of turnkey contracts***

**2.2.10** As per system in vogue, after physical completion of turnkey contracts, the respective Circle office is required to forward a proposal for financial closure of the contract to respective TW/CSS wing along with requisite details/documents and thereafter, financial closure of such contracts is to be processed by the concerned wing.

During scrutiny of records relating to nine selected turnkey contracts pending for financial closure, Audit noticed that one work was not eligible for financial closure. In remaining eight selected cases, status of completion of the awarded work, expiry of defect liability period (DLP) for the work and forwarding of proposals for financial closure of the turnkey contracts is detailed below:

**Table 2.2.1: Status of financial closure of selected turnkey contracts**

Sl. No.	Tender number/ Month of placing work order	Month of completion of work	Month in which DLP of the work expired	Month in which Circle office forwarded proposal for financial closure	Value of the work order	Amount to be paid <sup>#</sup>	Amount paid	Recovery finalized towards delay in execution of works	Financial security available
1	TN-126/ July 2009	December 2013	NA*	January 2018	820.75	273.52	336.68	63.16	34.64
2	TN-131/ March 2011	NA	NA	NA	123.37	NA	NA	Not finalised	8.64
3	TN-209/ March 2014	June 2016	July 2017	August 2017	623.74	402.26	450.35	60.86	70.00
4	TN-216/ March 2014	May 2016	May 2017	August 2017	171.82	116.74	112.82	8.62	39.55
5	TN-218/ July 2014	April 2016	April 2017	March 2017	653.05	324.68	324.68	Not finalised	62.64
6	TN-220/ July 2014	December 2015	January 2017	February 2018	1114.80	452.50	452.50	Not finalised	78.04
7	TN-224/ July 2014	NA	NA	NA	2227.89	76.56	76.56	Not finalised	54.28
8	TN-264/ April 2015	March 2018	July 2020	Not submitted	7689.47	7388.26	7271.68	Not finalised	1057.26
<b>Total</b>					<b>13424.89</b>	<b>9034.52</b>	<b>9025.27</b>		<b>1405.05</b>

\* Not Available

# In case, the recovery has been finalised, amount to be paid has been worked out after giving effect to recovery finalised.

During detailed review of these contracts Audit observed that:

- There was vast variance between the value of work order and work executed (especially for cases at Sl. No. 1, 6 and 7) which indicates that the Company did not assess the quantum of work adequately before awarding these works.
- In five of these eight cases (Sl. No. 2, 5 to 8), the Company did not assess the liability of the contractors on account of delay in completion of the works (March 2020). Further, the Company also did not assess the liability of the contractors on account of defects in execution of all the works.

- In two cases (Sl. No. 1 and 3), the Company did not work out the amount recoverable towards delay in execution of works in time and made an overpayment of ₹ 63.16 lakh and ₹ 48.09 lakh respectively. In first case (Sl. No. 1) the Company did not have sufficient financial security against the contractor (discussed in paragraph **2.2.11**) whereas in the second case (Sl. No. 3), the Company did not effect recovery from the available financial security till March 2020.
- As the Company had released almost complete amount (99.9 per cent) due to the contractors and the liability of the contractors on account of delay/defects are yet to be assessed, adequacy of the financial security available with the Company could not be ascertained in Audit.
- There were substantial delays in financial closure of these cases (except Sl. No. 8) as these were pending despite lapse of one to five years from date of completion.
- In two cases (Sl. No. 2 and 7), the Company informed that these works had already been completed however neither the concerned Circle office has forwarded any proposal for financial closure to the respective wing nor any certificate relating to completion of these works was found in respective files/records. This indicates that the concerned wings (TW/CSS) were even not aware of status of execution of these cases. Resultantly, these wings did not provide details of completion of these contracts to Audit.

Audit observed that the Company was not prompt in processing the financial closure of awarded works. Further, as the Company had already released almost complete amount payable and the financial security available with it was also not sufficient in case where recovery was finalized (Sl. No. 1), the contractors would have no interest in ensuring timely financial closure of the contracts. Thus, it is in the interest of the Company to ensure timely financial closure of contracts at the earliest.

Further, the concerned wings did not evolve a mechanism to review the progress of the contracts from time to time which is evident from the fact that these wings were even not aware of the status of contracts awarded by them.

The Government accepted the facts and stated that the field officers are requested regularly to submit the details/documents required for financial closure of contracts but complete closure cases are not furnished by them due to one or other reason which causes delay in closing the contracts. It further assured that after adoption of well defined procedure, financial closure of contracts will be ensured in timely manner.

#### ***Insufficient financial hold and non-recovery of amount***

**2.2.11** The Company awarded (July 2009) the work for supply of material and erection for release of BPL connections under Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY) for ₹ 8.21 crore to the Contractor (TN-126) under Operation and Maintenance (O&M) Circle, Sriganganagar. As per the work order, the work was to be completed within a period of six months from date of work order. The work was short closed and treated as completed on 20 December 2013. While forwarding the proposal for financial closure of the case to the concerned wing, the concerned Circle office informed (11 January

2018) that recovery of ₹ 52.54 lakh was to be done from Contractor under this tender. TW/CSS wing, however, worked out (March 2018) the recoverable amount at ₹ 63.16 lakh (*i.e.* including the amount worked out at Circle level). Before initiating the closure process, certain details/ documents *viz.* certificate of handing over and taking over of the work, details of retrieved material *etc.* were sought (April 2018) from the concerned Circle office which were not furnished till June 2019. Further, CSS wing served notices (December 2018 and January 2019) to the Contractor for depositing the recovery amount which also remained un-responded till June 2019. Resultantly, financial closure of the case and recovery of ₹ 63.16 lakh remained pending till June 2019.

Audit observed that in this case, the Company's financial hold is worth ₹ 34.64 lakh only (including value of performance bank guarantees) against the recoverable amount of ₹ 63.16 lakh. However, due to lack of effective communication, not-ensuring sufficient financial hold and lethargic approach in financial closure of the case, recovery of ₹ 63.16 lakh from the Contractor is inordinately delayed.

The Government stated that the Company has directed the concerned Contractor to deposit the requisite recovery amount. It further stated that the Company has sufficient financial hold against the Contractor under different tenders. The fact remained that the Company did not finalise the case despite lapse of almost two years from completion of the work.

#### ***Non-recovery/adjustment of advances extended to the suppliers***

**2.2.12** The Company procures steel sections by obtaining quotations and placing purchase orders on two Central PSUs. The POs issued for procurement of steel sections *inter alia* provide that prices prevailing at the time of delivery of steel sections are to be applicable and entire payment towards the procurement is to be made in advance. Therefore, the Company released advance payment towards provisional amount payable for all the POs placed on these two Central PSUs for procurement of steel sections.

Audit noticed that the Company had placed POs for procurement of steel sections worth ₹ 147.09 crore (71 POs) on the first Central PSU and ₹ 6.76 crore (nine POs) on the second Central PSU since inception (November 2006) upto March 2019 and released ₹ 153.85 crore towards advances/payments. Audit observed that the Company did not recover/adjust the excess payments by reconciling the balances with these Central PSUs on case to case basis. Resultantly, unrecovered/unadjusted advances worth ₹ 11.50 crore and ₹ 0.58 crore have accumulated towards the first and second Central PSU respectively as on 31 March 2019. However, the Company did not make effort to reconcile the balance of unrecovered/unadjusted advances with the respective supplier till December 2018. The Company belatedly appointed (8 January 2019) a Committee for reconciliation of the advances extended to the first Central PSU but the Committee could not reconcile the balances till June 2019. In absence of requisite reconciliation of balances and recovery/adjustment of advances, considerable amount worth ₹ 12.08 crore remained unrecovered/unadjusted and all the 80 POs (including six selected POs) were pending for financial closure.

The Government accepted the facts and assured that reconciliation/adjustment of advances will be done shortly.

***Non-invoking bank guarantee of defaulting suppliers***

**2.2.13** During review of selected cases, Audit observed certain deficiencies/delay on part of the Company in invoking the bank guarantees relating to defaulting suppliers. The cases are discussed below:

(i) Vendor Registration Scheme (VRS) of the Company provides that the registered vendors are exempted from furnishing earnest money deposit (EMD) and security deposit against the tenders floated/POs placed by the Company. It also stipulated that the registered vendor is required to deposit the amount of finalised recoveries within a period of 60 days of receipt of intimation failing which the dues shall be realised by invoking the bank guarantee/forfeiting cash deposit for the amount recoverable.

The Company placed (December 2010) POs on three<sup>16</sup> suppliers registered under VRS for supply of distribution transformers/sub-station structures. It was noticed that none of these three suppliers commenced supplies. The Company served (January 2011 to October 2012) several notices to the suppliers and in absence of any response from them, cancelled (November 2012 and January 2013) the POs and severed business relations with them. The Company raised demand on these suppliers for depositing the amount equivalent to EMD which worked out to ₹ 12 lakh. As per the cancellation orders, the Company was required to invoke bank guarantees furnished by these suppliers for vendor registration but the same was not invoked despite lapse of more than six years from issue of cancellation orders (June 2019). Besides, in first case, the bank guarantee provided by the supplier lapsed in January/February 2016 and the Company did not have any financial hold towards this supplier. Further, all these three POs remained pending for financial closure till June 2019.

The Government stated that in case of the first supplier, a reminder has been issued (August 2019) to the concerned bank for invoking the bank guarantee and in case, the recoverable amount is not received, the matter will be reported to the Reserve Bank of India (RBI). However, the reply was silent in respect of remaining two cases.

(ii) The Company placed (March 2010 and December 2010) POs on two<sup>17</sup> unregistered suppliers for supply of energy meter and power transformers respectively. As per terms and conditions of the POs, these suppliers provided bank guarantees against testing of energy meters and security deposit/performance security for the transformers. Audit noticed that in case of the first supplier, the energy meters supplied for testing purpose did not conform to the prescribed norms/parameters whereas the second supplier defaulted in supplying the ordered quantity of power transformers. The Company also served (May 2012 to November 2012) several notices to the second supplier for not supplying the requisite quantity. In view of failure of tested meters and non-supply of balance quantity of power transformers, the Company cancelled (March 2010 and January 2013) both the POs with directions to invoke the

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16 PO-5319 under TN-696, PO-5313 under TN-696 and PO-5190 under TN-748.

17 PO-4763 under TN-693 and PO-5270 under TN-739.

bank guarantee of ₹ five lakh available with the Company against failure in testing and depositing ₹ 22.32 lakh towards the recoveries worked out for defaulting in supplies respectively. In second case, the supplier did not deposit the requisite amount. As per the cancellation orders, the Company was required to invoke bank guarantees of these suppliers to recover penalty of ₹ 27.32 lakh but the same was not invoked despite lapse of more than nine years and six years respectively from issue of cancellation orders (June 2019). Besides, in first case, the bank guarantee provided by the supplier lapsed in October 2010 and the Company did not have any financial hold towards this supplier. Further, both the POs remained pending for financial closure till June 2019.

The Government stated that in the first case, despite issue of letter for invoking the bank guarantee, the amount has not been received from the concerned bank, hence the matter will be reported to the RBI. Further, in the second case, orders have been issued for invoking the composite bank guarantee and remaining amount will be recovered from other financial holds available with the Company.

#### ***Delay in handing over and taking over of works***

**2.2.14** Out of five selected TW contracts where the financial closure of the contracts was finalised, in four cases, Audit observed that handing over and taking over of these works was done with delay which ranged between seven months and 17 months. This was reckoned after allowing the prescribed period of one month from completion of the respective work. Similarly, in case of nine selected TW contracts where the financial closure of the contracts was pending, handing over and taking over of one work was delayed by eight months whereas details of handing over and taking over of works in three cases was not available on records. The TW wing also did not record the reasons of delay in handing over and taking over of these works. The wide gap between the dates of completion of work and handing and taking over in these cases reflects that the TW wing considered the works as completed without ensuring that the lines/grid sub-stations (GSS) constructed under these works were ready to put in operation in satisfactory manner.

The Government assured to adopt a well defined procedure for financial closure of contracts in time.

#### ***Ineffective monitoring of contracts short closed at nominal value***

**2.2.15** The Company awarded (October/November 2014) six<sup>18</sup> turnkey works contracts (including two selected contracts *i.e.* TN-239 and 240) to the Contractor for supply and erection of material/equipment for distribution/low tension lines and sub-stations *etc.* where value of the contracts ranged between ₹ 7.11 crore and ₹ 15.17 crore. In these cases, actual value of work executed ranged between ₹ 0.07 crore and ₹ 1.56 crore only. The Circle offices forwarded (January 2017) proposal for short closure of these cases and stated that lack of sufficient number of jobs led to short closure and therefore, the concerned Contractor was not at fault. Although the Corporate Level Purchase Committee (CLPC) allowed (June 2017) short closure, however due to the

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18 TN-239 to 242 at O&M Circle, Churu and TN-244 and 245 at O&M Circle, Bikaner.

huge gap between the work ordered and actually executed, the CLPC formed a committee<sup>19</sup> for conducting enquiry in this regard. However, the management did not ensure compliance of the directions of the CLPC as it did not conduct the enquiry.

Audit noted that TW wing closed (August 2017) these cases and had released the retention money deposit and performance bank guarantee to the contractor in two of these selected cases. Thereafter, the matter was again placed (August 2017) before the CLPC for closure of these contracts which was also approved. Audit observed that due to inability to assign requisite jobs to the contractor, all these six contracts were considered short closed at very nominal value. The value of actual executed works ranged between 0.93 *per cent* and 21.94 *per cent* of the ordered value of these works. This indicates that the volume of works assessed at the time of awarding of contracts was not realistic. Even the fact that the requisite enquiry was not conducted, was not disclosed before the CLPC in its subsequent meeting. However, the CLPC also did not take cognizance of this issue which reflects that the overall monitoring mechanism at the Company was not effective.

The Government stated that the contracts were short closed due to insufficient volume of works and the concerned committee members have been directed to submit the enquiry report. The fact remained that in absence of detailed enquiry, the actual reasons of huge gap between the work ordered and actually executed could not be assessed in audit where possibility of irregularities like execution of respective works through labour contracts at higher rates, extension of undue benefit to the Contractor by relaxing it from considerable penalty (*i.e.* 10 *per cent* of unexecuted value of contracts) *etc.* could not be ruled out.

The Government further stated that in view of the findings and recommendations of audit, the Company has decided to improve its working and issued (12 September 2019) necessary directions in this regard.

## Conclusion and Recommendations

### *Conclusion*

**The Company did not adopt the Procurement Management Information System (PMIS) and did not institute a well defined and extensive procedure for financial closure of contracts. Further, the financial closure of purchase orders/turnkey works contracts was inordinately delayed/deficient due to non-furnishing of verified invoices and receipted challans by respective ACOS/suppliers, poor communication system between ACOS and MM wing, lethargic approach for effecting recoveries against suppliers, non-recovery/delay in recovery of applicable penalty, closure of nominally executed turnkey works and non-invoking bank guarantee of defaulting suppliers.**

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19 Comprises the Senior Accounts Officer (Bikaner Zone) and the Executive Engineer (Technical Audit).

### **Recommendations**

We recommend that the Company may:

- **adopt the Procurement Management Information System (PMIS);**
- **prescribe proper and extensive procedure for financial closure of the purchase orders/turnkey works contracts;**
- **streamline the process of financial closure of contracts by eliminating the deficiencies such as non-furnishing of relevant documents, poor communication system, ineffective monitoring, insufficient financial hold etc. existed in the system.**

### **Ajmer Vidyut Vitran Nigam Limited**

#### **2.3 Failure of internal control system led to embezzlement**

**Poor internal control system and monitoring enabled the Company employee to embezzle ₹ 2.25 crore by manipulating salary records through fake entries in bank transfer advices.**

Ajmer Vidyut Vitran Nigam Limited (Company), set up in 2000-01 after unbundling of erstwhile Rajasthan State Electricity Board (RSEB), adopted Commercial Accounts Reorganisation Scheme (CARS) 1973 for defining its accounting procedures for its various sections/ offices<sup>20</sup>. CARS 1973 *inter alia* provided for the following:

- The functions of the Circle Accounts office (including Head office/HO Circle) to be carried out through various sections; role and responsibility of Accounts Officer (AO) and Assistant Accounts Officer (AAO) as regards to maintenance of accounts/checking of accounting entries and procedure of passing of bills for payment.
- Establishment bills of regular staff and abstract of the bills and Bank Transfer Advices<sup>21</sup> (BTA) prepared by the units/sections concerned shall be checked by Establishment (EA) Section and thereafter the individual claims shall be posted in the Salaries and Allowance Check Register (C-1). Pass orders on the bills shall be made under the signatures of the Accounts Officer and all passed bills shall be entered in the Salaries and Allowance Bills Register (C-2) relating to respective unit/section. After the bill is passed, a Voucher Allocation Sheet (VAS) (C-3) shall be prepared in triplicate. The original copy of VAS along with duly passed bill and BTA shall be sent to Cash Section for payment, the second copy along with deduction schedules to be sent to Accounts Section for accounting purpose and the third copy is to be kept in EA Section.
- Cash Section shall maintain a General Cash Book (C-4). The concerned AO shall be the Drawing and Disbursing Officer (DDO). After disbursement of establishment bills, the Cash Section shall enter the net

<sup>20</sup> Establishment Section, Cash Section and General Accounts Section.

<sup>21</sup> Bank Transfer Advice (BTA) is a statement prepared and submitted to the banks for depositing salaries in the bank accounts of the staff. In case of establishment claims, it contains certain details of concerned staff personnel viz. name, designation, employee identity number, bank account number and net salary amount.

amount paid in cash on the payment side of the Cash Book and classify the same under the head “Salaries/Wages Payable Account” also. In respect of Gazetted Officers, paid vouchers shall be kept separately in the Circle Accounts Office.

Further, for the salary account of the staff personnel maintained with different banks, Cash Section prepares bank wise BTAs on the basis of BTAs received from various sections along with original VAS and salary bills. Thereafter, bank wise payment vouchers are prepared and salaries are disbursed through the banks with the approval of the respective DDO<sup>22</sup>.

Audit scrutiny of records for 2017-19 disclosed that the Company could not ensure proper adherence to the system/procedures prescribed in CARS 1973. Audit noticed that Cash Section prepared more than one payment vouchers and bank wise BTAs relating to salary of a month on different dates for different banks. Further, original documents received from concerned sections in support of the claims *viz.* salary bills, deduction schedules *etc.* were kept in separate files instead of being maintained with the BTAs and payment vouchers prepared by Cash Section. Resultantly, ensuing accuracy of the payment vouchers/BTAs prepared by the Cashier and reconciliation of the amount claimed in such vouchers/BTAs with the original documents submitted by concerned sections was a cumbersome and complicated task. The Cashier directly submitted the vouchers along with respective BTAs to the SAO (EA and Cash) for verification and approval without getting it checked/verified by the AAO of Cash Section. In case of gazetted officers, salary bills/claims were prepared, checked and passed by the Cashier without cross check/verification at the level of AAO/SAO (EA and Cash). Audit also noticed that salary bills of Gazetted staff were passed for payment without posting in Salaries and Allowance Bill Register (C-2) during May 2017 to August 2017. Further, the voucher number and cheque number were not recorded on the salary bills and the vouchers were passed for payment without assigning a number and without signatures. It was also noticed that the total of BTAs attached with vouchers did not match with the amount passed for payment and the copy of consolidated lists sent to the Bank for April 2017 to September 2017 were missing. Further, salaries were credited in certain bank accounts (including the bank account of the Cashier) more than once in a month through different payment vouchers and BTAs. Besides, the Cash book was not checked and verified as per laid down norms/regulations. The charge of Cashier was handed over without obtaining requisite security bond prescribed under Rule 313 of General Financial Rules (Part-I), Government of Rajasthan.

Audit observed that these deficiencies enabled the then Cashier<sup>23</sup> of the EA and Cash Section to draw cheques in excess of the net salary bills and deposit the amount in its own and other’s bank accounts (including employees and non-employees of the Company) through fake entries in BTAs. The amount of misappropriation/embezzlement worked out to ₹ 2.25 crore<sup>24</sup>. After the

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22 Senior Accounts Officer (EA and Cash) at HO and Circle Accounts Officer at Circle Offices.

23 Cashier at HO and Circle Office (Ajmer City) from May 2017 to June 2018 and June 2018 to October 2018 respectively

24 ₹ 179.80 lakh and ₹ 41.64 lakh drawn in excess through bank accounts of the then Cashier and its relatives during posting at HO and Ajmer (City) Circle respectively and ₹ 3.29 lakh drawn through bank accounts of other two employees.

incident came to light, the Company appointed (December 2018) a High Power Committee (HPC) to investigate the matter. It later filed a First Information Report (FIR) based on the report of the HPC and legal action against the delinquent Cashier is under progress.

Audit further noticed that the Company maintains a control ledger account<sup>25</sup> wherein the liability of salary is booked on the basis of salary bills/claims received from establishment sections and the same is settled on the basis of payment vouchers received from Cash Section after release of payment. Therefore, balance of this account/head can never be debit as it would mean release of excess payment on account of salaries. However this account/head showed debit balances on several occasions during 2017-19 but the Accounts Section failed to monitor release of excess payment. Further, the SAO (EA and Cash) verified and approved the vouchers/BTAs without reconciling with the original documents and resultantly failed to notice that the BTAs contained bank account numbers of non-employees, repetition of certain bank account numbers and did not mention employee identity numbers, names and designation of the staff personnel *etc.*

The Government in reply accepted (June 2019) the facts and stated that due to acute shortage of staff in the office of Accounts officer (EA and Cash) internal check system could not function properly. The Company also accepted that preparation, passing and arranging of payments was done by a single employee. It was further stated (October 2019) that corrective steps *viz.* recruitment of staff against vacancies, restructuring of office of the Accounts officer (EA and Cash), proper allotment of works among staff, implementation of ERP (including Human Resource Management System and Finance modules) *etc.* are being taken. Besides FIR against the delinquent Cashier has been lodged, enquiry has been instituted and charge sheets have been served to 14 defaulting personnel. However, amount has not been recovered so far.

Thus, the Company suffered loss due to lack of proper monitoring and non-compliance to the procedures laid down under the internal control system.

## **Rajasthan Rajya Vidyut Prasaran Nigam Limited**

### **2.4 Construction of Grid-Sub Stations and Transmission lines**

**2.4.1** Transmission planning is a continuous process of identification of transmission system's additional requirements, their timing and need. The transmission requirements could arise from (i) generation additions in the system, (ii) increase in demand (iii) system strengthening that may become necessary to achieve reliability as per the planning criteria under load change scenario. These transmission addition requirements are identified, studied and firmed through the transmission planning process. The transmission systems that are in place in the country consist of Inter-State Transmission System (ISTS) and Intra State Transmission System (Intra-STs). Intra-STs are mainly owned and operated by the state transmission utilities of each State. The Intra-STs serves the following purpose: (i) Evacuation of power from the state's generating (both under public and private sector) stations having beneficiaries

<sup>25</sup> 'Net Salary Payable to Staff' (Accounting head-liability head -44.310).

in that state, (ii) Onward transmission within the state from ISTS boundary up to the various substations of the state grid network, (iii) Transmission within the state grid for delivery of power to the load centres within the state.

Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company), incorporated in 2000, is mandated to provide an efficient, adequate and properly coordinated system of Grid management and transmission of energy in the State. The Company has divided its area of operation into three<sup>26</sup> zones headed by Zonal Chief Engineers and twenty-four transmission and construction (T&C) circles headed by Superintending Engineers under them. During 2016-17, 71293.857 Million Units (MUs) of energy was transmitted by the Company which increased to 74102.168 in 2017-18 and then decreased to 71995.761 MUs in 2018-19. As on 31 March 2019, the Company had a transmission network of 39588.824 Circuit Kilometres (CKM<sup>27</sup>) and 576 Grid Sub-Stations (GSSs) with an installed capacity of 82080.50 Mega Volt Ampere (MVA). During 2016-19, the Company constructed 63 GSSs and 126 lines (total length of 5625.932 CKM) as shown in *Annex-5*.

### Audit objectives

**2.4.2** The audit was conducted to assess whether the planning for construction of GSS/lines was done on need basis, the projects were awarded in a transparent manner and executed efficiently, effectively within the stipulated time period. Further, a robust monitoring and internal control system was in place to review the project implementation and to ensure envisaged benefits viz. saving of energy and strengthening of the transmission system.

### Scope of Audit

**2.4.3** The present audit covers the activities related to construction of GSS and transmission lines by the Company. The audit scrutiny mainly involved review of Detailed Project Reports (DPR) and contracts awarded for construction of GSS/ transmission lines. The Company has constructed 14 lines and 6 GSS of 400 kV and 30 lines and 10 GSS of 220 kV during 2016-19. Audit selected 10 works (3 GSS and 7 lines) of 400 kV and 11 works (3 GSS and 8 lines) of 220 kV on random basis through IDEA software for detailed scrutiny. Further as on 31 March 2019, 34 works<sup>28</sup> of construction of GSS/transmission lines were in progress.

### Audit Findings

**2.4.4** The audit findings which broadly cover issues relating to project planning and execution, financial management, monitoring and internal control are discussed under paragraphs **2.4.5 to 2.4.10**.

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26 Jaipur, Jodhpur and Ajmer.

27 The route length of transmission lines is measured in CKM.

28 24 transmission lines (132 kV: 15 lines, 220 kV: Eight lines and 400 kV: One line) and 10 GSS (132 kV: Five GSS, 220 kV: Four GSS and 400 kV: One GSS).

The audit findings highlighted under paragraphs 2.4.6, 2.4.7 and 2.4.9 are based on audit analysis of sample cases only and there is a possibility of more such cases occurring in the Company. Therefore, the Government/Company is expected to review all other cases having possibility of similar deficiencies/irregularities and is required to take corrective action in cases where similar deficiencies/irregularities are found.

The audit findings were communicated to the State Government on 3 January 2020. Reply of the Management has been received (February 2020) and incorporated in the paragraph whereas reply of the State Government is awaited (May 2020).

## Project Planning and Execution

### Assessment of Transmission Capacity

**2.4.5** The Company constructs lines and GSSs to evacuate power from Generating Stations and to meet the load growth in different areas of the State. A transformer converts alternate current (AC) voltage and current to a different voltage and current at a very high efficiency. The voltage levels can be stepped up or down to obtain an increase or decrease of AC voltage with minimum loss in the process. The evacuation is normally done at 132 kV GSSs.

Audit requested (April 2019) for the criteria for assessing the adequacy of the transmission system handled by the Company. Management informed (May 2019) that the transmission system is planned keeping in view the required redundant capacity in the system so as to meet the stability of the system under various contingencies/outage conditions occurring in the system. Thus, the transmission capacity is always more than the recorded peak load. This is essential so that the reliability of power supply to load centres/evacuation of power generated is done without resorting to the load shedding or back down of generator. However, the Company did not provide the exact numbers in this regard.

Audit noticed (October 2019) that the transmission capacity (*i.e.* total transmission capacity at 132 kV transformers) created at the end of the year *vis-à-vis* capacity handled (capacity contracted with DISCOMs and other open access consumers) and the capacity transmitted (peak demand met) during the year by the Company in last three years ending March 2019 were as follows:

**Table 2.4.1: Installed capacity, capacity handled and peak demand**

Transmission capacity (in MVA)			
Year	Installed	Capacity handled	Peak demand
(1)	(2)	(3)	(4)
2016-17	29483	15912.95	9313.20
2017-18	30621	17320.43	10407.60
2018-19	31421	18545.54	11948.40

**Note:** Capacity handled and peak demand have been worked out from MW to MVA considering the power factor at 0.90.

Audit observed that the Company could handle only 54 per cent to 59 per cent of the total installed transmission capacity during this period. Audit requested for the reasons and details of the parameters adopted for assessment and

construction of transmission infrastructure which has resulted into such a wide gap between installed and handled capacity. Audit also requested for the criterion for the percentage of redundancy observed by the Company.

The Company informed (February 2020) that it has developed its transmission system on *(N-1)* concept prescribed by the CEA in its manual on transmission planning criteria (January 2013) which stipulates that there should be least disturbance in the grid due to any contingent condition which *inter alia* means that system should be redundant enough to cope with any unforeseen conditions. Audit observed that the CEA manual has prescribed the criteria for 100 *per cent* redundancy in case of supply to critical loads *e.g.* Railways, airports, mines, steel plants *etc.* Further, the Rajasthan Electricity Regulatory Commission (Investment Approval) Regulations 2006 specify the criteria for taking up the new 132/220/ 400 kV extra high voltage (EHV) schemes.

However, the Company did not provide details of the criteria for setting up new GSS/construction of lines nor it informed as to whether the criteria for maintenance of 100 *per cent* redundancy for critical sectors was being ensured. The fact thus remained that Audit could not assure itself that the Company followed the standard/norms to determine the adequate redundancy of transmission system which is manifested in huge gap between the installed capacity and capacity handled. The Company would have definitely incurred substantial financial burden on construction of such additional unutilised capacity. However in absence of exact criteria/figures in this regard the amount could not be quantified.

#### ***Project Planning of Transmission System***

**2.4.6** A transmission project involves various activities starting from concept to final commissioning *viz.*: (i) Project formulation, appraisal and approval phase and (ii) Project Execution Phase. For reduction in project implementation period, the Task Force constituted (February 2005) by Ministry of Power, Government of India (GoI) recommended (July 2005) to undertake various preparatory activities such as surveys, design and testing, processing for forest and other statutory clearances, tendering activities *etc.* in advance/parallel to project appraisal and approval phase; to break-down the transmission projects into clearly defined packages and standardise designs of tower fabrication to save six months to twelve months of project execution. Further in reply to the Committee on Public Undertaking (COPU) question about action taken to avoid delay in completion of the projects, the Company informed (June 2015) that directions have been issued to issue the work orders within validity period of tender; to apply for forest and other statutory clearance during survey itself, standardise the drawings and designs of tower and to ensure completion of lines and concerned GSS simultaneously.

Review of ongoing works disclosed that the works awarded between May 2012 and December 2018, were required to be completed between November 2012 and July 2019. Audit noticed that out of total 34 ongoing works, the scheduled completion date of 28 works was before 31 March 2019, however, these works could not be completed due to problems of right of way (ROW), delay in forest clearance *etc.* In test check cases Audit noticed that the Company did not apply timely for forest clearance (220 kV *Jhalawar to*

CTPS<sup>29</sup> and 220 KV Gajner to Chhatargarh line (100 KMs). Further, there were instances of increase in length of line than estimated earlier due to forest area, change in location of GSS land *etc.* and delay in finalisation of work order (220 kV Jhalawar to CTPS and LILO of 220 kV STPS<sup>30</sup> to Ratargarh line) which led to non-completion/delay in completion of the works.

Audit scrutiny of selected completed works disclosed that the Company did not carry out the preparatory activities which were essential for timely completion of the project. Certain cases highlighting delay in projects due to improper project management planning and non-follow up of the recommendations of the GoI Task Force Committee are discussed in **Annex-6**. It could be seen from the annexure that in certain cases there was lack of synchronisation in construction schedule of GSSs and lines which resulted in non-utilisation of created infrastructure due to non-completion of other supplementary activities. Audit observed that there was delay up to 60 months and 64 months in completion of GSS works and erection of lines respectively.

Thus, improper planning and non-compliance of the recommendations of the GoI Task Force Committee led to substantial delay in execution of above mentioned projects and consequently funds amounting to ₹ 511.84 crore remained blocked. The Company was also deprived of envisaged energy savings (valuing ₹ 13.38 crore) in terms of reduction in system and transmission losses.

The Management stated (February 2020) that most of the recommendations given by the Task Force Committee are being implemented. It further stated that the cases of line or GSS remaining idle were due to reasons beyond its control such as changed scenario due to less load growth than envisaged, new EHV scheme of central transmission utility, delayed and deferred projects of solar and wind sector, stay orders by courts and ROW issues. The reasons quoted in the reply were not convincing as inordinate delay in completion of the works was noticed which could have been avoided through proper project management and monitoring system.

#### ***Non-completion of preparatory activities***

**2.4.7** Construction of sub-stations and transmission lines requires statutory clearance and working permission of other departments like Revenue, Forest, Defence, Aviation, Railways *etc.* The Company, however, does not have a mechanism at the apex level to ensure coordination with these departments to obtain the necessary permissions for timely completion of various projects. Resultantly, there were delays in obtaining permission/clearance from these departments which in turn delayed the completion of various works. The details are given in **Annex-7**.

It could be seen from the annexure that the Company did not carry out the preparatory activities such as survey to eliminate the ROW problem and obtaining permission from the respective departments/authorities before/simultaneously awarding of the work. Audit observed that concerted efforts at higher management level were not made for obtaining early clearances/no objection certificates from the concerned authorities. Further,

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29 Chhabra Thermal Power Station.

30 Suratgarh Thermal Power Station.

the Company also did not ensure timely furnishing of drawings, casting of cooling foundations, procurement and supply of transformer and material/other accessories which led to delay in completion of the projects. Audit also observed that in eight cases reported in the annexure, the estimates were not prepared on realistic basis as positive (+) variance ranged between 23 per cent and 381 per cent and negative (-) variance ranged between 16 per cent and 39 per cent of original estimate was noticed at the time of finalisation of bills of quantity (BOQ) which indicates that the detailed survey was not conducted or was not conducted properly. Further, there was delay in obtaining/granting permission for testing of line material to be procured under turnkey works.

Thus, due to not carrying out the preparatory activities before execution, not only the projects were delayed but a sum of ₹ 1086.60 crore also remained blocked for a considerable period.

The Management stated (February 2020) that the line survey before placing the order leads to creation of ROW issues. It also stated that the statutory clearance from forest and aviation authorities requires complete line route along with GPS coordinates of every tower and this data can be provided only after finalisation of route of line. Further, for statutory clearances a dedicated cell has been constituted. The variation from original estimates was due to increase in line length and change in soil strata. The reply confirmed that various preparatory activities to be undertaken in advance/parallel to project appraisal/approval were not completed in the reported cases.

## **Financial Management**

### ***Loans from international level/foreign banks***

**2.4.8** The Company entered (12 September 2014) into agreement for loan with a Regional development bank of international level (Bank) to develop public sector transmission infrastructure capacity to support private sector led renewable energy generation. Accordingly, the Bank sanctioned loan of 150 million Dollars in two parts *viz.* 62 million Dollars (Ordinary Capital Resources-3052) and 88 million Dollars (Clean Technology Fund-8275) for construction of various 400 kV, 220 kV and 132 kV transmission lines along with equipment supply and construction of Pooling Stations to support private sector led renewable energy generation in Western Rajasthan. As per the agreement, there was obligation of payment of commitment charges on the loan amount in case it remained un-disbursed.

Audit scrutiny of records disclosed that the project could not be completed on scheduled completion date *i.e.* 30 June 2016 as specified in loan agreement due to delay in inspection of material and various other reasons attributable to the Company. Thus, the Company had to pay commitment charges amounting to ₹ 2.56 crore on account of not availing disbursement as per the prescribed schedule during September 2015 to March 2019.

Similarly, a foreign development bank (foreign bank) and the GoI signed (17 December 2014) a loan agreement to finance transmission infrastructure for evacuation of renewable energy for Intra-STTS in Rajasthan under the Green

Energy Corridor Project through various government agencies including the Company. As per the agreement executed, the foreign bank sanctioned a loan of 49 million Euro. Article 3.1 of the loan agreement stipulates that the Company would pay a non-refundable commitment fee of 0.25 *per cent* per annum on undisbursed loan amount. Further, the various projects covered under the loan were to be completed within 30 months (maximum among all projects) from the date of sanction of loan. However, the Company could not avail the disbursement as per prescribed schedule and thus had to pay the commitment charges of ₹ 1.79 crore during December 2015 to December 2018.

Thus improper planning and poor project management not only delayed the execution of the projects but also led to payment of commitment charges amounting to ₹ 4.35 crore.

The Management while accepting the fact stated (February 2020) that the scheme was deferred as the wind and solar power developers were not installing their plants at the pace earlier envisaged and hence the investment on these projects would have been infructuous. The reply was not satisfactory as the Company had to bear avoidable commitment charges as it could not plan its activities in sync with the private players.

#### ***Non-recovery of risk and cost amount***

**2.4.9** The Company awarded (February 2013) the work of construction of 400 kV GSS (including supply and erection), Jodhpur (New) at a total cost of ₹ 78.77 crore in favour of the Contractor with scheduled completion in February 2015. As per the letter of acceptance (LoA), the Contractor was required to execute the contract agreement and furnish security deposit within 15 days of receipt of LoA. As the Contractor did not commence the work, the Company terminated (May 2014) the contract and decided to execute the work at the risk and cost of the Contractor. However, the termination of the contract was withdrawn in June 2014 on the request of the Contractor. The Contractor, however, did not start the work and hence a termination notice was issued again on 17 October 2014 and the contract was terminated on 12 March 2015 after lapse of 130 days from the expiry of notice period. The Company also decided to invoke the bank guarantee furnished by the Contractor.

Scrutiny of records disclosed that the Company could not invoke the bank guarantee as an *ex parte ad interim* injunction order was issued (March 2015) by the City Civil Court, Chennai on the plea that the termination order was not served properly. Thereafter, the Company once again decided (8 April 2015) to withdraw the termination order. Audit noticed that the Contractor did not commence the work despite several requests made by the Company and also did not extend the validity of the bank guarantee. The contract was finally terminated on 11 July 2016 at the risk and cost of the Contractor. The work was then awarded (December 2016) to a new Contractor and the same was completed (December 2018) at a total cost of ₹ 112.75 crore. Thus, the recoverable amount under risk and cost of the Contractor was worked out to ₹ 33.98 crore.

Audit observed that despite the fact that the Contractor did not adhere to the time schedule and also did not commence the work within time, the Company

did not initiate the action for terminating the contract timely. Further, the Company extended undue favour to the Contractor through reversal of its decision of termination of contract twice. Moreover, the Company also failed to invoke the bank guarantee amounting to ₹ 9.45 crore valid upto September 2015. Besides, the Company also failed to encash the bank guarantees worth ₹ 20.39 crore available with it against other work orders (TN-275 and TN-284).

Thus, casual approach of the Company in dealing with such an important matter not only led to delay of 45 months in completion of the project but also an extra expenditure of ₹ 33.98 crore, as it failed to invoke the bank guarantee and recover the amount from the Contractor.

The Management stated (February 2020) that the case is under litigation and hence the recovery of excess expenditure cannot be affected. The reply was, however, silent on the issue of delay in initiating action for the first time, extending favour to Contractor by reversal of decision and not adhering to the directions to encash the available bank guarantees. Further, the Company did not fix responsibility for these lapses till May 2020.

### Monitoring and internal control

**2.4.10** An efficient and effective internal control and monitoring system helps the management in timely achievement of objectives and ensures compliance to procedures and financial discipline. It was, however, noticed that the Company did not evolve mechanism to monitor the physical progress of the works related to construction of GSS/lines to identify the bottlenecks in achieving the scheduled completion date of the project. Further, the progress of works was not submitted in the meeting of the BoD. Resultantly, the projects could not be monitored by the BoD. Besides, other important issues like ROW problems, delay in obtaining statutory clearances from the concerned authorities, reluctance of contractors in execution of works *etc.* were also not appraised to the BoD.

The Company has an internal audit wing, however, it engaged Chartered Accountant (CA) firms to augment the efforts of its own personnel and to strengthen the wing. Audit observed from the review of internal audit reports that the scope of work assigned to outsourced CA firms was not comprehensive and the Company did not critically analyse the internal audit requirements for ensuring its effectiveness. Further, the observations of CA firms were mainly related to vouching, non-deduction of statutory deductions like Provident Fund, establishment related issues *etc.*, and the internal audit reports were not submitted to the BoD by the Company.

The Management stated (February 2020) that the progress of works is being monitored in regular meetings and steps are being taken to resolve the issues. A new circle 'Quality Control and Monitoring' has also been created for extensive and regular monitoring of works. It further stated to take suitable action to enhance the scope and effectiveness of internal audit system. The fact remained that the monitoring of works was not adequate as in all the reported cases, there was inordinate delay in completion of works because the issues could not be resolved timely. Further, the reply was silent on the issue of non-reporting of the progress of works to the BoD.

### **Best practices**

**2.4.11** Audit scrutiny disclosed the following best practices in the Company:

- Transmission losses were maintained within the targets fixed by RERC;
- Timely action was taken by the Company where messages of violation were issued by Northern Regional Load Despatch Centre (NRLDC), as it was found that despite the receipt of 1150 messages for violation of grid discipline there was no penalty imposed by the NRLDC.

### **Conclusion and Recommendations**

#### *Conclusion*

The Company did not follow the norms/standards prescribed for maintaining the redundancy under the transmission system which resulted in huge variation between installed capacity and capacity handled. Further, transmission works were not completed within the scheduled period due to deficient planning and non-adherence to recommendations of Task Force Committee on Project Management. Further, non-carrying out the preparatory activities before execution of these works led to delay in completion of the works and blocking of funds for a considerable period. Moreover, improper planning and poor project management also led to payment of commitment charges by the Company on loans raised. The Company failed to effectively monitor the physical progress of the works.

#### *Recommendations*

The Company may:

- follow the standard/norms prescribed for determining the redundancy of transmission system;
- take effective steps to ensure completion of transmission projects in scheduled time;
- ensure that the physical progress of works is monitored in a time bound manner using its IT facility; and
- apprise the progress of works time to time to top management to resolve the bottlenecks in completion of the project.

