CHAPTER-III

PERFORMANCE REVIEWS RELATING TO STATUTORY CORPORATIONS

Financial assistance to Industrial units by Madhya Pradesh Financial Corporation

Highlights

Though the State Government specified the thrust areas for the balanced industrial development, the Corporation had not formulated any long term/short term financing strategy with specific focus on type and category of industry, purpose and size of finance, area of development etc.

(Paragraphs 3.1.10 to 3.1.12)

Even though the Corporation had extended financial assistance of Rs.1,882.11 crore to 8,720 applicants since its inception in 1955, no assessment of success of industries financed had been conducted (March 2006) to assess the extent of achievement of the objective of promotion of industries in the State, for planning future course of action.

(Paragraph 3.1.13)

As of 31 March 2005, the Corporation had outstanding loans aggregating Rs.395.40 crore against 2,033 units, out of which 891 units were in operation, 40 units were under implementation and 382 units were closed due to lack of working capital, market demand, technological obsolescence, internal disputes, financial mismanagement.

(Paragraph 3.1.1)

The system of appraisal of projects was deficient. Rules framed by the Corporation for sanction of loans were deviated in respect of sanctions aggregating Rs.22.11 crore in 24 cases. Loan assistance was extended to unviable projects, ineligible applicants, promoters of doubtful creditworthiness, without adequate security and for takeover of loans outstanding with other financial institutions.

(Paragraphs 3.1.15 to 3.1.24)

Follow-up of recovery of loan was poor. Despite persistent default, action was not initiated for takeover. Targets for recovery were low and ranged

between 38 *per cent* (2000-01) and 46 *per cent* (2003-04) of the total amount recoverable. Separate targets were not fixed for recovery of old dues, even though their recovery was only up to 18 *per cent*. To bridge the gap between funds available and funds required, the Corporation resorted to borrowings through bonds.

(Paragraphs 3.1.25 and 3.1.7)

Out of loan assistance of Rs.532.18 crore sanctioned during the years 2001-2005, Rs.203.75 crore was pending recovery as on 31 March 2005. Out of this, Rs.155.52 crore was standard, Rs.31.08 crore was substandard, Rs.16.79 crore was doubtful and Rs.0.35 crore was loss assets. The substandard, doubtful and loss assets represented 24 *per cent* of the outstandings.

(Paragraph 3.1.14)

One Time Settlements were extended to wilful defaulters and even in cases where adequate collateral securities were available. Though the Corporation sacrificed Rs.71.34 crore as a result of one time settlement of dues of Rs.157.10 crore for Rs.85.76 crore during the period 2001-05, it could recover only Rs.41 crore (47 *per cent*) upto March 2005 defeating the very objective of the settlement.

(Paragraphs 3.1.30 to 3.1.32)

Non-performing assets increased from Rs.170.40 crore in 2000-01 to Rs.224.66 crore in 2002-03. The decrease in 2004-05 to Rs.140.38 crore was mainly due to one time settlements in 2003-04 and 2004-05.

(Paragraph 3.1.33)

Introduction

3.1.1 Madhya Pradesh Financial Corporation, (formerly known as Madhya Bharat Financial Corporation) was established in June 1955 under Section 3 (1) of the State Financial Corporations Act 1951 (Act) for promoting industrial development in the State by providing financial assistance to medium and small scale enterprises for setting up new industrial units or to expand/ modernise existing units. During the period of five years ended 31 March 2005 the Corporation confined itself mainly to fund based activities viz., grant of term loans, asset credit loans, short term loans, working capital, medium term loans and replenishment of term loans.

The Management of the Corporation is vested in a Board of Directors (BOD). As on 31 March 2005 there were seven directors including the Chairman and Managing Director {three directors nominated by the State Government, and one each by Small Industries Development Bank of India (SIDBI), Industrial

Development Bank of India, (IDBI), Life Insurance Corporation of India (LIC) and the Board of Directors of the Corporation}. The Managing Director is the Chief Executive of the Corporation who is assisted by two General Managers at Head office and one General Manager, three Deputy General Managers, four Regional Managers and four Branch Managers in the field. The Corporation has 10[22] field offices besides nine[23] business development centres (BDC).

As of 31 March 2005, the Corporation had outstanding loans aggregating Rs.395.40 crore against 2,033 units. Out of these, 891 units were in operation, 40 units were under implementation and 382 units were closed due to lack of working capital, market demand, technological obsolescence, internal disputes and financial mismanagement.

The recovery performance of the Corporation was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1999 (Commercial). The review was discussed by the Committee on Public Undertakings (COPU) between May and July 2001.

Scope of Audit

3.1.2 The present review undertaken between January and May 2006 covers the activities of the Corporation with regard to financial assistance extended during the five years ended 31 March 2005[24]. The records at the head office of the Corporation and five out of 10 field offices/ branch offices selected on the basis of assistance disbursed were examined.

Audit Objectives

3.1.3 Audit was undertaken with a view to assess whether:

- the Corporation achieved its objectives efficiently, economically and effectively,
- a proper system of project appraisal existed and the same had been complied with,

---

[22] *Indore-I, Bhopal, Dewas, Ratlam, New Delhi, Indore-II, Gwalior, Jabalpur, Ujjain and Satna.*

[23] *Indore (urban), Indore-II, Katni, Rewa, Sendhwa, Harda, Neemuch , Shahdol and Sagar.*

[24] *As the accounts of the Corporation were finalised upto 2004-05 only.*

- the system of recovery and action in case of default was efficient to ensure timely recovery of principal and interest due thereon,
- an adequate system of internal control with regard to sanction, disbursement and recovery of dues was in place and was operative,
- The Corporation maintained necessary records to facilitate age wise analysis and analysis of over dues to facilitate necessary penal recovery action and
- the system of follow up with defaulting units including taking over of the units was efficient to ensure speedy disposal and prompt realisation of over dues.

Audit criteria

3.1.4 The performance of the Corporation was assessed against the following :

- laid down procedures for sanction, disbursement and monitoring of recovery,
- guidelines and circulars issued by the Reserve Bank of India (RBI) and SIDBI, and
- policies in regard to allotment of assistance to different sectors of industries and targets, wherever fixed.

Audit methodology

3.1.5 The following mix of audit methodologies was adopted:

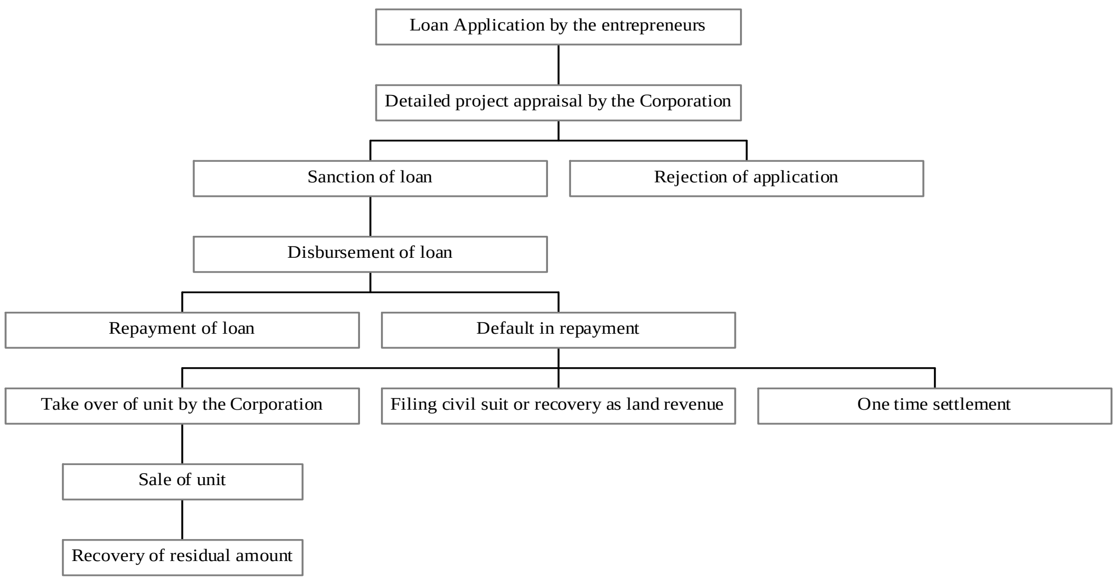
- examination of relevant provisions of SFCs Act,1951 and guidelines issued by the State government, SIDBI and RBI, from time to time,
- test check of loan files at selected district offices and head office,
- review of loan ledgers, and
- review of agenda and Board minutes, scheme files and correspondence files.

Procedure for financial assistance and recovery

3.1.6 The Corporation extends financial assistance of upto Rs.5 crore at interest rates ranging from 9 to 13.5 *per cent* per annum depending upon the type of scheme and size of finance. The repayment period ranges from one to eight years with a moratorium of upto one year. The loans are sanctioned after appraisal of the schemes for their viability and released in instalments after verification of investment of the loanee's share. The Corporation obtains funds in the form of equity from the State Government, floating of bonds, refinance from SIDBI, IDBI and other financial institutions and plough-back of funds through recovery of loans from the existing loanees and disinvestment of equity in the assisted units.

A flow chart indicating the process of sanction, disbursement and recovery thereof is indicated below:

Process of Financing & Recovery



Audit findings

The Audit findings were reported (June 2006) to the Government / Management and discussed in the meeting of Audit Review Committee for Public Sector Enterprises (ARCPSE) held on 13 September 2006 where the Government was represented by the Principal Secretary (Finance) and the Management was represented by the Managing Director of the Corporation. The review was finalised after considering the views of the Government / Management.

The audit findings are discussed in the succeeding paragraphs.

Sources and Utilisation of Funds

3.1.7 The table below indicates the sources of finance and their utilisation during the five years ended 31 March 2005 for disbursement of loans, repayments of bonds and other expenditure.

(**Amount : Rupees in crore)**

	Particulars	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
(A)	Total cash out flow **#**	166.80	183.21	179.33	127.02	184.96
(B)	Resources					
	Refinance	20.00	24.04	17.00	18.75	67.50
	Recovery of Principal and interest	105.40	104.95	109.71	84.36	93.50
	Borrowisngs through bonds	15.25	36.17	12.50	10.50	Nil
	Others *	26.15	18.05	40.12	13.41	23.96
	Total	**166.80**	**183.21**	**179.33**	**127.02**	**184.96**

 # Total Cash outflow includes loan disbursement, repayment of refinance / bonds and interest thereon.

*** include repayment of refinance/bonds and interest thereon.**

Poor recovery led to increased borrowings through bonds.

It would be seen from the above table that recovery declined from 2001-02 to 2004-05 except for the year 2002-03. Increase in recovery in 2004-05 as compared to 2003-04 was mainly due to one time settlements. Due to less recovery during 2001-04 the Corporation had to issue bonds to bridge the resource gap.

The Government stated (July 2006) that it was considered prudent to borrow funds through bonds at lower rates of interest. The reply is not relevant as borrowing through bonds could have been minimised by improving recovery performance. During the ARCPSE meeting, the Principal Secretary (Finance) promised to improve recovery.

Avoidable payment of interest

3.1.8 The Corporation, with a view to meeting its loan financing requirements to industrial units, started mobilising funds through bonds from 1993-94 onwards. During the period January 1998 to March 2003 the Corporation mobilised Rs.117.83 crore through bonds at interest rates ranging from 12.3 to 6.75 *per cent*. The bonds were to be redeemed after 10 years i.e. from 2008 to 2013.

Bonds could not be redeemed earlier due to non insertion of the usual call option clause.

Audit analysis revealed that though the interest rates on borrowings fell from 11.32 (1998) to 6.95 (2003) *per cent*, the Corporation did not safeguard its interest against decreasing interest rates by inserting the usual put/call option clause in the terms of issue of bonds for their early redemption. The implications of non-insertion of the option as analysed by Audit are given below:

Non insertion of put/ call option resulted in additional interest liability of Rs.9.95 crore.

- Bonds valued at Rs.31.08 crore were issued during January 2000 to February 2002 at an average interest rate of 11.5 *per cent*. Had the Corporation inserted the option clause in these bonds, Rs.35.03 crore mobilised between February 2002 to March 2002 at an interest of 6.75 to 8.30 per cent per annum could have been utilised for discharge of earlier bonds and as a result interest of Rs.3.08 crore could have been saved.

- Future interest liability of Rs.6.87 crore could also have been avoided.

The Management stated (August 2006) that the Corporation issued these bonds as per the guidelines issued by Reserve Bank of India. It was further stated that the bondholders were requested for early discharge of bonds but they did not agree for the same.

The reply is not acceptable as the RBI did not prohibit insertion of a put/call option clause.

Sanction and disbursement

3.1.9 The details of receipt of applications from entrepreneurs, loans sanctioned and disbursed during the period of five years ended 31 March 2005 are detailed in ***Annexure-11***

It would be seen from the Annexure that:

- There was significant decrease in targets and actual disbursements during 2003-04 which was mainly due to non-availability of funds on account of low rate of recovery.

- There was significant increase in targets and actual disbursements in 2004-05 compared to previous years mainly due to setting up of Business Development Centres (BDCs) to attract small entrepreneurs, which was not attempted in any of the previous four years.

Memorandum of Understanding with the State Government

The Corporation did not prepare short/long term strategy for balanced industrial development.

3.1.10 The Corporation entered into a Memorandum of Understanding (MOU) with the State Government for each of the five financial years ended 31 March 2005. While the State Government had made a general mention of areas of financial assistance in the years 2000-01 and 2002-03, it had given a specific mission to the Corporation in 2003-04 and 2004-05 by specifying thrust areas of industrial financing for balanced industrial development of the State. These included the service sector with focus on information, communication, entertainment, social infrastructure, development of ancillaries, small service based organisations and green field projects etc. Inspite of such specific direction, the Corporation had not drawn up any long term/ short term strategy for financing of industries with specific focus on type and category of industry, size of finance, area of development etc.

The Government stated (July 2006) that it provided financial assistance to industries as per the broad industrial policy of the State Government and the policy guidelines of the BOD, SIDBI as well as the MOU signed with the State Government. It was further stated that it was not always appropriate to formulate a long term policy with specific focus on type and category of industry.

The reply is not tenable as non-formulation of short term/long term strategy would go against the spirit of the MOU and the objective of balanced industrial development. During ARCPSE meeting the Principal Secretary agreed to formulate short term/long term strategy.

Sanctions

3.1.11 The following table indicates the distribution of sanction of loans to industries during the five years ended 31 March 2005.

(Amount : Rupees in crore)

In 46 districts of Madhya Pradesh	Sanctions	Disbursement
Backward districts (37) [25]	220.92	156.42
Non backward districts (9)	212.25	134.78
Total	**433.17**	**291.20**

The spread of loan was uneven among various districts.

3.1.12 It would be seen from the above table that out of total sanctions of Rs.433.17 crore in 46 districts of Madhya Pradesh, Rs.220.92 crore (51 *per cent*) were sanctioned in 37 backward districts while Rs.212.25 crore (49 *per cent*) in 9 non-backward districts. It was further noticed during audit that out of Rs.220.92 crore sanctioned in 37 backward districts, 67 *per cent* of financial assistance (Rs.147.38 crore) was given in six backward districts while remaining 33 *per cent* (Rs.73.54 crore) was given in 31 districts which indicated uneven spread of loan assistance. Out of Rs.212.24 crore sanctioned in the remaining 9 non-backward districts, Rs.119.08 crore (56 *per cent*) was sanctioned in Indore alone.

The Government stated (July 2006) that the spread of loan was based on viability and growth potential. The reply is not acceptable as such assistance would not ensure balanced regional economic development, which was identified as a thrust area in the MOU.

Analysis of sanctions

3.1.13 An analysis of sanctions of term loans with reference to the category of industry, scale of industry, size of investment, purpose of investment etc. during the five years ended 31 March 2005 is given in ***Annexure-12.***

It would be seen from the Annexure that:

---

[25] A Category (20 districts), B Category (12 Districts), C Category (5 Districts).

Assistance was concentrated in certain industries.

- Out of total sanctioned loans of Rs.532.18 crore during the five years ended 31 March 2005, seven categories of industries viz., services, transport equipment, food manufacture, basic metals, chemicals other than industrial chemicals, construction and others received 69 *per cent* (Rs.368.30 crore). Five categories of industries were not financed at all while 21 categories of industries received 31 *per cent* (Rs.163.88 crore). Thus, there was concentration of assistance in certain industries.

Assistance to small scale industries declined.

- Assistance to small scale industries declined from 60 *per cent* of the total amount sanctioned in 2000-01 to 53 *per cent* in 2004-05 (except 66 *per cent* in 2003-04). Assistance to medium scale industries and service sector increased from 40 *per cent* in 2000-01 to 47 *per cent* in 2004-05 (except a high of 73 *per cent* in 2002-03).

- During the entire period of five years ended 31 March 2005, no assistance was given to tiny sector and small scale ancillaries.

Impact assessment of loan assistance on success of industries was not conducted .

- Since inception to the end of 31 March 2005, the Corporation had extended financial assistance of Rs.1,882.11 crore to 8,720 applicants. No assessment of the performance of the assisted industries had been conducted (March 2006) to ascertain the extent of achievement of the objectives of promotion of industries in the State and the reasons for failure of assisted industries in order to take necessary corrective action for projects to be financed in future.

The Government stated (July 2006) that:

- Loans were provided to upcoming and commercially viable units,

- Increase in assistance to medium scale industries was due to graduation of small scale to medium scale industrial category,

- Less quantum to small borrowers being a national phenomenon, could not be changed,

- The decision to lend more for expansion and modernisation of existing units was a conscious one; and

- Impact assessment of success of industries was made.

The reply is not acceptable as in order to achieve the objective of balanced industrial development in the State, the Corporation has to lay down guidelines/priorities for financing with reference to type and category of industry, purpose and size of finance, area of development etc. Further audit verification revealed that the Corporation did not conduct any impact assessment. During ARCPSE meeting, the Principal Secretary stated that the matter had been referred to IIM Indore, for study.

In the absence of a well defined policy/guidelines for assistance, the activity of the Corporation lacked focus and direction for achievement of the defined objective of balanced regional growth across the length and breadth of the State. During ARCPSE meeting, the Principal Secretary stated that the Corporation would endeavor to grant loans on equitable basis.

3.1.14 During the five years ended 31 March 2005, the Corporation sanctioned financial assistance under various schemes aggregating Rs.532.18 crore (net after cancellations) in respect of 1,305 applications and released Rs.366.66 crore, out of which Rs.203.75 crore were outstanding as on 31 March 2005. Out of the outstanding amount, Rs.155.52 crore represented standard, Rs.31.08 crore substandard, Rs.16.79 crore doubtful and Rs.35.30 lakh loss assets. The substandard, doubtful and loss assets represented 24 *per cent* of the outstanding amount.

Audit scrutiny revealed that the sub-standard, doubtful and loss assets were due to sanction of loans in deviation of the guidelines and various deficiencies in appraisal of projects, such as loans to promoters of doubtful creditworthiness, loans to ineligible units and take over of loans given by other financial institutions. The details of individual cases are given in ***Annexure-13.***

Deficiencies in appraisal, sanctions, monitoring and follow up of projects

3.1.15 An effective appraisal of the projects to be financed and timely recovery of dues are of vital importance not only to protect the financial interests of the Corporation but also to achieving the objective of accelerating the industrial growth.

Audit scrutiny revealed many deficiencies in the appraisal and sanction of term loans in 24 cases aggregating Rs.22.11 crore. Some important cases are discussed below:

Loans to unviable projects

The analysis done by the Corporation did not take into account the material factors like viability of projects with reference to market demand, existence of similar projects, prevailing competitions, possibility of technological obsolescence and profit volume. Besides, it failed to assess the financial soundness, professional capability and experience of the promoters to run the project and reliability of projections made in the project reports. This resulted in sanction of loans aggregating Rs.5.39 crore and disbursement of Rs.4.96 crore to unviable projects, as discussed in paragraphs 3.1.16 to 3.1.19.

The project appraisal was deficient in many respects.

3.1.16 The Corporation sanctioned (March 2002) a term loan of Rs.75 lakh to the promoters of Yash Hotel, Indore (firm) and disbursed Rs.70 lakh between March 2002 and October 2002. The firm failed to repay the loan and Rs.86.33 lakh including interest became due as on 31 March 2004. The assets of the firm were taken over on 19 February 2004 and returned on ***Supurdgi***[26] on a

[26] *the process of handing over the assets after obtaining written promise.*

written promise by the firm to pay Rs.10 lakh by 15 March 2004. The firm did not honour the commitment and Rs.1.11 crore (including interest) became due as on 31 January 2006. Though the Corporation was in possession of securities (Rs.1.57 crore) worth more than the outstanding loan amount and the case was not covered by OTS policy framed (April 2004) by the Corporation, it considered (March 2006) the loanee's application for OTS for Rs.87 lakh. The loanee paid Rs.10 lakh (March 2006) and the balance (Rs.77 lakh) is payable by December 2006.

Inaction for recovery coupled with non disposal of securities resulted in loss.

Audit scrutiny revealed that according to the initial appraisal (February 2002) the project had several infirmities like less than 50 *per cent* capacity utilisation, undeveloped location and lack of capacity of the partners to bring in capital. Further, the final appraisal / viability was also deficient in respect of projection of occupancy level, discount offered, power consumption (8 hours for a centrally air-conditioned hotel), recession prevailing in the industry etc. Independent market survey was also not conducted. Thus, deficient appraisal and financing of an unviable project coupled with inaction for recovery, non-disposal of securities and agreeing for OTS resulted in loss of Rs.24 lakh[27].

The Government stated (July 2006) that the project was considered commercially viable based on the then "prevailing market conditions". The reply is not acceptable as the Corporation could not furnish any evidence in support of "the prevailing market conditions". In the ARCPSE meeting, the Principal Secretary promised to examine and strengthen the project appraisal mechanism.

3.1.17 The Corporation sanctioned (August 2000) a term loan of Rs.90 lakh to Mayur Milk Products Private Limited, Indore (firm) for expansion of plant capacity from 900 to 1500 tonnes per annum (TPA) for manufacture of Ghee and other milk products. The loan was released between October 2000 and March 2001. Due to default in payment, the assets of the firm were taken over in January 2003 but on receipt of 12 post dated monthly cheques of Rs.2 lakh each, the possession of assets was returned to the firm. The firm failed to make its payments and the dues accumulated to Rs.1.63 crore (May 2005) (Principal Rs.90 lakh and interest Rs.72.55 lakh). At the request of the firm, the Corporation settled (May 2005) the dues under the OTS for Rs.95 lakh. The firm failed to pay the OTS amount. Due to stiff competition and non-availability of working capital the unit was closed.

Audit scrutiny revealed that

Important aspects like stiff competition, non-inclusion of marketing cost were not considered in appraisal.

- the term loan was sanctioned for expansion of plant capacity even though only 40 per cent of existing capacity (900 TPA) was being utilised and the firm was not able to mobilise need based working capital.

---

[27] *Total outstanding Rs. 1.11 crore less OTS amount Rs. 87 lakh = 24 lakh.*

- important aspects like non-inclusion of marketing costs in the project report and stiff competition prevailing in the market from established and reputed business houses like AMUL, SAANCHI etc., were not considered while appraising the project report, which was prepared by the firm itself.

- collateral securities were not invoked even after chronic default in repayment.

Thus deficient appraisal and non-encashment of securities resulted in loss of Rs.1.63 crore.

The Government stated (July 2006) that the firm had been operating at viable capacity at the time of sanction of loan but could not do well due to non availability of timely need based working capital. The assets of the firm could not be sold, though advertised. The reply is not acceptable as the loan was sanctioned for capacity expansion even though the existing capacity utilisation was only 40 *per cent*.

Loan was sanctioned on the basis of unsigned provisional accounts and was released without obtaining audited balance sheets.

3.1.18 The Corporation sanctioned (October 2001) and disbursed (November 2001) a short term working capital term loan of Rs.75 lakh to one Ravinder Singh Tomar, a partnership firm of Gwalior. The firm failed to pay the instalments and Rs.85.64 lakh (Principal Rs.75 lakh and interest Rs.10.64 lakh) were outstanding till September 2002, when the assets of the firm were taken over. As on 31 March 2005, Rs.69.34 lakh were outstanding (Principal Rs.69.25 lakh and interest Rs.0.09 lakh).

It was noticed in Audit that the loan application was appraised ignoring the following deficiencies:

- Continuously decreasing turnover.

- Profit of Rs.10.31 lakh was considered for appraisal as against the actual profit of Rs.20,000 only in 2000-01.

- The loan was sanctioned on the basis of unsigned provisional account. Contrary to the condition of the sanction the Corporation released the loan without obtaining audited accounts for the year 2000-01.

Thus deficient appraisal resulted in non-recovery of Rs.69.25 lakh.

The Government stated (July 2006) that the profit was considered after adding back partners withdrawal and that the profitability depended on contracts on hand.

The reply is not tenable as the viability was judged on the basis of unsigned accounts of the firm which were not authentic. During ARCPSE meeting, the Principal Secretary promised to look into the matter.

Assistance was sanctioned without conducting independent survey.

3.1.19 The Corporation sanctioned (June 2000) Rs.70 lakh and disbursed (November 2001) a term loan of Rs.40 lakh to Dayal Construction Company for setting up a hotel and restaurant at Indore. The project was not implemented. The firm failed to pay the instalments and Rs.70.81 lakh (Principal Rs.40 lakh and interest Rs.30.81 lakh) was due upto March 2006. On a request by the firm, the Corporation settled (March 2006) the dues under OTS for Rs.55.50 lakh payable by December 2006 resulting in loss of Rs.15.31 lakh.

Audit scrutiny revealed the following deficiencies in the appraisal of the project.

- Independent survey was not conducted with reference to occupancy level, tariff and discounts being offered by other hotels in the vicinity.
- Receipts from the banquet hall were considered for all 365 days which was not realistic.
- The operating expenses were underestimated by considering power consumption for 8 hours only.

The Government stated (July 2006) that the project did not come up due to non vacation of shops on the ground floor by the occupants.

The reply is not tenable as the appraisal was deficient. Besides, written consent of the occupants to vacate the premises was not insisted upon before sanction/release of the loan.

Loans to promoters of doubtful creditworthiness

While sanctioning loans, the Corporation is required to verify the creditworthiness of the promoters/assisted units and their associate concerns. Audit scrutiny revealed that the Corporation sanctioned loans of Rs.5.80 crore and disbursed Rs.5.64 crore to five entrepreneurs who were either defaulters to other financial institutions or their credit worthiness was doubtful. Two interesting cases are discussed in paragraphs 3.1.20 and 3.1.21.

Loan was released though the credit worthiness of the firm was doubtful.

3.1.20 The Corporation sanctioned (August 2001) a term loan of Rs.75 lakh to Prateek Associates, Gwalior for setting up a medical diagnostic centre (spinal CT scan). As the firm did not submit the required documents, the loan was cancelled. The firm obtained (February 2002) finance for the project from G.E. Capital Services India (GECS). In November/December 2003, at the request of the firm, the Corporation restored the sanction (December 2003) and disbursed the loan between July 2004 and July 2005 despite being well aware of the fact that the loan was meant for settlement of dues with GECS. The loan was repayable in 18 quarterly instalments commencing from December 2004. The loan was utilised by the firm for settlement of its dues with GECS. The unit was closed in April 2006 when Rs. 86.90 lakh were due for payment.

Audit scrutiny revealed that the viability of the diagnostic centre was not appraised afresh with reference to similar facilities existing in the city and market demand particularly in view of the loanee's failure to pay instalments to GECS. Thus, **the loan was sanctioned and released to extend an undue favour to a firm which was defaulter to first financier and whose creditworthiness was doubtful**.

The Government stated (July 2002) that the project was technically found feasible and economically viable. The reply is not tenable for the reasons already mentioned above.

Loan was sanctioned to a borrower of doubtful credit worthiness.

3.1.21 The Corporation sanctioned (July 2000) a term loan of Rs.2.40 crore to Garha Utilbrocce Tools Limited (firm) for replenishment of resources and released the same in October 2000. The loan was repayable in 10 half yearly instalments commencing from 1 October 2001. Due to persistent default in payment and bouncing of cheques, repayment schedule was revised (April 2003) till the end of April 2008. In spite of revision in repayment schedule, the firm was irregular in payment and dues accumulated to Rs.3.28 crore (Principal Rs.2.06 crore and interest Rs.1.22 crore). At the request of the firm, the Corporation settled (July 2005), the dues for Rs.2.67 crore under OTS. As the firm failed to pay the OTS amount, the assets of the firm were taken over in March 2006 under Section 29 of SFCs Act.

Audit scrutiny revealed that the replenishment of term loan was required to be sanctioned for modernisation/expansion of existing profit making units financed by the Corporation with a good track record of prompt repayment. Against this, the Corporation extended the loan for repayment of inter corporate deposit to Madhya Pradesh State Industrial Development Corporation Limited from which the firm had borrowed to pay the OTS amount to Industrial Investment Board of India (IIBI) to avail interest waiver of Rs.1.41 crore. The loan was thus extended to a borrower of doubtful creditworthiness. The firm had been incurring losses since 1997-98 and was a defaulter to IIBI. Thus, sanction of loan to the firm resulted in locking up of Rs.2.67 crore (May 2006) besides loss of Rs.61.08 lakh on OTS.

The Government stated (July 2006) that the loan was sanctioned to reduce the firm's operational cost on account of interest on borrowings. The reply confirms that the unit was already under financial stress.

Sanction of loan without adequate security

The Corporation sanctions and releases term loans against hypothecation/ mortgage of financed assets (primary securities). Where primary security is not sufficient, collateral security is also obtained to bridge the gap. Audit scrutiny revealed that the Corporation failed to obtain adequate securities in respect of two cases (sanction: Rs.2 crore; release: Rs.1.93 crore) which resulted in blocking up of funds to the extent of Rs.2.88 crore. One case is discussed in para 3.1.22 below:

Loan was sanctioned without obtaining adequate security

3.1.22 Belvedere Information Systems and Co-technologies Limited (firm) was sanctioned (March 2001) a short term loan of Rs.75 lakh for setting up a medical transcription centre at Indore. The entire loan was released (March 2001) in one instalment. The loan was repayable in three quarterly instalments of Rs.25 lakh each. Till May 2003, the firm paid Rs.8.63 lakh only and the dues accumulated to Rs.99.78 lakh when the possession of the assets was taken over but returned back to the firm on ***Supurdgi*** basis. The firm failed to make payment. On a request made by the firm (November 2004) the Corporation settled the dues under OTS for Rs.75 lakh payable by March 2005. The firm again failed to make payment of the OTS amount; OTS was cancelled in July 2005. Recovery proceedings were initiated under the provisions of Revenue Recovery Certificate (RRC) and Section 138 of the Negotiable Instruments Act. As on 31 May 2006, Rs.99.92 lakh (Rs.75 lakh towards principal and Rs.24.92 lakh towards interest) were outstanding.

Audit noticed that as against the loan of Rs.75 lakh, computer hardware costing Rs.10 lakh only was generated as tangible assets. Adequate collateral securities as per the policy of the Corporation were also not obtained to bridge the gap in security cover. Thus, non-obtaining of adequate securities resulted in locking up of Rs.75 lakh besides non-realisation of interest of Rs.24.92 lakh.

The Government stated (July 2006) that the property offered as collateral security belonged to a third party which could not be mortgaged. After payment of Rs.8.63 lakh, out of first quarterly instalment of Rs.25 lakh, the unit could not do well and though OTS was made for Rs.75 lakh, the party failed to honour the same. It further stated that RRC proceedings had been initiated against the Directors/guarantors. The reply is not acceptable as the Corporation had released loan without obtaining adequate security.

Loan to ineligible units

Loans were sanctioned to ineligible units.

3.1.23 The Corporation sanctioned (May to November 2004) term loan of Rs.5.25 crore (ranging from Rs.25 lakh to Rs.2.40 crore each) to five entrepreneurs engaged in educational/non-industrial activities not eligible for financial assistance covered by SIDBI guidelines. Sanction of loan to ineligible units resulted in denial of financial assistance to other needy industrial enterprises. One illustrative case is discussed below:

The Corporation sanctioned (June 2005) a term loan of Rs.1.90 crore to D.K. Singh Enterprises, Bhopal a partnership firm (not registered on the date of sanction of loan) for construction of a hostel building, swimming pool and health club (already under construction) to be leased on completion to 'A' Group of D.K. Singh Educational and Social Welfare Society, Bhopal.

Audit scrutiny revealed that the sanction of the loan was irregular as:

- Loan was sanctioned even before constitution and registration of the partnership firm.

- The conditions of at least two years profitability was ignored

- the firm was not a professional builder engaged in construction activity and the financing was outside the purview of activities covered under SIDBI guidelines.

The Government stated (July 2006) that there was no bar on sanction of loan to an unregistered firm and that the firm was eligible as its activity fell under service sector. The reply is not acceptable as the firm was not a professional or well established construction company. It neither carried out construction activity before nor after sanction of loan.

Sanction of loan for discharging loan of other financial institutions

Sanction of loans to borrowers to discharge outstanding loans from other financial institutions is not an approved scheme of the Corporation. It was noticed in audit that the Corporation extended financial assistance of Rs.2.75 crore to three borrowers for discharge of loans availed by them from other financial institutions. One illustrative case is discussed below:

Assistance was sanctioned to repay dues to firm's first financier.

3.1.24 Anay Graphics Private Limited (firm) was sanctioned (June 2001) a term loan of Rs.75 lakh for expansion of printing press and for repayment of loan availed from Central Bank of India. Due to stiff competition and insufficient working capital, the firm could not function profitably and failed to pay the dues. A criminal complaint was lodged (December 2003) for dishonoured cheques. As the outstanding amount had accumulated to Rs.94.10 lakh upto January 2004, the assets of the firm were taken over, but were returned on payment of Rs.4 lakh in April 2004. The Corporation again took over (January 2005) the assets when the dues outstanding were Rs.114.14 lakh. The plant and machinery was sold (July 2006) for Rs.32 lakh leaving Rs.82.14 lakh pending realisation. Advertisement for sale of collateral securities did not elicit any response.

It was noticed in Audit that the loan was sanctioned mainly to discharge the loan given by Central Bank of India without ensuring creditworthiness of the firm. Source of financing for working capital was also not ensured which resulted in locking up of funds of Rs.75 lakh and non-recovery of interest of Rs.7.14 lakh[28].

The Government stated (July 2006) that the borrower faced multiple problems including inadequate working capital and could not service the loan.

---

[28] *Outstanding dues =Rs.114.14 lakh less 32.00 lakh realised on sale less principal as 75.00 lakh = 7.14 lakh*

Recovery performance

3.1.25 After the disbursement of loan the Corporation is required to monitor the status of the units financed to have an effective follow-up for recovery which would enable recycling of loans to other entrepreneurs. Details of demand raised for recovery of principal amount and interest due thereon, targets fixed for recovery and actual recovery made for each of the five years ended 31 March 2005 are given in ***Annexure-14***.

It would be seen from the Annexure that

Targets fixed for recovery were low. Separate targets were not fixed for old dues.

- The targets fixed for recovery were low and ranged between 38 and 46 *per cent* during 2001-04 of the total amount recoverable during the period.
- Separate targets were not fixed for recovery of old dues even though their recovery ranged from 3 to 18 *per cent* (2004-05) only of the total old dues during 2000-05.
- Though the percentage of overall recovery increased from 39 in 2000-01 to 45 in 2004-05 it was still low compared to the huge outstanding amount of Rs.108.67 crore as on 31 March 2005.

The Government stated (July 2006) that the targets were fixed considering overall collectability inclusive of old dues and current demand. The reply is not tenable as the Corporation should have fixed separate targets for old and current dues so as to be able to make focused efforts. However, during the ARCPSE meeting, the Principal Secretary promised to set separate targets for old as well as current dues.

Analysis of over dues

3.1.26 The following table indicates the status of over dues and their classification as at the end of 31 March of each year from 2000-01 to 2004-05.

(Amount : Rupees in crore)

Age of over dues	2000-01	2001-02	2002-03	2003-04	2004-05
Up to six months	17.37 (12.07)	4.66 (3.96)	5.94 (4.69)	4.29 (3.47)	4.95 (4.56)
Six to Eighteen months	20.66 (14.37)	12.93 (10.99)	23.99 (18.92)	20.12 (16.28)	18.93 (17.42)
Eighteen to Thirty six months	14.13 (9.82)	10.18 (8.65)	12.24 (9.65)	14.06 (11.37)	14.20 (13.06)
More than 3 years	91.64 (63.74)	89.88 (76.40)	84.58 (66.74)	85.14 (68.88)	70.59 (64.96)
Total over dues	**143.80**	**117.65**	**126.75**	**123.61**	**108.67**

Note:-Figures in brackets indicate percentage to total over dues.

Over dues were locked up for 18 to over 36 months.

It would be seen from the table above that the status of over dues remained almost constant in all the above categories throughout the period of five years ended 31 March 2005 (except in the case of over dues up to six months). Further audit analysis revealed that 73 to 85 *per cent* of the over dues were locked up for 18 to over 36 months. In spite of such locking up of funds, the Corporation did not take effective steps to improve recovery.

Lack of follow-up

3.1.27 For prompt recovery of dues, the Corporation is required to identify chronic and wilful defaulters and take suitable prompt action under Section 29 to 32 of the SFC Act, 1951. Audit scrutiny revealed that the Corporation did not take timely action for recovery of dues. The details of 9 cases involving outstanding loan of Rs.7.79 crore are given in ***Annexure-15.***

Two interesting cases are discussed below:

3.1.28 The Corporation sanctioned (August 2000) a term loan of Rs.95 lakh and disbursed (October/November 2000) Rs.80.25 lakh to Apical e-solutions Limited (Firm) for setting up software development and website trading units in Indore and Bhopal. The firm paid only one instalment of principal (Rs.10 lakh) in November 2001. The unavailed portion of the loan, was cancelled and repayment schedule was revised (May 2002) and again revised in December 2003 to be payable in 17 quarterly instalments commencing from May 2004. On inspection (March 2004) of the firm, the Corporation found that the primary securities (Plant and machinery) valued at Rs.71.59 lakh were scrapped and assets available were only worth Rs.19 lakh. The assets of the firm were not taken over immediately and collateral securities not invoked. The firm again failed to honour its commitment. As on 31 March 2005, Rs.48.84 lakh towards principal and Rs.6.08 lakh towards interest were outstanding. On a request made by the firm, the loan account was settled (March 2005) under OTS for Rs.40 lakh, payable by March 2006. The amount had not been paid till July 2006.

Follow up for recovery was poor despite wilful default

Audit scrutiny revealed that in spite of persistent wilful default and availability of collateral securities valued at Rs.1.41 crore, the Corporation kept on revising the repayment schedule time and again. It also failed to takeover the assets of the firm even after knowledge of scrapping of primary securities valued at Rs.71.59 lakh, which was highly irregular. The Government accepted (July 2006) the audit observation.

Action for recovery was not initiated in spite of having securities worth more than the amount outstanding.

3.1.29 The Corporation sanctioned (July 2001) and disbursed (September to November 2001) working capital term loan of Rs.75 lakh to Busyman Offset Printers Private Limited, Indore; Rs.25 lakh to Printways and Rs.30 lakh to Somaiya traders. The loans were repayable from December 2001 onwards. None of these firms was regular in repayment. They had paid only Rs. 53.89 lakh in piecemeal. Notices issued by the Corporation failed to elicit desired results and the firms failed to honour their promises made during November 2002 to October 2004. The Corporation, in spite of knowledge of wilful default, did not initiate immediate action to take over the assets but rescheduled the loan payment period in October 2003. As the commitment was not honoured the assets of the firms were taken over on 8 November 2004 and returned on ***Supurdgi*** on the same day. The assets of the firms were advertised for sale in 2005. As the offer was not attractive, an advertisement was again issued in January 2006. The Corporation realised Rs.70 lakh by sale of two securities and balance amount of Rs.51 lakh was pending recovery.

The Government accepted (July 2006) the audit observation.

One time settlements

3.1.30 The Corporation, with the objective of realising sticky overdues introduced One Time Settlement (OTS) policy in 1992. The table below indicates the outstanding dues at the time of settlement, amount at which the dues were settled and loss suffered by the Corporation during 2000-05 as a result of OTS.

(Amount : Rupees in crore)

Year	No. of cases settled	Total outstanding at the time of settlement	Amount of settlement	Loss on settlement	Amount received against settlement	Percentage of loss to total outstanding
2000-01	184	30.23	18.02	12.21	9.29	40
2001-02	147	24.95	14.07	10.88	5.85	44
2002-03	153	25.14	13.42	11.72	7.43	47
2003-04	204	27.22	13.18	14.04	5.96	52
2004-05	355	49.56	27.07	22.49	12.47	45
Total	**1043**	**157.10**	**85.76**	**71.34**	**41.00**	**45**

Audit Scrutiny revealed that

Benefit of quick realisation of dues did not accrue though an amount of Rs.71.34 crore was sacrificed in effecting OTS.

- Though the Corporation sacrificed Rs.71.34 crore in settlement of dues worth Rs.157.10 crore in respect of 1,043 units, it could recover only Rs.41 crore (47 *per cent*) out of Rs.85.76 crore settled, defeating the very objective of quick realisation of dues under one time settlement.

- The outstanding amount against OTS increased from 48 *per cent* in 2000-01 to 54 *per cent* in 2004-05 of the amount settled in the respective years. High incidence of one time settlements since 2001-02 indicates failure of the Corporation in effecting prompt recovery. Substantial remissions in dues under OTS to defaulters is also fraught with the risk of wilful default by loanees who make regular payments, in expectation of benefits under OTS.

Intention of the borrowers to settle dues was not examined before reaching OTS.

Audit scrutiny further revealed that the Corporation offered OTS even when it had in its possession, prime and collateral securities worth more than the amount outstanding. It also resorted to OTS with wilful defaulters without scrutiny of financial position of the unit financed and without ascertaining the source from which the firm proposed to pay the settlement amount. Some of the cases are indicated in ***Annexure-16.*** During ARCPSE meeting, the Principal Secretary agreed to make the OTS proposals more transparent and to explore the possibility of opening of Escrow accounts in selected cases.

Two interesting cases of OTS are discussed in paras 3.1.31 and 3.1.32 below:

Despite availability of securities of more than the amount due, OTS was offered.

3.1.31 The Corporation sanctioned (April 2000) a term loan of Rs.1.25 crore to Supra Scribes Private Limited, Bhopal (firm) for setting up a medical transcription unit. The Project Report for this new area of finance was appraised in one day. The firm drew Rs.91.25 lakh between November 2000 to February 2002. The firm failed to repay the instalments of loan and Rs.1.38 crore had fallen due as on September 2004. On a request by the firm the Recovery Committee settled (October 2004) the dues under OTS for Rs.1 crore.

Audit scrutiny revealed that in spite of availability of prime securities valued at Rs.90.36 lakh, collateral securities valued at Rs.1.62 crore in the form of freehold land and financial worth of promoters valued at Rs.3.31 crore, the Corporation had not taken over the assets under Section 29 of the SFC Act to realise its dues. Thus, the OTS had resulted in extension of undue favour to the firm and loss to the Corporation to the extent of Rs.37.61 lakh.

The government stated (July 2006) that the project could not run satisfactorily due to many external factors. The reply is not acceptable as inspite of availability of prime and collateral securities, the Corporation failed to initiate action for recovery.

3.1.32 National Metal Industries Private Limited, Indore (firm) engaged in the manufacture of steel twisted bars was sanctioned (September 1999) a term loan of Rs.1.90 crore out of which Rs.1.30 crore were released in November 1999 and Rs.35 lakh in February 2000. The firm failed to pay even the first instalment of interest of Rs.5.33 lakh which was recovered out of Rs.35 lakh released in February 2000. The cheques issued by the firm towards subsequent instalments were dishonoured and the Corporation filed a criminal complaint (April 2001). Due to inadequacy of working capital and other constraints, the firm was closed from October 2000 to August 2003 and restarted commercial production in September 2003. As on 31 July 2005, Rs.2.92 crore were outstanding for recovery. At the request of the firm, the Corporation settled (July 2004) the dues at Rs.1.65 crore (Rs.24.25 lakh payable as upfront fee and balance in 24 monthly instalments with interest at 12 *per cent* per annum). After payment of Rs.40 lakh, the Corporation, on a request of the firm extended the payment period upto April 2008. As of 31 July 2006, Rs.93 lakh had been received and Rs.1.26 crore including interest were still outstanding excluding accrued interest of Rs.1.27 crore.

Dues were settled though adequate securities were available.

Audit scrutiny revealed that the Corporation settled the dues in spite of availability of fixed assets with a realisable value of Rs.4.63 crore on the date of settlement. The status of the firm and its working results were not examined before OTS. While the term loan was sanctioned for modernisation /expansion of the firm, OTS was sanctioned on the basis of sub-viable level of operations, inadequacy and imbalance in manufacturing capacity. Thus, the OTS was unwarranted and was not in the interest of the Corporation.

The Government stated (July 2006) that as the firm had been closed and there was recession in the steel industry, OTS was approved. The reply is not acceptable as the OTS was concluded even though realisable value of securities was adequate for the recoveries to be made.

Assets management : classification of loans

3.1.33 In the case of State Financial Corporations, Industrial Development Bank of India (IDBI) had classified (March 1994) the loans into the following four categories depending upon their chances of realisation.

Standard assets: Where payments are regular

Sub-standards assets: Where loan as well as interest remain overdue over a period of 6 months but not exceeding 2 years.

Doubtful assets: Where loan as well as interest remain overdue beyond two years.

Loss assets: Where losses are identified but not written off at the end of the year.

The assets other than standard assets are known as non-performing assets (NPAs).

The table below indicates net outstanding loans, borrowings and non-performing assets of the Corporation for the five years ended 31 March 2005.

(Amount : Rupees in crore)

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
Outstanding loan	384.71	390.28	393.92	306.03	309.52
Non performing assets	170.40	199.99	224.66	194.84	140.38
Net outstanding loan	309.17	287.21	287.29	209.87	252.75
Outstanding borrowings	370.68	445.02	442.05	367.46	410.76
Gap between borrowings and net outstanding loan	61.51	157.81	154.76	157.59	158.01

Increasing NPAs led to increased dependence on borrowings.

It can be seen from the above table that the Corporation failed to bridge the gap between outstanding borrowings and net outstanding loans, which had increased from Rs.61.51 crore in 2000-01 to Rs.158.01 crore in 2004-05. This led to increased dependence on borrowings for grant of financial assistance and restricting the Corporation's ability for extending assistance to new entrepreneurs.

Internal Controls / Monitoring

The internal audit was not commensurate with the volume of transactions.

3.1.34 A review of internal controls relating to payment of financial assistance to industrial units by the Corporation revealed that:

- The Corporation did not maintain any record regarding periodical inspection of the mortgaged properties of the assisted units. Post disbursement inspection of the assets of assisted units was not carried out. Although the head office had issued instructions (June 2001) for chalking out a monthly programme for inspection of the units based on a proper roaster, the actual position could not be verified by Audit due to non maintenance of proper records.

- The Corporation did not appoint nominee directors on the Board of the assisted units, in violation of the terms and conditions of the sanction of loan. Out of 2033 units assisted by the Corporation till 31 March 2005, nominee directors were appointed in 18 cases only. Since the nominee director would have sufficient knowledge about the state of affairs of the assisted unit, his report could prove useful in enabling the corporation to take timely action for safeguarding its interests.

Internal Audit

3.1.35 A Deputy General Manager heads the Internal Audit Wing of the Corporation created in 1995. There is only one Assistant Manager in the wing without any support staff to conduct internal audit. The Corporation did not furnish the particulars of duties and responsibilities of staff in Internal Audit Wing, audits planned and taken up, scope and coverage of areas/activities/ percentage of checks exercised, observations made and their compliance during the five years ended 31 March 2005.

During the ARCPSE meeting, the Principal Secretary promised to strengthen Internal Audit System.

Conclusion

The activities of the Corporation with regard to achieving its objective of balanced industrial development in the State lacked both focus and direction. The Corporation had not prepared any long term/short term strategy/plan for achieving its objectives. The spread of loan was not balanced among various industrial sectors, geographical areas and size of industries.

The performance of the Corporation also suffered due to deficient appraisals and deviations from its own guidelines resulting in grant of

loans to unviable/ineligible units, promoters of doubtful credit worthiness, without adequate security and for discharging loans taken from other financial institutions. All these deficiencies resulted in poor recovery of dues despite offer of OTS. Recovery of dues was also sub-optimal due to non-fixation of separate targets for old and current dues for making focussed efforts as also due to not taking action even in cases where the corporation was in possession of adequate securities. As a result the non-performing assets were high at 24 *per cent*.

Recommendations

The Corporation should:

- formulate both short term and long term financing strategies to achieve balanced industrial growth,
- strengthen its project appraisal system to minimise risk of default in payments by the borrowers,
- monitor assisted units closely to ensure timely and speedy recovery of dues; and
- devise a mechanism for prompt recovery action under various provisions of the SFC Act.

Procurement of material and implementation of transmission and distribution schemes of ADB funded project by Madhya Pradesh State Electricity Board

Highlights

Advance procurement of transmission / sub-transmission materials worth Rs.67.45 crore and distribution material worth Rs.27.22 crore resulted in blockage of funds aggregating to Rs.94.67 crore.

(Paragraphs 3.2.14 and 3.2.17)

The Board had to incur extra expenditure of Rs.2.81 crore due to placement of orders for identical items of material at different rates under different packages of the same tender.

(Paragraph 3.2.15)

The Board granted extension of delivery periods to defaulting suppliers without imposing liquidated damages of Rs. 93 lakh.

(Paragraphs 3.2.10 and 3.2.11)

Improper planning in procurement of conductors resulted in excess procurement of the material and locking up of funds of Rs.3.91 crore for two years and consequential loss of interest of Rs.82.11 lakh.

(Paragraph 3.2.9)

Due to delay in commissioning of various 220/132 KV lines/sub-stations, the Board could not derive the envisaged benefits in reduction of sub transmission losses.

(Paragraph 3.2.13)

Introduction

3.2.1 A Memorandum of Understanding (MOU) was signed in May 2000 between Government of India (GOI) Ministry of Power and the Government of Madhya Pradesh (GOMP) for reforming and restructuring the power sector in the State. As per the MoU, GOMP was committed to a time bound restructuring of the power sector in the State to promote and develop an efficient, commercially viable and competitive power supply system which will provide reliable and quality power at competitive prices and would support industrial development in the State.

Accordingly Madhya Pradesh Vidyut Sudhar Adhiniyam 2000 (Reforms Act) was enacted for the reorganisation of State Electricity Board. Pursuant to the Reforms Act, a Generation Company, a Transmission Company and three Distribution Companies[29] were incorporated under the Companies Act 1956. These Companies started functioning under an Operation and Maintenance agreement with Madhya Pradesh State Electricity Board (Board), from July 2002. Each company is headed by a Chairman and Managing Director (CMD). The CMD is assisted by Chief Engineers of the respective Companies.

GOMP requested GOI to arrange funds through Asian Development Bank (ADB) for implementation of various reform projects. ADB agreed to provide financial support to the tune of US $350 million to the Board through the GOI. Accordingly, a loan agreement for funding Madhya Pradesh Power Sector Development Project was signed (March 2002) between GOI and ADB. Out of the loan amount (US $350 million) US $150 million was earmarked for the policy component and US $200 million for the project component.

The policy component of the loan was to be passed on by the GOI to the GOMP and in turn to the Board towards arrears receivable by the Board from Government departments, Municipal Corporations, etc. as a one time grant. The balance fund amounting to US $200 million meant for the project component was to be utilised for procurement of material under various schemes of Transmission, Sub-transmission and Distribution. As per the loan agreement, the approved scheme included in the project report represented 63 *per cent* of the cost to be funded by ADB and 37 *per cent* to be borne by the GOMP/Board for erection and execution of the schemes.

The main objectives of the project were (i) to improve the quantity and quality of electricity supply, reinforcement, modernisation and rehabilitation of the transmission and distribution system to promote economic growth (ii) to introduce computerised information and revenue management system and (iii) installation of meters.

Scope of Audit

3.2.2 The present review conducted during December 2005 to May 2006 covers procurement of material and implementation of transmission and distribution schemes of the ADB funded power sector reform project by the Board during the five years ended March 2006. The review was carried out through examination of records at the Head Office of the Board, two[30] out of

[29] *Madhya Pradesh Power Generating Company, Jabalpur, Madhya Pradesh Power Transmission Company, Jabalpur, Madhya Pradesh Poorva Kshetra Vidyut Vitaran Company, Jabalpur, Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company, Indore. Madhya Pradesh, Madhya Kshetra Vidyut Vitaran Company, Bhopal.*

[30] . *MPPT Co. Ltd. Jabalpur (Nodal Agency) and MPPKVV Co. Ltd., Jabalpur.*

the five electricity Companies, seven[31] out of the nine Chief Engineer offices, four[32] out of the 11 Superintending Engineer offices, two[33] out of 14 distribution area stores and two[34] out of three Transmission Area Stores, which were selected on the basis of number of schemes undertaken/expenditure incurred.

Audit objectives

3.2.3 The Performance audit was carried out to assess whether:

- the schemes were carefully designed and implemented as per the time schedule so as to draw the envisaged benefit from the schemes,
- various procurement activities were well synchronised and coordinated and there was no blocking of funds,
- there existed an appropriate procedure for the procurement of materials to minimise delay, ensure quality and to avoid extra/excess expenditure in procurement; and
- the terms and conditions of the bid documents were carefully drafted so as to safeguard Board's interest and were also acceptable to the funding agency.

Audit criteria

3.2.4 The following audit criteria were adopted to assess the performance:

- terms and conditions and targets contained in the MOU,
- terms and conditions of GOMP and guidelines issued by Ministry of Power, GOI,
- the benchmarks specified in the detailed project report (DPR) and the schedule laid down for its execution; and
- rules laid down for awarding of contracts, coordination of activities between various departments of the Board.

---

[31]. *Chief Engineer (i) Transmission (ii) Planning (iii) Store and Purchase (iv) EHT C&M (v) O &M (vi) Testing and(vii) Power system, Jabalpur*

[32]. *SE offices at EHT Indore, Testing Indore, EHT Bhopal, Testing Bhopal.*

[33]. *Area stores at Bhopal & Gwalior.*

[34]. *Transmission Area Store at Indore and Sagar.*

Audit methodology

3.2.5 The audit was carried out through analysis of data on projects /schemes relating to:

- DPR for different schemes,
- records relating to procurement of material and execution of schemes,
- floating of tenders, evolution of tenders and placement of orders; and
- interaction with the management.

Audit findings

The Audit findings were reported to the Government/Management on 3 August 2006 and discussed in the meeting of Audit Review Committee for the State Public Sector Enterprises (ARCPSE) held on 20 September 2006 where the Additional Secretary, Department of Energy, represented the Government and CMD represented the Transmission company. The review was finalised after considering the views of the Government/Management.

3.2.6 Under the ADB funded project, 120 schemes involving transmission (and sub-transmission) works and distribution works like installation of 15,849 transformers and laying of 7,687 km low tension (LT) lines of different ratings were approved (July 2001) and loan amounting to US$ 200 million was sanctioned (March 2002). All the schemes of transmission/sub-transmission and distribution were scheduled to be completed by December 2005. Audit scrutiny revealed that the Board had failed to achieve its targets due to improper planning, lack of coordination, deficient contract management and avoidable delays as discussed in the succeeding paragraphs:

Funding of the project

3.2.7 For implementation of the power sector reform project, ADB sanctioned US $ 200 million for procurement of the material and the Board arranged the balance amount through the Power Finance Corporation (Rs.173.40 crore) and from its own resources for execution of schemes under the project. In October 2004 ADB approved US$54 million for implementation of additional schemes. The Board incurred expenditure of US $145.09 million upto March 2006 on implementation of the Project. To enable the Board primarily to complete the schemes, the closing date of loan was extended upto 31 December 2006 by ADB.

Transmission works

Physical performance

3.2.8 The progress of transmission works taken up under the project upto July 2006 is given in the table below:

Sl. No.	Activity	Total sanctioned works	Achievement	Percentage achievement
1.	Additional 400 KV transformers	3	3	100
2.	Additional 220 KV transformers	5	5	100
3.	220 KV new sub-stations	9	7	78
4.	132 KV new sub-stations	38	32	84
5.	132 KV addition/ augmentation of transformers	75	73	97
6.	220 KV lines	1208.98 kms	345.23 kms	29
7.	132 KV lines	1231.77 kms	849.39 kms	69

It would be seen from the above table that despite time overrun of over 6 months the Board was yet to complete 71 *per cent* of work of laying 220 KV lines, 31 *per cent* of 132 KV lines and 22 *per cent* of installation of 220 KV new sub-stations. The delay resulted in non-accrual of envisaged benefits of the schemes.

Irregularities noticed during implementation of transmission works are discussed below:

Procurement of excess quantity of conductors : Rs.3.91 crore

Procurement of conductors in excess of the requirement resulted in blockage of funds of Rs.3.91 crore and consequent loss of interest of Rs.82.11 lakh.

3.2.9 Against the requirements of 951 kms of zebra conductors for 220 KV lines and 2,086 kms of panther conductors for 132 KV lines, the Board purchased 1,050 kms of zebra conductors and 2,575 kms of panther conductors between February 2003 and December 2003. Thus, 99 kms of Zebra conductors valuing Rs.1.07 crore and 489 kms of panther conductors valuing Rs.2.84 crore were procured in excess of the requirement.

The Board stated (April 2006) that 99 kms of zebra conductors and 489 kms of panther conductors purchased in excess of the requirements were utilised for another ADB scheme approved in October 2004. The reply is not tenable in view of the fact that the excess conductors remained un-utilised from December 2003 to December 2005 resulting in blockage of fund of Rs.3.91 crore and consequent loss of interest of Rs.82.11 lakh at the rate of 10.5 *per cent*[35].

[35] *Rate of interest of the ADB loan.*

Non-levy of liquidated damages

3.2.10 The Board awarded (December 2002) a contract to Goydene Fibres (India) Pvt. Ltd. Daman, for supply of 690 kms of copper control and Aluminium Power cables of various specifications, at a total cost of Rs.2.78 crore with the last date of delivery as 30 May 2003. As per the terms of the contract, 10 *per cent* advance payment amounting to Rs.27.80 lakh was to be made to the supplier within 28 days from the date of signing of the agreement. Since the advance payment to the firm was less than US$ one lakh, ADB advised the Board to make the payment and obtain reimbursement from ADB. The Board released the advance payment on 5 August 2003, after a delay of more than six months from the due date.

Non-imposition of liquidated damages of Rs.27.80 lakh and Avoidable expenditure of Rs.12.08 lakh on account of price variation.

The Board extended the delivery schedule upto 8 December 2003 i.e. for a period equal to the delay in payment of advance and also allowed price variation. It was noticed during audit that only 283 kms of cables was supplied upto 31 December 2003. The firm was granted further extension upto 31 July 2004. Despite two extensions, the contractor failed to supply the entire quantity leaving a balance of 80 kms of cables. The Board treated the delay as *force majeure* and did not impose liquidated damages amounting to Rs.27.80 lakh (10 *per cent* of Rs.2.78 crore) on the contractor. Moreover, the firm was paid Rs.12.08 lakh on account of price variation (PV) claim during the period of first extension. Thus the PV allowed for the extended period due to default of the Board in payment of advance resulted in avoidable extra expenditure of Rs.39.88 lakh to the Board.

The Board stated (April 2006) that the first extension with price variation was granted on the ground of delay in releasing advance payment whereas second extension without price variation was granted on the grounds that the firm had concluded the contract and completed supplies in spite of severe financial hardships and huge losses reported to have been suffered by them. The reply is not tenable in view of the fact that aforesaid grounds do not form basis for operation of *force majeure* and the extension granted lacked justification.

Undue extension of delivery period

3.2.11 Scrutiny of three purchase orders revealed that extension of delivery period was granted because advance payment to the firm was not made within 28 days of signing of the contract as detailed hereunder:

Name of suppliers / firms/ item name (TR-No)	Delay in payment of advance (weeks)	Amount of advance (Rs. in lakh)	Scheduled date of supply	Period of delay in supply (weeks)	Period of extension (weeks)	Liquidated damages not claimed (Rs. in lakh)
Venson Electric Pvt. Ltd., Bangalore- Control & Relay Panels (TR-04)	32	41.00	June 03 to September 03	24	28	42.00
Eritech Ltd., Calcutta – Hardware and accessories for lines and sub-stations(TR-17)	20	19.00	Feb.03 to July 03	34	32	19.00
Acro Trans Secunderabad – 33 KV CTs and PTs (TR-03)	11	8.98	April 03 to Nov. 03	43	40	4.00
Total						**65.00**

Undue extension of delivery period resulted in non-levy of liquidated damages of Rs.65 lakh

It can be seen from the above table that the suppliers were paid advance of Rs.41 lakh, 19 lakh and 8.98 lakh after delay of 32 weeks, 20 weeks and 11 weeks respectively. Though the materials were supplied after delay of 28 weeks, 32 weeks and 40 weeks respectively, the Board regularised the delay in delivery by granting extension and not levying liquidated damages amounting to Rs.65 lakh.

As per the ADB guidelines, payments would be released by ADB, only if the amount of the first bill plus 10 p*er cent* of the advance put together equals or exceeds US$ one lakh. Had the Board suitably incorporated the payment conditions of ADB in the tender documents, grant of extension due to delay in payments could have been avoided.

The Board stated (April 2006) that due to paucity of funds, advance could not be paid from its own resources. The reply is not tenable in view of the fact that the inclusion of advance payment for bids for less than US$ one lakh was not mandated in the ADB guidelines.

Excess expenditure on procurement of MS flats : Rs.53.75 lakh

3.2.12 The Board invited (May 2002) international competitive bids for procurement of sub-station switchyard structures and MS flats comprising two packages i.e. Package-I Sub-station switchyard structures -2300, MS Flats 600 and Package-II Sub-station switchyard structures-2600.

Bid evaluation for package-I (30 September 2002) revealed that the rates obtained for substation switchyard structures were higher by 3.2 *per cent* and the rates for MS flats were higher by 64 *per cent* as compared with the rate received under domestic tenders (July 2002). MS Flats required no processing whereas sub-station switchyard structures required processing of steel sections and hence the cost of switchyard structures was always higher than the cost of

MS Flats. Taking notice of this fact the Board approached ADB for permission for rejection and reinvitation of bids (Package-I) after splitting this package into two separate packages, one for sub-station switchyard structures and other for MS flats. ADB did not accede to the request of the Board, it only permitted reduction in the quantity of MS flats by 10 *per cent*.

Excess expenditure on procurement of MS flats : Rs.53.75 lakh.

As a result the Board had to procure 540 MT (90 *per cent*) MS flats at the higher rate of Rs.24,810 per MT quoted against the ADB bid (September 2002) as compared with Rs.14,856 per MT received against the local bid (July 2002). Thus, improper configuration of the bid resulted in extra expenditure of Rs.53.75 lakh on procurement of MS flats.

The Board stated (September 2006) that ADB did not accede to their request for re-configuration of the material. The reply is not tenable as the Board, fully knowing the conditions imposed by ADB, should have called separate bids for different items.

Delay in supply of tower parts and consequent delay in erection/ commissioning of transmission line

Due to delay in supply of tower parts and consequent delay in erection/ commissioning of transmission lines, the Board could not derive the envisaged benefits.

3.2.13 The Board placed (April 2003) orders for procurement of 12,497 MT (2,617 MT-220 KV, 9880 MT -132 KV) fabricated galvanised tower parts on Jyoti Structures (220 KV), RPG and L&T (132 KV). As per the contract terms delivery of tower parts was to commence from June 2003 and to be completed by December 2003. By the scheduled completion date Jyoti Structures had supplied 22.64 *per cent*, RPG 9.62 *per cent* and L&T 74.86 *per cent* of their respective orders. The Board, for no reasons on record, granted extension only to Jyoti Structures and no liquidated damages in terms of the agreement were levied. The delay in supply of tower parts adversely affected the commissioning schedule of four[36] 132 KV lines, to be completed between November 2003 and January 2004. It was noticed in audit that the four lines were completed after delays ranging from 11 to 18 months as detailed below:

Name of 132 KV Line	Target date of completion as planned under ADB funded scheme	Actual date of completion	Period of delay in months
Kukshi-Alirajpur DCSS line for Alirajpur	October 2003	April 2005	18
Mehgaon-Ron DCSS for Ron	November 2003	April 2005	18
Neemuch-Ratangarh DCSS	November 2003	September 2004	11
Sagar-Gaurjhamar DCSS for Gaurjhamar	January 2004	December 2004	12

Thus due to the delay in the completion of the above lines the Board could not derive the envisaged benefits through reduction of sub-transmission losses.

[36] *Kukshi-Alirajpur DCSS line, Mehgaon- Ron DCSS line, Neemuch- Ratangarh DCSS Line and Sagar- Gaurjhamar DCSS line*

The management stated (February 2006) that the target date for completion of the ADB works was extended upto December 2006; and thus there was "no subtransmission loss". The fact remains that the envisaged benefit was also delayed due to delayed construction of lines.

Advance procurement of material

Procurement of transmission/sub-transmission materials for sub-stations

3.2.14 For construction and augmentation of capacity of 400/200/132 KV sub-stations, the Board took up various schemes valuing Rs.436.54 crore.

The Board placed (November 2002) purchase orders for meeting the consolidated requirement of various categories of circuit breakers under 5 packages at a total cost of Rs.23.96 crore, to be installed in different sub-stations to be constructed.

Circuit breakers are required to be installed at the sub-station two to three months prior to charging/ completion of sub-stations. As per the terms of the purchase orders, delivery of materials was to commence from May 2003 and to be completed by August 2003.

It was noticed during audit that the Board had procured the full quantity of circuit breakers valued at Rs.23.96 crore by October 2003, whereas the construction work of most of the substations (100 out of 106) was completed between March 2004 and July 2005. Thus advance procurement of circuit breakers (by upto 24 months of their requirement) resulted in blocking up of inventory worth Rs.23.96 crore.

Deficient planning and lack of coordination in procurement of material resulted in blockage of funds of Rs.67.45 crore.

Audit further noticed that the procurement and commissioning of equipment were not synchronised. Control and relay panels, CT/PT units, Isolators, PLCC equipments, sub-stations switchyard structures were procured by upto 24 months in advance of requirement while there were delays of upto 20 months (excluding three months for its installation) in commissioning of lightning arrestors which resulted in blockage of Board's inventory worth Rs.43.49 crore **(Annexure-17)**.

Thus deficient planning and lack of coordination in procurement of different materials as per the execution sequence for the substations resulted in blockage of funds of Rs.67.45 crore.

The Board Stated (September 2006) that procurement was made based on the scheduled dates of completion of the schemes and the circuit breakers were to be obtained in advance to complete pre-commissioning requirements. The Board added that a time gap of 5 months between the receipt of circuit breakers and payment made to the supplier had been provided.

The reply is not acceptable as the circuit breakers and control and relay panels were ordered / procured much ahead of the procurement of tower parts and steel structure which resulted in the mismatch.

Loss due to ADB conditions

Extra expenditure of Rs.2.81 crore due to placement of orders for identical items at different rates in different packages of the same tender

3.2.15 It was noticed during audit that the Board procured identical items of material at different rates in different packages of the same tender.

The Board incurred extra expenditure of Rs.2.81 crore due to procurement of identical items in different packages of the same tender at different rates.

A statement showing the difference in rates of identical items procured by the Board under different packages of the same tender is placed at ***Annexure-18.*** Procurement of identical materials at different rates resulted in an extra expenditure of Rs.2.81 crore to the Board.

The Board stated (February 2006) that looking to the requirement of large quantities and based on the manufacturing capacity of suppliers, procurement of materials under more than one package was considered (after obtaining approval from ADB) so as to obtain the deliveries within the stipulated period.

The reply is not tenable as the material of same rating/technical specification could have been procured under different packages but not at different rates.

Distribution Works

Physical performance

3.2.16 The status of physical completion of distribution works upto July 2006 is given in the table below :

Sl. No.	Activity	Total sanctioned works (in No.)	Achievement (in No.)	Percentage achievement
1.	New 33/11KV Sub-stations			
	5 MVA transformers	54	37	69
	3.15 MVA transformers	194	103	53
	1.6 MVA transformers	34	5	15
	Total	282	145	51
2.	New Distribution transformers	15354	9577	62
3.	Augmentation/additional transformers in 33/11 KV Sub-stations	213	182	85
4.	33 KV lines and reconductoring	3424 kms	1521 kms	44
5.	11 KV lines and reconductoring	3427 kms	1852 kms	54
6.	LT lines and reconductoring	836 kms	216 kms	26

It would be seen from the above that :

The Board commissioned 145 new sub-stations of 33/11 KV and 9,577 nos. of 11/0.4 KV sub-stations as against the provision of 282 nos. and 15,354 nos. respectively, representing 51 *per cent* and 62 *per cent* of the planned sub-stations respectively.

Progress of the work was slow.

Under the project 3,424 kms of 33 KV, 3,427 kms of 11 KV and 836 kms of LT new lines and re-conductoring of lines respectively were required to be completed. Against this 1,521 kms of 33 KV 1,852 kms of 11 KV and 216 kms of LT lines respectively were completed by the Board upto July 2006, which represent 44, 54 and 26 *per cent* of the planned work respectively.

Some of the irregularities noticed in the implementation of distribution works are discussed in the succeeding paragraphs:

Advance procurement of material for Distribution works

3.2.17 For strengthening the electricity distribution system in the State, the Board procured 1,477 kms of armoured cables (Rs.15.56 crore), 18,999 MT steel supports and structures (Rs.39.24 crore) and 1,614 circuit breakers of 11 KV/ 33 KV (Rs.22.39 crore) under various tenders during April 2003, November 2003, February/March 2004 and September/October 2004 respectively.

Non utilisation of material resulted in blocking up of funds of Rs.27.22 crore.

Audit scrutiny revealed that due to improper planning for execution of distribution works, which was to be done departmentally, the Board could utilise only 801 kms of armoured cables, 1,037 numbers of circuit breakers and 13,962 MT of steel structures upto December 2005.

Thus purchase of materials in excess of requirement resulted in blocking up of funds to the tune of Rs.27.22 crore (Rs.8.44 crore on cables for 21 months, Rs.7.77 crore on circuit breakers for 18 months and Rs.11.01 crore on steel structures for 10 months) with consequent loss of interest of Rs.3.73[37] crore upto December 2005, after which these were utilised.

Procurement of Aluminium Conductor Steel Reinforced (ACSR) for 33 KV/11 KV and LT overhead distribution system

3.2.18 The Board procured (February 2003) 16,889 kms ACSR (Rabbit – 6,604 kms, Raccoon- 6,639 kms, Dog- 3,646 kms) at a total cost of Rs.31.97 crore for construction of various distribution lines. Though these conductors were despatched to various Area Stores during the period from May 2003 to December 2003, a major portion of the material was held in stock, without utilisation.

[37] *Calculated at 10.5 per cent rate of interest (ADB loan rate) for the period of blocking up.*

Non utilisation of materials resulted in blockage of Rs.12.91 crore and consequent loss of interest Rs.2.71crore.

As against the total procured quantity of 16,889 kms of conductors (valuing Rs.31.97 crore), conductors for 6,685 kms valuing Rs.12.91 crore were lying unutilized for 24 months at the close of the scheduled completion of the scheme (December 2005). Thus, procurement of materials without proper planning resulted in blockage of funds amounting to Rs.12.91 crore and consequent loss of interest of Rs.2.71crore.

It was further noticed during audit that despatch instructions for supply of materials were given without considering requirements, resulting in despatch of conductors in excess of the requirement to one Zone and less than the requirement to other Zones.

Thus mis-match between the requirement and supply of conductors contributed to holding of unnecessary stock of material and also delay in completion of the work.

Slow progress of works under Distribution Schemes

3.2.19 For strengthening/ improving the distribution system in the State various schemes amounting to Rs.495.41 crore were approved under ADB financial assistance. Targets, achievements, shortfall in achieving the targets and percentage of shortfall as on March 2006 are as given below:

Schemes	Target (Nos)	Achieved (Nos)	Shortfall in achievement of targets	Percentage of shortfall
1. Creation of 33/11 KV new substations:				
i. 5 MVA transformers	54	34	20	37
ii. 3.15 MVA transformers	194	94	100	52
iii. 1.6 MVA transformers	34	7	27	79
Sub-Total	**282**	**135**	**147**	**52**
1. Creation of 11/0.4 KV new substations: Distribution transformers	15,354	8,822	6,532	43
2. Addition/augmentation of transformers capacity of 33/ 11KV existing sub-stations	213	168	45	21
3. 33/11 KV and LT new lines:				
a. 33 KV lines (Kms)	3,424	1,393	2,031	59
b. 11 KV lines (Kms)	3,427	1,705	1,722	15
c. LT lines (Kms)	836	211	625	75
Sub-Total	**7,687**	**3,309**	**4,378**	**57**

Non-synchronisation of schemes led to blockage of funds of Rs.147.08 crore and consequent loss of interest of Rs.21.41 crore.

It would be seen from the above table that while the progress of implementation of various schemes was very slow the Board procured material worth Rs.147.08 crore between December 2003 and December 2004 for various distribution works, which were lying unutilised for over one and half years resulting in blockage of Rs.147.08 crore with consequent loss of interest of Rs.21.41[38] crore upto December 2005 (after which these were utilised by the Board).

The Board stated (December 2005) that the non-availability of matching materials in the area store for "long period", delayed supply of rails and steels sections, R.S.Joist, VCBs and other materials, non-availability of revolving fund/ temporary advance to the field divisions for arranging petty purchase and vehicle repairs etc. and shortage of vehicles and manpower were reasons for the slow progress of works.

The reply is not tenable as better planning and coordinated approach by the Board could have over come these impediments and also prevented blockage of funds.

Diversion of ADB material valuing Rs.4.71 crore to non ADB works

The Board diverted ADB materials valuing Rs.4.71 crore to non ADB works.

3.2.20 As per the loan agreement (clause 2.13) the materials procured for the ADB scheme have to be utilised for the purpose of the scheme only. Audit, however, noticed in Area Stores Gwalior, that materials valuing Rs.4.71 crore procured under ADB funding were diverted to non-ADB works during the period 1 April 2003 to 31 March 2006.

Conclusion

Performance of the Board with regard to implementation of ADB funded project was deficient due to procurements in excess and in advance of requirement, improper planning, lack of coordination, non-synchronisation of various activities and deficient contract management which also resulted in blockage of funds in idle inventory.

The Board failed to maintain the required pace of works relating to the transmission & distribution schemes.

Though the board had participated in finalisation of the terms and conditions of ADB loan, it failed to safeguard its interests resulting in excess expenditure on procurement of materials.

Recommendations:

The Board should take effective and immediate steps to:

- strengthen its planning and adopt a well co-ordinated approach to avoid delays in implementation of various schemes;

[38] *Calculated at 10.5 per cent rate of interest (ADB loan rate) for the period of blocking up.*

- synchronise procurement of equipment required for various schemes with commissioning so as to avoid blockage of funds in idle inventory, and

- incorporate such terms and conditions in its tender documents as are favourable to the Board and acceptable to ADB.

Handling of theft of energy and materials in the Madhya Pradesh State Electricity Board

Highlights

The Board had no system to separately identify the actual transmission and distribution losses so as to arrive at the exact quantum of theft of energy taking place in the Board's system.

Transmission and Distribution loss of the Board ranged between 45.57 and 42.62 *per cent* during the five years ended March 2005, as against the acceptable level of 15.5 *per cent*, resulting in loss of potential revenue to the tune of Rs.9,397.47 crore.

The Board did not have a uniform policy of checking the consumer's service connections and the percentage of checking varied between 4.06 and 46.95 in different regions.

(Paragraph 3.3.6)

Out of the total demand of Rs.390.12 crore on account of value of theft of electricity detected, recovery of Rs.93.82 crore representing 24.05 *per cent* were pending realisation.

(Paragraph 3.3.8)

During the five years ended March 2005, as against 10,413 cases of theft of Board's property involving Rs.25.15 crore, the Board filed FIRs in respect of 4,328 cases only representing 41.56 *per cent* of the total theft cases.

(Paragraphs 3.3.14 and 3.3.15)

As against the theft of Board's property involving Rs.25.15 crore, the Board could recover stolen property worth Rs.8.63 lakh only representing 0.34 *per cent* of the total value of theft.

(Paragraph 3.3.17)

Introduction

3.3.1 Madhya Pradesh State Electricity Board (Board) meets its demand for power partly from its own generating stations and partly from purchase of power from other power generating Companies.

The table below indicated the quantum of power generated, power purchased, total power available for sales, power sold, transmission and distribution (T&D) losses and the percentage of T&D losses for the five years ended 31 March 2005.

(In million units)

Year	Power Generated	Power Purchased	Energy available in the system (Net)[39]	Energy sold	T&D losses	Percentage of T&D losses
1	2	3	4	5	6	7
2000-01*	22,198	15,830	36,037	19,614	16,423	45.57
2001-02	13,661	13,124	25,669	14,730	10,939	42.62
2002-03	15,418	12,926	27,025	15,280	11,745	43.46
2003-04	15,801	14,000	28,493	15,996	12,497	43.86
2004-05	15,758	16,206	30,625	17,310	13,315	43.48

***	Figures for combined State (Madhya Pradesh & Chhattisgarh).**
****	Source: Annual accounts of the Board.**

Transmission and Distribution losses comprise Technical and Commercial losses. Technical loss is caused by the resistance in the conductors and deficiencies in transmission and distribution system. Technical loss can be reduced by improving the power system. Commercial loss is mainly caused by theft of electricity and can be reduced by effective monitoring/vigilance through checking of consumers' service connections at periodical intervals.

Scope of Audit

3.3.2 The performance audit review covers the Board's handling of theft of energy and materials for the five years ended March 2005[40]. Audit was carried out between October 2005 and February 2006 through examination of records at the headquarters of the Board at Jabalpur and the offices of Madhya Pradesh Paschim Kshetra Vidyut Vitran Company Limited (Indore), Madhya Pradesh Madhya Kshetra Vidyut Vitran Company Limited (Bhopal) and Madhya Pradesh Poorv Kshetra Vidyut Vitran Company Limited (Jabalpur).

Audit objectives

3.3.3 Performance of the State Electricity Companies with regard to prevention of theft of energy and materials was carried out to assess whether:

- adequate system of checking of service connections of various categories is in place,

[39] *Energy available for sale after deducting auxiliary consumption.*

[40] *Figures are available upto March 2005 only.*

- the Board had prioritised checking of service connections where the incidence of theft reported was high,
- the value of theft was promptly assessed as and when theft was noticed,
- a system was evolved for prompt realisation of the value of theft detected; and
- adequate deterrent provisions were in place and were invoked as an when required.

Audit criteria

3.3.4 The following audit criteria were adopted:

- Board's policy and instructions with regard to detection of theft and follow up action,
- prescribed norms for checking of service connections of different wings of the Board,
- consumption pattern norms for fixing the value of energy consumed; and
- provisions of the Electricity Act, 2003 relating to theft of energy.

Audit methodology

3.3.5 Performance audit was carried out through analysis of the data/information on

- checking of service connections,
- billing against theft of electricity,
- recovery of billed amount,
- theft of Board's material and the recovery of their value,
- follow up of the cases with police department,
- the value of materials remaining unrecovered and
- personal interaction with the management.

Audit findings

The audit findings were reported to the Government/Board on 2 August 2006 and discussed in a meeting of Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 20 October 2006 at the Board's head office at Jabalpur, where the the Secretary represented the Board. The review was finalised after considering the views of the Board.

The audit findings are discussed in the succeeding paragraphs.

Theft of Energy

T&D losses in excess of the acceptable level of 15.5 *per cent* resulted in foregone revenue of Rs.9397.47 crore.

3.3.6 Central Electricity Authority (CEA) has fixed the acceptable level of transmission & distribution (T&D) losses at 15.5 *per cent* (8.5 *per cent* for transmission and sub-transmission losses and 7 *per cent* for distribution losses). As against the accepted level of T&D losses of 15.5 *per cent*, the T&D losses in the Board's system during the last five years ended 31 March 2005 ranged between 45.57 and 42.62 *per cent* resulting in loss of potential revenue to the tune of Rs.9,397.47 crore as given below:

Year	T&D losses (in MU)	Percentage	Excess T&D losses over the norm (in MU)	Cost per Unit (Rs.)	Loss (Rs. in crore)
2000-01	16,423	45.57	10,837.25	2.10	2,275.82
2001-02	10,939	42.62	6,960.30	2.27	1,579.98
2002-03	11,745	43.46	7,555.12	2.15	1,624.35
2003-04	12,497	43.86	8,080.58	2.25	1,818.13
2004-05	13,315	43.48	8,568.12	2.45	2,099.19
Total					**9,397.47**

The excess T&D losses were due to inherent deficiencies in the transmission and distribution system coupled with theft of energy. It was noticed in audit that the Board had no system to separately identify the actual transmission and distribution losses so as to arrive at the exact quantum of theft of energy taking place in the Board's system. CEA had observed that as against the all India average of T&D loss of 32.53 *per cent* in 2003-04, Western Region reported T&D loss of 32.94 *per cent* and Madhya Pradesh State topped the region with T&D loss of 41.44 *per cent*.

The Board stated (October 2006) that the higher rate of T&D loss in the State as compared to the national average was due to low consumer density, high ratio of Low tension (LT) to High tension (HT) system, higher number of unmetered consumers and higher level of rural electrification. It was further stated that the Board was concerned about the T& D loss and was making all out efforts for reduction of the loss. The reply is not tenable in view of the fact that the Board failed to take effective steps required to overcome the situation which resulted in theft of energy, as discussed in paragraphs 3.3.7 to 3.3.13.

Reasons for increase in T&D losses from 21 per cent in 1998-99 to 45.57 *per cent* in 2000-01 and around 43 *per cent* thereafter were not analysed and corrective steps were not taken by the Board.

As per the data published by CEA for the period from 1996-97 to 2000-01, T&D losses of the Board were below 21 *per cent* up to 1998-99. The Board stated (September 2005) that the lower percentage during the earlier periods was due to different methodology then adopted for assessing the energy sales in respect of un-metered service connections. The reasons for the increase in T&D losses from 21 to 45.57 *per cent* during 2000-01 and around 43 *per cent* thereafter, however, were not analysed and corrective steps not taken by the Board in the context of the all India average of losses reported at 32.86 *per cent* only for 2000-01.

In order to control the incidence of theft of energy, the Board prepared a plan for checking of the installations at the consumers' premises through (i) analysis of consumption pattern and (ii) information received from other sources regarding theft of energy. The Board is exercising two types of checks by engaging (1) O&M staff at division level and (2) vigilance staff at the head office level.

No target was set for checking of consumers' installations with reference to total installations under various categories of consumers.

Audit noticed that the Board had not set any target for checking of consumers' installations with reference to the number of installations under various categories of consumers. Madhya Pradesh Madhya Kshetra Vidyut Vitran Company Limited, Bhopal, a power distribution Company formed by unbundling of the Board, stated that the targets of checking were earlier fixed by the Board as per the policy of the Government. With the formation of Power Sector Companies, the targets for checking were fixed based on increase in demand of current charges, against the previous years and anticipated revenue realisation for the current year. The Board stated that the break-up of figures with respect to checking of service connections of different categories of consumers were not readily available. Thus, details of category-wise checking and category-wise database of checking was not maintained by the Board.

On the performance status of the vigilance cell of the Board, the following observations were made (October 2003) by the Madhya Pradesh Electricity Regulatory Commission (MPERC):

(i) Amount realised against billed amount definitely needed improvement,

(ii) Realisation of amount was not commensurate with the expenditure incurred on the cell,

(iii) Report should be made to provide:

- geographical pockets of thefts/irregularities,
- theft/irregularities in different categories of service connections; and
- nature of irregularities detected,

(iv) Checking of HT installation was very low,

(v) Realisation against billed amount in HT category was low,

(vi) The cases of FIR lodged were almost negligible as compared to cases of theft.

The Board stated (September 2005) that apart from checking the installations, other measures indicated below were also taken for controlling theft of energy:

- Providing high precision and state-of-the-art electronic metering having facility for storing the consumption parameters/profile and indicating tampering, under certain specified conditions,
- providing static electronic meters for LT consumers,
- providing armored cables in place of overhead conductors in theft prone areas to rule out direct hooking,
- providing remote metering or check meters for high-value consumers,
- introduction of High Voltage or LT less distribution system to make the distribution system immune to unauthorised/direct tapping.

Due to non-implementation of control measures where the incidence of theft was high, the Board could not achieve tangible reduction in theft.

The Board, however, did not assess the effectiveness of the measures taken to control theft of energy. The Board had also not analysed the consumer sector-wise loss/theft to concentrate on implementation of controlling measures in areas where the incidence of theft was high. The Board stated (September 2005) that the amount billed against theft of energy and malpractices remained constant at around 1.5 *per cent* of the total revenue demand raised during the last four years. Thus no tangible reduction in theft could be achieved.

The Board did not have a uniform policy of checking service connections and the percentage of checking also shows a downward trend

The table below shows the number of service connections installed, number of service connections checked by the Board and the percentage of checking during the five years ended 31 March 2005.

Year	No. of service connections installed	No. of service connections checked	Percentage of checking
2000-01	61,17,797	14,43,440	23.59
2001-02	64,03,115	13,04,535	20.37
2002-03	63,95,639	13,70,252	21.42
2003-04	64,42,054	12,27,550	19.06
2004-05	64,91,548	11,05,707	17.03
Total	**3,18,50,153**	**64,51,484**	**20.38**

It can be seen from the table above that while the percentage of checking of service connections showed a downward trend, the Board did not have a uniform policy of checking the service connections in different regions during the period. The percentage of checking of service connections in different regions during the five years ended 31 March 2005 is given in ***Annexure-19***.

It would be seen from the Annexure that checking of consumers' service connections was only 4.38, 10.47 and 10.72 *per cent* against theft of energy of 53.89, 39.05 and 29.07 *per cent* in Gwalior, Bhopal and Sagar Regions respectively, during the five years ended 31 March 2005.

Detection of theft

No system for intensive checking in the areas of high incidence of theft was evolved by the Board.

3.3.7 Audit scrutiny revealed that the incidence of theft reported where service connections were checked varied widely from region to region. Board did not have any policy to conduct more checks in areas of higher incidence of reported thefts. The incidence of theft reported in different regions during the five years ended 31 March 2005 is given in ***Annexure -20***.

In the absence of any system of intensive checking in areas of high incidence of reported thefts, several cases of theft remaining undetected can not be ruled out.

The Board stated (October 2006) that necessary checks of theft of energy were being done by the Regional/Field officers and that the Board had been taking direct action through court cases in case of detection of theft.

The reply is not tenable as the checking of service connections by the Regional/Field officers was not carried out in a uniform manner and that the Board had restricted its action only to follow up of Court cases after detection of theft.

Realisation of assessed value of theft

3.3.8 It was noticed during audit that the Board was not effectively pursuing the theft cases for realisation of the value of theft. Where cases of theft were detected and value was assessed, the realisation of the value of electricity stolen/ misappropriated was found to be poor.

Ineffective pursuance of theft cases led to poor realisation.

Details of demand raised, amount realised, balance amount to be realised and the percentage of non realisation during five years ended 31 March 2005 are given in ***Annexure –21***.

It would be seen from the annexure that out of the total demand of Rs.390.12 crore on account of theft detected, Rs.93.82 crore in respect of the period from 1 April 2000 to 31 March 2005 representing 24.05 *per cent* was pending realisation. It was noticed during audit that the Board did not fix any quantitative targets for sector-wise checking i.e., HT consumers, LT industrial consumers, LT commercial and domestic consumers. Checking of HT consumers, LT industrial consumers and LT commercial consumers should be done at least once in six months to fall in line with the Electricity Act 2003, which provides that the arrear claim on account of theft detected is limited to a period of six months prior to the date of detection of theft.

A few cases of theft of energy, detected by the Board where the billed amount could not be recovered are discussed in the succeeding paragraphs:

Non-recovery of Rs.1.25 crore from GRD Profile Steel Pvt. Ltd., Indore

Delay in detecting theft resulted in accumulation and non recovery of Rs.1.25 crore.

3.3.9 GRD Profile Steel Pvt. Ltd., Indore was availing power supply for a contract demand of 2,500 KVA at 33 KV. On 20 April 2000 theft of energy by the consumer was detected by the Board and supply was disconnected. Though the Board had initiated recovery under Dues Recovery Act[41], the Board could not proceed with it, as the properties of the consumer were attached by Madhya Pradesh Financial Corporation and Commercial Tax Department against their recoverable dues. Commercial Tax Department sold the properties of the consumer but the Board could not recover any amount out of the sale proceeds.

Since the Electricity Act, 2003 provides for computation and recovery of theft charges only for six months prior to the date of detection of theft checking of consumer premises was required to be done at least once in six months.

Audit scrutiny, however, revealed that the checking in the consumer's premises was carried out only after a lapse of 18 months from the date of release of the service connection.

Thus, failure on the part of the Board in detecting the theft of energy by conducting early checking, resulted in theft worth Rs.1.25 crore which ultimately remained unrecovered.

Dues from I.R.S. Industries Private Limited Rs.12.34 crore and from B.R. Associates, Rs.3.89 crore

3.3.10 Theft of energy was detected by the Board on 30 September 1999 in the premises of I.R.S. Industries Private Ltd., Banmore. The consumer was tapping 33 KV line and was illegally extending the energy to B.R. Associates, a neighbouring unit. The supply was disconnected on 1 October 1999 and supplementary demands for Rs.15.72 crore and Rs.8.23 crore were raised on I.R.S. Industries Private Ltd. and B.R. Associates respectively. The consumers approached the Central Level Committee of the Board for redressal. The Committee observed that the consumers could not refute the fact of theft of energy. However, instead of assessing the theft for three years as per the Board's circular applicable on the date of detection of theft, the Committee made the assessment for one year, invoking Board's circular issued subsequently (December 1999).

Accordingly, revised supplementary demands for Rs.12.31 crore on I.R.S. Industries Private Ltd., and Rs.3.05 crore on B.R. Associates were issued.

---

[41] *An Act enacted by the State Legislature for recovery of dues by attachment of the defaulters' property.*

Lack of vigilance and poor follow up of theft case resulted in non recovery of Rs.16.23 crore.

Later, I.R.S. Industries Private Ltd., applied for reconnection offering to pay Rs.50 lakh as deposit and additional monthly instalment of Rs.50,000 till the disposal of the demand, under protest. As on August 2000, a sum of Rs.12.31 crore towards energy charges and Rs.3.49 lakh towards minimum tariff charges were pending against I.R.S. Industries Private Ltd., and Rs.3.05 crore towards energy charges and Rs.84.17 lakh towards minimum tariff charges were due from B.R. Associates.

The matter was referred to the Board for deciding the amount of down payment and number of instalments for recovery of the dues, but no decision had been taken so far (August 2006).

Thus, lack of vigilance and delay in decision by the Board resulted in supplementary demand for Rs.16.23 crore remaining unrecovered.

Non-recovery of Rs.55.60 lakh from Himanshu Flour Mills Ltd., Mandideep

3.3.11 Theft of energy was detected in the premises of Himanshu Flour Mills Ltd., Mandideep and a supplementary bill for Rs.19.12 lakh was issued to the consumer. The consumer protested and approached the High Court, which in turn directed the consumer to approach the Review Committee of the Board. The Central Review Committee revised the supplementary bill to Rs.41.37 lakh. The consumer, aggrieved by the decision of the Central Review Committee approached the Member Level Committee, which upheld the decision of the Central Review Committee. Thereafter, the consumer filed a petition in the High Court, Jabalpur, which was still pending (August 2006).

Delay in deciding the case led to non recovery of Rs.55.60 lakh

Meanwhile, the consumer approached the Board for reconnection. The supply was restored in August 2000 on payment of Rs.12.41 lakh as down payment and six postdated cheques of Rs.1.61 lakh. Up to October 2001, i.e., for more than one year the consumer paid only the energy charges (deducting the surcharge payable on supplementary bill). The supply was permanently disconnected in July 2002. The arrears at that point of time were Rs.55.60 lakh. The consumer represented for waiver of surcharge amounting to Rs.10.54 lakh billed against theft of energy. The case was put up to the Board for consideration. The decision of the Board was awaited (August 2006).

Theft of energy in the premises of Patel Industries & Engineering, Indore

3.3.12 Theft of energy was detected in the premises of Patel Industries & Engineering, Indore on 14 January 1997. A provisional bill was raised on the consumer for Rs.31.55 lakh, assessing 222 KVA demand and 24,600 units as consumption from January 1994 to December 1996. The consumer filed (13 February 1997) a writ petition before the Hon'ble High Court at Indore.

The Review Committee, after hearing the consumer, revised the bill to Rs.15.32 lakh, recognising theft of energy from 1 February 1996 to 15 January 1997 and assessing the consumption as 2,38,224 units on the basis of average monthly demand and consumption recorded during November 1995, December 1995 and January 1996.

The Court ordered (December 2003) the Board to proceed with the case under the provisions of MP Urja Adhiniyam 2001. Accordingly, the liability of the consumer was re-cast at Rs.2,79,890 on the basis of 1972 units as assessed consumption from July 1996 to December 1996. The consumer had not made any payment so far (August 2006).

Theft of energy by Nagori Cement (P) Ltd.- Rs.1.16 crore

3.3.13 Theft of energy was detected (May 2001) in the premises of Nagori Cement (P) Ltd, Bagh. Accordingly, a supplementary demand for Rs.1.16 crore was raised. A petition made by the consumer was dismissed by the Court. The Board had also filed FIR against the consumer for theft of energy. The Board seized the property of the consumer for realisation of the supplementary bill, but could not proceed with the recovery action as the property was disputed. Further, the Board noticed (June 2004) that the consumer was running the factory with power generated from DG set which was illegal. The Board, however, did not lodge any criminal case against the consumer, but only informed the State Government (July 2004) that the factory was running with self generated power without proper sanction from the Government.

Failure to detect installation of DG sets and poor follow up of theft case resulted in non recovery of Rs.1.16 crore.

It was noticed during audit that the case was not properly followed up. The Board also failed to detect installation of DG sets and to collect duty on generation of power by the consumer.

The present status of the case and the details of recovery of supplementary demand of Rs.1.16 crore raised against theft of energy were awaited (August 2006).

Theft of materials

3.3.14 The total number of cases of theft of materials reported during the five years ended 31 March 2005 and value thereof were as indicated below:

Year	No.of cases	Value of stolen property (Amount: Rupees in crore)
2000-01	1,151	1.66
2001-02	1,846	2.96
2002-03	2,559	9.65
2003-04	2,632	6.10
2004-05	2,225	4.78
Total	**10,413**	**25.15**

Conductor wire, transformer winding, transformer oil and store items were the items generally stolen from the Board premises. Out of this, theft of conductor wires valued Rs.16.26 crore represented 64.65 *per cent* of the value and 70.94 *per cent* of the incidence of theft as can be seen from the table below:

(Amount : Rupees in lakh)

Year	Total No. of cases	No. of cases involving theft of conductor/ wire	Incidence of theft of conductor / wire (Percentage)	Total value of theft	Value of theft of conductor	Percentage of theft of conductor/ wire
2000-01	1,151	980	85.14	166.35	132.38	79.58
2001-02	1,846	1,429	77.41	296.25	205.95	69.52
2002-03	2,559	1,843	72.02	965.25	582.40	60.34
2003-04	2,632	1,810	68.77	609.76	407.41	66.81
2004-05	2,225	1,325	59.55	477.69	297.92	62.36
Total	**10,413**	**7,387**	**70.94**	**2,515.30**	**1,626.06**	**64.65**

3.3.15 There existed instructions of the Board for filing of FIRs in all cases of theft and for taking help of the Director, Vigilance and Security in case of any difficulty in filing of FIRs. It can, however, be seen from the table below that only in 42 *per cent* of the cases, the Board filed FIRs with the Police authorities.

Year	Total no. of theft cases detected	No. of cases where FIR lodged	Percentage of cases where FIR lodged
2000-01	1,151	431	37.45
2001-02	1,846	944	51.14
2002-03	2,559	1,347	52.64
2003-04	2,632	871	33.09
2004-05	2,225	735	33.03
Total	**10,413**	**4,328**	**41.56**

Thus the low rate of lodging of FIRs in cases of theft coupled with poor follow up of the cases resulted in poor recovery/realisation of stolen property.

In the absence of sufficient reporting, the Board could not exercise effective control over the high incidence of theft.

The extant instructions of the Board regarding follow up of the theft / misappropriation cases required the field offices to maintain a register of losses and prepare progress report as per the prescribed proforma. A copy of the progress report as per the prescribed proforma was to be sent to the Regional Superintending Engineers and to the Joint Director (Audit), who would put up a consolidated report to the Board every year in the month of January. Such report relating to the period 2000-01 to 2004-05, though called for was not made available to Audit. Besides, it was noticed that the field offices were not maintaining the register as prescribed by the Board and that no consolidated reports were being sent to the Regional Superintending Engineers or Joint Director (Audit) for putting up a consolidated report to the Board. Thus the Board had failed to ensure compliance with its instruction regarding reporting and follow up of theft cases.

Absence of effectively overseeing the measures for controlling theft of its property resulted in increase in the number and value of theft cases.

The existing directions of the Executive Director (O&M) regarding reporting on and preventive measures to be taken in respect of theft of Board's property included (a) dismantling of lines which existed only for unconnected pumps and to return the materials to stores after the agreement period of the pumps was over or even where the agreement was not over, after verifying that the unconnected pumps were not likely to be connected, (b) no section of LT line shall remain unenergised, (c) regular patrolling of LT lines to be programmed by distribution centers, (d) arranging secret night patrolling (e) intensive patrolling in theft prone areas, (f) seeking assistance of Police in patrolling with the help of the Director, Vigilance and Security of the Board and the Superintendent of Police of the District, (g) formation of Suraksha Samitis at village level in all electrified villages as well as those villages where construction of electric line was in progress, involving general public as well as landlords, *Surpanch* and social workers.

It was, however, noticed during audit that there was nothing on record to show that the Board was overseeing implementation of these measures. It can, however, be seen from the table (para no. 3.3.14) that the value of theft had increased from Rs.1.66 crore (2000-01) to Rs.9.65 crore (2002-03).

3.3.16 Audit analysis of the data on theft of materials revealed that out of the seven regions in the Board, Gwalior Region represented 36.22 *per cent* of the value of reported theft cases. Out of the five circles in Gwalior Region, three circles viz., Gwalior (O&M), Shivpuri and Morena, represented 33.12 *per cent* of the theft cases as can be seen from the table below:

(Amount : Rupees in lakh)

Year	Total value of theft in Board	Share of Gwalior Region	Percent-age in Gwalior Region	Share of Gwalior O&M Circle	Share of Shivpuri Circle	Share of Morena Circle	Total of the three Circles (percentage in bracket)
2000-01	166.35	71.59	43.04	13.94	13.14	37.72	64.80 (38.95)
2001-02	296.25	120.35	40.62	33.39	15.15	50.94	99.48 (33.58)
2002-03	965.25	180.71	18.70	41.37	35.67	91.99	169.03 (17.50)
2003-04	609.76	317.99	52.15	78.21	110.75	106.75	295.71 (48.50)
2004-05	477.69	220.29	46.11	86.00	5.62	112.52	204.14 (42.73)
Total	**2,515.30**	**910.93**	**36.22**	**252.91**	**180.33**	**399.92**	**833.16 (33.12)**

The Board stated that theft was more in Gwalior Region due to decoit activity and also due to lack of support from police on account of shortage of Police Force. The reply is not tenable as the Board had not taken any effective remedial action even after identifying the reasons of theft.

3.3.17 The Board had observed (November 1993) that Senior Officers were not paying due importance to the cases of theft of property. In majority of the cases proforma and detailed report were not furnished by the officers concerned to higher authorities and in many cases FIR was not lodged as discussed in para 3.3.15. This had resulted in poor recovery of stolen materials.

The value of property stolen, property/value recovered and the percentage of recovery during the five years ended 31 March 2005 are as indicated below:

The Board could recover only 0.34 *per cent* of the value of stolen property due to ineffective follow up of theft cases.

(Amount : Rupees in lakh)

Year	Value of theft	Value recovered	Percentage of recovery	Loss on account of theft
2000-01	166.35	0.82	0.49	165.53
2001-02	296.25	5.08	1.71	291.17
2002-03	965.25	2.44	0.25	962.81
2003-04	609.76	0.29	0.05	609.47
2004-05	477.69	--	0.00	477.69
Total	**2,515.30**	**8.63**	**0.34**	**2,506.68**

It was noticed during audit that the recovery of stolen property or value thereof was only 0.34 *per cent* of the value of property stolen, which indicated poor and ineffective pursuance of the cases by the Board.

Thus, the Board had failed to enforce its own guidelines and instructions resulting in poor recovery of stolen material or value thereof by the Board.

Conclusion

The performance of the Board with regard to handling of theft of energy and material was sub-optimal. The Board had not evolved any system to identify the exact magnitude of theft for taking effective action, nor did it set any targets or cycle for preventive measures like checking of consumer installation. The Board also had not analysed the sector / area-wise incidence of theft for making focussed efforts.

Follow up of the theft cases was ineffective and realisation of dues against theft insignificant.

Recommendations

The Board should take necessary steps to :

- evolve a mechanism to quantify the theft of electrical energy in the Board's system,
- formulate a uniform policy of checking the service connections of the various categories of consumers,
- conduct more checks on those areas/categories where the incidence of theft reported is high; and

- pursue cases more vigorously so that theft can be reduced and the value of theft recovered.