CHAPTER-3

SECTION 3A

FUND MANAGEMENT IN MADHYA PRADESH STATE ELECTRICITY BOARD

Highlights

Efficient management of funds provides for establishing a sound system of cash and credit control in an organisation. The management of funds in MPSEB, however, was deficient due to lack of effective control on transactions.

(Paragraph 3A.1)

Due to non-availing of loan from Power Finance Corporation as per schedule of drawal of loans, the Board had to pay commitment charges of Rs. 5.47 crore.

(Paragraph 3A.4.1)

Finance and interest charges increased from Rs.810.79 crore to Rs.1336.89 crore during last four years ending March 2001.

(Paragraph 3A.5)

Delayed transfer of funds by Regional Accounts Offices led to loss of interest of Rs.3.86 crore in the case of three RAOs alone.

(Paragraph 3A.5.2(a))

Non-transfer of surplus funds in banks to cash credit account resulted in avoidable payment of interest of Rs. 2.37 crore on cash credit.

(Paragraphs 3A.5.2(b) and (c))

Release of funds to RAOs on unrealistic assessment basis resulted in loss of interest of Rs. 0.78 crore.

(Paragraph 3A.6)

Non-availing of 'at par' facility resulted in avoidable payment of commission charges of Rs. 0.90 crore in the case of another three Regional Accounts Offices .

(Paragraph 3A.7.3)

Unnecessary retention of funds in current accounts of RAOs resulted in further avoidable payment of interest of Rs. 2.08 crore on cash credit.

(Paragraph 3A.8)

3A.1 Introduction

Efficient fund management provides for establishing a sound system of cash[#] and credit control, which serves as a tool for decision-making for investment of surplus funds, optimum utilisation of available resources and borrowings at the most favourable terms. The fund inflow of Madhya Pradesh State Electricity Board[*] (Board) mainly comprises revenue realisations from sale of power, loans from the State Government, banks and financial institutions, subsidy from State Government, whereas the outflow is by way of expenditure on capital works, operational and maintenance works, repayment of principal and payment of interest on loans, establishment costs, purchase of fuel, power and stores, etc.

The Board has also been generating funds by means of issuing various types of bonds to Industrial Development Bank of India (IDBI)/ Small Industries Development Bank of India (SIDBI), etc. and bank overdrafts, accounts for which are maintained in Bank and Cash Management section.

3A.2 Organisational set up

The Board consists of six members headed by a Chairman.

The Finance and Accounts Wing is headed by Member (Finance & Resource Mobilisation) who is assisted by a Director (Finance) and a Director (Accounts) and other supporting staff for co-ordinating the activities of the wing. The bank and cash management section of the Finance Wing is headed by an Additional Director under the control of Director (Finance).

Before re-organisation of the State into the states of Madhya Pradesh and Chhattisgarh, there were 40 accounting units located in different parts of the composite State. After the formation of Chhattisgarh State Electricity Board, on 15 April 2001, there were 32 accounting units in Board, each headed by a Regional Accounts Officer (RAO)/ Sr. Accounts Officer (SAO).

The term "Cash" as used in this Chapter includes legal tender coins, notes, cheques, deposit-at-call receipts of scheduled banks, drafts payable on demand, postal orders and stamps (postal, revenue, adhesive stamps only).

* MPEB was bifurcated into MPSEB and CSEB w.e.f. 15.4.2001.

3A.3 Scope of Audit

The present review was conducted during December 2001 to May 2002 covering the period of five years ended March 2001, by means of a test-check of the records of Head Office of the Board located at Jabalpur and 14 RAOs[•] (out of 32); the results are discussed in the succeeding paragraphs.

3A.4 Borrowings

During the last five years ended 31 March 2001, the Board obtained loans from various sources like Power Finance Corporation (PFC), Small Industries Development Bank of India (SIDBI), Rural Electrification Corporation (REC), Life Insurance Corporation (LIC) etc. Efficient cash management in respect of borrowings involves timely drawal of loans for smooth progress of project works, avoidance of commitment charges and arrangement of funds for timely repayment of principal and payment of interest to avoid payment of penal interest.

Failure on the part of the Board in managing these financial aspects noticed during test-check are summarised below:

3A.4.1 Avoidable payment of commitment charges

Non-drawal of loans as per schedules led to avoidable payment of Rs. 5.47 crore as commitment charges.

PFC has granted loans to Board for implementation of its various schemes. As per the terms and conditions of the loan agreements, in case of the amount due to be drawn by the borrower in the subsequent quarters, the PFC will recover commitment charges from the first day of the respective quarter in which the amount is scheduled to be drawn till the date of actual drawal at 1 per cent per annum. Due to non-availing of loan from PFC on due dates, commitment charges aggregating Rs.5.47 crore[$] were paid by the Board during the last five years ending 31 March 2001.

3A.4.2 Avoidable expenditure on penal interest

The Board had obtained loans from PFC repayable in 40 quarterly instalments along with interest rates prevailing on the date of each disbursement (in February 1999 at 15 per cent per annum). In the event of the interest or the principal not being paid on due date as per schedule of repayments, the Board was to pay penal interest @ 2.75 per cent over and above the normal rate of interest, compounded quarterly.

• Sagar, Bhopal, Hoshangabad, Gwalior, Morena, Ratlam, Ujjain, Chhindwara, Sarni, Dhar, Indore, Jabalpur, CAU Jabalpur, Khargone.

$ 1996-97 :Rs.187.26 lakh, 1997-98 :Rs.61.63 lakh, 1998-99 :Rs.45.86 lakh, 1999-2000 :Rs.97.70 lakh and 2000-2001 (up to 14/4/2001) :Rs.154.26 lakh.

Payment of penal interest of Rs. 15.42 crore due to non-repayment of loan.

During 1997-2001, the Board failed to repay the instalments of principal as well as interest as per schedule of repayments on various occasions and as a consequence thereof, had to pay Rs.15.42 crore♥ on account of penal interest.

3A.4.3 Conversion of interest due on REC loans into fresh loan

Additional interest burden of Rs. 32.80 crore per annum due to conversion of interest due into loans

An amount of Rs.243.01 crore due for payment on account of interest on loans sanctioned against various schemes by Rural Electrification Corporation (REC) during 1997-2001 was adjusted against a fresh loan of Rs.289.26 crore resulting in the interest being converted into the loan against various schemes sanctioned during these years. Due to acceptance of conversion of interest into loan, the Board had to pay additional interest of Rs.32.80 crore per annum.

3A.4.4 Avoidable payment of penal interest

The Board had raised loans of Rs.289.26 crore from REC during 1997-2001 for its various schemes viz. ordinary pump sets, network system improvements, minimum needs programme and harijan basti scheme, etc. which were repayable to the REC within seven years along with interest due thereon.

Payment of penal interest of Rs. 157.20 crore due to non-payment of loan in time

As per terms and conditions of the loans, Board was to pay interest at 13 per cent per annum for the entire period of seven years from the date of disbursement of the first instalment of the loan. A rebate of 0.50 per cent was available at all stages for timely repayment of principal and interest thereon. In the event of any instalment of interest or of principal, however, not being paid on due date, the Board was liable to pay penal rate of interest (compound) @ Rs.2.75 per cent per annum, over and above the normal interest rates.

The Board failed to pay the instalments to REC as well as interest on due dates and had become liable to pay penal interest of Rs.157.20 crore*.

3A.5 Interest and finance charges

Interest liability increased from Rs.810.79 crore to Rs.1336.89 crore due to non-payment of loans

There was steady increase in interest and finance charges from Rs. 810.79 crore in 1997-98 to Rs. 1336.89 crore in 2000-01.

Test-check in audit revealed that the following controllable factors contributed to increase in interest and finance charges.

♥ 1996-97 :Rs. 10.63 crore, 1997-98 :Rs. 0.30 crore, 1998-99 :Rs. 0.28 crore, 1999-2000 :Rs. 2.32 crore, 2000-2001 :Rs. 1.89 crore.

* 1996-97 :Rs. 19.11 crore, 1997-98 :Rs. 31.45 crore, 1998-99 :nil, 1999-2000 :Rs. 74.25 crore, 2000-2001 :Rs. 32.39 crore.

3A.5.1 Procedure for collection and remittance of revenue

RAOs are entrusted with the work of collection of revenue receipts and for their transfer to bank and cash management (B&CM) section at Board's Head Office at Jabalpur. RAOs located outside the Headquarters remit the receipts through bank drafts for onward credit to Board's current account. Payments pertaining to debt servicing charges to PFC / REC, bills for supply of coal, remittances etc. to RAOs are made at Head Office.

The State Bank of India was the main banker of the Board up to March 2001 and from April 2001 onward the Central Bank of India became the main banker. Each Regional Accounts Officer of the Board maintains two Current Accounts viz. Account Number-I and Account Number-II. Account Number-I is meant for receipt of funds from Head Office and payment of establishment expenses, bills etc. and Account Number II is meant for receipts for sale of power from various sub-divisions and onward transfer to Head Office main account (i.e. Account No.I of the Board).

3A.5.2 Ineffective monitoring of transfer of funds

Revenue from sale of power collected by various units is credited to Account No. II of the Board at Jabalpur. As per instructions issued by Board, collecting banks are required to transfer the entire remittances daily without any delay.

Loss of interest due to delay in transfer of funds

Test-check of records at RAO Ujjain revealed that out of collections of Rs.119.98 crore during 1999-2000, only Rs.110.10 crore were transferred to Main Account of the Board and Rs.9.88 crore were retained by the bank leading to loss of interest of Rs. 1.35 crore per annum on the unremitted opening balance of Rs.8.99 crore (which increased to Rs.9.88 crore in 1999-2000) due to Board's ineffective monitoring to verify the actual amounts transferred by banks.

3A.5.2(a) Delayed transfer of revenue to Main Account

As per instructions, cash received by the bank should be remitted either on the same day or on the next working day positively for credit to the Board's account. However, during audit scrutiny of cash records of RAOs at Dhar, Bilaspur and Khargone, it was observed that RAO Dhar remitted funds amounting to Rs. 327.24 crore during 1997-98 to February 2002 on bi-weekly basis, RAO Bilaspur remitted Rs.4.81 crore, on an average after a delay of one week, and RAO Khargone remitted between Rs.0.36 crore and Rs. 2.59 crore with delays ranging from 4 to 7 days. This resulted in loss of interest of Rs.3.07 crore, Rs. 0.72 crore and Rs. 0.07 crore, respectively aggregating Rs.3.86 crore.

Delay in transfer of funds by RAOs led to loss of interest of Rs.3.86 crore

In reply, it was stated (March 2002) that the matter was being pursued with banks for timely transfer of funds.

3A.5.2(b) Non-utilisation of funds

The Board had opened current accounts in 25 branches of different banks at Jabalpur for its cash transactions. The balances at the close of each year since 1996-97 in respect of SBI Civil Lines Branch, Jabalpur, were as under:-

(Rs in Lakh)

Year	Opening balance	Receipts during the year	Payments during the year	Closing balance
1996-97	204.91	767.68	116.61	855.98
1997-98	855.98	45.00	46.97	854.01
1998-99	854.01	71.00	71.65	853.36
1999-2000	853.36	50.000	46.15	857.20
2000-2001	857.20	3146.63	2878.76	1125.07

It would be seen from above that during 1997-2000, there was a minimum cash balance of Rs. 8.53 crore at any given time in the bank account, which resulted in loss of interest of Rs. 1.28 crore per annum.

Non-utilisation of funds lying in banks.

Similarly, an amount of Rs.0.58 crore was also lying in current account with Allahabad Bank (Account Code No. 24.801) of B & CM from April 1998 to July 2000. Non-utilisation of this amount for a period of three years resulted in loss of interest of Rs. 25.88 lakh.

3A.5.2(c) Payment of penal interest on account of availing of excess cash credit limit

Payment of penal interest of Rs. 0.83 crore due to exceeding cash credit limit

The Board has cash credit facility of up to Rs. 6 crore from SBI Nayagaon Branch, Jabalpur. The maximum limit of cash credit facility including demand loans for working capital to be availed of was Rs. 30 crore. In case of drawals over and above this limit, penal interest of 2.04 per cent for 1999-2000 and 2 per cent for 2000-01 was leviable over and above the normal rate of interest.

During 1999-2000 and 2000-01 the Board exceeded the maximum cash credit limit and paid penal interest of Rs. 35.20 lakh and Rs.47.43 lakh respectively.

3A.6 Release of funds to RAOs on unrealistic assessment

Funds were remitted by Head Office to RAOs without ascertaining actual requirement

For payment of pay and allowances, statutory dues, suppliers' bills and daily expenses, funds were requisitioned by RAOs and the same were remitted by Head Office. These funds were kept in Current Account No.1 maintained by RAOs from which drawals were made as per requirements.

The details of funds requisitioned in excess of the requirement, funds remitted back to Head Office and balance retained by 14 RAOs test-checked in audit are shown in ***Annexure 16.***

It was observed that the Demand Drafts for payments were got made by B&CM Section generally up to 25th day of the month and sent to RAOs and the excess funds were refunded by the RAOs after 20th of the next month. Thus the funds remained idle for nearly one month.

Requisitions for funds were made without ascertaining the actual requirement which resulted in unnecessary retention of heavy cash amounts at the end of each month even after refunds to the Head Office. As the Board was availing a cash credit facility and paying interest @ 15 per cent per annum, such excess requisition and release of funds resulted in extra interest liability of Rs.0.78 crore per month reflecting poor fund management.

3A.7 Remittances by Bank

3A.7(a) In April 2001, the Board decided to open current accounts in Central Bank of India (CBI) in favour of 32 Regional Accounting Units of the Board including Headquarters of RAOs and the Main Account at its Headquarters at Jabalpur. The CBI was appointed to act as main banker of the Board. The terms and conditions for operation of the "MPSEB collection Account" inter-alia included the following:

All money deposited by concerned RAO or other offices of Board at a centre by way of cheques/drafts/TT/MT/inward receipts etc. in favour of RAO/Board will be credited into this account.

The bank will arrange to transfer the entire amount collected in this account daily at the close of banking hours to the "MPSEB - Main Account" at CBI Jabalpur by the fastest mode available as per the instructions of the RAO.

The bank at close of banking hours each day will issue a 'nil' balance certificate in respect of this account to the concerned RAO.

All collections and remittances shall be on 'at par' basis, in this account. Further, immediate credit for all the instruments deposited in this account should be provided.

Test-check of bank account of three RAOs (Indore, Bhopal and Gwalior) out of 32 RAOs revealed that:

(a) The "Nil" balance certificate as required was not furnished by Bank due to which the position of the funds retained and not transferred to Board's account by the bank could not be verified.

(b) Immediate credit for all the instruments deposited as required under the terms and conditions were not provided by the Bank. The test-check of closing balances at branches of the Bank for 3 months revealed *inter alia* that CBI retained funds to the tune of Rs. 2.61 crore (Indore), Rs 0.93 crore (Bhopal) and Rs. 15.30 lakh (Gwalior) on daily basis.

Had immediate credits been afforded by these branches and funds remitted to Head Office Jabalpur daily, loss of interest of Rs.0.14 lakh per day (Rs.0.51 crore per annum) on cash credit could have been avoided.

3A.7(b) Weekly remittances by the MP Co-operative Bank (APEX Bank)

The funds were not transferred by the Bank on daily basis

During the review of remittances from Bank to Head Office Account by RAO/Jabalpur circle, it was noticed that M. P. Co-operative Bank (Apex Bank), Jabalpur, was not transferring the revenue collections daily, and on an average Rs.37.36 lakh were being remitted to Head Office Main Account only once a week.

The terms and conditions for revenue collections by the Bank, inter alia, included that the proceeds of revenue collections should be remitted daily/weekly for the entire amount of collections by a demand draft/ cheque drawn in favour of the concerned RAO, MPEB on any bank payable at his place.

The Board was facing financial crunch and was dependent on overdrafts to meet its working capital requirements, paying 15 per cent interest on borrowed funds. Due to transfer of Board's revenue by the Bank on weekly basis the Board had to bear avoidable extra interest burden of Rs.28.02 lakh on Rs.37.36 lakh during the last five years (April 2002).

3A.7(c) Similarly, revenue collections received at Allahabad Bank, Bhopal, were also not being remitted on daily basis and a minimum of Rs.15 lakh was retained by the Bank for 1999-2000 and 2000-2001. This resulted in further loss of interest of Rs.9.00 lakh @15 per cent per annum for four years.

3A.7.1 Delay in tracing/settlement of missing credits

Missing credits were not reconciled

As on 31 March 2000, a total amount of Rs.13.68 crore deposited in State Bank of India during the earlier years remained to be credited to the Board's Account in respect of five RAO units[•] and Head Office. The loss of interest on the funds not brought to account worked out Rs.2.05 crore per annum.

[•] Gwalior, Narsinghpur, Morena, Jagdalpur, Rewa and Head Office

3A.7.2 Loss of interest due to dishonoured cheques

Dishonoured cheques led to delay in realisation of revenue of Rs.17.19 crore.

During test check of the register of dishonoured cheques of five RAOs♦, it was noticed that during April 1997 to January 2002, cheques for Rs.17.19 crore were returned dishonoured by bank due to insufficiency of funds in the accounts of consumers. Rs. 9.80 crore pertained to HT consumers and Rs.7.39 crore to LT consumers. The Board had to pay bank commission on dishonoured cheques and there was also delay in realisation of the amounts.

The incidence of dishonoured cheques was significantly high in respect of RAO Indore. During April 1998 to December 2001, cheques of 262 HT consumers and 4315 LT consumers for Rs. 8.37 crore and Rs.6 crore respectively were dishonoured. No action was taken against the defaulting consumers under the Negotiable Instruments Act nor was supply disconnected as per agreement.

3A.7.3 Non-availing of "AT PAR" facility resulting in avoidable payment of commission charges

Revenue collection by Distribution Centres (DCs) is required to be remitted to Account No. II maintained by RAO units for onward transmission to Head Office Main Account at Jabalpur. As per instructions on cash accounting and procedures, 'at par' facility (facility free of charge) of sending remittances within the State of MP by means of bank drafts is available to the Board, if the remittances are certified to be in connection with its bonafide purposes.

RAOs at Hoshangabad, Sehore and Ujjain, paid Rs.17.51 lakh, Rs.24.30 lakh and Rs. 47.89 lakh respectively during 1998-2001 as bank draft commission charges. RAOs at Bhopal, Chhindwara, Rewa and Seoni also paid these charges. However, the details of actual amounts paid by them were not made available to Audit.

Loss due to non-availing of "at par" facility.

Thus, failure on the part of the Board to avail the 'at par' facility resulted in avoidable extra expenditure of Rs.0.90 crore in the case of three RAOs alone. Management stated in reply that the matter has been taken up wirh the Bank authorities in January 2002. However, the amount has not been received so far (March 2002).

3A.7.4 Non-recovery of revenue

The position of sundry debtors for sale of power vis-a-vis the overdraft facility availed by the Board during the last four years was as follows:

(Rs in crore)

Year	Receivables against supply of power	Overdraft
1997-98	1825.44	Nil
1998-99	2172.59	140.87
1999-2000	2428.60	241.13
2000-2001	2873.57	326.10

♦ Hoshangabad, Indore, Dhar, Khargone, Bilaspur

Non-recovery of dues due to lack of effective monitoring.

It would be seen from the above that the revenue arrears increased from Rs.1825.44 crore in 1997-98 to Rs.2873.57 crore in 2000-01 registering an increase of 57.41 per cent. Overdraft from banks had also increased from 'nil' in 1997-98 to Rs.326.10 crore in 2000-01.

Had even 10 per cent of the outstanding dues been recovered, the loss of interest of Rs. 48.91 crore per annum on overdraft could have been avoided.

3A.8 Loss of interest due to non-utilisation of funds

In May 2000 Board issued instructions for execution of deposit works for which it was decided to open a separate saving bank account in which all moneys received for deposit works were to be deposited. The regional Executive Directors/Chief Engineers were also authorised to procure urgent materials.

The position of funds against deposit works in eight RAOs was as under:

(Rs. in lakh)

Name of RAO	Month of opening of account	Amount deposited in bank (up to March 2002)	Amount transferred to HQ (up to March 2002)	Amount spent (up to March 2002)	Balance (As on July 2001)	Balance (As on March 2002)
Sagar	August 2000	94.46	34.60	18.21	84.60	41.65
Bhopal	--do--	344.29	209.61	89.48	246.62	45.20
Ujjain	July 2000	419.43	330.09	69.13	221.42	20.21
Raipur	--do--	639.05	537.85	53.66	548.15	47.54
Jabalpur	August 2000	284.97	129.00	79.97	179.50	76.00
Bilaspur	July 2000	1134.27	370.10	71.34	366.31	692.83
Indore	August 2000	919.71	365.00	148.76	431.47	405.95
Gwalior	July 2000	253.62	130.00	68.79	192.84	54.83
	Total	**4089.80**	**2106.25**	**599.34**	**2270.91**	**1384.21**

Loss of interest of Rs.2.08 crore due to retention of amount in current account of RAOs.

It would be seen from the above table that up to July 2001, huge funds of Rs. 22.71 crore were lying in current account for deposit works. In August 2001, the Board decided that all idle cash available for deposit works should be transferred to Head Office so that idle funds could be utilised meaningfully. RAOs were directed to immediately remit the surplus cash balances available in Deposit Works Accounts, retaining Rs.50 lakh each for immediate payments. Out of the total balances of Rs.19.83 crore available with the eight RAOs only an amount of Rs.5.99 crore was utilised, still leaving a balance of Rs.13.84 crore with them as on 31 March 2002. Four of the eight RAOs, had retained balances more than Rs.50 lakh each in contravention of above orders.

Had the amounts been deposited at Head Office in cash credit account, the incidence of interest could have been minimised, to the extent of Rs. 2.08 crore.

3A.9 Interest free advances to suppliers/contractors

The position of outstanding interest free advances to suppliers/contractors, sanctioned by the Board for supply of materials during 1997-2001, was as under:

(Rs. in crore)

Year	Advances to suppliers/contractors (Capital) (Account code 25.500)	Advances to suppliers/contractors (O & M) (account code -26.500)
1996-97	31.26	148.07
1997-98	581.35	147.85
1998-99	691.76	148.78
1999-2000	840.60	197.36
2000-2001 (up to 14 April 01)	264.64	164.28

Interest free advances to suppliers/ contractors were not adjusted/ reconciled.

It would be seen from the above that Rs.428.92 crore (Rs.264.64 crore plus Rs.164.28 crore) paid as advances to suppliers/contractors were lying unadjusted and unreconciled as on 14 April 2001.

The age-wise details of these unadjusted advances though called for were not made available to Audit.

3A.10 Cash and bank balances

The position of cash and bank balances for the last 5 years ending 2000-01 (14 April 2001) was as follows:

(Rs. in lakh)

Particulars	1996-97	1997-98	1998-99	1999-2000	2000-01 (as of 14 April 2001)
Cash Account	1034.22	1078.61	873.06	727.05	938.07
Cash imprest with staff	226.11	206.06	149.15	138.88	519.33
Balances with banks	4015.79	3767.53	(771.35)	8792.84	15662.24
Cash-in-transit	(954.02)	1558.39	3364.21	1203.17	795.78
Total	**4322.10**	**6610.59**	**3615.06**	**10861.94**	**17915.42**

(Figures shown in brackets denote minus balances)

The following points were noticed:

3A.10.1 Difference between cash book and trial balance

Normally, there should not be any difference between the balance as per cash book, and trial balance on a particular date and the cash balance shown in the accounts should agree with that as per the cash books of the accounting units. However, during 1998-99 there was a difference of Rs.141.41 crore. Further, during test-check of records of 4 RAOs ♦, it was noticed that there was a difference of Rs. 3.04 crore for the year 2000-01, which had not been reconciled so far (March 2002).

3A.10.2 Bank reconciliation statements

(i) Test-check of bank reconciliation statements for March 2000 in respect of five accounting units♥ showed unreconciled balances of Rs. 41.82 crore pertaining to the period as far back as 1977-78 and onwards.

(ii) During the scrutiny of bank reconciliation statements of B&CM section at Headquarters for the year 1999-2000, it was noticed that this bank account showed a minus balance of Rs.1.71 crore whereas the opening balance for the subsequent year 2000-01 was shown as Rs. (-) 242.83 crore. Thus there was a difference of Rs.241.12 crore. The account was not reconciled by the Board and the balance as shown by the bank was being accepted by the Board. This is indicative of total lack of concern for proper management of Board's finances.

(iii) As of 14 April 2001, unlinked bank payments for Rs.36.00 crore and cash book payments for Rs.4.52 crore were also not reconciled.

(iv) The cash credit account with SBI Civil Lines Branch, Jabalpur, was closed during 1996-97 without reconciliation and an amount of Rs.5.45 crore was shown as minus balance in Bank, as per the cash book. The reasons for closing of the account were not on records.

(v) The bank account with SBI Nayagaon (Account Code-24.345) Account No. II of Central Accounting Unit, Jabalpur, was not reconciled for the years 1999-2000 and 2000-01. During the year 1999-2000, there was a minus balance of Rs. 0.17 lakh which increased to Rs.2.82 crore during 2000-01 (April 2001). Reasons for this difference were not investigated.

(vi) The cash in transit balance as on 31 March 2000 and 14 April 2001 was Rs.12.03 crore and Rs.7.95 crore respectively. A net debit of Rs.2.10 crore was lying unadjusted since 1990-91 to 1999-2000. Moreover, there was a net debit of Rs.2.24 crore which was noticed in the accounts of seven RAOs• resulting in blocking of funds and loss of interest of Rs.33.60 lakh per annum.

Conclusion

Due to lack of control over the excess drawals of funds by RAOs, delays in remittances by banks/RAOs and non-recovery of dues from consumers, the

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♦ *Morena, Bhopal, Ujjain and Raipur*

♥ *Jabalpur (HO), Morena, Rewa, Chhattarpur, Jabalpur (CAU)*

• *Sarni, Birsinghpur, Chhatarpur, Guna, Hoshangabad, Morena and Sagar*

Board could not generate funds in time with the result that liabilities could not be discharged leading to payment of penal charges. Moreover, funds remained locked up with banks, balances were retained by RAOs and remittances were significantly delayed in transit. Reconciliation with banks also remained heavily in arrears. Due to its poor cash and bank management system, the Board failed to properly monitor its receipts to plan its payment liabilities in a systematic manner.

Concerted efforts are therefore required to be taken by the Board to strengthen its machinery for monitoring the transfer of funds by RAOs and banks.

The above matters were reported to Board/Government; their replies had not been received (September 2002).

SECTION 3B

Power Sector Reforms - Implementation of the terms of Memorandum of Understanding (MoU)

3B.1 Introduction

A Memorandum of Understanding (MoU) was signed (May 2000) between the Government of Madhya Pradesh (GOMP) and Government of India (GOI) as a measure of joint commitment to undertake power sector reforms in a time-bound manner. Later on, in the conference of Chief Ministers/Power Ministers, too, held in March 2001, a consensus was reached to depoliticise power sector reforms and to speed up their implementation.

The Government of India's support was linked to time-bound power reform initiatives in the State and achievement of definite milestones towards restoration of financial viability. The State Government accordingly directed Madhya Pradesh State Electricity Board (Board) to initiate immediate steps to achieve the targets fixed.

The State Government has initiated the process of implementing the power sector reforms and restructuring the power sector in the State. The achievements of the Board vis-a-vis targets fixed in the MoU are discussed in succeeding paragraphs.

3B.2 Scope of Audit

The present review was conducted during May-June 2002 covering the period 2000-01 and 2001-02 by means of a test-check of the records of the Board located at Jabalpur.

3B.3 Commitments by Government of Madhya Pradesh

The commitments made by GOMP for speeding up the power sector reforms were as under:

(i) Re-organisation of M.P. Electricity Board.

Note: The Madhya Pradesh Electricity Board was bifurcated with effect from 15th April 2001. After formation of Chhattisgarh State Electricity Board, the name of Madhya Pradesh Electricity Board became Madhya Pradesh State Electricity Board.

(ii) Under the Rural Electrification Programme, 100 per cent electrification of villages and hamlets and extensive coverage of rural households to be achieved.

(iii) Energy audit

Undertaking energy audit at all levels in order to reduce system losses in a time-bound manner, with the following milestones:

(a) Endeavour to install meters at all 11 KV feeders by June 2001 (later revised to September 2002).

(b) Endeavour to complete 100 per cent metering of all consumers by December 2002.

(iv) State Electricity Regulatory Commission

State Electricity Regulatory Commission (SERC) has already been set up. The State Government would provide full support to the Commission to enable it to discharge its statutory responsibilities.

(v) Rationalisation of tariffs

The State Government should incorporate a provision in the Reform Act to the above effect so that there is a statutory mandate to reduce cross-subsidization. Government was to provide for achieving this goal in a progressive manner within a period of 5 years.

3B.4 Commitments from Government of India

The support to be extended by GOI for implementation of power sector reforms in Madhya Pradesh was as under:

-- After signing of MoU, immediate steps for allocation of additional 100 MW from Central generating stations were to be taken and CEA[♠] would make technical and commercial arrangements for supply of this power. According to Board, a 400KV line from Rourkela to Raipur was required for evacuation of surplus power from the eastern region power grid. The Powergrid[*] would complete this on priority.

-- Powergrid and Board's successor entities were to finalise the nature of their participation for strengthening of inter-State as well as intra-State critical transmission lines.

-- Financial support would be extended to enable the State Government to upgrade its sub-transmission and distribution network in a phased manner.

♠ *Central Electricity Authority*

* *Power Grid Corporation of India Limited*

-- Technical assistance for reduction in T&D losses including high voltage distribution system in a phased manner.

-- Financial assistance for executing the system loss reduction programme.

-- Technical and financial assistance from Central power utilities such as National Thermal Power Corporation (NTPC), National Hydro Power Corporation Ltd (NHPC), Power Finance Corporation (PFC), Power Grid Corporation of India Ltd. (PGCIL) on adoption of best commercial practices including accounting policies, was to be provided.

3B.5 Financing

In recognition of Madhya Pradesh being a reforming State, Power Finance Corporation would be prepared to finance the investment needs in relaxation of normal conditions relating to exposure limit, rate of return (ROR) and debt service coverage ratio (DSCR).

-- Financial restructuring plans including the liabilities of Board to employees towards pension, provident fund etc. had to be made by it.

-- The Government of India, Ministry of Power, would assist Madhya Pradesh for raising funds for structural adjustment financing for successful completion of reforms .

-- The GOI will support proposals relating to additional investment in power generation in Madhya Pradesh by processing such proposals expeditiously.

-- The GOI was to allocate additional power from new Central sector generating stations directly to the commercially viable distribution companies in Madhya Pradesh that emerge through the reforms process and which demonstrate their capacity to pay for the power they need.

-- Two new hydel generating stations, namely, Indira Sagar project and Omkareshwar project were to be completed through a joint venture between the State Government and the National Hydroelectric Power Corporation (NHPC).

3B.6 Implementation of Reforms Programme

3B.6A Status of implementation by Government of Madhya Pradesh

(i) Reogranisation of Board

As a part of the reform process, Board was unbundled into six Government Companies* with effect from September 2000. All these companies were registered on 22 November 2001. The Government has since been requested for appointment of the Board of Directors (January 2002).

Thus, in the backdrop of the reiterations made in MoU, only registration of six companies has been undertaken in the last two years; action for their physical formation is still to be taken up. It is thus an open question whether rest of the objectives viz. providing quality power on demand to all consumers would be met by the Board (or its successor companies) and the period that would be required to do so.

(ii) Rural electrification programme

The Board did not fix any targets for rural electrification for 2000-01 and 2001-02.

Out of 51806 villages in the State, 50306 villages have been electrified up to 2001-02 (97 per cent). Thus the State is yet to achieve the target of 100 per cent electrification of villages.

(iii) Energy audit

Board had to undertake energy audit at all levels taking the sub-station as the unit as per the programme to be mutually agreed upon in order to reduce (a) technical losses and (b) commercial losses arising from theft, unauthorised hooking, tampering of metering devices and other commercial losses. As per the report submitted by a consultant assigned by the PFC, the T&D losses for the years 2000-01 and 2001-02 worked out to 48.71 per cent and 43.21 per cent respectively as against the norm of 15.5 per cent prescribed by CEA.

To curb the high incidence of T&D losses, metering of all supply points was visualized in the MoU; the work was to be completed by December 2001.

While the work of metering in respect of 132 KV sub-stations, 33KV and 11 KV feeders had been completed, 10,89,928 agricultural pumps (88.70 per cent) and 9,20,602 single point connections (47.08 per cent) were still unmetered (June 2002).

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* *1.Madhya Pradesh Power Generating Company Limited, 2.Madhya Pradesh Power Transmission Company Limited, and 3.Madhya Pradesh Power Distribution Company Limited the last with three subsidiary distribution Companies (i) Madhya Pradesh Poorv Kshetra Distribution Company, (ii) Madhya Pradesh Madhya Kshetra Distribution Company and (iii) Madhya Pradesh Paschim Kshetra Distribution Company*

It was also noticed that the Board had conducted energy audit during 2000-01 in selected circles/ divisions. At Ujjain (city division), the T&D losses noticed were as high as 57.96 per cent. It was stated by the Board that efforts were on to conduct energy audit and to analyse T&D losses at other circles / divisions too and the results were awaited.

The Board also stated (June 2002) that following measures were being taken by it to eradicate the menace of theft of energy:

(a) Intensive checking,

(b) Fortnightly reading of HT consumers,

(c) Comprehensive testing of meters,

(d) Installation of electronic meters with special features, and

(e) Laying out insulated cable in theft prone area.

In addition to above, various incentive schemes for informants of thefts and those helping police personnel had also been introduced. The effect and results of these initiatives were still to be ascertained/ watched.

The reply of the Board is not tenable in view of fact that the T&D losses still ranged between 43.21 and 48.71 per cent during 1999-2002, with the figure for 2001-02 (43.21 per cent) being not materially different from that for 1999-2000 (44.02 per cent). Thus the steps taken to avoid the T&D losses were ineffective.

(iv) Setting up of State Electricity Regulatory Commission

The Madhya Pradesh State Electricity Regulatory Commission (MPERC) was set up by the Government in August 1998 and the Commission commenced its regular functioning from April 1999. The Commission finalised one tariff application during 2001-02 and the tariff orders issued were implemented w.e.f. 5 October 2001.

(v) Rationalisation of tariff

The table below exhibits the average cost incurred by Board for supply of electricity to consumers and average realisations by it:

Year	**Average cost for supply of electricity (paise/unit)**	**Average realisation (paise/unit)**	**Difference (paise/unit)**	**Percentage of recovery**
1998-99	241.14	164.31	76.83	68.13
1999-2000	303.02	207.51	95.51	68.48
2000-01	384.16 (prov)	263.62 (prov)	120.54 (prov)	68.62

As can be seen from the above table that Board was making recovery of only 68 per cent of the cost of each unit being sold to consumers, which when compared to the 75 per cent stipulated in the MoU was lower by 7 percentage points. If the T&D losses as worked out by the consultant (Descon) are considered, the percentage of recovery may drop even lower.

3B.6B Status of support from GOI

The status of support extended by GOI, for implementation of power sector reforms in MP was as under:

(i) Supply of additional power

There has been no progress in this regard except that the Board had taken up the matter with the State Energy Department.

(ii) Strengthening and improving the transmission network to enable supply of additional power

In this regard, Powergrid Corporation and the Board were exploring the possibility of construction of Bina-Gwalior 765 / 400 KV line and Gwalior 400 KV substation. Powergrid was agreeable to construct the line. No further progress has been intimated by the Board so far (May 2002).

(iii) Strengthening of sub-transmission and distribution systems

Plans have been prepared and submitted to various financial bodies like PFC, ADB etc. and the implementation schedule would be from 2002-03 to 2005-06.

(iv) Reduction of T&D losses

(a) Technical assistance for reduction in T&D losses including high voltage distribution system in a phased manner

The contract has been placed on University of Roorkee for development of software. The city of Bhopal was taken up for conducting these studies as pilot project. Details and data of power system network as well as unique codification of 33 KV sub-stations and 11 KV feeders and also electronic map on GIS/Autocad platform have been furnished. Software development work for 33 KV and 11 KV network is under progress.

(b) Financial assistance for executing the system loss reduction programme

A detailed system loss reduction programme has been developed and submitted to ADB.

(c) Assistance from Central Government Companies

Financial consultants have been appointed by CIDA[*]/EISP[**] for financial analysis and cleaning of balance sheets.

(v) Financing

Various representations have been made to PFC for obtaining finance and are under consideration of PFC.

(vi) Financing restructuring plans

Estimation of pensionery liabilities under the financial restructuring plans was yet to be decided by the Board.

(vii) Structural adjustments

For this purpose, financial consultant had been appointed by CIDA/EISP under extension programme for financial analysis and cleaning up of balance sheets.

(viii) Direct allocation of power to distribution companies

There has been no progress as the distribution companies formed are yet to assume a physical shape.

(ix) Hydro electric power development

MoU had been signed between State Government and NHPC. However, further progress, if any, was not made known to Audit.

Conclusion

The basic objective of the reforms in the power sector to provide reliable and quality power supply at competitive prices to all consumers was far from being achieved as there was acute shortage of power, wide gap between demand and supply, high T&D losses, slow progress of works and non-fulfilment of GOI commitments. The re-organisation of Board was also not done, as required for proper implementation of the reforms process.

***** Canadian International Development Agency

****** Energy Infrastructure Services Project