

Chapter-II

2. Performance reviews relating to Government companies

Maharashtra State Electricity Distribution Company Limited

2.1 Prevention/Detection of Distribution Losses

Highlights

The transmission and distribution losses of the Company were 32.58 per cent at the end of March 2006 despite a commitment in the Memorandum of Understanding with Government of India to bring these down to 18 per cent by March 2003.

(Paragraph 2.1.1)

As against 50.17 lakh low tension consumer installations due for checking as of March 2006 in 12 circles, only 1.47 lakh consumer installations were checked during 2001-06. The quantum of checking was, thus, insignificant. Recalibration of mechanical meters as prescribed was not done. Similarly, out of 4.47 lakh faulty meters, 1.22 lakh meters were awaiting replacement for more than one year against the prescription of replacement within three months.

(Paragraphs 2.1.7, 2.1.9 and 2.1.11)

There were deficiencies in preparation of Distribution transformer (DTC) wise energy audit reports, a vital source of information for detection of theft of electricity. Out of 89,056 DTCs in operation, 74,279 DTCs were not metered in 12 circles and 1,702 DTCs indicated average loss of 64.84 per cent. No analysis/remedial action was undertaken by the Company on such abnormal losses.

(Paragraph 2.1.12)

In 31 cases of theft, final bills were not issued even after the lapse of 20 to 64 months from the dates of provisional assessment.

(Paragraph 2.1.27)

In seven circles, Audit noticed short recovery of compounding charges in 358 cases amounting to Rs.24.06 lakh during 2004-06 due to incorrect computations. Despite compounding charges not having been paid by 6,748 consumers FIRs were not filed against them.

(Paragraphs 2.1.23 and 2.1.24)

There were wide variations in the initial assessment of penalty and final assessment by the appellate authority due to application of rules relating to computation of period of theft differently resulting in avoidable delay in the final assessment of the penalty and its recovery.

(Paragraph 2.1.28)

Eight theft cases of electricity involving Rs.12.50 crore were decided by the court against the Company mainly due to various deficiencies in investigation of the cases. Reasons for losing the cases have not been analysed by the Company. Similarly due to non-follow up action on cases decided in favour of the Company, decreed amount of Rs.5.28 crore in five cases has not been recovered so far even after lapse of five years.

(Paragraphs 2.1.30 and 2.1.31)

Rules for computation of penalty framed by the company regarding theft of electricity did not have adequate deterrent effect and were also not in the financial interests of the Company. It was noticed that the rules relating to working hours, load factor and time ceiling considered for penalty lead to levy of lower penalty.

(Paragraphs 2.1.33 to 2.1.35)

Introduction

2.1.1 As part of power sector reforms the Maharashtra State Electricity Board (MSEB) has been split into four companies* from 6 June 2005. From that date the Maharashtra State Electricity Distribution Company Limited (Company) is looking after distribution of electricity.

The difference between the energy generated/procured and the energy billed to consumers is termed as transmission and distribution (T&D) loss. As per the Memorandum of Understanding (16 March 2001) between the Government of Maharashtra and Government of India (GOI), the T&D losses were required to be reduced to 18 *per cent* by March 2003. The T&D losses of Maharashtra

*MSEB Holding Company Limited, Maharashtra State Power Generation Company Limited, Maharashtra State Electricity Transmission Company Limited and Maharashtra State Electricity Distribution Company Limited.

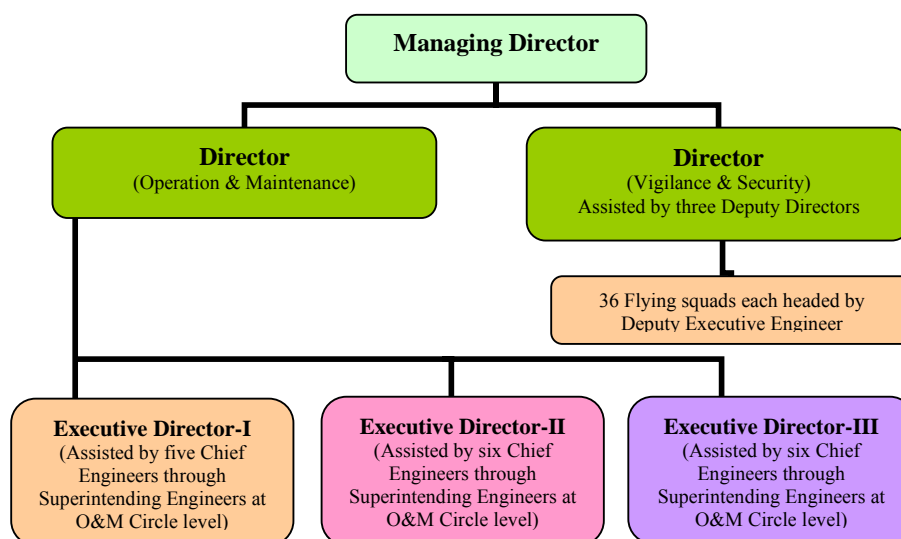
State Electricity Board/Company, however, ranged between 32.58 to 39.55 *per cent* during the five years ended March 2006 as detailed below:

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
Energy generated and procured (MUs [*])	64,081	65,836	68,759	67,289	69,275
Energy billed (MUs)	38,735	41,901	43,575	43,550	46,705
Energy loss (MUs)	25,346	23,935	25,184	23,739	22,570
Percentage of loss to total units generated/procured	39.55	36.36	36.63	35.28	32.58
Loss in excess of 18 <i>per cent</i> (MUs)	13,811	12,085	12,807	11,627	10,100

Reduction in T&D losses is the most significant step towards making the Company financially self sustaining. Though the T&D losses have declined over these years, they still remain very high. The importance of reducing T&D losses can be gauged from the fact that a one *per cent* decrease in T&D losses could add Rs.230 crore^{*} to the bottom line profits of the Company annually.

Losses beyond 18 *per cent* are primarily due to theft of energy. Theft of energy includes direct hooks on HT/LT lines, drawal of energy bypassing the meter, tampering of meter, use of devices to reverse the meter reading and damage to the measuring instrument to prevent correct reading.

The Operation & Maintenance (O&M) wing and the Vigilance & Security (V&S) department of the Company are mainly entrusted with the task of prevention and detection of theft of electricity and controlling the distribution losses. The organisational chart relating to the activity is given below:



* Million Units.

*Working based on the figures of 2005-06: 22,570 MUs/32.58 loss percentage x Rs.3.32 average rate per unit in 2004-05.

Scope of Audit

2.1.2 The performance review conducted during December 2005 to April 2006 covered the period 2001-06 through scrutiny of records at the Head Office and 12* out of 40 O&M circles. Five circles were selected on the basis of high T&D losses, five circles on the basis of quantum of penalty levied and two circles on random sampling basis.

Audit objectives

2.1.3 The audit objectives of the review were to ascertain whether:

- the Company had prepared a well sounded plan based on empirical studies/data to prevent theft and control losses;
- the preventive and detection wings were adequately staffed and the staff were optimally utilised;
- the preventive measures undertaken to control distribution loss were adequate and effective;
- the detection measures were adequate and effective;
- levy and realisation of penalty were as per the rules;
- action on court cases was prompt and appropriate; and
- the rules for prevention and detection of theft of energy were adequate, operative and effective.

Audit criteria

2.1.4 The following audit criteria were adopted:

- Provisions of the Electricity Act, 2003 relating to theft/unauthorised use of electricity and levy of compounding charges;
- Indian Electricity Rules, 1956 for checking of consumers' installation;
- Orders of Government of India, Government of Maharashtra and decisions of Board of Directors and other authorities of the Company relating to T&D losses;

*Ahmednagar, Akola, Beed, Jalgaon, Kalyan, Latur, Nanded, Osmanabad, Parbhani, Pune (Rural), Sangli and Vashi.

- Conditions and Miscellaneous Charges for Supply of Electricity relating to assessment of penalty in theft cases; and
- Maharashtra Electricity Regulatory Commission (MERC) (Electricity Supply Code and other Conditions of Supply) Regulations, 2005 dealing with cases of theft and procedure for replacement of meters.

Audit methodology

2.1.5 Audit used a mix of the following methodologies:

- scrutiny of records of the Company both at Head Office and field offices.
- discussion with the officials of the Company.

Audit findings

2.1.6 The audit findings emerging from the performance audit were reported to the Government/management in May 2006 and were discussed in the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 10 July 2006 which was attended by the Deputy Secretary (Industry, Energy and Labour Department), Government of Maharashtra and the Managing Director of the Company. The views of the Government and the management were taken into account while finalising the review.

The audit findings are discussed in the succeeding paragraphs.

Preventive measures

Periodical inspection and testing of consumers' installations

Low Tension consumers

2.1.7 As per the Indian Electricity Rules 1956,* the Company has to check consumers' installations once in five years.

It was noticed during audit that:

The quantum of checking of consumer installations was insignificant.

- The number of Low Tension (LT) consumer installations in 12 circles as of 31 March 2006 was 50.17 lakh, of which the Company had checked only 1.47 lakh (2.93 per cent) during 2001-06. The quantum of checking was thus insignificant. As a result, illegal use of electricity, tampering of meters and deficiencies in metering equipment remained undetected.

* These rules were applicable during the entire period covered under review.

- Since the penalty for theft of energy is computed for a period of 24 months or from the last date of checking of the meter of the consumer, whichever is earlier, it forms a vital input for levy of penalty. Hence it was essential to enter the last date of checking in the consumer personal ledger (CPL). The Company, however, did not maintain any database of consumer installations checked.

The management stated (August 2006) that the required number of installations could not be checked due to shortage of staff. The reply is silent as to why no record of the installations checked was maintained.

High tension consumers

2.1.8 As per the norms fixed by MSEB (July 1987), testing of meters of all high tension (HT) consumers having contract demand up to 1,000 KVA, between 1,000 and 3,000 KVA and above 3,000 KVA was required to be done once in a year, once in six months and once in three months, respectively.

Audit scrutiny revealed as under:

- The shortfall in testing of meters was more in the high risk category (consumers with connected load of more than 3,000 KVA) as compared to the shortfall in other categories. The shortfall in testing ranged from 62 to 74 *per cent* for consumers having connected load of more than 3,000 KVA in Vashi circle. During 2001-06 the shortfall in Pune circle was between 33 to 86 *per cent* (except 2003-04) and in Kalyan circle it was between nine to 89 *per cent* (except 2005-06).
- Checking of meters was not being done in a systematic manner as no priority was being assigned to the meters that figured in the overdue list. Audit scrutiny of overdue cases revealed testing of 52 HT/special LT* consumers in Vashi circle was overdue for periods ranging from four to 62 months as of February 2006. No database in respect of meters overdue for testing was being maintained by the testing divisions (Pune and Kalyan).

No priority was assigned to the work relating to testing of meters of high risk category.

The management stated (August 2006) that 100 *per cent* testing of HT consumers could not be done due to problems in shutting down the feeder. The reply is, however, silent as to why priority was not given to high risk category consumers.

Recalibration of meters

2.1.9 In view of the fact that mechanical meters slow down by half *per cent* per annum MSEDCL[#] had prescribed (August 1969) that all such LT meters should be recalibrated and tested over a span of five years.

* Consumers with connected load between 67.5 and 100 KW/HP.

[#] Earlier Maharashtra State Electricity Board.

No database of mechanical meters was maintained.

No database of mechanical meters was, however, maintained. It is not clear how the Company carried out the required recalibration work in the absence of basic data. Control over loss of revenue due to slowing down of meters was therefore absent.

The management while accepting the audit finding stated (August 2006) that instructions were being issued to field offices for undertaking the recalibration of meters.

Checking of permanently disconnected consumers[⊕] and paid pending[♦] cases

2.1.10 As use of electricity is indispensable in the modern world, there is likelihood of permanently disconnected (PD) consumers and paid pending (PP) cases resorting to illegal tapping of energy. Keeping this aspect in view it is essential that premises of such consumers are checked periodically.

There were 7,65,627 PD consumers and 1,58,551 PP cases in 12 circles as of March 2006. Audit scrutiny revealed that:

- The Report of the Comptroller & Auditor General of India (Commercial), Government of Maharashtra for the year ended March 2004 (Paragraph 3.1.6) had recommended investigation as to how the PD consumers were meeting their energy needs after disconnection. During the ARCPSE meeting (July 2004) the management had also assured that the matter would be investigated by the vigilance wing of the Company. It was, however, noticed that the checking undertaken by 11 circles during 2005-06 was insignificant only seven *per cent* (59,898 out of 8,42,456) cases were investigated up to March 2006.
- During 2005-06, 2,216 LT PD consumers of eight circles[#] were found to be using electricity through unauthorised means. Neither had any First Information Report (FIR) been lodged against such consumers nor had the penalty as per the provisions of the Electricity Act, 2003 been levied on them (June 2006).
- There was no system of periodical inspection of premises of PP consumers prior to giving regular connections to them. Although the connections had been released they continued to be shown as PP category resulting in delay in billing them. Test check of 291 cases (Osmanabad circle) revealed delay in billing ranging from six to 98 months.

Delay in repairs/replacement of faulty meters

2.1.11 As per the MERC (Electricity Supply Code and Other Conditions of Supply) Regulations, 2005, in case of defective meters, the amount of consumer's bill shall be recast for a maximum period of three months prior to the month in which the defect in meter is noticed, subject to furnishing of test

[⊕] PD consumers are those defaulters whose connections had permanently been disconnected.

[♦] Applicants who have made advance payment for connection but supply is yet to be released.

[#] Akola, Kalyan, Latur, Nanded, Osmanabad, Pune, Sangli and Vashi.

Out of 4.47 lakh faulty meters, 1.22 lakh faulty meters were awaiting replacement for more than one year.

report of the meter along with the assessed bill. In case the meter had stopped recording consumption, the consumer shall be billed for a maximum period of three months and cases of tampered meters shall be assessed as per the provisions of section 126 and 135 of the Electricity Act, 2003. In order to ensure that the Company did not lose on account of the restriction of three months it was necessary to test and replace the meters within three months. As of January 2006, there were 4.47 lakh faulty meters (LT consumers) of which 1.22 lakh (27 per cent) meters were awaiting replacement for more than one year. In the absence of replacement/repair of the faulty meters the Company continues to lose revenue due to billing on average basis than on actual consumption of energy.

The management stated (August 2006) that the work of replacement of meters was in progress. The reply was silent on the delayed replacement of meters.

Energy accounting and audit (EAA)

2.1.12 Energy audit helps to identify areas of energy loss from a particular Distribution Transformer (DTC)*. With a view to identifying DTC wise distribution losses installation of meters on all DTC and DTC wise mapping of consumers is imperative.

Scrutiny of energy audit reports of 12 circles revealed that:

Out of 89,056 DTCs in operation, 74,279 DTCs were not metered and the reports showing high losses in 1,702 DTCs were not acted upon.

- there were 89,056 DTC in operation (February 2006) of which 74,279 DTC were not metered;
- energy audit reports were not generated in respect of 2,406 DTCs resulting in non-achievement of the objective of identifying energy loss;
- the reports in respect of 1,702 DTC indicated average energy loss as high as 64.84 per cent during August 2003 to March 2006. The Company, however, did not take any action on these reports;
- compared to the target of 18 per cent T&D losses as per the Memorandum of Understanding (MOU), the excess loss worked out to 898.81 MUs (value: Rs.298.40 crore at the rate of Rs.3.32 per unit);
- energy reports of 1,707 DTCs indicated negative loss[#] for which no analysis of the abnormal loss was undertaken. Prior to the installation of meters on DTC, it was absolutely essential to identify consumers attached to each DTC for reconciliation of energy consumed/billed with energy recorded at the DTC. This was, however, not done.

The management stated (August 2006) that instructions had been issued to the field offices for necessary action required on the basis of DTC loss reports viz. replacement of meters, testing of low consumption meters.

* DTC is the acronym used by the Company for distribution transformer.

[#] Energy billed was more than the energy supplied from the DTC.

Detection measures

2.1.13 The following deficiencies in the detection measures were noticed:

- As per clause 31(e) of the 'Conditions and Miscellaneous Charges for Supply of Electricity', the penalty to be levied for theft of electricity is to be determined for the entire period for which theft is established, provided that the period of assessment shall not be more than three/two* years prior to the date of detection of theft. This would require checking of electrical installations at consumers' premises at least once in three/two years. The checking of electrical installations at consumers' premises was, however, not being done by the O&M wing of the Company in accordance with this requirement.

The management stated (August 2006) that due consideration to the Audit observations would be given in future and it would be ensured that all installations (mainly HT) are checked within one year and the rest would be checked within two/three years based on ABC analysis.

- Deputy Director (V&S) and local Flying Squads (FS) select the consumers for checking. Scrutiny of records revealed that detection of theft was higher (29 per cent : 117 out of 391 cases checked) in the cases selected by Deputy Director (V&S) as compared with the cases selected by the flying squads where the detection was only 5.46 per cent (26 out of 476). There is a need to investigate whether the collection of critical information is poor or there are lacunae in actual detection work.

The management stated (August 2006) that the rate of detection in cases selected locally was low as theft cases were detected while performing their regular activities. The reply is not convincing since local authorities, being better aware of the local area/customers, can fix their priorities more precisely for checking of meters.

- The Company receives complaints for theft of electricity from various sources which are required to be investigated promptly by the FS. Audit scrutiny revealed that out of 294 complaints received by seven# FS during September 2003 to April 2006 only 92 complaints were investigated and the balance 202 complaints were pending (April 2006).
- No system of rotational checking had been adopted to cover all consumers. Audit scrutiny revealed that there was no attempt by the FS to assign higher priority to the high energy leakage areas using DTC wise energy audit reports and information relating to PD/PP consumers.

*Three years up to 19 January 2005 and two years thereafter.

Ahmednagar, Pune, Vashi, Latur, Osmanabad, Sangli and Jalgaon.

Follow up action on defective meters

2.1.14 If the meters are running abnormally slow, it is necessary to test such meters to ensure that there was no theft of electricity.

Scrutiny of 146 cases of defective meters detected by the Company during August 2003 to April 2006 revealed that the following two circle offices did not investigate causes of abnormal slow running of 73 meters.

Circle	Number of cases	Percentage of slowness	Month of detection
Kalyan	19	32 to 95	August 2003
Sangli	54	20 to 72	April 2004-April 2006

The management stated (August 2006) that the meters were accuchecked* and recovery was made from the consumers. The reply is not tenable. Though recovery was made from the consumers based on slowness of meters indicated in accucheck, reason for slowness were not examined by further testing of meters to ensure that there was no theft of electricity.

Levy of penalty

2.1.15 The levy of penalty is regulated by Sections 135 and 152 of the Electricity Act, 2003, clause 31(e) of the 'Condition and Miscellaneous Charges for Supply of Electricity' to the consumers. It was noticed during audit that the above provisions of the sections/clause had not been complied with resulting in short assessment, as discussed in paragraphs 2.1.16 to 2.1.22.

High tension consumers

New Premier Ice & Cold Storage, Vashi (Vashi circle)

2.1.16 As per the guidelines issued (April 1991) by the erstwhile Maharashtra State Electricity Board regarding assessment of demand for the period of theft, the consumption pattern of seasonal industries is required to be considered. Assessment of demand during the period of theft is a vital factor for determination of consumption. In the theft case of New Premier Ice & Cold Storage, who had stolen electricity on three occasions (October 1998, August 1999 and July 2000) the assessment of electricity consumption was required to be done considering equivalent demand of 215.6 KW (289 HP)*. However, the Chief Engineer (CE) (Bhandup Urban Zone), determined (November 1999-July 2001) the consumption considering demand of 145 HP. Due to considering less demand 8.15 lakh units were short assessed during April 1998 to June 2000. This has resulted in revenue loss of Rs.37.76 lakh to the Company.

* Accucheck is use of an instrument to check the accuracy of meter.

* As per company's circular the consumption of electricity is to be calculated considering 1.30 lakh units in peak season and 65,000 units in lean season per month.

Premier Synthetic Processors, Pawane

2.1.17 The Flying Squads had detected (January 2004) theft by Premier Synthetic Processors, Pawane (Vashi circle) and had found that the connected load was 1,011 KW. The assessment of penalty for the theft was made at Rs.77.33 lakh. This was revised (October 2005) to Rs.43.37 lakh by the appellate authority taking the connected load as 900 KW found on a later date, resulting in short assessment of Rs.33.96 lakh.

The management stated (July 2006) that during proceedings before the appellate authority, the consumer produced sufficient documentary evidence leading to total connected load as 900 KW and on that basis the assessment was revised. The reply is not tenable. As per the rules the connected load found at the time of inspection is required to be considered for levy of penalty.

Vijayalaxmi Textile Limited (Kalyan circle)

2.1.18 Theft of electricity was detected by the FS in November 2001. Clause 31(e) of 'Conditions and Miscellaneous Charges for Supply of Electricity' provides 36 months as the maximum period for working out consumption during the theft period. If the meter of the consumer was replaced during the past 36 months, the consumption is calculated by restricting the period to the date of replacement of meter. In the instant case, the meter was replaced in May 2001 and penalty of Rs.22.81 lakh was assessed by the SE considering the consumption from the date of replacement of meter. On appeal by the consumer, the CE, (appellate authority) revised the assessment to Rs.12.49 lakh based on consumption considering maximum period of 36 months. As the actual consumption of electricity during the period prior to replacement of meter was more than the assessed consumption during the theft period, the consumer was benefited by Rs.10.32 lakh. It is not clear as to why the appellate authority ignored the fact of replacement of meter in May 2001.

Bhairav Stone Company (Vashi circle)

2.1.19 For assessment of electricity consumption during the period of theft of electricity, 'load factor' for power intensive industries like steel plants, ferroalloys industries, ice factories, cold storage, etc. was prescribed as 0.80; for textile/dyeing industries the load factor was 0.60; and for all other industries, including hotel industries, the load factor was 0.40. The load factor for the stone crushing industry where the requirement of electricity is high should have been considered as 0.80 instead of 0.40. By classifying 'stone crushing industries' under 'other industries' lower load factor was applied for computing the penalty, resulting in levy of lesser penalty by Rs.10.50 lakh, in the above case (October 2004).

Low tension consumers

Treating theft cases as unauthorised use

2.1.20 Prior to the Electricity Act, 2003, in cases of theft of electricity, the consumer was liable for action besides payment of penalty for electricity

stolen during the period of theft subject to a maximum period of three years. As per the provision of the Electricity Act, 2003, unauthorised use of electricity has been separately categorised and a maximum period of penalty of three months for domestic and agricultural consumers and six months for other consumers has been prescribed. Besides, no criminal action is required to be taken by the electricity authorities. This provision had been made applicable from 29 June 2004.

Audit noticed that the following three theft cases detected prior to 29 June 2004 were later treated as unauthorised use and penalty for six months was levied instead of for 36 months, which resulted in short recovery of revenue by way of penalty:

Name of the consumer (circle)	Month of detection	Short levy of penalty (Rupees in lakh)	Remarks
Mankesha Synthetics, MIDC Miraj (Sangli circle)	June 2004	20.37	As per the initial spot Inspection Report one phase was found disconnected. This was clear indication of theft of energy.
Sainath Industrial Corporation, Sanaswadi, (Pune Rural circle)	March 2004	14.69	In both the cases, based on spot Inspection Report, FIRs had been lodged with the police for theft of energy.
Sachin Forge Sanaswadi, (Pune Rural circle)	March 2004	6.62	
Total		41.68	

The management stated (July 2006) that bills to Sainath Industrial Corporation and Sachin Forge bill for six months was given as per Section 126 of the Electricity Act, 2003. The reply is not tenable as these theft cases were required to be dealt with under Section 135 of the Electricity Act, 2003.

Adoption of incorrect connected load

2.1.21 As per Clause 31(e) of the ‘Conditions and Miscellaneous Charges for Supply of Electricity’ to consumers, assessment of penalty is to be computed on the basis of connected load found at the time of inspection. Audit noticed that in the following two cases, the connected load recorded on later dates was considered resulting in incorrect levy of penalty by Rs.10.83 lakh detailed as under:

Name of the consumer (circle)	Month of detection	Connected load found at the time of checking	Load considered based on subsequent checking	Short levy of penalty (Rupees in lakh)
Radison Inn, Khandala (Pune rural circle)	January 2004	119 KW	74 KW	6.58
Darman Packs Private Limited (Vashi circle)	August 2001	108 HP	65 HP	4.25
Total				10.83

The management stated (August 2006) that bills had been revised based on physical verification done on later dates. The reply is not tenable. As per Clause 31(e) the penalty was to be assessed on the basis of connected load found at the time of detection of theft and there is no provision for physical verification on later dates.

Adoption of incorrect period for levy of penalty

2.1.22 Clause 31(e) of the ‘Conditions and Miscellaneous Charges for Supply of Electricity’ provides that the period for assessment of penalty in theft cases shall be restricted to a maximum of three years. This limit had been revised to two years from 20 January 2005. If the period of theft cannot be clearly established it shall be restricted to six months.

In view of high T&D losses and the focus given in the MOU signed (March 2001) between GOM and GOI for reducing the T&D losses to 18 *per cent* by March 2003 it was necessary to levy the maximum penalty in theft cases so as to have a strong deterrent effect.

Audit scrutiny revealed that in the following theft cases penalty was not imposed for the maximum period but was charged arbitrarily for periods ranging from 1 to 12 months. This not only reduced the deterrent effect of the penal provisions but also resulted in lesser revenue realisation of Rs.1.33 crore to the Company as detailed below:

Sl. No.	Consumer (circle)	Month of detection of theft	Period considered for penalty (months)	Period* ought to have been considered (months)	Short assessment (Rupees in lakh)
1	Seinumoro Machine Tools Private Limited, Bhor (PRC)	March 2004	12	36	20.82
2	Tatiya Industries (Jalgaon circle)	March 2004	12	36	2.72
3	Polypack Industries (Jalgaon circle)	March 2004	12	36	17.99
4	Tulshiram Ganpat Patil, Bar & Restaurant (Vashi circle)	January 2003	10.5	36	3.34
5	28 consumers (Vashi circle)	May-December 2004	3 to 12	36	43.09
6	36 consumers (Vashi circle)	January-May 2005	12	24	37.88
7	20 cases (Vashi circle)	2005-06	3	6	3.12
8	Hotel Pride, Kaij (Beed circle)	March 2005	12	24	2.62
9	5 consumers (Parbhani circle)	2005-06	1 to 4	6	0.78
10	Sambhaji Honrao, Hotel Shere Punjab (Latur circle)	September 2005	6	12	0.42
11	Dhanvantari Hospital, Dr. Shobhana Toshniwal (Beed circle)	March 2005	12	24	0.20
	Total				132.98

* As per the condition 31(a) the maximum period should have been applied unless meter is inspected earlier.

The management stated (August 2006) that the assessment at Sl.No.1 was done under Section 135 of the Electricity Act, 2003. No reply was received for Sl. No.2 to 4. The management while accepting (August 2006) the audit findings in cases at Sl. No.5 to 11 stated that the revised bills were being issued to the consumers. The reply (for Sl. No.1) is not tenable as the provisions of this section were made applicable by MERC only from 19 January 2005; hence the case should have been assessed as per extant rules.

Short recovery of compounding charges

There was short recovery of Rs.24.06 lakh towards compounding charges in 358 cases.

2.1.23 In cases of theft of electricity a FIR is require to be filed with the police for taking criminal action against the delinquent consumer under Section 135 of the Electricity Act, 2003. In the event of a consumer paying compounding charges prescribed under Section 152 of the Act, FIR need not be filed.

Audit scrutiny of 6,908 cases in 12 circles revealed that there was short recovery of compounding charges amounting to Rs.24.06 lakh in 358 cases of theft during 2004-06 as detailed below:

Circle	Number of cases	Under recovery (Rupees in lakh)	Remarks
Parbhani	25	9.15	Compounding charges were recovered at the rate of Rs.2,000 per connection instead of Rs.2,000 per HP applicable to agricultural consumers.
Osmanabad	8	3.64	
Beed	142	3.21	As per the Electricity Act, 2003, the compounding charges are to be calculated per KW/HP or part thereof. It was, however, noticed that for part of a KW/HP the computation had been on <i>pro rata</i> basis.
Latur	116	2.58	Computation of compounding charges calculated at lower rate than provided in Section 152(4) of the Electricity Act, 2003.
Pune	39	1.74	
Vashi	5	2.06	
Jalgaon	23	1.68	Compounding charges were recovered as per connection basis instead of connected load basis (KW/HP).
Total	358	24.06	

The management, while accepting (August 2006) the audit findings stated that recovery in the above 358 cases would be made.

Non filing of FIRs

2.1.24 Audit noticed that the following O&M offices failed to file FIRs against 6,748 consumers out of 20,474 consumers involved in theft of electricity. Compounding charges amounting to Rs.3.37 crore were also not recovered from these consumers before restoring the electricity supply, in

violation of the provisions of the Electricity Act, 2003. The cases are detailed below:

Name of the circle	Number of cases		Compounding charges not paid by consumers (Rupees in lakh)	
	2004-05	2005-06	2004-05	2005-06
Ahmednagar	41	301	17.02	26.71
Akola	261	294	10.44	16.80
Kalyan-I & II	448	469	17.92	18.76
Vashi	16	737	0.64	35.54
Pune	187	351	7.48	14.04
Nanded	163	128	6.52	5.12
Parbhani	05	52	0.20	2.08
Beed	02	61	0.08	4.64
Latur	408	544	18.28	42.13
Osmanabad	522	480	20.88	19.20
Sangli	229	149	9.32	6.16
Jalgaon	291	609	11.64	25.62
Total	2,573	4,175	120.42	216.80

The compounding charges had remained unpaid as the divisional authorities restored the connections without recovery of the compounding charges.

As per Section 152(4) of the Electricity Act, 2003, compounding of an offence shall be allowed only once for any person or consumer. Subsequent default would require an FIR to be filed. The Company issued instructions at a belated stage in October 2005 to the field offices to keep a note of the compounding permitted in the Consumer Personal Ledger to ensure that compounding was allowed only once. Audit noticed that the field offices have not been following the instructions so far (May 2006). This would lead to non-filing of FIRs in cases of repeated thefts of energy and would reduce the deterrent effect of the penal provisions.

The management stated (August 2006) that compounding charges had been recovered from 1,032 consumers, FIRs had been filed against 611 consumers and 1,681 cases were in the nature of unauthorised use of electricity where FIRs were not required to be filed. Action on the remaining 3,424 theft cases was yet to be taken (August 2006).

Non-recovery of penalty in cases of theft

2.1.25 As per clause 31(e) of the 'Conditions of Supply and Miscellaneous Charges for Supply of Electricity' consumers are liable to pay 20 *per cent* of the provisionally assessed amount towards theft of electricity before restoration of supply. Final assessment is to be made within 30 days after issuance of provisional assessment bill. If a consumer fails to pay the balance amount by the due date, supply of electricity is to be disconnected.

Audit scrutiny revealed that out of 23,542 theft cases involving Rs.48.49 crore, penalty amounting to Rs.32.17 crore remained to be collected in respect of 9,213 cases as under.

Year	Cases detected by			
	Flying squads		O&M offices	
	No. of cases	Amount (Rupees in lakh)	No. of cases	Amount (Rupees in lakh)
2001-02	46	518.15	382	95.40
2002-03	407	512.83	210	44.07
2003-04	470	770.99	653	110.45
2004-05	490	247.51	1,584	156.55
2005-06	593	300.30	4,378	461.24
Total	2,006	2,349.78	7,207	867.71

The management in its reply accepted (August 2006) the audit finding. The reply is, however, silent on the reasons for non recovery of penalty.

Non-recovery of penalty in other cases of irregularity

2.1.26 It was noticed during audit that out of 5,786 cases involving Rs.10.33 crore, penalty of Rs.7.36 crore in respect of 4,597 cases of ‘other irregularities’ such as drawal of power more than the sanctioned load detected by FS during 2001-06 was not recovered from the defaulting consumers.

The management accepted audit observations (August 2006) but did not furnish any reasons for non recovery.

Non-issue of final bills

2.1.27 As per clause 31(e) of the ‘Conditions of Supply and Miscellaneous Charges,’ provisional bill for theft of electricity is to be issued immediately, and on payment of 20 *per cent* of the amount of the provisional bill the supply can be restored. Final bill is required to be issued within one month from the date of the provisional bill.

Final bills were not issued despite delay of 20 to 64 months.

Audit scrutiny, however, revealed that in the following 31 cases, the final bills of Rs.1.58 crore had not been issued (March 2006) even after the lapse of 20 to 64 months from the date of provisional assessment, resulting in non recovery of electricity charges of Rs.1.58 crore besides loss of interest on the unrecovered amount:

Circle	Year of detection of theft	Number of cases	Provisional assessment (Rupees in lakh)	Delay in issue of final bill (months)
Pune	2003-04	19	97.48	23-30
Sangli	2001-03	6	32.90	45-64
Parbhani	2004-05	1	16.85	20
Osmanabad	2003-05	3	9.74	24-35
Beed	2004-06	2	1.02	48
Total		31	157.99	

Audit further noticed that:

- After issue of provisional bills there were delays in issuing final bills which facilitated the defaulting consumers to approach the consumer forum and getting the electricity reconnected after paying the amount decided by the forum. This resulted in non-recovery of penalty from such consumers during the pendency of the case.
- As per the procedure prescribed by the Company the cases detected by FS are provisionally assessed and sent to O&M offices for issuance of provisional/final bills and recovery thereof. The registers showing details of cases detected were not properly maintained by the O&M offices to ensure that all cases detected were assessed and billed, recovery made in time and supply of energy disconnected in case of non-payment. Audit scrutiny revealed that three circles reported (March 2005/2006) to the Head Office that 59,141 consumers (Beed-22,031, Latur-28,599 and Osmanabad-8,511) were found to be illegally drawing/using energy during 2004-05 and 2005-06. These three circles, however, furnished records of only 2,859 (Beed-589, Latur-1,404 and Osmanabad-866) theft cases to audit. Action taken on the remaining 56,282 theft cases for assessment and levy of penalty could not be verified in audit.

Variation in penalty levied

2.1.28 As per clause 31(e) of the 'Conditions of Supply and Miscellaneous Charges for Supply of Electricity' provisional assessment of penalty for theft of electricity by HT consumers is done by the SE and final assessment by the CE. In case the HT consumer is not satisfied with the final assessment he/she can prefer an appeal within 30 days before the appellate authority.[▼] For LT consumers' final assessment is done by the SE and appeal is heard by CE. Audit scrutiny revealed that there were large variations in the initial

[▼]Comprising Technical Director (Internal Reform), Technical Director (Commercial), Director of Finance, Director (V&S) and Chief Engineer (Commercial)

assessment and final assessment of penalty by the appellate authorities, as detailed below:

There were wide variations in assessment of penalty at appellate authority level.

Sl. No.	Name of Consumer (date of detection)	Initial assessment (period/month of assessment)	Final assessment (period/month of assessment)	Assessment by appellate authority (period/month of assessment)	Variation in assessment compared to initial assessment (percentage)
		(Rupees in lakh)			
1	Meera Silk Mills, Dombivli, Kalyan circle (26 May 2001)	83.99 (28 months/ June 2001)	93.76 (28 months/ October 2001)	9.32 (2.5 months/ July 2002)	74.67 (88.90)
2	Mili Steel Private Limited, Atgaon, Kalyan circle (28 May 2001)	66.96 (23 months with CL 305 KVA/ June 2001)	105.61 (23 months with CL 329 KVA/ October 2001)	6.82 (3.75 months/ January 2003)	60.14 (89.91)
3	Balbir Alloys Limited, Murbad, Kalyan circle (8 June 2000)	380.15 (14.5 months/ June 2000)	403.73 (14.5 months/ November 2001)	82.55 (3.75 months/ January 2003)	297.60 (78.28)
4	Chaphekar Engineering Private Limited, Pune Rural circle (31 August 2002)	139.53 (36 months/ September 2002)	53.33 (13.25 months/ September 2004)	28.77 (six months/ December 2004)	110.76 (79.38)
5	Equal Mineral and Grinding Industries, Sangli circle (2 February 2002) (LT Industrial)	4.59 (36 months/ March 2002)	1.13 (10.5 months/ August 2005)	---	3.46 (75.38)

The large variations in the amount of initial and final assessment indicate deficiencies in the system of levy and computation of the amount of penalty.

The revised assessments were stated to have been based on restricted period of assessment up to the dates of replacement of meters and dates of inspection of meters. If such replacement of meters/inspection of meters had indeed taken place, it is not clear how the SE and the CE were not aware of this vital information at the time of assessment, indicating a deficient system.

Court cases

2.1.29 The Company had not maintained any database of Court cases filed, decisions in these cases and total Court cases pending. During 2001-06, 38 court cases involving Rs.21.83 crore were decided by the District/High Courts.

Defective investigation

2.1.30 Out of 17 court cases involving Rs.13.70 crore decided against the Company during 2001-06 scrutiny of eight major cases revealed the following:

Consumer	Date of decision	Amount involved (Rupees in lakh)	Reasons for losing the cases
Niranjan Alloy Steel Private Limited, HT consumer (Aurangabad circle).	21 September 2001	1,216.00	<ul style="list-style-type: none"> There was difference in the data on assessment of stolen units and line loss submitted as evidence before the court. No bifurcation/calculation for demand charges/unit charges was shown in the bill. Failure to prove who had taken reading of the meter as these details were not produced before the court.
Megatech Mobile Spares Private Limited (Vashi circle)	9 February 2005	12.19	<ul style="list-style-type: none"> Accu-check was not done in presence of panch and police. Meter was not tested to prove tampering. Delay in filing FIR.
Bonhomie Plastic Industry (Vashi circle)	25 September 2003	11.84	<ul style="list-style-type: none"> FIR was filed late by four days. Meter was not tested to prove tampering. Specific findings were not indicated in the inspection report.
Brijlal Telaram Khurana, Residence (Parbhani circle)	7 April 2005	3.57	<ul style="list-style-type: none"> There was delay of four days in filing the FIR. The meter was not sealed and seized on the same day. Meter was not tested to prove tampering.
Toshniwal Hospital (Parbhani circle)	12 September 2005	0.86	<ul style="list-style-type: none"> Meter was not tested to prove tampering. Assessment of stolen electricity was not as per the formula prescribed.
Brijlal Telaram Khurana, Petrol pump (Parbhani circle)	7 April 2005	0.60	<ul style="list-style-type: none"> Meter was not tested to prove tampering. Meter number in the energy bill and that at site did not tally.
S. K. Waluiddin, Flour mill (Parbhani circle)	29 August 2003	0.51	<ul style="list-style-type: none"> Meter was not produced before the court to prove that the seal was broken. No document was produced to prove that the tampered meter belonged to the accused.
Shanti Chips and Mineral Grinding Industries (Sangli circle)	1 February 2005	4.32	<ul style="list-style-type: none"> Meter was not tested to prove tampering.
Total		1,249.89	

Defective procedure adopted during investigation helped the consumers in winning the court cases.

Thus, defective procedures adopted during investigation and delay in filing FIRs helped the consumers in winning the court cases. No action has been taken against the officials responsible for the lapses. Further, reasons for losing the cases had not been analysed by the Company and lacunae in investigation had not been circulated to field offices to avoid their recurrence in future.

Lack of follow up action on cases decided in favour of the Company

2.1.31 Out of 21 court cases involving Rs.8.13 crore decided in favour of the Company, scrutiny of five major cases revealed the following:

The Company did not take adequate follow up action in the Court cases decided in its favour.

Consumer	Date of decision	Amount involved (Rupees in lakh)	Remarks
Murbad alloys (Kalyan circle)	17 February 2001	267.92 plus interest at the rate of 18 per cent	Prompt action was required to execute the decree so that defaulter would not get opportunity to dispose of the property. No action has been taken even after lapse of five years (March 2006).
Excel Ice Service (Vashi circle)	30 August 2004	163.48	Revised bill of Rs.163.48 lakh based on court order was approved by the appellate authority in December 2004. The bill was, however, issued to the consumer only in August 2006, after delay of 19 months resulting in loss of interest of Rs.33.50 lakh at 14.25 per cent on the amount of Rs.148.48 lakh excluding Rs.15 lakh paid by the consumer initially.
Kaushal Ice & Cold Storage (Vashi circle)	10 December 2001	95.79	Prompt action was required to execute the decree so that defaulter would not get opportunity to dispose of the property. No action has been taken even after lapse of five years (March 2006).
Ajitkumar Plasto Packaging (Kalyan circle)	30 November 2000	0.45 plus interest at the rate of ten per cent	
Ravi Plastic (Kalyan circle)	17 January 2001	0.43 plus interest at the rate of six per cent	
Total		528.07	

No action had been taken against the officials responsible for the above lapses.

Deficiencies in rules

2.1.32 As per Clause 31(e) of the ‘Conditions of Supply and Miscellaneous Charges for Supply of Electricity’ assessment of stolen electricity by LT consumers is calculated as under:

Connected load found at the time of inspection in KW x diversity factor x load factor x number of working hours per day x number of days per month x number of months assessed.

Scrutiny of above method of calculation of assessment of theft of energy revealed the following deficiencies:

Number of working hours per day

2.1.33 The rule prescribes assessment of electricity stolen by the commercial consumers based on six working hours per day although the period of operation of commercial establishments is more than this.

In six cases relating to theft of electricity by Hotels & Restaurants located in Lonawala and Pune detected during October 2002 to January 2004 the working hours indicated in spot inspection reports were in the range of 16 to 24 per day. However, while computing penalty in three cases, only six hours were considered, while in the remaining three cases eight to ten hours were reckoned. Thus, due to not considering the actual working hours for computation of penalty, the penalty was short levied by Rs.2.67 crore. It was noticed in audit that for computation of penalty for residential consumers, 24 hours are considered for computing the penalty.

2.1.34 *Computation of load factor*

- The connected load as noticed during inspection is to be multiplied by 0.6 for assessment of electricity stolen by LT industrial consumers. Which means if, say, 10 electrical devices are connected then the computation is based on the principle that on an average six electrical devices are used. In case of multiple electrical devices such a factor of 0.6 may be reasonable. It is, however, seen that in case of assessment of electricity stolen by agricultural and flour mills consumers also, a load factor of 0.6 is considered for calculation of penalty. This lacks justification. Since in the case of agricultural and flour mills consumers the electric load would be one electric motor only, assessment rule of considering 0.6 load factor appears deficient as an electric motor cannot be run by utilising partial load.
- Similarly, for computation of electricity stolen by domestic consumers, the computation of penalty is calculated taking five *per cent* of the total connected load. Audit noticed that this norm resulted in negative assessment also as the energy computed was less than that actually billed earlier as the bills are prepared on the basis of connected load.

Ceiling for levy of penalty

2.1.35 In case of theft of electricity the MERC Regulations, 2005 provide for levy of penalty for a maximum period of two years. This duration of two years would be in order if the checking of all meters is done within a cycle of two years. In the absence of such systematic checking, restricting the period of penalty to two years is not a strong enough deterrent against theft. There is a need to complete the inspection of all meters within the span of the maximum period of penalty to ensure that consumers do not take undue advantage of this Rule.

The management stated (August 2006) that the matter of prescribing the procedure as envisaged in the Electricity Act, 2003 was under examination of MERC.

Internal Control and Internal Audit

2.1.36 Internal Control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient, effective and orderly manner. Audit scrutiny revealed the following deficiencies in the Internal Control and Internal Audit system relating to prevention/detection of theft/loss of energy:

- In preventive measures there was lack of periodical inspection of consumers' installation, testing of HT meters, recalibration of LT meters, replacement of faulty meters and action on DTC wise energy audit. The deficiencies noticed have been brought out in paragraphs 2.1.7, 2.1.8, 2.1.9, 2.1.11 and 2.1.12.
- In detection measures there was lack of follow up action regarding meters running abnormally slow, various deficiencies in documentation of theft cases and under assessment/revision of penalty due to incorrect application of the rules. The deficiencies have been brought out in paragraphs 2.1.14, 2.1.16 to 2.1.22 and 2.1.28.
- There was lack of follow-up and monitoring of levy and recovery of penalty and laxity in initiating legal cases and their follow up as brought out in paragraphs 2.1.25 to 2.1.27, 2.1.30 and 2.1.31.

The Company had a separate departmentally managed Internal Audit Wing. The Internal Audit Wing did not, however, adequately cover the review and monitoring of theft cases for recovery of penalty and other follow up action.

Acknowledgement

2.1.37 Audit acknowledges the co-operation and assistance extended by different levels of management at various stages of conducting this performance audit.

Conclusion

The performance of the company with respect to prevention/detection of distribution losses was found to be deficient as preventive measures like periodical inspection and testing of consumers' installations, recalibration of meters, checking of the premises of permanently disconnected consumers and paid pending cases, repairs/replacement of faulty meters

etc. were not effectively implemented. Non linkage of consumers attached to distribution transformers defeated the objective of installation of meters on distribution transformers for prevention/detection of energy losses. There was no systematic follow up on complaints for theft of electricity. Penalty charges and compounding charges though levied were not recovered, thereby diluting the deterrent effect of these penal provisions.

There were wide variations between the initial and final assessment of penalty. Deficiencies were noticed in the rules for assessment of penalty. Defective procedures adopted during investigation resulted in the Company losing court cases and in cases decided in favour of the Company there was lack of follow up action.

Recommendations

- System of rotational checking of meters may be adopted to cover all consumers within the maximum period for which penalty is leviable.
- Distribution transformer wise identification of consumers and analysis of loss may be undertaken to aid detection of theft of electricity.
- Complaints from public are a good source for detection of theft of electricity. Systematic database of complaints relating to theft of electricity may be maintained for effective pursuance.
- Database of meters checked may be maintained, as it is a vital input for assessment of penalty.
- The rules for assessment of penalty may be suitably modified to remove the deficiencies pointed out so that wide variations in the assessment of penalty can be effectively controlled.
- The procedure for investigation of theft of electricity should be streamlined so that the consumers indulging in theft of electricity do not take advantage of defective investigation. In cases decided in favour of the Company there should be effective follow up action to recover the decreed amounts.

The above findings were reported to the Government (May 2006); the reply had not been received (December 2006).

Lokshahir Annabhau Sathe Development Corporation Limited, Mahatma Phule Backward Class Development Corporation Limited, Maharashtra Rajya Itar Magas Vargiya Vitta Ani Vikas Mahamandal Limited, Sant Rohidas Leather Industries and Charmakar Development Corporation of Maharashtra Limited and Vasantnao Naik Vimukta Jatis and Nomadic Tribes Development Corporation Limited

2.2 Performance of implementation of financial assistance and training schemes for upliftment of Scheduled Castes, Scheduled Tribes and Other Backward Classes

Highlights

There were five Companies set up with the objective of raising the economic status of scheduled castes, scheduled tribes and other backward classes. The Companies spent Rs.11.56 crore on training through unregistered private institutes only despite there being 347 Government Institutes in the State, in violation of Government directives.

(Paragraphs 2.2.1, 2.2.8 and 2.2.9)

Under the National Scheme for Liberation and Rehabilitation of Scavengers, Mahatma Phule Backward Class Development Corporation Limited spent Rs.4.62 crore towards training of 9,709 scavengers and instead of rehabilitating them in dignified jobs, engaged them on road sweeping and solid waste management work for which no training was required, resulting in non achievement of scheme objectives. The Company submitted incorrect utilisation certificates to the Government of India.

(Paragraph 2.2.16)

There was no system to ensure that the candidates selected for training actually attended the training programmes and the efficiency of the training imparted was not evaluated. Payments for training were made to non existent training institutes. The utility of the training schemes in obtaining gainful employment was not monitored.

(Paragraphs 2.2.11, 2.2.13 and 2.2.15)

There were instances of financial assistance being given to ineligible beneficiaries as also of disbursement made in excess of the prescribed limit.

(Paragraphs 2.2.17 to 2.2.26)

Disbursement of Rs.2.39 crore was made directly to 462 beneficiaries by three Companies in violation of scheme conditions. Such direct disbursement was fraught with the risk of misuse of the money. None of the five Companies ensured that the material was actually delivered to the beneficiaries before releasing payment to the suppliers. Eleven suppliers in Aurangabad and Beed districts who had been paid by the Companies did not exist.

(Paragraphs 2.2.28 and 2.2.29)

Under the 50 per cent subsidy scheme, 50 per cent of the project cost was to be disbursed by Mahatma Phule Backward Class Development Corporation Limited (MPBCDCL) as subsidy and balance 50 per cent by banks by way of loans to the beneficiaries. MPBCDCL had disbursed Rs.59.12 crore subsidy during 2001-05 under the scheme to the banks, against financial assistance disbursed by banks of only Rs.10.89 crore. Thus, the subsidy of Rs.48.23 crore shown as disbursed was lying with the banks, and had not been used for fulfilling the scheme objectives.

(Paragraph 2.2.34)

There was no system of periodical reporting to the Board of Directors of the Companies regarding the progress of implementation of the schemes to enable monitoring and taking of remedial measures on the deficiencies noticed. The scheme evaluation reports got prepared through private agencies at a cost of Rs.16.21 lakh were not acted upon rendering the entire expenditure unfruitful.

(Paragraph 2.2.36)

Introduction

2.2.1 With the objective of raising the economic status of Scheduled Castes, Scheduled Tribes and Other Backward Class population of the State, the Government of Maharashtra (GOM) set up the following Companies:

Sl. No.	Name of the Company	Date of incorporation	Targeted section of population
1.	Sant Rohidas Leather Industries [@] and Charmakar Development Corporation of Maharashtra Limited, Mumbai (SRLI&CDCML).	1 May 1974	Cobbler community
2.	Mahatma Phule Backward Class Development Corporation Limited, Mumbai (MPBCDCL).	10 July 1978	Scheduled Castes and Nav-Budha
3.	Lokshahir Annabhau Sathe Development Corporation Limited, Mumbai (LSABSDCL).	11 July 1985	Matang community
4.	Vasatrao Naik Vimukta Jatis and Nomadic Tribes Development Corporation Limited, Mumbai (VJNTDCL).	8 February 1984	Vimukta Jatis and Nomadic tribes
5.	Maharashtra Rajya Itar Magas Vargiya Vitta Ani Vikas Mahamandal Limited, Mumbai (MRIMVVAVML).	23 April 1999	Other backward class communities

[@] The name of the Company was changed from LIDCOM to SRLI&CDCML in 1998.

These Companies mainly implemented 13* financial assistance schemes for the targeted sections and two Companies (Sl.No. 2 and 3) implemented General training schemes whereas the MPBCDCL implemented the scheme for training for scavengers under the National Scheme for Liberation and Rehabilitation of Scavengers (NSLRS).

The management of each of these Companies is vested in a Board of Directors appointed by the State Government. The Managing Director is the Chief Executive of each Company and is assisted by General Managers at Head Office level and regional managers and district managers at field level. A Comprehensive Review on the working of Mahatma Phule Backward Class Development Corporation Limited was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1997 (Commercial) - Government of Maharashtra, and was discussed by the Committee on Public Undertakings (COPU) in September 2000. The Action Taken Notes on the recommendations were also discussed by the COPU on 10 October 2005.

Scope of Audit

2.2.2 This review conducted during March-May 2006 covers the implementation of various schemes by the five Companies during the period 2001-06. The audit findings are based on test check of records maintained at their Head offices and four* out of six# regional offices of the Companies selected on the basis of the amounts of disbursement and number of beneficiaries.

Audit objectives

2.2.3 The audit objectives of the review were to assess/whether and to what extent:

- the selection of the candidates for training was done in a fair and transparent manner;
- the training institutes selected for training were identified with due care and diligence, keeping in view the targeted groups and the objectives of the schemes;
- the monitoring system of the training activities was effective;

* National Scheme for Liberation and Rehabilitation of Scavengers, Sanitary mart scheme, Educational loan scheme, Margin money scheme, Direct finance scheme, Term loan scheme, Micro credit finance scheme, Fifty *per cent* subsidy scheme, Swarnima scheme, Swayam sakhsham scheme, Deendayal micro loan scheme, Mahila samrudhi scheme and New swarnima scheme.

* Aurangabad, Nagpur, Nashik and Pune.

Amravati, Aurangabad, Mumbai, Nagpur, Nashik and Pune.

- due care was exercised by the implementing agencies during disbursement and their post disbursement monitoring was adequate effective; and
- the schemes selected resulted in gainful employment/upliftment/betterment of the targeted groups.

Audit criteria

2.2.4 The following criteria were adopted to assess/evaluate the performance of these Companies:

- GOM directives and the procedures prescribed by the Companies for the selection of candidates for training;
- the prescribed instructions of the GOM for registration, infrastructure facility and quality of training institutes and recommendations of the district co-ordination committees;
- instructions of the GOM/Companies regarding monitoring of the schemes;
- guidelines issued by the Government of India (GOI) under NSLRS; and
- guidelines and instructions prescribed under various schemes for financial assistance given to the targeted population.

Audit methodology

2.2.5 Audit used a mix of the following methodologies:

- examination of the records of the Companies both at Head office and field offices;
- review of agenda and minutes of the meetings of Board of Directors and instructions and orders issued by the State Government; and
- meetings and discussions with the management.

Audit findings

2.2.6 The audit findings were reported to the Government/management in May 2006 and discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 14 July 2006 which was attended by the Government representatives, Managing Directors and

Financial Advisors of these Companies. The view points of the Government and the management were taken into account before finalising the review.

The audit findings are discussed in the succeeding paragraphs.

Arrears in finalisation of accounts by the Companies

2.2.7 The position of Government investment by the way of share capital in these Companies, the accumulated loss based on their latest finalised accounts and position of arrears in finalisation of accounts is given below:

(Rupees in crore)

Name of the Company	Share capital as on 31 March 2006	Accumulated loss based on latest finalised accounts	Accounts finalised up to the year	Arrears of accounts up to March 2006 (in years)
MPBCDCL	172.41	--	1992-93	13
LSABSDCL	55.69	46.78	1990-91	15
VJNTDCL	49.55	94.21	1994-95	11
SRLI&CDCML	43.21	66.76	1994-95	11
MRIMVVAVML	33.88	13.67	2000-01	5

The Government stated that instructions had been issued to the Companies to complete annual accounts and annual reports within the stipulated time. There was, however, no progress and more concrete steps are required to be taken to liquidate the arrears in finalisation of accounts.

Training schemes

General training schemes

2.2.8 MPBCDCL and LSABSDCL implemented training schemes for employment generating activities such as training in motor driving, television/video/radio repairing, welding, electrical works, scooter and auto repairing, tailoring, computer education *etc.* The duration of the training period varied from six to 12 months. During the training period, stipend at the rate of Rs.150 to Rs.500 was paid to the trainees. The total expenditure incurred on training by the two Companies during the period 2001-06 was Rs.11.56 crore. The details of the total expenditure incurred and the number of persons trained during the period is given below:

(Amount: rupees in lakh)

Name of the Company	2001-02		2002-03		2003-04		2004-05		2005-06	
	No. of trainees	Amount	No. of trainees	Amount	No. of trainees	Amount	No. of trainees	Amount	No. of trainees	Amount
MPBCDCL	2,192	58.82	1,903	102.15	4,233	164.29	3,224	125.44	2,488	60.27
LSABSDCL	281	20.95	683	24.46	562	35.29	1,666	94.90	16,777	469.00
Total	2,473	79.77	2,586	126.61	4,795	199.58	4,890	220.34	19,265	529.27

MPBCDCL incurred expenditure of Rs.5.11 crore on training of 14,040 trainees during 2001-06. The expenditure on training showed an increasing trend during 2001-02 to 2003-04, and declined during 2005-06 due to fewer numbers of trainees.

LSABSDCL had trained 3,192 trainees and incurred expenditure of Rs.1.76 crore during 2001-05. It was seen that during the year 2005-06 there was a steep rise in the number of trainees from 1,666 in 2004-05 to 16,777 as against the target of 1,000 candidates and the expenditure incurred was Rs.4.69 crore. The number of candidates trained during 2005-06 was over four times the number of candidates trained during the previous four year period 2001-05. The reasons for this steep rise in the number of candidates trained during 2005-06 were not furnished by the Company. Audit however, noticed from the reports submitted (February 2006) to the Social Justice Department, GOM and from a scrutiny of lists of trainees that the candidates were given training in more than one trade(s) as the names of candidates appeared in the lists more than once. Hence, the bonafides of the candidates shown as trained could not be verified in audit.

Selection of training institutes

2.2.9 According to the GOM decision of April 2002 circulated to the Companies, the training schemes were to be implemented through 347 Government Industrial Training Institutes (ITIs) and 120 Technical Institutes. For trades for which training was not available in Government institutes, the training was required to be given in Central Government approved institutes as recommended by the district co-ordination committees. The Institutes were required to be registered with the State Director of Vocational Training and Technical Education.

Audit scrutiny revealed that:

LSABSDCL engaged only private institutes for training instead of Government institutes.

- MPBCDCL gave training to the candidates through private as well as Government institutes whereas **LSABSDCL engaged only private institutes for imparting training.**

The management of LSABSDCL stated (August 2006) that importance was given to private institutes run by Scheduled Caste proprietors as per the decision of their Board of Directors. The reply is not tenable as the decision was in violation of the Government directives.

- Audit scrutiny of records of 73 institutes out of 103 institutes in Jalna, Beed, Wardha and Nagpur Districts of the LSABSDCL revealed that these institutes were not registered with the State Director of Vocational Training and Technical Education. The payment made to such unregistered institutes during 2004-06 was Rs.1.30 crore. The reasons for engaging unregistered institutes were not on record.

The management of LSABSDCL stated (August 2006) that details had been called for from the regional offices and further progress would be intimated.

Deficiencies in selection of trainees

2.2.10 In the interest of transparency and fairness it is necessary that wide publicity is given among candidates aspiring for training so that the benefits envisaged reach the targeted groups. This was not done. Scrutiny of records of LSABSDCL further revealed that Committees were not formed for selection of the candidates, as required under the GOM decision of April 2002. Police verification of the candidates, which was compulsory as per the GOM decision, was also not done by LSABSDCL and MPBCDCL.

Ineligible candidates were selected for training.

The District Managers were responsible for selecting the eligible candidates for training. Scrutiny of applications of 187 candidates in District Offices (Thane, Satara, Nashik and Pune) of LSABSDCL and MPBCDCL revealed that 20 candidates had not submitted the required income certificates, 14 candidates did not fulfill the prescribed age criteria, 24 candidates did not fulfill the income criteria and six candidates did not submit caste certificates resulting in selection of ineligible candidates for training.

As per the Companies rules, training to one applicant is to be provided in only one trade. It was thus required to be ensured that the same candidates were not selected for training for another trade. Audit scrutiny in, Thane, Nashik and Aurangabad district offices of LSABSDCL and MPBCDCL, however, revealed that 27 candidates were selected for computer training as well as for beauty parlour training in violation of the rules.

The management of LSABSDCL (August 2006) accepted the audit observation and stated that remedial action would be initiated.

Monitoring of training

2.2.11 LSABSDCL had not devised any monitoring mechanism for the training programmes being implemented. It did not:

LSABSDCL did not monitor the training programmes.

- ensure that the training was given in Government institutes/Government approved institutes;
- obtain detailed training programme from training institutes indicating the starting date, ending date, training hours *etc.*;
- did not maintain records of surprise checks or verification of training institutes though prescribed by the Government (April 2002). Periodical progress reports were also not obtained from all the Institutes; and
- issue photo identity cards to the trainees to ensure that the candidates attending the training course were the ones who were nominated.

Payment of stipend to trainees

2.2.12 The total expenditure on training fees and stipend incurred by MPBCDCL and LSABSDCL was Rs.11.56 crore during the period of review. No separate account of payment of stipend was maintained by both the

There were irregularities in disbursement of stipend to the trainees.

Companies. The Companies did not ensure that the candidates had actually attended the training programmes on all the days and surprise verification of attendance was not done by the Companies, before paying stipend.

Audit scrutiny revealed that acknowledgements on blank receipts were obtained from the candidates right at the beginning of the training course. The attendance sheets submitted by the training institutes did not contain signatures of the candidates for each day of the training programme. Audit scrutiny revealed that such signatures, wherever obtained, did not match with the earlier signatures. Hence the bonafides of the candidates/payees could not be verified in audit.

Payment to training institutes

2.2.13 As mentioned in paragraph 2.2.9, LSABSDCL violated the State Government directives for conducting the training of candidates in Government run/recognised institutes. The Company's control was lacking in releasing Government funds to such private unrecognised institutes as discussed below:

- Advance payments to the private institutes by LSABSDCL were being made without obtaining any Bank Guarantee/security deposit or any other financial security to safeguard against unsatisfactory performance of the training institutes. Further, the payments were also made in cash/bearer cheques facilitating misutilisation of Government funds.
- **Joint verification with the Company officials during April-May 2006 by Audit in Thane and Aurangabad Districts revealed that five out of six institutes did not exist but as per the Company records payments aggregating of Rs.23.37 lakh (Fees: Rs.15.20 lakh and Stipend: Rs.8.17 lakh) had been made to these institutes during 2003-06. The records for the earlier period were not made available to Audit.**

Payments were made to non-existent training institutes.

The management of LSABSDCL stated (August 2006) that records from the district offices had been called for verification and further progress would be intimated to Audit.

2.2.14 MPBCDCL entered into an agreement (28 July 2003) with Aptech Limited for imparting training in MSCIT[∇] and CPISM[#], at the rate of Rs.7,350 per candidate. Audit noticed that Aptech Limited had imparted training only in MSCIT. In the absence of open invitation of offers from other institutes approved by the Government the reasonableness of the rate of Rs.7,350 per candidate charged by Aptech Limited was not verifiable.

Subsequently (September 2005), MPBCDCL executed another agreement with Aptech Limited for training at the rate of Rs.3,857 per candidate with 75 per cent advance payment and balance on completion of the course. The

[∇] Maharashtra State Certificate in Information Technology.

[#] Certificate of Proficiency in Information Management System.

fee of Rs.3,857 was much higher than the rate of Rs.2,010 fixed by the GOM for the MSCIT course.

Post training feedback

2.2.15 The Companies had not maintained any database of the trainees, which could help the Companies in obtaining feedback from them on the utility of the training course and the extent to which the training schemes had succeeded in enabling the trainees to get employment.

Training of scavengers under the National Scheme for Liberation and Rehabilitation of Scavengers

2.2.16 MPBCDCL has been implementing the scheme since 1992 for training and rehabilitation of scavengers[Ⓢ] under the National Scheme for Liberation and Rehabilitation of Scavengers (NSLRS), of GOI with the objective of liberating scavengers from obnoxious work and rehabilitating them in some other profession.

MPBCDCL received Rs.21.35 crore from GOI during 2001-02. The Company spent Rs.11.94 crore during 2001-06 as detailed below:

Year	Training		Rehabilitation		Sanitary mart training	
	Number of beneficiaries	Amount (Rupees in lakh)	Number of beneficiaries	Amount (Rupees in lakh)	Number of beneficiaries	Amount (Rupees in lakh)
2001-02	1,036	16.46	679	98.74	1,086	12.11
2002-03	667	64.33	752	108.92	527	27.76
2003-04	1,669	134.64	1,278	183.97	489	26.99
2004-05	3,447	179.86	1,269	189.65	--*	--*
2005-06	2,890	66.55	560	84.35	--*	--*
Total	9,709	461.84	4,538	665.63	2,102	66.86

Audit analysis revealed as under:

- The Company had trained 9,709 candidates by incurring an expenditure of Rs.4.62 crore during the period 2001-06. A further expenditure of Rs.6.66 crore was incurred on rehabilitating 4,538 beneficiaries.
- As per the utilisation certificate furnished, duly certified by a Chartered Accountant, the unutilised balance of the scheme as on 31 March 2005 was Rs.9.51 crore. However, the unutilised balance as on 31 March 2005 as per the records of the Company was Rs.12.96 crore. Thus, the utilisation certificate as furnished by the Company to GOI was incorrect.

[Ⓢ] One who is partially or wholly engaged in the occupation of manually removing night soil and filth.

- The database of trainees was not maintained as per the guidelines issued by the GOI. The database was deficient as it did not contain vital information such as name, address, age *etc.*
- The main objective of the training under NSLRS was to liberate the scavengers, and rehabilitate them in other dignified jobs. The Company, during 2001-06 trained 9,706 scavengers in various trades like computer, beauty parlour, turner and fitter *etc.* by incurring expenditure of Rs.4.62 crore. However, all the trained candidates were engaged in road sweeping and solid waste management. Thus, the main objective of the scheme was not achieved.
- Group training (two to 25 persons) was to be imparted in masonry and construction of toilets, fitting of pipes *etc.* for establishing sanitary marts under the NSLRS. During 2001-03* the Company incurred expenditure of Rs.66.86 lakh on training of 2,102 scavengers. It was noticed in audit that not a single sanitary mart was established indicating that the objectives of the training were not achieved.

Processing of applications and sanctioning of financial assistance

2.2.17 Thirteen schemes were undertaken with the objective of providing financial assistance to the poor/needful SC/ST/OBC population. During 2001-06 financial assistance of Rs.329.72 crore was disbursed under these schemes as detailed below:

(Rupees in crore)

Name of the Company	Financial assistance disbursed					Total
	2001-02	2002-03	2003-04	2004-05	2005-06	
MPBCDCL	20.95	22.06	26.89	28.65	33.80	132.35
LSABSDCL	9.20	9.99	11.13	24.06	12.28	66.66
VJNTDCL	4.45	6.43	5.43	11.38	6.87	34.56
SRLI&CDCML	3.21	8.48	6.46	9.24	3.69	31.08
MRIMVVAVML	4.04	7.18	22.01	19.26	12.58	65.07
Total	41.85	54.14	71.92	92.59	69.22	329.72

The eligibility criteria for these financial schemes were as under:

- The applicant should be above 18 years but below 50 years.
- He/she should be a domicile of Maharashtra.
- He/she should produce a caste certificate.

* Sanitary mart training not given during the year 2004-05 to 2005-06.

- He/she should produce an income certificate to prove that he/she is from BPL[#]/DPL[#] family.
- He/she should furnish guarantee from two serving Government servants.
- The financial assistance should be provided to only one beneficiary from each targeted family.

Scrutiny of 598^{\$} cases involving financial assistance of Rs.3.21 crore revealed that the implementation of the loan scheme was deficient as financial assistance was sanctioned to beneficiaries who were not eligible with regard to income, caste, age and guarantee criteria; to more than one member of a family, in excess of the prescribed limit without verification of documents, as discussed in the succeeding Paragraphs 2.2.18 to 2.2.34.

Non fulfilment of income criteria

2.2.18 As per GOI directions (1991) the State Government was required to identify BPL beneficiaries when the State Government prepared the list of BPL beneficiaries. The Companies while inviting applications also called for certificates regarding existence of the names and serial numbers of the applicants in the BPL list. It was noticed in audit that the financial assistance was given without verifying the BPL status of the beneficiaries. Financial assistance of Rs.43.91 lakh was disbursed to 68 beneficiaries who had not fulfilled the BPL criterion, the details of which are as under:

Name of the Company	Name of the district	No. of beneficiaries	Financial assistance disbursed (Rupees in lakh)
MPBCDCL	Ahmednagar, Thane, Nandurbar, Jalgoan, Sangli, Pune and Satara	38	28.42
SRLI&CDCML	Sangli, Nagpur and Thane	10	1.23
VJNTDCL	Ahmednagar, Jalgoan and Nagpur	4	3.85
LSABSDCL	Pune, Sangli and Thane	8	4.13
MRIMVVAVML	Pune, Sangli and Thane	8	6.28
Total		68	43.91

Further, in six[@] cases involving financial assistance of Rs.1.24 lakh, the income certificates produced were not from the designated authority *i.e.* Tahasildar.

[#] BPL-Below Poverty line/DPL-Double Poverty Line.

^{\$}MPBCDCL-181 cases (Rs.94.45 lakh), VJNTDCL-138 cases (Rs.69.25 lakh), LSABSDCL-27 cases (Rs.76.40 lakh), SRLI&CDCML-78 cases (Rs.56.03 lakh) and MRIMVVAVML-174 cases (Rs.24.63 lakh).

[@]Three cases of LSABSDCL-Bhandara (Rs.0.30 lakh), Two cases of SRLI&CDCML-Bhandara (Rs.0.80 lakh) and one case of MPBCDCL-Sangli (Rs.0.14 lakh).

Caste certificate

2.2.19 Audit scrutiny revealed that the caste certificates produced by 17 beneficiaries alongwith the applications for financial assistance of Rs.13.82 lakh were not from the designated authority *i.e.* Tahasildar, as detailed below:

(Rupees in lakh)

Name of the Company	Name of the district	No. of beneficiaries	Financial assistance disbursed
MPBCDCL	Sangli, Pune, Ahmednagar and Jalgaon	11	4.60
VJNTDCL	Aurangabad, Pune and Satara	5	9.04
SRLI&CDCML	Pune	1	0.18
Total		17	13.82

Non fulfilment of age criteria

2.2.20 Financial assistance of Rs.27.30 lakh was disbursed to 50 beneficiaries who did not fulfill the prescribed age criteria fixed. These beneficiaries were above the upper age limit of 45/50 as detailed below:

Name of the Company	Name of the district	No. of beneficiaries	Financial assistance disbursed (Rupees in lakh)
MPBCDCL	Satara, Pune, Sangli, Ahmednagar, Nandurbar and Jalgaon	15	3.29
SRLI&CDCML	Sangli, Satara, Thane, Wardha and Bhandara.	11	1.26
VJNTDCL	Ahmednagar, Beed, Satara, Jalgaon, Thane, Bhandara, Sangli and Nagpur	24	22.75
Total		50	27.30

The management of SRLI&CDCML and VJNTDCL stated (June-July 2006) that in future due care would be taken to verify the required criteria, but did not furnish reasons for overlooking the basic eligibility criteria in the above mentioned cases as pointed out in audit.

Disbursement to more than one member of a family

2.2.21 In order to cover more families from targeted groups, financial assistance was required to be provided to only one member from each family. Audit scrutiny revealed that the financial assistance was provided to more than

one member of the same families. **It was also noticed in Nanded and Latur district offices of VJNTDCL that these beneficiaries were related to the district managers. Further, though disbursement was required to be made by cheques, it was made in cash as indicated below:**

Name of the Company	Name of the district	Year	Number of family	Number of family members	Total financial assistance disbursed (Rupees in lakh)
VJNTDCL	Nanded	2004-05	12	18	24.02
	Latur	2002-05	1	3	4.38
	Ahmednagar	2001-02	1	2	5.25
MPBCDCL	Nandurbar	2001-04	3	7	0.70

The management of VJNTDCL stated (July 2006) that disciplinary action against the district managers had been initiated.

Disbursement in excess of the prescribed limit

2.2.22 As per the scheme guidelines, an amount of Rs.25,000 was to be sanctioned under direct finance scheme and the financial assistance was to be limited to one person per family. In violation of this, Aurangabad district office of VJNTDCL disbursed Rs.5.50 lakh to two members of the same family.

The management of VJNTDCL stated (July 2006) that due care would be taken in future. The reply was however, silent on the action taken against the person responsible for the lapse.

Non furnishing of required guarantees by the beneficiaries

2.2.23 As per the conditions laid down the beneficiaries had to furnish guarantees from two serving Government servants. During 2003-06 SRLI&CDCML disbursed financial assistance of Rs.1.82 crore to 150 beneficiaries of Konkan division. **Of these the documents in respect of guarantors submitted by 33 beneficiaries to whom Rs.31.01 lakh of financial assistance was disbursed were fictitious. The Company was yet to undertake verification of the genuineness of the balance 117 cases.**

The management stated (July 2006) that the genuineness of the documents submitted by the remaining beneficiaries would be verified.

Similarly in 15* cases involving financial assistance of Rs.21.84 lakh the guarantees furnished were from other than Government servants as required.

*One case of MRIMVVAVML-Pune (Rs.1.00 lakh), two cases of MPBCDCL-Sangli and Mumbai (Rs.15.82 lakh), two cases of LSABSDCL-Wardha (Rs.0.37 lakh) and ten cases of VJNTDCL-Ahmednagar (Rs.4.65 lakh).

Disbursement of loan without proper verification

2.2.24 During 2004-06 financial assistance of Rs.15.50 lakh was disbursed by SRLI&CDCML to 18 beneficiaries in Ahmednagar district of which seven beneficiaries were not in existence and the remaining 11 beneficiaries had submitted forged documents. Similarly in case of VJNTDCL three beneficiaries of Ahmednagar and Jalgaon districts to whom financial assistance of Rs.0.86 lakh was disbursed (2001-04) had submitted forged documents.

The management of SRLI&CDCML stated (July 2006) that action had been initiated against the district manager and recovery suit had been filed.

Joint verification conducted by the Company officials at the instance of Audit revealed that in respect of four beneficiaries as detailed below the shops/cyber cafe for which financial assistance was granted did not exist:

Name of the Company	Number of beneficiaries	Financial assistance (Rupees in lakh)	Purpose	Date of verification	Year
MRIMVVAVML, Pune	1	0.55	Kirana shop	11 February 2005	2001-02
MPBCDCL, Nashik	2	3.35	Kirana shop and Cyber cafe	27 May 2006	2004-05
LSABSDCL, Nashik	1	2.25	Cyber cafe	28 May 2006	2004-05
Total	4	6.15			

MRIMVVAVML accepted (July 2006) that predisbursement checking had not been carried out by the district managers. LSABSDCL stated (August 2006) that information had been called for from Nashik office.

Disbursement against unsanctioned schemes to ineligible beneficiaries

2.2.25 LSABSDCL[§] disbursed Rs.25.13 lakh to four beneficiaries towards education assistance. The assistance was given though the Company was not mandated to implement any educational scheme and the beneficiaries were also not from BPL families. The management stated (August 2006) that income criterion for educational loan was limited to Rs.2.50 lakh. The reply is not relevant as the Company was not implementing any education loan schemes and such sanctions/disbursements were without any authority.

Deficient documentation

2.2.26 In case of financial assistance for motor vehicles the beneficiaries were required to submit mortgage deeds of the motor vehicles purchased. Audit scrutiny revealed that in 12 cases involving financial assistance of

[§] Aurangabad, Pune and Nagpur district.

Rs.26.88 lakh three[@] Companies had not obtained the required mortgage deeds from the beneficiaries.

Disbursement

2.2.27 Irregularities/Deficiencies noticed in disbursement of financial assistance are discussed in the succeeding paragraphs:

Disbursement to the suppliers without ensuring receipt of material

2.2.28 As per the disbursement procedure of the Companies, before making payments to the suppliers for the material supplied to the beneficiaries it was necessary to verify that the material had actually been delivered to the beneficiaries and the suppliers were registered with the Sales Tax Department.

Audit scrutiny however, revealed that Pune regional office of all the five Companies released Rs.15.33 lakh to 34 suppliers in respect of 20 beneficiaries without receipt of the material. These suppliers were not registered with the Sales Tax Department.

Audit scrutiny further revealed that the five Companies had made payment of Rs.1.25 crore[#] to 11[§] suppliers of Aurangabad, Beed, Nashik and Pune districts for supply of material to the beneficiaries. The Companies did not ensure that the material had actually been delivered to the beneficiaries. Further, joint verification of these 11 suppliers with Company officials revealed that these suppliers did not exist. In the absence of records regarding actual receipt of material by the beneficiaries it could not be verified in audit whether the financial assistance had actually reached the targeted beneficiaries.

The management of LSABSDCL stated (November 2005 and August 2006) that the point had been noted and action would be initiated against the erring officials. The management of VJNTDCL stated (July 2006) that the system would be strengthened to avoid such lapses in future.

Disbursement of financial assistance directly to the beneficiaries

2.2.29 As per the GOM instructions (November 1995), which were reiterated (June 2005), in case of purchase of assets, the payment is to be released to the suppliers (quotation holders) for the material to be supplied to the beneficiaries. The funds were not to be released to the beneficiaries directly so

[@] LSABSDCL : six cases of Nagpur, Pune and Sangli (Rs.16.95 lakh), VJNTDCL : four cases of Bhandara, Pune and Satara (Rs.7.85 lakh) and SRLI&CDCML : two cases of Pune (Rs.2.08 lakh).

[#] MPBCDCL-(16 beneficiaries Rs.20.77 lakh); LSABSDCL-(23 beneficiaries Rs.9.75 lakh) VJNTDCL-(five beneficiaries Rs.9.00 lakh; SRLI&CDCML-(eight beneficiaries Rs.9.50 lakh and MRIMVVAVML-(115 beneficiaries Rs.76.43 lakh).

[§] Beed-B.R. Enterprises, Aurangabad-Sandeep Enterprises, Balaji Traders, Ramkrishna Enterprises, Radhika Enterprises, Sarita Collection, Subhangi Multi Services, Pune-V.S. Marketing, Nashik-Sugandha Collection, Sandeep R. Kishatriya and K.G.N. Enterprises.

as to ensure that money was utilised for the purpose for which it was sanctioned and disbursed. Audit scrutiny, however, revealed that during 2001-05 three Companies disbursed financial assistance of Rs.2.39 crore directly to 462 beneficiaries under the above scheme as detailed below:

Name of the Company	No. of beneficiaries	Financial assistance disbursed (Rupees in crore)
SRLI&CDCML	345	1.56
LSABSDCL (Aurangabad, Pune and Nagpur regions)	83	0.41
VJNTDCL (Aurangabad, Pune, Nashik and Nagpur regions)	34	0.42
Total	462	2.39

Though the financial assistance was disbursed directly to the beneficiaries, the Companies did not ensure either through utilisation certificate from the beneficiaries or through post disbursement verification that the money had actually been utilised for the purpose for which it was disbursed.

Nashik regional office of SRLI&CDCML disbursed (March 2004) financial assistance of Rs.4.16 lakh for purchase of a mini truck to Shree Ram Automobiles. The cheque in the name of the supplier was handed over to the beneficiary directly. It could not be verified in audit whether the vehicle was purchased by the beneficiary.

Disbursement through bearer cheques and in cash

2.2.30 As per the disbursement procedure, in order to ensure disbursement to the beneficiaries, the disbursement was to be made by crossed cheques. **In violation of the procedure the Beed district office of VJNTDCL disbursed (October 2004 to December 2005) financial assistance of Rs.32.90 lakh to 39 beneficiaries through bearer cheques.** This was fraught with the risk of misutilisation of funds and did not ensure the disbursement to the beneficiaries to whom financial assistance was sanctioned. **Similarly, Satara and Sangli district offices of the Company withdrew Rs.81.30 lakh during 2001-05 from banks through self cheques for disbursement.** The detailed utilisation of funds withdrawn could not be verified in audit as the Company did not maintain any cash book.

The management stated (July 2006) that all the beneficiaries were from draught prone area and hence bearer cheques were issued and that necessary instructions had been given to issue crossed cheques only in future. The management had not ensured that the cheques were actually encashed by the concerned beneficiaries themselves and not by any third party.

It was further noticed in audit that **Aurangabad district office of the Company handed over six bearer cheques of Rs.3.25 lakh in respect of seven beneficiaries to a single person.**

The management stated (July 2006) that due care would be taken to avoid such incidents in future.

Similarly, **MRIMVVAVML, Pune district office delivered two cheques of Rs.65,000 to a single middleman.**

The management stated (July 2006) that the cheques were handed over to one person considering 'social welfare'. The reply is silent about what 'social welfare' was achieved by handing over the cheques to a middleman.

Disbursement in violation of scheme guidelines

2.2.31 The National Scheduled Castes Finance and Development Corporation (NSFDC), a GOI Undertaking, sanctioned a scheme for financial assistance to 100 beneficiaries for setting small business like Flour & Masala Mill, Papad Making, STD/ISD/PCO *etc.* As per the scheme, financial assistance of Rs.1.02 lakh was to be disbursed to each beneficiary. No deviation was allowed without prior approval of NSFDC. The Company received Rs.1.02 crore from NSFDC during May 2005. It was seen that LSABSDCL, without prior approval of NSFDC disbursed Rs.1.22 crore to 250 beneficiaries by reducing the amount of assistance to each beneficiary to Rs.48,800. The reduction of the amount without prior approval of NSFDC was not proper. There was also nothing on record to show if the Corporation had ensured utilisation for the purposes for which the amount was sanctioned.

The management of LSABSDCL stated (August 2006) that the disbursements were made as and when funds were received from NSFDC. The reply is not tenable as the funds were received for 100 beneficiaries and were required to be disbursed as per the approved scheme.

Direct purchase on behalf of beneficiaries

2.2.32 As per the GOM directives (November 1995) the role of the Companies was limited to sanction of financial assistance for purchases and the Companies were not to be involved in purchases on behalf of the beneficiaries. In violation of Government directives, LSABSDCL placed order for purchase of 100 zerox machines and paid Rs.80.64 lakh (October 2002) as 90 *per cent* advance to the supplier without obtaining any security from the suppliers. It was noticed in audit that the suppliers had not supplied 33 machines and Rs.28.22 lakh were lying with the suppliers (March 2006).

The management stated (August 2006) that legal action had been initiated against the suppliers. The reply is silent as to why the Government directives were violated and why no security was obtained before releasing the advance.

Disbursement to an ineligible beneficiary for an unviable project

2.2.33 As per the scheme guidelines the financial assistance was required to be sanctioned to the BPL beneficiaries. Audit scrutiny revealed that MPBCDCL had disbursed (February 2001 to December 2002) Rs.24.64 lakh for Hotel business to one beneficiary, Manish More, having annual family income of Rs.10.20 crore per annum. The financial assistance was sanctioned for an unviable project as the internal rate of return of the project was less than the borrowing rate and the beneficiary did not have any past experience in the

field. Thus, the financial assistance was given to an ineligible person for an unviable project.

Besides, based on the project reports submitted by two beneficiaries LSABSDCL disbursed financial assistance of Rs.26.11 lakh for the purchase of luxury buses. Audit scrutiny of project reports revealed that the internal rate of return of the project was negative and hence the projects were financially unviable. Similarly, Aurangabad region disbursed financial assistance of Rs.1.16 lakh to a beneficiary for purchase of a pickup van. Audit noticed that the vehicle purchased was not registered in the name of the beneficiary.

Financial assistance under 50 per cent subsidy scheme and margin money scheme

2.2.34 The Special Central Assistance (SCA) scheme is implemented by GOI through implementing agencies in order to assist the targeted beneficiaries from BPL families. The scheme guidelines *inter alia* provided that:

- Under 50 per cent subsidy scheme the project cost should be limited to Rs.20,000 of which 50 per cent, subject to a maximum of Rs.10,000 shall be given by the Company as subsidy and balance 50 per cent subject to maximum of Rs.10,000 shall be given by the banks by way of loans. Under margin money scheme amount of subsidy payable to each beneficiary was Rs.10,000.
- The banks should credit the subsidy received from the MPBCDCL, to the loan account of the applicant and disburse the entire loan alongwith the subsidy to the beneficiary.
- Service charges at the rate of three per cent shall be recovered from the financial assistance disbursed to the beneficiaries.

It was, however, noticed during audit that:

- MPBCDCL, during 2001-05 sanctioned subsidy of Rs.59.12 crore to 63,016 beneficiaries under 50 per cent subsidy scheme and released the amount to the banks for onward disbursement to the beneficiaries. The banks, during the same period disbursed loans of only Rs.10.89 crore to the beneficiaries. The subsidy of Rs.48.23 crore (Rs.59.12 crore – Rs.10.89 crore) given to the banks and lying with them was reported to the GOI as having been disbursed under the scheme. The Company did not ensure that the subsidy payment was made to the beneficiaries by the banks. This resulted in wrong reporting to GOI and also resulted in parking of funds with the banks without fulfilling scheme objectives.
- MPBCDCL disbursed Rs.2.80 crore to 829 beneficiaries under margin money scheme during 2005-06. Considering the amount of Rs.10,000 having been paid as per the scheme to each beneficiary, the subsidy payable to 829 beneficiaries works out to Rs.82.90 lakh only. The reasons for excess payment under the scheme were neither found on record, nor did the Company furnish any clarifications in this regard.

The Loans disbursed by the banks were much less than the subsidy released to them under the scheme.

- Three[#] Companies did not recover service charges of Rs.3.23[#] crore from the beneficiaries. The reasons for non recovery of service charges in violations of GOI guidelines were not on records.

Irregularities in infrastructure development

2.2.35 As per the GOI guidelines for SCA schemes, 10 *per cent* amount was required to be utilised for infrastructure development. LSABSDCL did not have any staff for implementing Civil Engineering Works departmentally. Thus, the civil work should have been got implemented from the State Public Works Department. The Company, however, decided to undertake construction work through private contractors. The work of construction of common industrial building at Nagpur was awarded (September 2003) to JVN Engineers, who had prepared the estimates for the work. Awarding of the work to the same party which had prepared the estimates lacked justification as the correctness of the estimates was not evaluated independently. Moreover, the firm was registered as a ‘C’ grade contractor and was not authorised to undertake contracts above rupees one crore. Thus, the Company had awarded the work of Rs.1.31 crore to an ineligible contractor.

The work was incomplete (March 2006) despite expenditure of Rs.86.32 lakh on the project.

The management stated (August 2006) that the work was allotted to JVN Engineers as per the resolution of the Board of Directors. GOM had issued orders regarding the valuation of actual work done and action had been initiated against the contractor. The reply however, is silent as to why no action was taken against the officials responsible for the lapses.

Post disbursement monitoring of financial assistance

2.2.36 Post disbursement monitoring of the beneficiaries is necessary to ensure that the funds granted were used for the specified purpose only.

Audit noticed the following deficiencies in post disbursement monitoring:

- The Companies did not maintain any database of the addresses of beneficiaries, guarantors *etc.*
- The Company officials did not regularly inspect the premises of the beneficiaries to ascertain the physical and financial performance of business for which financial assistance was sanctioned.
- No procedure was evolved for post disbursement inspection of the premises of beneficiaries before the first installment became due for repayment.

[#] MPBCDCL:Rs.1.66 crore, LSABSDCL:Rs.1.09 crore and SRLI&CDCML:Rs.48 lakh.

Due to deficiencies in selection of beneficiaries and lack of post disbursement monitoring the recovery position during 2001-06 was very poor as detailed below:

(Rupees in crore)

Name of the Company	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
MPBCDCL	Amount due	49.47	45.63	61.17	78.36	---*
	Recovered	2.76 (5.58)	3.56 (7.80)	3.34 (5.46)	3.80 (4.85)	---*
LSABSDCL	Amount due	6.56	14.24	15.85	19.04	24.05
	Recovered	1.47 (22.50)	3.24 (22.79)	3.68 (23.24)	4.11 (21.58)	4.79 (19.92)
VJNTDCL	Amount due	9.98	11.40	12.98	15.39	18.14
	Recovered	1.08 (11)	1.26 (11)	1.61 (12)	1.90 (13)	2.46 (14)
SRLI&CDCML	Amount due	0.75	1.22	2.84	4.21	3.60
	Recovered	0.04 (5.85)	0.15 (12.16)	0.60 (21.03)	0.80 (18.92)	0.50 (13.81)
MRIMVVAVML	Amount due	1.08	2.56	7.27	11.59	10.14
	Recovered	0.04 (3.92)	0.17 (6.82)	0.91 (12.58)	3.72 (32.09)	3.70 (36.46)

(Figures in brackets indicate percentage of recovery to amount due for recovery)

It would be seen from the table above that recovery performance was dismal in all the five Companies. Poor recovery had impaired the ability of the Companies to provide financial assistance to other needy beneficiaries. Further, the share capital had to be used to repay the dues of GOI/Central Corporations.

The table above includes the dues of Rs.52.82 lakh (MPBCDCL:Rs.50.91 lakh and VJNTDCL:Rs.1.91 lakh) which were outstanding from 1984-85 onward from the beneficiaries who had died and as no guarantees/list of family members were obtained by the Companies, the entire financial assistance had become irrecoverable.

No periodical progress reports were prepared and submitted to the Board of Directors (BOD) to monitor the progress and take remedial measures on deficiencies in implementation.

- Audit noticed that in MPBCDCL, as against the demand for repayment (March 2004) of Rs.55.20 crore by Central Corporations the Company repaid Rs.84.10 crore without verifying its own records for the actual amount due for repayment.
- Due to dismal recovery position, NSFDC asked LSABSDCL to give State Government guarantee for the loans. For obtaining the Government guarantee, the Company had to pay guarantee fee at the rate of 0.5 per cent to the State Government. The additional financial burden was passed on to the beneficiaries.

* Figures not compiled by the Company.

Excess
guarantee fee
was charged.

- Audit further noticed that SRLI&CDCML had charged higher guarantee fee of 2.5 *per cent* from the beneficiaries. The Company stated (July 2006) that 2.5 *per cent* fee was charged from the beneficiaries considering two *per cent* guarantee fee payable to the State Government. The reply is factually incorrect as the guarantee fee applicable was only 0.5 *per cent*.

The schemes
evaluation
report were not
submitted to the
Board of
Directors.

The work of evaluation of various schemes implemented was entrusted to MITCON and MAITREE for Rs.16.21 lakh in 2003-04 by MPBCDCL and LSABSDCL. The reports received were not placed before the BODs thereby rendering the expenditure of Rs.16.21 lakh as unfruitful.

The management of LSABSDCL stated (August 2006) that the report would be placed before the BOD.

In order to monitor the implementation of the schemes and progress of beneficiaries through computers MPBCDCL awarded (May 2004) an automation contract of Rs.25 lakh to Smartlink (IT solution provider).

Audit scrutiny revealed that there was no competition as the bids received (technically eligible: two) were from the same party. An advance of Rs.19.09 lakh was paid (June 2004) to the party but no security was obtained to safeguard against failure of the party to complete the work as per the schedule. Since the work had not so far (September 2006) been completed even after over two years of assignment, the advance of Rs.19.09 lakh paid to the vendor Smartlink remained unfruitful.

While the implementation of the automation contract for MPBCDCL had not been completed by Smartlink, MRIMVVAVML also awarded (January 2005) the work of automation to the same vendor at the same price despite the fact that the scope of its work, in view of very few schemes being implemented by it, was substantially less than that of MPBCDCL.

Internal Controls and Internal Audit

2.2.37 Internal Control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient, effective and orderly manner. Audit noticed the following deficiencies in Internal Control and Internal Audit:

- The Internal Controls for training activities relating to selection of training institutes, payments to the institutes, identification and selection of trainees, payments of stipend and monitoring of training schemes were deficient as discussed in Paragraphs 2.2.8 to 2.2.15.
- Internal Controls relating to implementation of financial assistance schemes, identification of beneficiaries, disbursements and post disbursement monitoring were lacking as discussed in Paragraphs 2.2.17 to 2.2.34.

- As mentioned in Paragraph 2.2.7 the accounts of all the Companies were in arrears for five to 15 years. Timely finalisation of accounts was not monitored by the Managing Directors of the Companies. The State Government also failed to take any effective step for clearance of arrears in accounts.
- The work of Internal Audit was entrusted to B.K. Jain & Company, Chartered Accountant (CA), Mumbai by three* Companies. It was noticed during audit that the CA registration number quoted by him did not belong to him.

The management of VJNTDCL stated (July 2006) that the Balance Sheet and Internal Audit Reports would be got re-examined by appointing another CA. The management of MRIMVVAVML stated (July 2006) that Shri Karim A. Gangani (Regn.No.46087) had executed letter of authority in favour of B.K. Jain to do the Internal Audit of the Company. The reply was factually incorrect because as per the Board of Directors' decision the work was allotted to Shri B.K. Jain, CA up to 2005-06 and he had also submitted his reports of Internal Audit for the year 2002-03 and 2003-04. The reply from LSABSDCL has not been received (September 2006).

Acknowledgement

2.2.38 Audit acknowledges the co-operation and assistance extended by different levels of the management at various stages of conducting the performance audit.

Conclusion

The Companies implemented the training schemes through private institutes in violation of the State Government's directives. Implementation was deficient as there was no system to ensure that the candidates selected for training actually attended the training programmes. The adequacy of the training imparted was not evaluated and monitoring not done. The utility of the training schemes in securing gainful employment was not known in the absence of feedback from the trainees. Even after incurring substantial expenditure on training of scavengers, the main objective of the NSLR scheme to rehabilitate them in dignified jobs was not achieved as they continued with sweeping and solid waste management work for which no training was required.

*LSABSDCL for the years up to 2005-06, VJNTDCL for the years up to 2003 and MRIMVVAVML for the years up to 2005-06.

While implementing the financial assistance schemes for targeted groups assistance was given to beneficiaries who did not fulfill the eligibility criteria. There were several deficiencies/irregularities in disbursement of financial assistance. The subsidy was disbursed without ensuring equivalent disbursement of bank loan. The recovery performance was dismal and post disbursement monitoring was poor.

Recommendations

The Companies need to:

- **impart training through Government institutes as prescribed.**
- **prepare and maintain a proper database of the trainees.**
- **carry out periodic inspections of the training institutes to ensure attendance of the trainees and obtain feedback of training.**
- **evolve some mechanism to evaluate the efficacy of the training imparted.**
- **provide financial assistance only to eligible beneficiaries and after proper verification of documents.**
- **streamline the disbursement procedure to ensure proper utilisation of funds.**
- **strictly adhere to the disbursement procedures and ensure that financial assistance/material under various schemes is actually received by the beneficiaries. Cases of payments made to non-existent institutions/suppliers, disbursement against fictitious documents and payments in cash to other persons, in violation of the norms may be investigated for taking appropriate action.**
- **initiate remedial measures for default in payment of dues.**

The audit findings were reported to the Government/management (May 2006); the reply had not been received from MPBCDCL and from the Government (December 2006).