Overview

1. Functioning of State Public Sector Undertakings

Audit of Government companies is governed by Section 143 (6) of the Companies Act, 2013. As on 31 March 2015, the State of Madhya Pradesh had 64 Government companies (including nine non-working companies) and three Statutory corporations (all working). The accounts of Government companies are audited by Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations[1]. These PSUs employed 64826 employees as on 31 March 2015. The PSUs registered a turnover of ₹ 61264.43 crore as per their latest finalised accounts as on 30 September 2015.

(Paragraphs 1.1 and 1.3)

Investments in PSUs

As on 31 March 2015, the investment (Capital and Long term loans) in 67 PSUs (including three Statutory corporations) was ₹ 56997.43 crore. It grew by 133.59 *per cent* from ₹ 24400.17 crore in 2010-11, 34.77 *per cent* of total investment was towards Capital and 65.23 *per cent* was towards Long-term loans. The thrust of PSUs investment was mainly in Power Sector which increased from ₹ 21414.20 crore in 2010-11 to ₹ 52367.63 crore in 2014-15. The State Government contributed ₹ 8921.46 crore towards Equity, Loans and Grants/Subsidies to State PSUs during 2014-15.

(Paragraphs 1.6, 1.7 and 1.8)

Arrears in accounts

Thirty Six PSUs had arrears of 77 accounts as of September 2015. The PSUs need to set targets for the work relating to preparation of accounts with special focus on clearance of arrears.

(Paragraph 1.10)

Performance of PSUs

During the year 2014-15, out of 58 working PSUs (including three Statutory corporations), 29 PSUs earned total profit of ₹ 566.51 crore while 21 PSUs incurred total loss of ₹ 6848.38 crore. Six PSUs finalised their accounts on “no profit no loss” basis and remaining two PSUs had not finalised their first accounts. The losses were mainly incurred by Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (₹ 2113.02 crore), Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (₹ 1887.15 crore), Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (₹ 1810.95 crore) and Madhya Pradesh Power Generating Company Limited (₹ 896.82 crore).

(Paragraph 1.16)

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[1] Madhya Pradesh State Road Transport Corporation: Road Transport Corporation Act, 1950 ; Madhya Pradesh State Warehousing & Logistics Corporation: Warehousing Corporation Act, 1962; Madhya Pradesh State Financial Corporation: State Financial Corporation Act, 1951

Quality of accounts

Out of 59 accounts finalised by working PSUs during October 2014 to September 2015 the Statutory Auditors had given unqualified certificates for 44 accounts and qualified certificates for 15 accounts. In addition CAG gave disclaimer on one accounts (Madhya Pradesh Laghu Udyog Nigam Limited) during the supplementary audit. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of accounts needs to be improved.

(Paragraphs 1.21 and 1.22)

Coverage of this Report

This Report contains three Performance Audits, one long paragraph and 12 audit paragraphs involving financial effect of ₹ 4099.14 crore.

2. Performance Audits relating to Government Companies

2.1 Functioning of Sanjay Gandhi Thermal Power Station, Birsinghpur

The Madhya Pradesh Power Generating Company Limited (Company) has four thermal power stations and eight hydel power stations with an installed capacity of 4320 MW and 915 MW respectively as on 31 March 2015. Sanjay Gandhi Thermal Power Station (SGTPS) is the major thermal power station with generating capacity of 1340 MW spread across three Power Houses (PH I consisting of two units of 210 MW each, PH II consisting of two units of 210 MW each and PH III consisting of one unit of 500 MW). A review of operation and maintenance of the plant, contract management and environmental compliance by SGTPS revealed the following.

Power House I

- Power House I did not meet the generation target during 2010-11 to 2014-15 and the shortage ranged from 7.15 *per cent* to 34.24 *per cent*. The performance of the PH was not satisfactory as it did not meet the targets set by MPERC in respect of Station Heat Rate, fuel oil consumption, auxiliary power consumption and Plant availability factor (PAF). It was mainly due to deviation in key operational parameters like high main steam temperature, vibrations in super heater and re-heater areas of boiler, furnace instability caused by poor quality of coal, improper functioning of important boiler equipment due to delay in carrying out the annual maintenance and non-taking up of the capital intensive renovation and modernisation works to improve the performance of the power house.

This resulted in excess consumption of coal by 10.42 lakh MT worth ₹ 376.04 crore, excess fuel oil consumption by 9573.490 kilo litre (KL) worth ₹ 41.63 crore, excess auxiliary power consumption of 212.784 MU worth ₹ 63.51 crore and under recovery of MPERC approved fixed cost by ₹ 379.20 crore during 2010-11 to 2014-15.

(Paragraphs 2.1.9, 2.1.10, 2.1.11, 2.1.12 and 2.1.13)

- There was excess presence of un-burnt coal ranging from 1.15 *per cent* to 14.80 *per cent* in bottom ash and from 0.35 *per cent* to 2.37 *per cent* in fly ash during 2010-11 to 2014-15. This was due to improper combustion in boiler furnace as required equipment to monitor the coal fineness and air-fuel ratio in the boiler furnace were not installed. This led to loss of coal measuring 79648.529 MT worth ₹ 27.67 crore.

(Paragraph 2.1.14)

- The re-heater tubes in boiler were not replaced despite rendering the service life of 20 years resulting in their frequent failures causing generation loss of 85.05 MU worth ₹ 30.45 crore.

(Paragraph 2.1.17)

- The coal mills in PH I and II were not provided with gravimetric coal feeders to measure the accurate quantity of coal to be fed into the boiler. This led to excess coal consumption of 1.31 lakh MT worth ₹ 21.20 crore *per annum*.

(Paragraph 2.1.18)

Power House II

- Power House II did not meet the generation target during 2010-11 to 2014-15 and the shortage ranged from 13.98 *per cent* to 39.63 *per cent*. The performance of the PH was not satisfactory as it did not meet the targets set by MPERC in respect of Station Heat Rate, fuel oil consumption, auxiliary power consumption and Plant availability factor (PAF). It was mainly due to deviation in key operational parameters like high main steam temperature, vibrations in super heater and re-heater areas of boiler, furnace instability caused by poor quality of coal, improper functioning of important boiler equipment due to delay in carrying out the annual maintenance and non-taking up of the capital intensive renovation and modernisation works to improve the performance of the power house.

This led to excess consumption of coal by 7.57 lakh MT worth ₹ 276.36 crore, excess fuel oil consumption by 8270.370 KL worth ₹ 39.48 crore and excess auxiliary power consumption of 254.446 MU worth ₹ 80.91 crore during 2010-11 to 2014-15.

(Paragraphs 2.1.22, 2.1.23, 2.1.24 and 2.1.25)

- There was excess presence of un-burnt coal in bottom and fly ash due to non installation of equipment to monitor the coal fineness and combustion in the boiler. This led to loss of coal in the form of un-burnt coal of 32404.596 MT worth ₹ 12.38 crore.

(Paragraph 2.1.26)

- There was frequent outage of coal mills in PH II during 2010-11 to 2014-15 despite having preventive and regular maintenance contracts. It was due to premature failure of coal grinding elements caused by the passage of foreign materials into coal mills in the absence of proper maintenance of sieves at the entry point of coal. This resulted in shutdowns and running of the plant on partial load resulting in generation loss of 816.184 MU worth ₹ 265.42 crore.

(Paragraph 2.1.28)

Power House III

- PH III did not meet the generation target during the years 2010-11 to 2014-15 and the shortage ranged from 0.76 *per cent* to 7.56 *per cent.* Further, it did not meet the target set by MPERC with regard to Station Heat Rate leading to excess consumption of coal by 5.92 lakh MT valuing ₹ 200.25 crore. This was caused by poor quality of coal and improper maintenance of boiler equipment from time to time.

(Paragraphs 2.1.32 and 2.1.33)

- Deferment of annual overhaul (AOH) of power house from scheduled dates resulted in excessive wear and tear in turbine leading to prolonging of AOH period by 14 days. This resulted in generation loss of 168 MU worth ₹ 63.67 crore.

(Paragraph 2.1.37)

- Improper maintenance of the tilting tangential type firing system adopted in boiler of PH-III resulted in avoidable leakages in water wall tubes and re-heater tubes. As a result there was forced shut down causing generation loss of 220.948 MU worth ₹ 75.20 crore.

(Paragraphs 2.1.39 and 2.1.40)

Contract Management in SGTPS

- SGTPS did not realise the claims of ₹ 3.80 crore lodged against M/s South Eastern Collieries Limited towards oversized stones received along with coal. Further, interest of ₹ 80 lakh on pending claims for the delayed period was not levied though provided in Fuel Supply Agreement.

(Paragraph 2.1.44)

- The liaising contract awarded by SGTPS for coordinating with collieries and railways was deficient as it did not have effective clauses for holding the contractor responsible for his failure. Due to failure of contractor to ensure quality coal, SGTPS suffered generation loss of 1153.540 MU worth ₹ 351.97 crore.

(Paragraph 2.1.45)

Environmental Compliance by SGTPS

- SGTPS did not meet the 100 *per cent* ash utilisation target set under notification (November 2009) of GoI. The actual utilisaiton of ash ranged from 57.73 *per cent* and 79.89 *per cent* during 2010-11 to 2014-15 due to poor response from the parties to lift the ash. Further as against the limit of 10 kilo liter (KL) for storing the hazardous waste provided under Hazardous Waste (Management & Handling) Rules, SGTPS was storing hazardous waste of 30 KL resins and 16 KL of lube oil as of 31 March 2015 due to non-disposal of the same.

(Paragraphs 2.1.48 and 2.1.49)

2.2 Working of Madhya Pradesh State Agro Industries Development Corporation Limited

Madhya Pradesh State Agro Industries Development Corporation Limited, Bhopal (Company) was incorporated in March 1969 as a Joint Venture Company between Government of Madhya Pradesh (GoMP) and Government of India (GoI) for the promotion of agriculture and agro industries in the State. During the period from

2010-11 to 2013-14 the sales/turnover of the Company ranged from ₹ 940.02 crore to ₹ 1293.77 crore and net profit ranged from ₹ 15.16 crore to ₹ 51.20 crore.

A Performance Audit was conducted to assess the performance of the Company during 2010-15 covering various aspects such as financial management, trading and production activities, performance of Mechanised Agriculture Farm (MAF) and effectiveness of monitoring and internal control mechanism. Following are the main audit findings.

Financial Management

- Due to non development of common codes of account heads, the Company was unable to consolidate accounts of its District Offices in a timely manner. This has resulted in delayed finalisation of annual accounts. As of 31 October 2015 annual accounts for the year 2013-14 and 2014-15 were in arrears.

(Paragraph 2.2.7)

- As on 31 March 2015 trade receivables of ₹ 231.44 crore were outstanding, out of which receivables of ₹ 8.65 crore were pertaining to more than three years. Further, the adverse (credit) balances in trade receivables were not reconciled, which increased from ₹ 10.09 crore in 2010-11 to ₹ 22.37 crore in 2013-14.

(Paragraph 2.2.9)

Planning

- The Company had not prepared any perspective and strategic plan for driving its activities for attainment of objectives. The annual Memorandum of Understandings (MoUs) with GoMP containing financial/commercial targets for the years 2010-11 to 2013-14 were finalised belatedly. Further, MoU for the year 2014-15 was not finalised. Thus, the purpose of entering into MoU with the GoMP to optimally drive the operations of the Company was defeated.

(Paragraphs 2.2.12 and 2.2.13)

Operational Activities

- The Company carried out expansion of Ready to Eat production unit and also procured plant for production of *khichadi* during 2009-11. However, due to non-construction of additional storage space along-with the expansion, the Company failed to operationalise *Khichadi* production plant even after lapse of four years from its procurement and incurred avoidable expenditure of ₹ 20.96 lakh on transportation of raw material from alternate location due to lack of sufficient storage space at RTE unit.

(Paragraph 2.2.17)

- The capacity utilisation of Bio-fertilizers plant of the Company declined from 62 *per cent* in 2010-11 to 35 *per cent* in 2014-15 due to failure of the Company to develop a marketing strategy to promote the sale of Bio-fertilizers and dependence on Government agencies for sale of Bio-fertilizers.

(Paragraph 2.2.19)

- MAF was engaged in traditional farming activities and did not undertake the activities as per its objectives i.e. production of seeds, demonstration of cultivation methods and training to farmers. Further, the utilisation of agricultural land ranged between 22.27 *per cent* to 48.41 *per cent* in *Kharif* season and 41.42 *per cent* to 51.85 *per cent* in *Rabi* season during 2010-11 to 2014-15 due to non provision of irrigation facility. Due to under-utilisation of the allotted land by MAF, GoMP transferred 679.89 hectares land to Commerce, Industries and Employment Department in October 2012.

(Paragraphs 2.2.20 and 2.2.22)

Monitoring and Internal Control

- The internal control mechanism was deficient as there was no system for watching the timely utilisation of subsidies/advances and timely disposal of non-moving stores and unserviceable assets. Due to non-holding of regular meetings of Board of Directors of the Company, the timely decision making and monitoring process was hampered.

(Paragraphs 2.2.25 and 2.2.26)

2.3 Development of New and Renewable Energy in Madhya Pradesh

For the promotion of renewable energy (RE) resources of the State, Madhya Pradesh Urja Vikas Nigam Limited (Company) was incorporated on 25 August 1982. The RE activities in the State are classified into "Grid connected" and "Off-grid" projects. For implementation of the Grid connected projects, Office of Commissioner, New and Renewable Energy (Department) was setup (April 2010), whereas the Company undertakes the activities related to implementation of Off-grid projects.

The Performance Audit was conducted to assess the performance of the Department and the Company relating to development of Grid connected and Off-grid renewal energy in the State during 2010-11 to 2014-15. Following are the main findings of the Performance Audit.

Grid Connected Renewal Energy Projects

- The installed capacity of RE in the State was only 1243 MW against the estimated potential of 39095 MW. The RE policies for Solar, Wind, Small Hydel and Biomass based energy projects formulated during October 2011 to July 2012 by Government of Madhya Pradesh were not based on the assessment of RE potential in the State, which was assessed belatedly in October 2014. Further, no specific targets for capacity addition were set and no long term/short term plans were prepared by the Department for development of RE. As a result, the potential of RE in the State could not be harnessed in a planned manner.

(Paragraphs 2.3.2 and 2.3.8)

- As of 31 March 2015, the projects of 453.22 MW in Solar (45 *per cent*), 665.30 MW (nine *per cent*) in Wind and 55.40 MW in Biomass (12 *per cent*) could only be commissioned against registered projects of 1007.50 MW, 7196.55 MW and 471.20 MW capacity respectively. Also no Small Hydel project was commissioned by the Department. Further, the projects of 247 MW in Solar (25 *per cent*), 833.35 MW (12 *per cent*) in Wind, 44.80 MW in Small Hydel (14 *per cent*) and 194 MW in Biomass (41 *per cent*) were deregistered by the Department.

The reasons for low percentage of commissioning and high deregistration were non-allotment of land to projects, disinterest shown by the developers, non-availability of the raw materials, insufficient tariffs for energy and long gestation period of the projects etc. As a result, the basic objective of RE policies to encourage participation of private developers to setup RE power projects had not been fulfilled.

(Paragraphs 2.3.9, 2.3.13 and 2.3.14)

- Undue benefit of ₹ 1.02 crore was extended to seven developers of Grid connected Wind and Biomass energy projects due to non-collection of performance guarantee for ensuring timely completion of projects on Government land.

(Paragraphs 2.3.12 and 2.3.15)

Off-grid Renewal Energy Projects

- GoMP has not framed any specific policy and annual targets for installation of the Off-grid RE systems. In the absence of specific targets, the Off-grid installations were being done on the basis of adhoc demands received from beneficiaries. As a result, the full potential for Off-grid RE in the State could not be harnessed.

(Paragraph 2.3.17)

- During 2010-15, Company could commission only 3061 kWp capacity (45 *per cent*) of Solar Photovoltaic Power Plants (SPVPP) against the MNRE sanction of 6725 kWp capacity due to non-completion of the work by the suppliers and frequent cancellation of the work orders. Failure of the Company to analyse the reasons for non-completion of work by the suppliers and to take corrective action resulted in deprival of RE benefits to the beneficiaries though the beneficiary share of ₹ 34.08 crore was lying unutilised with the Company as on 31 March 2015.

(Paragraph 2.3.18)

- During 2010-15, the Company installed only 18.66 lakh litre per day (22.84 *per cent*) capacity of Solar water heater systems against 81.70 litre per day of capacity sanctioned by MNRE due to delay in retendering of the cancelled work orders. As a result the beneficiary share of ₹ 4.54 crore was lying idle with the Company as on 31 March 2015.

(Paragraph 2.3.19)

- In the Joint physical verification by audit team along with Company officials of 38 installed Solar photovoltaic power plant systems, only 26 systems (68 *per cent*) were found working, four systems (11 *per cent*) were not working and eight systems (21 *per cent*) though working but were facing problems in spares/ batteries etc. due to lack of maintenance by the suppliers in the absence of proper monitoring by the Company. Thus the Company failed to ensure long term sustainability and proper functioning of the installed systems resulting in deprival of intended benefits to the beneficiaries.

(Paragraph 2.3.20)

- Due to insufficient generation of RE in the State during the years 2010-15, the Power Distribution Companies could not meet the Renewable Purchase Obligation (RPO) targets fixed by the Madhya Pradesh Electricity Regulatory Commission which resulted in RPO shortfall aggregating to 6316.91 MU. Further, the Power Distribution Companies did not purchase the Renewable Energy Certificates of ₹ 3013.20 crore for the shortfall in RPO in contravention of the regulations.

(Paragraph 2.3.22)

3. Transaction Audit Observations

Transaction audit observations included in the Chapter highlight deficiencies in the management of Public Sector Undertakings involving serious financial implications. The Chapter also includes one Long Paragraph on "Implementation of Financial Restructuring Plan of State Government in Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited". The irregularities pointed out are broadly of the following nature:

There was loss of ₹ 2231.75 crore in nine cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 3.1, 3.2, 3.3, 3.6, 3.7, 3.8, 3.9, 3.10 and 3.12)

Loss of ₹ 5.37 crore was incurred in four case due to defective/ deficient planning.

(Paragraphs 3.4, 3.5, 3.11 and 3.13)

Gist of important audit observations in the Long Paragraph are given below:

- In the first phase of Financial Restructuring Programme (FRP) implemented during 2011-12 to 2013-14, the Government of Madhya Pradesh (GoMP) did not set any targets for the Discom to improve operational and financial performance. As a result, due to poor financial health of the Discom, GoMP had to release short term loan of ₹ 2214.38 crore besides financial assistance of ₹ 5012.90 crore under FRP.

(Paragraph 3.1.8)

- In the extended FRP (2014-17), GoMP fixed target for Average Rate of Revenue Realisation (ARRR) without linking it to reduction in gap between ARRR and Average Cost of Supply (ACS). As a result, gap between ARRR and ACS persisted even after implementation of FRP.

(Paragraph 3.1.9)

- The Discom was not able to reduce the Aggregate Technical and Commercial (AT&C) losses to the level fixed by MPERC as stipulated in the extended FRP. As a result, the Discom had to absorb excess AT&C losses of ₹ 582.83 crore, which adversely affected the financial condition of the Discom.

(Paragraph 3.1.10)

- As against the condition of FRP, the Discom failed to complete the feeder separation works in 777 feeders out of 1589 feeders due to delay in re-awarding the terminated works and delay in execution of ongoing works under Feeder Separation Programme (FSP).

(Paragraph 3.1.13)

- The Discom could not achieve the objectives of improvement in financial health and becoming commercially viable even after completion of four years period of FRP. As a result, the Discom continued to be dependent on GoMP despite receipt of financial assistance of ₹ 8602 crore during 2011-12 to 2014-15.

(Paragraph 3.1.14)

Gist of some important audit observations in respect of other transaction audit paragraphs are given below:

- By not opting for Corporate Liquid Term Deposit in the current account and consequently due to idle surplus funds in the current account, Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited lost interest income of ₹ 1.98 crore.

(Paragraph 3.3)

- Madhya Pradesh State Electronic Development Corporation Limited incurred avoidable expenditure of ₹ 1.21 crore on electricity due to improper assessment of required connected load.

(Paragraph 3.5)

- Madhya Pradesh State Electronic Development Corporation Limited allotted land to the IT Companies at lower rate in deviation from the IT Policy, which resulted in loss of ₹ 128.85 crore to the Government and undue favour to the IT Companies to that extent.

(Paragraph 3.6)

- Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited short recovered workers welfare cess of ₹ 49.39 lakh from the bills of contractors for supply portion and thereby extended un-intended benefit to the Contractors.

(Paragraph 3.7)

- By allowing construction period more than the period recommended/considered in the project feasibility report by the consultants, Madhya Pradesh Road Development Corporation Limited paid extra bonus to concessionaires to the extent of ₹ 12.21 crore.

(Paragraph 3.8)

- Non-recovery of interest on delayed payment of premium as per the clause in concession agreement by Madhya Pradesh Road Development Corporation Limited resulted in loss of interest of ₹ 3.17 crore, besides non recovery of ₹ 43.20 crore from the concessionaire.

(Paragraph 3.9)

- Madhya Pradesh Road Development Corporation Limited did not specify any maximum limit on payment of bonus for early completion of projects in the concessionaire agreement and allowed construction period more than that recommended by the consultants resulting in payment of extra bonus of ₹ 85.02 crore.

(Paragraph 3.10)

- Dada Dhuniwale Khandwa Power Limited continued its operation without formal assurance of coal linkage which resulted in avoidable expenditure of ₹ 1.03 crore.

(Paragraph 3.12)

- Narmda Basin Projects Company Limited failed to invest its idle funds in fixed deposits as envisaged in the Memorandum of the Company and lost opportunity to earn interest of ₹ 1.15 crore.

(Paragraph 3.13)