



# **OVERVIEW**



## Overview

This report contains three chapters. Chapter one includes the functioning of State Government companies and Statutory corporations in the State. Chapter two contains three Performance Audits on (i) Implementation of Feeder Separation Programme in Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (ii) Working of Madhya Pradesh State Electronics Development Corporation Limited and (iii) Working of Madhya Pradesh State Civil Supplies Corporation Limited. Chapter three consists of 15 audit paragraphs observed during the test check of records as part of compliance audit of State Government companies and Statutory corporations conducted during the year 2015-16. The financial impact of Audit Findings is of ₹ 831.56 crore.

### 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 2016, the State of Madhya Pradesh had 64 Government companies (including nine not 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. Turnover of working Public Sector Undertakings (PSUs) as per latest finalised Accounts as on 30 September 2016 was ₹ 78,315.94 crore and they employed 63,459 employees as on 31 March 2016.

**(Paragraphs 1.1, 1.2 and 1.3)**

#### Investment in State PSUs

As on 31 March 2016, the Investment (Capital and Long term loans) in 67 PSUs (including three Statutory corporations) was ₹ 69,754.35 crore. It grew by 108.15 *per cent* from ₹ 33,511.25 crore in 2011-12, 30.24 *per cent* of total investment was towards Capital and 69.76 *per cent* was towards Long-term loans. The thrust of PSUs investment was mainly in Power Sector which increased from ₹ 30,239.74 crore in 2011-12 to ₹ 60,496.51 crore in 2015-16. The State Government contributed ₹ 9,908 crore towards Equity, Loans and Grants/Subsidies to State PSUs during 2015-16.

**(Paragraphs 1.6, 1.7 and 1.8)**

#### Arrears in finalisation of Accounts

Thirty Two PSUs had arrears of 79 accounts as of September 2016. 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

As per latest finalised Accounts, out of 58 working PSUs (including three Statutory corporations), 31 PSUs earned profit of ₹ 729.34 crore and 21 PSUs incurred loss of ₹ 5,321.92 crore. Five working PSUs prepared their accounts on 'no profit no loss' basis and one working PSU did not finalise their first

accounts. The losses were mainly incurred by Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (₹ 2,766.08 crore), Madhya Pradesh Pashchim Kshetra Vidyut Vitaran Company Limited (₹ 1,207.01 crore), Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (₹ 1,161.58 crore).

(Paragraph 1.16)

### Accounts Comments

Out of 56 Accounts finalised by working PSUs during October 2015 to September 2016 the Statutory Auditors had given unqualified certificates for 32 Accounts and qualified certificates for 24 Accounts. 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)

## 2. Performance Audits relating to Government Companies

### 2.1 Implementation of Feeder Separation Programme in Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited

Government of Madhya Pradesh (GoMP) launched Feeder Separation Programme (Programme) in April 2010 with the objective to provide 24 hours continuous power supply to households and minimum eight hours power supply to agriculture pumps in rural areas and to reduce the Transmission and Distribution losses (T&D losses) of the distribution system. The Legislative Assembly of Madhya Pradesh passed (14 May 2010) a resolution 'Sankalp-2013' for overall and integrated development of the State. Under Sankalp-2013, GoMP envisaged to provide 24 hours continuous power supply to domestic consumers and eight hours power supply to agriculture pumps by the year 2013. The Programme works were divided into two phases. The phase-I works were scheduled to be completed by August 2012 and phase-II works were scheduled to be completed by May 2013.

The Performance Audit covered the implementation of Programme in Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (Company) covering the period from its sanction (2010-11) to execution up to 2015-16. A review of overall implementation of Programme including its planning, financial management, execution and monitoring and control revealed the following:

- The Company did not complete the major components of works within the scheduled completion period of contracts. The balance works to be executed were ranging between 56.90 *per cent* and 74.83 *per cent* up to May 2013 and between 10.99 *per cent* and 15.15 *per cent* up to June 2016 as against the quantum of work to be executed by the contractors. As a result the Company could not fulfil the commitment made by GoMP through 'Sankalp 2013' to supply 24 hours continuous power to rural households by the year 2013. The Company had also failed in reducing the T&D losses to the envisaged levels in four circles out of total 13 circles under the Programme.

(Paragraph 2.1.7)

- The Company had made modification in the Special Condition of Contract limiting the risk and cost liability of the defaulted contractors to the 10 *per cent* of the contract value. As a result, the Company would have to absorb additional cost of ₹ 11.94 crore for completing the left over works in the terminated contracts.

**(Paragraph 2.1.10)**

- In Joint Physical Verification conducted against 108 feeders in 10 lots, the T&D losses at feeder level against 100 feeders (representing 92.59 *per cent*) were higher than the prescribed T&D losses limit of 12 *per cent* at feeder level under the Programme. Further the T&D losses in four circles out of total 13 circles were not brought down to the levels committed before Madhya Pradesh Electricity Regulatory Commission under the Programme. As a result the Company suffered excess T&D losses worth ₹ 9.38 crore during the year 2015-16.

**(Paragraph 2.1.25)**

- The Company had not prepared DPRs based on the field survey which resulted in wide variation in the bill of quantity of major items of works during execution. As a result the company got sanctioned excess loan of ₹ 238.80 crore based on higher quantities projected in DPRs leading to payment of avoidable guarantee fees of ₹ 9.55 crore and commitment charges of ₹ 23 lakh.

**(Paragraph 2.1.9)**

- The Company did not ensure the availability of land before awarding the contracts under the Programme. As a result the work of nine substations was completed with a delay of three months to 34 months and the work of three substations remained incomplete up to June 2016.

**(Paragraph 2.1.22)**

- The GoMP had sanctioned an amount of ₹ 239.47 crore in the form of equity for executing the phase-II works of the Programme. Out of which the Company had spent an amount of ₹ 173.63 crore towards payment of interest and principal amount of loan obtained for phase-I works of the programme which was not permitted by GoMP. Thus the programme funds were diverted for unintended purposes against the instructions of GoMP.

**(Paragraph 2.1.17)**

- The Company had adopted incorrect methodology for levying the interest on unadjusted amount of mobilisation and material advances resulting in short recovery of interest of ₹ 11.06 crore on mobilisation advance and ₹ 13.92 crore on material advance.

**(Paragraph 2.1.15)**

- As per the terms of contract, the contractors were to conduct asset mapping and consumer indexing and to provide the same in CYMDIST software compatible format. This was meant for enabling the Company to conduct the simulation and ‘what if’ analysis of load on the distribution network. However the Company issued closure certificate in 10 lots without getting the data in

requisite format. This deprived the Company to ensure proper load management on the distribution network.

**(Paragraph 2.1.20)**

- The terms of the contract provided for conducting the functional guarantee test and to bring down the T&D losses up to the level of 12 *per cent* at feeder before the issue of Operational Acceptance (OA) certificate by the Company. The Company issued OA for 1,184 feeders out of which for 632 feeders representing 53.38 *per cent* OA was issued without demonstrating the losses by the contractors. Thus the Company had focused more on award of OA and closure of works ignoring the impetus to reduce the T&D losses as envisaged under the Programme.

**(Paragraph 2.1.23)**

- In eight out of 10 lots wherein Joint Physical Verification was conducted, against 701 material samples sent to NABL labs for quality testing, test reports against 340 samples (representing 48.50 *per cent*) were not received up to June 2016. Thus the material worth ₹ 90.08 crore procured during 2011-12 to 2015-16 against which the samples were drawn remain untested for their quality.

**(Paragraph 2.1.33)**

- The Company revoked the terminated contract without ensuring the financial status of the contractor from the bank sources and the contractor failed to complete the works subsequently. This led to deprivation of envisaged benefits worth ₹ 12.41 crore in terms of reduction of T&D losses. Further the Company delayed the termination of contracts in two lots despite persistent failure of the contractor in executing the Programme works and this deprived the envisaged benefits in terms of reduced T&D losses worth ₹ 29.65 crore.

**(Paragraphs 2.1.26 and 2.1.27)**

**2.2 Working of Madhya Pradesh State Electronics Development Corporation Limited**

Madhya Pradesh State Electronics Development Corporation Limited (Company) was incorporated in November 1983 as a wholly owned Company of Government of Madhya Pradesh (GoMP). The objective of the Company is to promote and develop Information Technology (IT), IT Enabled Services and electronics industries in the State.

Performance Audit of the Company was conducted to assess its working performance during 2011-12 to 2015-16 covering various aspects such as planning and implementation of Information Technology Policies, regulation of land allotment and incentives under IT policy, execution of various IT projects of Government of India (GoI) and GoMP. The financial management, contract management and monitoring and internal control were also reviewed. The following were the main audit findings:

- The Company allotted only 92.32 acres of land out of 250.25 acres of land earmarked for allotment at three IT parks *viz.* Bhopal, Indore and Jabalpur as of 31 March 2016. The poor allotment was mainly due to slow progress of

development works. Thus the company failed to achieve the envisaged objectives under the IT policy.

**(Paragraph 2.2.16)**

- The Company had taken up State Wide Area Network (SWAN) project under National e-Governance Plan. As of March 2016 the Company provided horizontal connectivity at 5,159 locations in the State as against the 33,000 locations planned under the project. This has resulted in not achieving the objectives set under the project.

**(Paragraphs 2.2.20 to 2.2.22)**

- The Company established 9,232 Common Service Centers (CSCs) in rural areas of State under Common Service Center scheme. But no CSC was established in Gram panchayat offices as envisaged under the scheme. However, as on 31 March 2016 only 3,499 CSCs were in operation. The main reasons for poor performance of CSCs were due to lack of availability of IT infrastructure and net connectivity.

**(Paragraph 2.2.24)**

- The Company allotted 10.13 hectares of land to an IT unit. The land was to be allotted at the rate of 25 per cent of prevalent Collector guidelines rate for ₹ 3.34 crore. However, the land was allotted to IT company by allowing additional rebate at the cost of ₹ 2.23 crore, this resulted in revenue loss of ₹ 1.11 crore to GoMP.

**(Paragraph 2.2.15)**

- In Joint Physical verification of 36 CSCs, only 15 CSCs were found to be in operation. CSCs at 11 locations were not found in existence, owners of four CSCs have closed their activities and six CSCs were found to be functioning in urban areas. Further in beneficiary survey conducted covering 24 beneficiary users at 10 CSCs, it was found that Government services were not provided to users. This has resulted in not achieving the envisaged objectives of providing Government services to rural areas through IT under the scheme.

**(Paragraph 2.2.26)**

- The Company charged ₹ 4.83 crore (2.77 per cent of project outlay) under SWAN project and ₹ 4.34 crore (35 per cent of revenue support) under CSC scheme towards administrative expenditure up to 2014-15. As per GoI guidelines the allowed administrative expenditure was ₹ 1.74 crore and ₹ 49 lakh respectively. This resulted in the excess charging of administrative expenses by ₹ 3.09 crore under SWAN project and by ₹ 3.85 crore under CSC scheme.

**(Paragraph 2.2.39)**

- The Company released the revenue support of ₹ 8.08 crore on the basis of self-certification to Service Center Agency (SCA). However, the installation of online monitoring tool was not ensured before the release of revenue support to SCA as directed by GoI.

**(Paragraph 2.2.25)**

- GoMP directed the Company (June 2011) to collect user charges under State Data Centre (SDC) project from the beneficiary users. However, the

Company had not levied and collected ₹ 1.23 crore (November 2013 to March 2016) from Public Sector Undertakings, Autonomous Bodies and Boards, which were utilising services of SDC.

**(Paragraph 2.2.28)**

- The Company constructed Software Technology Park (STP) at Gwalior. But the Company leased out only 10,200 square feet space out of total constructed area of 90,000 square feet. This was due to the failure of the Company to assess the business potential for IT industry at Gwalior before taking up the project.

**(Paragraph 2.2.32)**

- The Company had not prepared any long term and strategic plan for driving its activities for attainment of objectives. In the absence of long term and strategic planning process, the business and development objective of the Company was lacking direction to guide the activities.

**(Paragraph 2.2.8)**

- The Internal audit system of the Company was deficient as the scope of work assigned to Chartered Accountants was not comprehensive as it did not critically analyse the internal audit requirements for ensuring its effectiveness. Further, the core operational activities of the Company were not covered in the internal audit reports and it contains routine nature of observations.

**(Paragraph 2.2.47)**

### **2.3 Working of Madhya Pradesh State Civil Supplies Corporation Limited**

Madhya Pradesh State Civil Supplies Corporation Limited (Company) was incorporated (April 1974) under the Companies Act, 1956 to act as nodal agency of the State Government for procurement and distribution of food grains. The main objective of the Company was to undertake the business of procurement, storage, transportation, distribution and movement of food grains in the State. However, the Company was dealing in procurement and distribution of food grains only and the storage facility was arranged through Madhya Pradesh Warehousing and Logistics Corporation (MPWLC) which is the nodal agency of the State for storage. During the period 2011-12 to 2015-16 the Company distributed food grains under various schemes sponsored by GoI. The Company has its corporate office at Bhopal having eight regional offices and 48 district offices. During the years 2011-12 to 2015-16 the Company procured 343.55 LMT of wheat and 63.09 LMT of paddy.

The important audit findings are as under:

- During the years 2011-12 to 2014-15 the turnover of the Company increased from ₹ 8,438.71 crore to ₹ 15,439.75 crore. Whereas the profitability of the Company which was ₹ 5.25 crore in 2011-12 turned into loss of ₹ 69.12 crore in 2014-15.

- The bad financial position of the Company was due to not realising the receivables ranging from ₹1,977.10 crore in 2011-12 to ₹ 4,848.28 crore in 2014-15 from FCI, GoMP and GoI. As a result the Company resorted to borrowings from banks to bridge the deficit leading to increase in financial cost from ₹ 701.60 crore to ₹ 1,722.18 crore during 2011-12 to 2014-15.

**(Paragraph 2.3.29)**



- In order to improve the financial condition of the Company, GoMP may infuse additional capital in a phased manner or provide interest-free loans or grants-in-aid or pay 50 *per cent* to 70 *per cent* of the procurement cost in advance to lower the borrowings and to enable it to sustain its activities.

**(Paragraph 2.3.28)**

- The targets fixation for procurement of wheat and paddy were not realistic as the Company did not revise its procurement target considering the revisions made by the Agriculture Department in the crop yield projections. Due to this the paddy procured in excess of the targets could not be milled as there was insufficient milling capacity during 2011-12 and 2012-13 in the State. This resulted in accumulation and damage of paddy stocks causing loss of ₹ 114.40 crore.

**(Paragraphs 2.3.10, 2.3.11 and 2.3.14)**

- Company failed to claim storage charges and interest loss suffered amounting to ₹ six crore from Food Corporation of India (FCI) against the maize stocks procured for central pool during 2011-12 which got damaged. Further, the delay in disposal of the damaged stock resulted in avoidable payment of storage charges of ₹ 1.25 crore.

**(Paragraphs 2.3.15 and 2.3.26)**

- The Company procured excess gunny bags considering the unrealistic paddy procurement targets without assessing the actual requirement of gunny bags. This resulted in blocking up of borrowed funds with consequential interest loss of ₹ 176.01 crore during 2011-12 to 2015-16.

**(Paragraph 2.3.18)**

- The Company did not follow economy while entering into transportation contracts in spite of abnormal variation in lead rates in Bhopal and Ujjain Regions. This resulted in payment of transport charges at higher rates.

**(Paragraph 2.3.21)**

- The Company failed in finalising norms for permissible storage losses with MPWLC. This resulted in unrealised claims of storage shortages of ₹ 103 crore as of March 2016, pertaining to the period 2013 to 2016.

**(Paragraph 2.3.25)**

- There was shortage of staff in the Company at various levels of management. Further the Company could not deploy sufficient number of quality control staff to conduct the quality checks during procurement to match with the quantum of food grains procured during 2011-12 to 2015-16.

**(Paragraphs 2.3.36 and 2.3.37)**

### **3. Compliance Audit Observations**

Compliance audit observations included in the Chapter highlight deficiencies in the management of Public Sector Undertakings involving significant financial implications. There was loss of ₹ 79.34 crore in 15 cases due to not complying with rules, directions, procedures, terms and conditions of contracts.

The gist of audit observations are as under:

- Madhya Pradesh Road Development Corporation Limited committed irregularities in the execution of road project works and extended undue benefit to the contractor to the tune of ₹ 7.07 crore.

**(Paragraph 3.5)**

- Madhya Pradesh State Agro Industries Development Corporation Limited extended undue benefit of ₹ 5.68 crore to joint venture partners by not adjusting the realisable value of retained gunny bags, while finalising the production cost of Ready to Eat products.

**(Paragraph 3.9)**

- Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited extended undue favour to M/s Trident Limited by granting unjustified exemption of Electricity Duty amounting to ₹ 3.12 crore.

**(Paragraph 3.2)**

- Madhya Pradesh Tourism Development Corporation Limited did not execute the lease agreements against completed way side amenities due to change in terms and conditions causing revenue loss of ₹ 1.33 crore to the Company.

**(Paragraph 3.1)**

- Madhya Pradesh Power Transmission Company Limited short recovered labour welfare cess by ₹ 5.93 crore and thereby extended undue benefit to the Contractors to the same extent.

**(Paragraph 3.3)**

- Due to ineffective implementation of Concession Agreement and Escrow Account Agreement by Madhya Pradesh Road Development Corporation Limited an amount of ₹ 4.56 crore remained unrecovered from the Concessionaire

**(Paragraph 3.4)**

- Madhya Pradesh Power Generating Company Limited incurred an additional expenditure by awarding contract at higher rates by ₹ 26.13 crore due to not following the transparent bidding procedure.

**(Paragraph 3.14)**

- Madhya Pradesh Power Generating Company Limited incurred extra expenditure of ₹ 16.53 crore in procuring imported coal due to modifications in the tender specifications

**(Paragraph 3.15)**

- Irregularities in allotment of land valuing ₹ 3.88 crore by Industrial Infrastructure Development Corporation Limited resulted in loss of revenue of ₹ 61.59 lakh to the Company

**(Paragraph 3.10)**