

Overview

This Report contains the following chapters:

Introduction: Functioning of State Public Sector Undertakings,

Chapter-1 : Functioning of Power Sector Undertakings,

Chapter-2 : Performance Audit on Construction and Operation of Atal Bihari Vajpayee Thermal Power Station, Marwa of Chhattisgarh State Power Generation Company Limited,

Chapter-3 : Functioning of State Public Sector Undertakings (other than Power Sector), and

Chapter-4 : Three compliance Audit paragraphs relating to Public Sector Undertakings (other than Power Sector).

The total financial impact of the Audit findings is ₹ 4,112.99 crore.

Functioning of State Public Sector Undertakings

As on 31 March 2018, Chhattisgarh had 26 State Public Sector Undertakings (PSUs) including one Statutory Corporation and 25 Government companies (including three non-functional Government companies) under the audit jurisdiction of the Comptroller & Auditor General of India. 18 PSUs whose accounts are not in arrear for three years or more or were functional/not in under liquidation are covered in this report. The working PSUs covered in this report registered an annual turnover of ₹ 28,802.99 crore as per their latest finalised accounts. This turnover was equal to 9.87 *per cent* of Gross Domestic Product (GDP) of Chhattisgarh. There are eight PSUs (all Government companies) having an investment of ₹ 394.63 crore which are not covered in this Report.

(Paragraphs 1 and 2)

1. Functioning of Power Sector Undertakings

The Power Sector Undertakings registered a turnover of ₹ 20,024.86 crore during 2017-18 as per their latest finalised accounts. This turnover was equal to 6.87 *per cent* of the Gross State Domestic Product (GSDP) of Chhattisgarh indicating an important role played by the Power Sector companies in the economy of the State.

(Paragraph 1.1)

Stake of Government of Chhattisgarh

As on 31 March 2018, the total investment (equity and long term loans) in five power sector undertakings was ₹ 20,103.80 crore. The investment consisted of 32.79 *per cent* towards equity and 67.21 *per cent* in long-term loans. Out of this, Government of Chhattisgarh (GoCG) has invested ₹ 6,744.28 crore in the four PSUs under Power Sector consisting of equity of ₹ 6,591.84 crore and long term loans of ₹ 152.44 crore.

(Paragraphs 1.4 and 1.8)

Performance of Power Sector Undertakings

Performance of PSUs

The profit earned by power sector PSUs was ₹ 64.82 crore in 2017-18 against losses of ₹ 187.84 crore incurred in 2015-16. As per latest finalised accounts of PSUs covered in this report, three PSUs earned profit of ₹ 489.52 crore and two PSUs incurred loss of ₹ 424.70 crore. The Chhattisgarh State Power Distribution Company Limited (CSPDCL) incurred heavy loss of ₹ 421.76 crore.

(Paragraph 1.9)

Real Return on Investment on the basis of Present Value of investment

The Present Value of investments of the State Government in four power sector PSUs upto 31 March 2018 worked out to ₹ 15,781.41 crore. During the period between 2008-09 and 2011-12 (except during 2009-10) total earnings of the four power sector PSUs remained substantially below the minimum expected return towards the investment made by GoCG. Further, the total earnings for the year relating to these PSUs remained negative during 2012-13 to 2015-16 which indicates that instead of generating returns on the invested funds, these PSUs did not even recover the cost of funds to the Government. During 2017-18 against the minimum expected return of ₹ 946.47 crore on the State Government investment, these four Power sector PSUs earned only marginal profit of ₹ 67.76 crore.

(Paragraph 1.11)

Erosion of Net worth

As on 31 March 2018 there were two PSUs with accumulated losses of ₹ 6,839.32 crore. Of the two PSUs, one PSU (CSPDCL) incurred losses in the year 2017-18 amounting to ₹ 421.76 crore and one PSU Chhattisgarh State Power Generation Company Limited (CSPGCL) had not incurred loss in the year 2017-18, even though it had accumulated loss of ₹ 843.04 crore. Of the four Power Sector Undertakings, the net worth of (-) ₹ 3,733.18 crore had fully eroded equity investment of ₹ 2,263.10 crore and Government loan of ₹ 86.42 crore in Chhattisgarh State Power Distribution Company Limited. Net worth of ₹ 1,971.26 crore was less than the paid up capital of ₹ 2,814.30 crore in respect of CSPGCL at the end of 31 March 2018.

(Paragraph 1.12)

Return on Equity

Return on Equity (ROE) in respect of three profit making power sector PSUs where funds had been infused by the State Government, the ROE ranged between 12.52 per cent and 12.76 per cent during the period from 2015-16 to 2017-18.

(Paragraph 1.14)

Return on Capital Employed (ROCE)

The ROCE improved from 6.63 per cent in 2015-16 to 11.77 per cent in 2017-18 due to increase in earnings before interest and tax (EBIT) mainly due to decrease in losses of CSPDCL and increase in profits of CSPGCL and CSPTCL.

(Paragraph 1.15)

Financial Turnaround of DISCOMs under Ujwal DISCOM Assurance Yojana (UDAY)

The GoCG had taken over 75 *per cent* of total debt of ₹ 1,153.60 crore by providing grant of ₹ 870.12 crore during the period 2015-16 as per requirement of UDAY. However, as regards achievement of operational targets under UDAY the performance was not satisfactory. The Discom has not initiated action for the smart metering of consumers, it has performed poorly in metering of Distribution Transformers in rural areas, feeder metering and feeder segregation. Further, the Aggregate Technical and Commercial (AT&C) loss of the State Discom was 19.07 *per cent* by 2017-18 against the target of 18 *per cent*. So, the State Discom could not achieve the most important target of reduction of AT&C loss.

(Paragraphs 1.19.3 and 1.19.4)

Quality of accounts

The quality of accounts of power sector PSUs needs improvement. Statutory Auditors have qualified all five accounts that were finalised between 1 January 2018 to 31 December 2018. Further there were two instances of non-compliance to the Accounting Standards in one account.

(Paragraph 1.20)

2. Performance Audit relating to Power Sector Undertakings

Construction and Operation of Atal Bihari Vajpayee Thermal Power Station, Marwa of Chhattisgarh State Power Generation Company Limited

Introduction

The Chhattisgarh State Electricity Board (CSEB) approved (March 2005) establishment of a coal based 2x500 MW green field power project at Marwa in Janjgir-Champa District of the State based on Feasibility Report (FR). FR envisaged availability of 11,011.32 Million Units (MUs) against demand of 15,146.04 MUs during 2005-06 which will increase to 33,945 MUs and 31,527.24 MUs respectively by 2011-12.

The cost of project as per Detailed Project Report (DPR) was ₹ 5,119.84 crore to be completed on 30 November 2012. It was completed on 31 July 2016 with time overrun of three years eight months and cost overrun of ₹ 3,772.67 crore upto 31 March 2019. The Project was subsequently renamed as “Atal Bihari Vajpayee Thermal Power Station (ABVTPS)” in September 2018.

The following are the main audit findings of Performance Audit:

Planning

As per scope of work of consultant for preparation of DPR, Desk-top study of maps was to be done by the consultant. As per the DPR 80 *per cent* land was barren and 20 *per cent* agricultural which was not supported by detailed survey. The Company acquired total 1,728.73 acre land out of which only 283.77 acre (16.41 *per cent*) land was barren and remaining 1,444.96 acre (83.59 *per cent*) was agricultural land. As a result 15 Rehabilitation and

Resettlement (R&R) issues, protest of land oustees, strike, *kaamroko*, *talabandi* took place which hampered the project work.

It is also seen that the Company acquired total 1,728.73 acre land, against limit of 1,254.76 acre which was 38 *per cent* higher than the limit fixed by the Ministry of Environment, Forest and Climate Change (MoEF&CC), Government of India (GoI) while granting Environment Clearance for which no approval was obtained from it and reasons for the same were not on records. Acquisition of excess land resulted in increase in cost of project by ₹ 63.32 crore.

(Paragraph 2.6.1)

Contract Management

The Company executed two major contracts valuing ₹ 3,890.62 crore relating to Boiler, Turbine and Generator (BTG- Main Plant) and Balance of Plant (BOP- Ancillary works) contracts on Engineering, Procurement and Construction (EPC) contract basis.

M/s Development Consultants Private Limited (consultant) was appointed project execution management consultant for ABVTPS. The consultant approved design for in-motion Weigh Bridge for 52 kg /mtr rail against the requirement of 60 kg /mtr rail. Due to mismatch in specifications in-motion Weigh Bridge, it could not be commissioned till (May 2019). Consequently coal lost in transit against procured coal valuing ₹ 1,681.52 crore could not be assessed during the period 2016-17 to 2018-19.

Due to unrealistic terms of payment in BTG and BOP contract (release of 95/90 *per cent* advance) the Company released ₹ 2,600.42 crore towards supply portion on receipt of material at site against permissible 75 *per cent* as per works manual without linking of erection of supplied material. Subsequently, the contractors showed little interest in completion of erection work. Thus only 36.82 *per cent*/ 40.37 *per cent* erection work was completed by schedule date of completion (November 2012).

The Company released ₹ 276.75 crore as interest free advance towards supply of material and ₹ 25.40 crore as interest free mobilisation advance to M/s BHEL. This resulted in extension of undue advantage to M/s BHEL and consequent loss of realisable interest of ₹ 87.66 crore to the Company. Despite the fact that mobilisation advances were paid to ensure speedy execution of the work, the project was not completed in time.

(Paragraphs 2.7, 2.7.1.1, 2.7.2 and 2.7.3)

Project Execution

Unit - 1 and 2 of the project were commissioned with a delay of 42 and 44 months respectively due to delay in execution of agreement, supply of material, awarding and completion of BTG civil works, awarding and completion of facilities under BOP contracts etc. This resulted in generation loss of 16,440.07 MUs amounting to ₹ 4,438.82 crore, deprival of a rebate on interest of ₹ 17.95 crore on Power Finance Corporation (PFC) loan and avoidable procurement of power of ₹ 315.92 crore at higher rates by Chhattisgarh State Power Distribution Company Limited.

The actual expenditure incurred by the Company on the project upto 31 March 2019 was ₹ 8,892.51 crore (approved cost by Chhattisgarh State Electricity Regulatory Commission) against the original estimated cost of ₹ 5,119.84 crore and the Company had to incur additional expenditure of ₹ 3,772.67 crore due to increase in Interest during Construction (IDC) on loan, cost of Main and Ancillary Plant, cost of land acquisition and Rehabilitation and Resettlement expenditure etc.

(Paragraphs 2.8.1, 2.8.2 and 2.8.3)

Operational performance

Even after commissioning of both the units of the Power Plant the Company failed to achieve the objective of generation of at least 850 MW per hour power (at 85 per cent Plant Load Factor) it could generate only 575 MW per hour. Consequently there was shortfall in generation of 6,345.53 MUs power valuing ₹ 1,713.29 crore due to high rate of outages attributable to installation of defective turbine, non availability of spares GT and ineffective overhauling as identified and reported by the Management. Poor operational performance also resulted in consumption of fuel oil in excess of the prescribed norms - excess expenditure of ₹ 47.72 crore, the station heat rate was higher than prescribed norms - excess consumption of 1.54 lakh MT coal valuing ₹ 37.69 crore.

(Paragraphs 2.9.1, 2.9.2, 2.9.3, 2.9.4, 2.9.5 and 2.9.7)

Environmental Issues

The Company did not adhere to the provisions of various Acts, Regulations and norms prescribed by the Government of India and Chhattisgarh Environment Conservation Board (CECB) which may adversely impact the environment.

There were 52 numbers of instances when level of Sulphur Dioxide ranged between 202.10 mg/Nm³ and 246.15 mg/Nm³ (1.05 per cent to 23.08 per cent) against the norm 200 mg/Nm³.

In six out of 12 locations the monthly average noise level ranged between 95.74 decibel and 83.64 decibel, against the prescribed limit of 75 decibel for day time during the period August 2016 to March 2019.

The Company failed to prepare “Environment Impact Assessment (EIA)” Report even after 30 months from commissioning of plant although CECB while granting consent (31 March 2014) directed that it shall be submitted within 15 months from date of commissioning of plant. Hence, actual impact on environment due to operation of the plant could not be ascertained.

(Paragraphs 2.10.1, 2.10.2 and 2.10.3)

Internal Control and Monitoring

Non-preparation of works manual, non-conducting of energy audit, deficient internal audit system, non-insurance of plant and deficient SAP-ERP system indicates lack of effective internal control and monitoring mechanism.

(Paragraphs 2.11.1, 2.11.3, 2.11.4, 2.11.5 and 2.11.6)

Summary of recommendations

The Company should:

- **always assess and carry out the detailed survey of land before proceedings to acquire land. Should take action against responsible officials who failed to assess the nature of land.**
- **safeguard its financial interest while determining the terms and conditions of the contract relating to release of advances in future projects.**
- **ensure timely execution of new thermal power plant through better planning, close monitoring and follow up with contractors and consultants to avoid time and cost overrun and consequent loss of generation.**
- **make efforts to improve the operational performance and achieve the operational parameters fixed by the CSERC in respect of coal and oil consumption to minimise the cost of generation.**
- **ensure strict adherence to the environmental acts and regulations.**
- **strengthen its internal control and monitoring mechanisms relating to pre-execution activities, execution of project, compliance of terms and conditions through SAP-ERP system.**

3. Functioning of State Public Sector Undertakings (other than Power Sector)

As on 31 March 2018, Chhattisgarh had 21 State PSUs (other than Power Sector) consisting of 17 working companies, one working Statutory Corporation and three non-working PSUs (all companies). Of the 21 State PSUs, financial performance of 13 PSUs is covered in this report. These working PSUs registered a turnover of ₹ 8,778.13 crore during 2017-18 as per their latest finalised accounts. This turnover was equal to 3.01 *per cent* of the GSDP.

(Paragraphs 3.1 and 3.2)

Stake of Government of Chhattisgarh

As on 31 March 2018, the total investment (equity and long term loans) in these 21 PSUs was ₹ 1,021.54 crore. Out of this, the total investment (equity and long term loans) in 13 PSUs (covered in this report) was ₹ 626.91 crore. The investment consisted of 9.13 *per cent* towards equity and 90.87 *per cent* in long-term loans. Out of this, GoCG has invested ₹ 388.07 crore in 10 PSUs consisting of equity of ₹ 49.18 crore and long term loans of ₹ 338.89 crore.

(Paragraphs 3.4 and 3.11)

Arrears in accounts

Nine working PSUs had arrears of 15 accounts as on 31 December 2018 ranging from one to four years. Further, one account of one non working PSU was also in arrear. The GoCG had provided ₹ 2,597.28 crore (Grant: ₹ 302.43 crore and Subsidy: ₹ 2,294.85 crore) in five of the 10 State PSUs accounts of which had not been finalised by 31 December 2018.

(Paragraph 3.8.1)

Performance of State PSUs (other than Power Sector)

Performance of the PSUs

The profit of ₹ 120.76 crore earned by these functional PSUs in 2015-16 decreased to ₹ 93.85 crore in 2017-18. According to latest finalised accounts of these 13 functional State PSUs, 10 PSUs earned profit of ₹ 94.28 crore and three PSUs incurred losses of ₹ 0.43 crore. Out of 13 PSUs, eight PSUs earned 97.38 *per cent* profit (₹ 91.81 crore) which were either having monopolistic advantage or were having assured income from budgetary support, centage, commission, interest on bank deposits etc.

(Paragraphs 3.12 and 3.12.1)

Real Return on Investment on the basis of Present Value of investment

The Present Value of funds infused by the State Government upto 31 March 2018 worked out to ₹ 284.74 crore. During the period between 2008-09 and 2017-18, these companies earned substantial profits (except in 2012-13) to recover cost of funds infused by GoCG in these PSUs.

(Paragraph 3.14)

Return on Equity (ROE)

Despite having monopolistic advantage or having assured income from budgetary support, centage, commission, interest on bank deposits etc., ROE of PSUs with monopolistic and assured income sector ranged between 3.98 *per cent* and 14.98 *per cent* during the period 2015-18. The ROE of competitive sector was negative mainly due to loss (₹ -1.51 crore) incurred by CMDC during the year 2015-16. Further, GoCG has invested interest free loans (IFL) in competitive sector PSU (CMDC) of ₹ 81.05 crore, ₹ 95.16 crore and ₹ 179.32 crore outstanding during the years 2015-16, 2016-17 and 2017-18 respectively. During 2016-17 and 2017-18 ROE of Competitive environment PSUs was 0.34 *per cent* and 1.19 *per cent* respectively. This shows that despite substantial amount of investment in the form of IFL, ROE was not commensurate with earning of the PSU in competitive sector.

(Paragraph 3.15)

Return on Capital Employed

The Return on Capital Employed (ROCE) of the 13 State PSUs (other than Power Sector) decreased during the year 2016-17 and 2017-18 in comparison to that for the year 2015-16 mainly due to decrease in profits of two PSUs viz., Chhattisgarh Rajya Van Vikas Nigam Limited and Chhattisgarh State Beverages Corporation Limited and increase in long term loans of three PSUs viz., Chhattisgarh Nishakt Jan Vitt Avam Vikas Nigam, Chhattisgarh Police

Housing Corporation Limited and Chhattisgarh Mineral Development Corporation Limited.

(Paragraph 3.16)

Erosion of Net worth

As on 31 March 2018, out of 10 State PSUs there were two PSUs with accumulated losses of ₹ 211.09 crore. Of these two PSUs, one PSU incurred loss in the year 2017-18 amounting to ₹ 0.10 crore and one PSU had not incurred loss in the year 2017-18, even though it had accumulated loss of ₹ 210.59 crore. Out of 10 state PSUs, net worth of Chhattisgarh State Civil Supplies Corporation Limited was (-) ₹ 205.21 crore which had completely eroded equity investment of ₹ 4.43 crore.

(Paragraph 3.17)

Dividend Payout

The State Government has not formulated any dividend policy for State PSUs. The Dividend Payout Ratio during 2015-16 to 2017-18 ranged between 2.33 per cent and 10.49 per cent only. Out of the nine State PSUs who had earned an aggregate profit of ₹ 94.05 crore on the Government equity of ₹ 44.28 crore, only Chhattisgarh Rajya Van Vikas Nigam Limited and Chhattisgarh State Warehousing Corporation proposed the dividend of ₹ 2.41 crore.

(Paragraph 3.18)

Quality of accounts

The quality of accounts of PSUs needs improvement. Statutory Auditors have qualified all the 14 accounts that were finalised during 1 January 2018 to 31 December 2018. There were seven instances of non-compliance with Accounting Standards by the PSUs in four accounts.

(Paragraphs 3.21 and 3.22)

4. Compliance Audit Observations relating to Public Sector Undertakings (other than Power Sector)

Gist of some of the important compliance audit paragraphs are given below:

The Chhattisgarh State Beverages Corporation Limited failed to monitor construction of godown entrusted to Public Works Department on deposit basis which resulted in an avoidable expenditure of ₹ 1.64 crore on account of hiring of godown.

(Paragraph 4.1)

The Chhattisgarh Medical Services Corporation Limited placed purchase orders for 73.95 lakh bottles of multivitamin syrup against requirement for the year 2016-17 on last day of the year (31 March 2017) on backdate resulted in loss of ₹ 6.84 crore due to expired 30.81 lakh bottles and purchase of syrup at higher rates.

(Paragraph 4.2)

The Chhattisgarh Medical Services Corporation Limited procured food baskets under Chief Minister TB Nutrition Scheme at exorbitantly higher rates

from lone ineligible bidder ignoring the fact that State Health Resource Centre incurred the cost of ₹ 409 per food basket during pilot project of the Scheme. The Company initially placed order at higher rate of ₹ 1,039.50 per food basket which was reduced to ₹ 892.50 due to less receipt of funds from GoCG and further reduced to ₹ 714 after being pointed out by Audit. This resulted in avoidable extra expenditure of ₹ 5.04 crore.

(Paragraph 4.3)