OVERVIEW

Overview

This Report contains the following chapters:

Introduction: Functioning of State Public Sector Undertakings,

Chapter-1 : Functioning of Power Sector Undertakings,

Chapter-2 : Three Compliance Audit paragraphs relating to Public Sector Undertakings (Power Sector),

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

Chapter-4 : Performance Audit on implementation of road projects on Build Operate Transfer mode by the Madhya Pradesh Road Development Corporation Limited and

Chapter-5 : One Compliance Audit paragraph relating to Public Sector Undertakings (other than Power Sector).

The total financial impact of the Audit findings is ₹ 2,316.24 crore.

Functioning of State Public Sector Undertakings

As on 31 March 2018, Madhya Pradesh had 74 State Public Sector Undertakings (PSUs) consisting of three Statutory Corporations (including one non-functional Statutory Corporation) and 71 Government Companies (including 16 non-functional Government Companies) under the audit jurisdiction of the Comptroller & Auditor General of India. The PSUs covered in this report registered a turnover of ₹ 81,694.55 crore during 2017-18 as per their latest finalised accounts. This turnover was equal to 11.55 *per cent* of the Gross State Domestic Product (GSDP) of Madhya Pradesh. As on 31 March 2018, the investment (Capital and long term loans) in 74 PSUs was ₹ 76,547.14 crore. The power sector received ₹ 17,459.90 crore (89.31 *per cent)* of total investment ₹ 19,549.71 crore made during the period from 2015-16 to 2017-18. There are 29 PSUs (28 Government companies and one Statutory Corporation) having an investment of ₹ 1,381.80 crore which are not covered in this Report.

(Paragraphs 1, 2 and 8)

1. Functioning of Power Sector Undertakings

The Power Sector Undertakings registered a turnover of ₹ 66,043.29 crore during 2017-18 as per their latest finalised accounts. This turnover was equal to 9.34 *per cent* of the GSDP of Madhya Pradesh indicating an important role played by the Power Sector companies in the economy of the State.

(Paragraph 1.1)

Stake of Government of Madhya Pradesh

As on 31 March 2018, the total investment (equity and long term loans) in seven power sector undertakings covered in this report was ₹ 69,777.93 crore. The investment consisted of 36.45 *per cent* towards equity and 63.55 *per cent* in long-term loans. Further, an investment of ₹ 49.60 crore was made in four PSUs not covered in this Report.

The long term loans advanced by the State Government constituted 60.45 *per cent* (₹ 26,808.01 crore) of the total long term loans, whereas 39.55 *per cent* (₹ 17,537.06 crore) of the total long term loans were availed from other financial institutions. During 2016-17 and 2017-18, the State Government has taken over ₹ 12,189.99 crore (35.09 *per cent*) of the outstanding debts (₹ 34,739.00 crore) of the DISCOMs as on 30 September 2015 under Ujwal Discom Assurance Yojana (UDAY).

(Paragraph 1.4)

Performance of Power Sector Undertakings

According to latest finalised accounts of seven PSUs covered in this report, three PSUs earned profit of ₹ 618.10 crore, two PSUs incurred loss of ₹ 4,907.25 crore and two PSUs had no profit no loss. The profit making companies were Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (₹ 552.89 crore), Madhya Pradesh Power Generating Company Limited (₹ 32.73 crore) and Madhya Pradesh Power Transmission Company Limited (₹ 32.48 crore) while Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (₹ 2,716.79 crore) and Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (₹ 2,190.46 crore) incurred substantial loss.

(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 seven power sector PSUs upto 31 March 2018 worked out to ₹ 79,066.51 crore. The total earnings for the year relating to these companies remained negative in all the years during 2000-01 to 2017-18 which indicates that instead of generating returns on the invested funds, these companies did not even recover the cost of funds to the Government. Further during 2017-18, against the minimum expected return of ₹ 4,943.97 crore on the State Government investment, these seven Power sector PSUs incurred loss of ₹ 4,289.15 crore.

(Paragraph 1.11)

Erosion of Net worth

The accumulated losses of the power sector PSUs were ₹ 45,239.62 crore as on 31 March 2018. Net worth of three out of seven PSUs covered in this report had been completely eroded by accumulated losses and their net worth was either zero or negative. The net worth of these three PSUs was (-) ₹ 27,912.81 crore against equity investment of ₹ 16,119.70 crore in these PSUs as on 31 March 2018.

In all the three PSUs whose capital had been eroded, Government loans outstanding as on 31 March 2018 amounted to ₹ 26,559.67 crore.

(Paragraph 1.12)

Return on Equity

Return on Equity has been computed in respect of three profit making power sector PSUs as in respect of other loss making PSUs, their net worth is in negative. During the last three years period ended March 2018, the ROE of profit making PSUs ranged between 0.17 and 0.56 *per cent* only depicting the poor performance of these PSUs.

(Paragraph 1.14)

Return on Capital Employed

The ROCE of the power sector PSUs ranged between -17.20 *per cent* and 10.64 *per cent* during the period 2015-16 to 2017-18.

(Paragraph 1.15)

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

As per provisions of the UDAY Scheme and the MoUs, 75 *per cent* of total outstanding debt (₹ 34,739 crore) pertaining to three State DISCOMs as on 30 September 2015 was to be taken over by the GoMP. The GoMP had taken over total debt of ₹ 12,189.99 crore during the period 2016-17 and 2017-18 against which the GoMP provided equity of ₹ 7,567.99 crore and grant of ₹ 4,622 crore during the same period. The remaining amount of ₹ 13,864.26 crore, was to be converted into grant over a period of three years i.e. 2018-19, 2019-20 and 2020-21.

(Paragraph 1.19.4)

As regards achievement of operational targets under UDAY the performance was not satisfactory. The State has performed poorly in meeting the targets for feeder metering and DTR metering in rural areas, smart metering, providing electricity to unconnected households and distribution of LEDs. Further, going by the current trend of progress, the State will find it difficult to achieve the most important target of reduction of AT&C loss to 15 *per cent* by 2019-20.

(Paragraph 1.19.3)

Quality of Accounts

The quality of accounts of power sector PSUs needs improvement. Out of 13 accounts finalised during 1 January 2018 to 31 December 2018, the Statutory Auditors gave qualified certificates on seven accounts. There were 12 instances of non-compliance with Accounting Standards by the Power Sector PSUs.

(Paragraph 1.20)

2. Compliance Audit Observations relating to Power Sector Undertakings

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

All the three power distribution companies viz. **Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited, Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited and Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited** failed to deposit the compounding charges amounting to ₹ 52.40 crore collected from consumers in the State exchequer. This amount was adjusted by the State Government against subsidy payable after being pointed out by Audit.

(Paragraph 2.1)

Negligence of **Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited** in correctly crediting mobilisation advance in appropriate Bank Guarantee bank account and non-levy of interest on mobilisation advance resulted in non-recovery of dues of ₹ 4.80 crore.

(Paragraph 2.2)

Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited and Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited, in contravention of provisions of Electricity Supply Code, extended permanent power connections for construction activities of Power plants, instead of temporary power connection, resulting in revenue loss of ₹ 24.77 crore.

(Paragraph 2.3)

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

As on 31 March 2018, Madhya Pradesh had 63 State Public Sector Undertakings (other than Power Sector) consisting of 45 working Companies, two working Statutory Corporations, 15 non-functional companies and one non- functional Corporation. Out of this, 38 State Public Sector Undertakings (other than Power Sector) are covered in this report. These 38 PSUs registered a turnover of ₹ 15,651.26 crore as per their latest finalised accounts during 2017-18. This turnover was equal to 2.21 *per cent* of the State Gross Domestic Product.

(Paragraphs 3.1 and 3.2)

Performance of State PSUs (other than Power Sector)

The profit of ₹ 280.85 crore earned by 38 working PSUs covered in this report in 2015-16 increased to ₹ 330.40 crore in 2017-18. According to latest finalised accounts of these 38 working State PSUs covered in this report, 18 PSUs earned profit of ₹ 380.01 crore and eight PSUs incurred losses of ₹ 49.61 crore. Out of 18 PSUs, 16 PSUs earned 98.33 *per cent* profit (₹ 373.67 crore) which were either having monopolistic advantage or were having assured income from budgetary support, centage, commission, interest on bank deposits etc. Thus, in audit view, sustainability of these PSUs is State dependent.

(Paragraphs 3.13 and 3.13.1)

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 amounted to ₹ 3,766.79 crore. During 2000-01 to 2003-04, these PSUs earned some profits, though, total earnings remained below the minimum expected return to recover cost of funds infused in these PSUs. From 2004-05 onwards, these companies started earning sufficient profits to recover cost of funds infused.

(Paragraph 3.15)

Return on Equity

The Return on Equity (ROE) of competitive environment PSUs reduced from 10.34 *per cent* in 2015-16 to (-) 1.12 *per cent* in 2017-18. Further ROE of competitive environment are significantly lower than monopolistic/ assured income sector PSUs during all the three years.

This reflects that the PSUs operating in competitive environment are not self-sustainable.

(Paragraph 3.16)

Return on Capital Employed

ROCE of 38 PSUs *(PSUs covered in this Report)* during the period from 2015-16 to 2017-18 ranged between 9.95 and 7.99 *per cent.*

(Paragraph 3.17)

Erosion of Net Worth

Net worth of three out of 38 PSUs had been completely eroded by accumulated losses and their net worth was either zero or negative. The net worth of these three PSUs was (-) ₹ 91.21 crore against equity investment of ₹ 62.49 crore in these PSUs as on 31 March 2018.

(Paragraph 3.19)

Dividend Payout

During the period 2015-16 to 2017-18, the number of PSUs with GoMP investment which earned profits ranged between 12 and 14 PSUs. However, number of PSUs which declared/ paid dividend to GoMP ranged between two and six PSUs only. The Dividend Payout Ratio during 2015-16 to 2017-18 ranged between 3.41 *per cent* and 12.85 *per cent* only.

(Paragraph 3.20)

Quality of Accounts

The quality of accounts of PSUs needs improvement. Out of 41 accounts finalised during 1 January 2018 to 31 December 2018, the Statutory Auditors gave qualified certificates on 17 accounts. There were 23 instances of non-compliance with Accounting Standards by 11 PSUs.

(Paragraph 3.23)

Arrears in Accounts and winding up of PSUs

Out of 63 PSUs, 28 PSUs submitted their accounts for the year 2017-18 for audit by CAG on or before 31 December 2018 whereas accounts of 35 PSUs were in arrears. The GoMP had provided ₹ 1,431.94 crore (Equity: ₹ 10.03 crore, Loan: ₹ 53.08 crore, Grant: ₹ 375.81 crore and Subsidy: ₹ 993.02 crore) in 11 of the 27 working State PSUs accounts of which had not been finalised by 31 December 2018.

As regards 12 non-functional PSUs (excluding four PSUs under liquidation) from last six to 28 years, the Government may take appropriate decision regarding winding up of these PSUs.

(Paragraphs 3.8.1 and 3.9)

4. Performance Audit relating to State Public Sector Undertakings (other than Power Sector)

4.1 Performance Audit on implementation of road projects on Build Operate Transfer mode by Madhya Pradesh Road Development Corporation Limited

Madhya Pradesh Road Development Corporation Limited (Company) implements all the State Highways (SHs), entrusted National Highways (NHs) and Major District Roads (MDRs) in the State of Madhya Pradesh on behalf of Madhya Pradesh Public Works Department (MPPWD). GoMP provides budgetary funding for implementation of road projects.

During 2013-18, the Company implemented six NHs, 26 SHs and 28 MDRs projects at a cost of ₹ 10,741.26 crore. Out of this, four NHs, 12 SHs and 12 MDRs projects costing ₹ 6,726.77 crore were selected for detailed Audit on the basis of stratified random sampling method. Out of these, two SHs and one MDR projects were completed with delay of one year eight months to four years four months except one NH, five SHs and seven MDRs projects, which were completed before schedule completion period. Further, three NHs, five SHs and four MDRs projects were terminated.

(Paragraphs 4.1.1, 4.1.5 and 4.1.15)

Deficiencies noticed in Audit of the above selected road projects are discussed in succeeding paragraphs:

Selection of road projects

Records which formed the basis for selection/ planning of road projects for taking up under BOT mode were not made available to Audit. MPPWD directed (August 2010) the Company to carry out Feasibility Study of 12 Major District Roads (MDRs) on a specific Annuity mode in advance, for which no basis was furnished. Therefore, justification for deciding on the selection of road projects and their implementation mode could not be assessed. Thus, Audit could not assure that the planning for these roads were made after following due diligence.

(Paragraph 4.1.8)

Non-transparent planning process

The Company appointed three consultants for conducting feasibility studies, but none of the consultants submitted Feasibility Reports within stipulated time of 150 days and the delay ranged from four months to 23 months. The Company, concealing the fact of non-preparation of final Feasibility Report and adoption of provisional data for project formulation, proposed 14 road projects for approval of State Level Empowered Committee (SLEC)/ State Cabinet. In case of 10 BOT road projects (20 roads), the Company had executed Concession Agreements, 13 to 188 days before final Feasibility Report, whereas in case of balance four projects Concession Agreement was executed after receipt of final Feasibility Report. This indicates opaque planning process, which raises doubts on transparency and fair play, which led to termination of six road projects.

(Paragraph 4.1.9)

Adoption of Feasibility Reports without verification

Consultants ignored forest area and projected abnormally high traffic projections in its Feasibility Report, which was adopted by the Company without verification through its divisional offices. Relying on the recommendations of the Consultant without its verification, the Company designed projects on Toll mode on which tendering was not successful and implementation mode was subsequently changed to Toll+Annuity, which delayed the projects by 22 months to three years.

(Paragraph 4.1.10)

Erroneous selection of Concessionaires

In case of five out of 12 terminated projects, M/s Concast Infratech Limited, who was a member of the consortium applicant was not technically and financially qualified. However, the Company considered (October 2011 to May 2012) these consortiums as qualified and awarded the projects to them. Further, the EPC contractor, appointed by the Concessionaires for execution of work, also had no experience of executing projects as per requirement of RFQ. Selection of ineligible Concessionaires and EPC contractors contributed to the slow progress of works. As a result, the Company had to terminate all the six projects.

MPRDC engaged a private CA firm for evaluation of technical bids (RFQ) received in respect of BOT road projects. In case of Jabalpur-NH-12 and Indore-SH1 projects, outsourced CA firm selected ineligible Concessionaires, which was accepted by the Company at face value without any independent evaluation. This led to termination of one project and undue delay of one project.

(Paragraph 4.1.12)

Award of work at higher Annuity

Audit observed that in four out of 12 completed Annuity road projects, Tender Committee of the Company, had approved the projects (based on Annuity offer received in tendering) beyond (19.50 *per cent* to 20.40 *per cent* of Project Costs) the prescribed annuity ceiling of 18 *per cent*.

(Paragraph 4.1.13)

Delay in achieving project milestones by the Concessionaire

There were delays in achievement of project milestones in nine terminated and three completed BOT road projects, ranging from two months to 52 months. Delays were mainly due to stoppage/ slow progress of work by the Concessionaire in case of seven projects, besides delay of one year to four years six months in providing Right of Way and obtaining forest clearance by the Company in case of five projects. Damages amounting to ₹ 53.84 crore were recoverable from the Concessionaires of the seven projects for their default.

(Paragraph 4.1.15)

Payment of bonus on account of early completion

The Company entered into Concession Agreements for development of roads under BOT mode with scheduled completion of 730 days from Appointed Date in all the projects instead of the stipulated 550 days as per Model Concession Agreement (MCA), for reasons not on record.

The Company paid early completion bonus of ₹ 137.98 crore to the Concessionaires of 11 projects (17 roads), for completion of projects before scheduled completion period of 730 days. Incidentally, if Company had adopted scheduled completion period of 550 days as per MCA, early completion bonus payable for above 11 projects comes to only ₹ 47.18 crore.

(Paragraph 4.1.17)

Issue of provisional completion certificates

In case of eight projects, Provisional Completion Certificates were issued by Independent Engineer (IE) without ensuring completion of total length of carriageway, construction of major/ minor bridges, widening of minor bridges, works of bituminous concrete, side shoulders, protection work of bridges which were accepted by the Company.

Further, in case of five projects, early completion bonus of ₹ 75.18 crore was also paid by the Company without ensuring construction of essential components of roads, completion of road as a whole which led to undue benefit to the Concessionaires.

(Paragraphs 4.1.17 and 4.1.22)

Irregular payment to Concessionaire towards Change of Scope

In case of 11 projects, the Company made inadmissible payment of ₹ 24.73 crore to the Concessionaires towards change of scope for increase in items of works of roads (₹ 4.60 crore) and structures (₹ 20.13 crore).

(Paragraph 4.1.18)

Excess drawal from Escrow Accounts

The Concessionaire was required to open an Escrow Account with Escrow Bank for routing financial inflows and outflows of the project. The Company did not furnish Escrow Account statements of the selected projects to Audit. However, Audit obtained the same in respect of 15 road projects from the respective Escrow Banks.

It was noticed that there was absence of control mechanism in the operation of Escrow Accounts as there were instances of withdrawal of funds more than the physical progress of work by ₹ 332.19 crore in respect of six projects, transferring the funds to current account immediately and bypassing the control mechanism of the Escrow Account in Gwalior-VIII project. There were instances of reporting higher progress by Lender's Independent Engineers than that of actual, which contributed to disbursement of higher loan amount to the Concessionaires.

(Paragraph 4.1.26)

Lack of Institutional Mechanism for Monitoring of Project

The Company did not establish two-tier mechanism of Public Private Partnership (PPP) Projects Monitoring Unit at field as well as at the Company level and PPP Performance Review Unit at State Government level for BOT projects which was envisaged by the Planning Commission, GoI. Monitoring by the Company was being done by obtaining monthly progress reports of projects from Independent Engineers. Deficiencies noticed during execution and its rectification were also being watched through Independent Engineer reports without verifying the same. As a result, issues of non-compliance of provisions of Concession Agreement i.e. non-imposition of damages for delay in achieving milestone, Financial Closure, submission of Performance Security and deficient operation of Escrow Accounts etc. were noticed.

(Paragraph 4.1.30)

Unrealistic targets for supervision of roads

At nine divisions, the Company fixed unrealistic targets for supervision of roads by the technical officers. Length of roads to be monitored by each technical officer, ranged from 447 km (Chhindwara Division) to 2,997 km (Bhopal Division) per week for each AGM and 893 km (Chhindwara Division) to 5,993 km (Bhopal Division) per week for each Manager.

(Paragraph 4.1.31)

Recommendations

The Company should:

- **Select road projects and decide implementation mode of BOT projects on the basis of categorisation of roads and Feasibility Reports,**
- **Verify data of Feasibility Reports submitted by consultant from company's Divisional Offices,**
- **Comply with qualification criteria for selection of Concessionaires and EPC contractors,**
- **Ensure strict compliance of clauses of Concession Agreements,**
- **Include relevant clauses in Concession Agreements for proper monitoring of Escrow Account operations,**
- **Ensure proper monitoring mechanism to monitor the project progress, and**
- **Internally examine all the other projects being executed, to detect similar errors/ omissions.**

5. Compliance Audit Observation relating to State Public Sector Undertakings (other than Power Sector)

Gist of compliance audit paragraph is given below:

The Provident Investment Company Limited filed the Income Tax Returns (ITRs) for the Assessment Years 2008-09 to 2018-19 with a delay ranging from 328 to 548 days, which resulted in avoidable payment of ₹ 1.14 crore towards interest for non-deposit of advance tax within prescribed time and delayed filing of ITRs.

(Paragraph 5.1)