

# **OVERVIEW**



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### 1. Functioning of State Public Sector Undertakings (Power Sector and Non-Power Sector)

Audit of Government Companies is governed by Section 139 and 143 of the Companies Act, 2013. The financial statements of Government Companies are audited by the Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG). These financial statements are also subject to supplementary audit by the CAG. As on 31 March 2019, Odisha had 82 State Public Sector Undertakings (PSUs) consisting of three Statutory Corporations and 79 Government Companies (including 26 inactive Government Companies) under the audit jurisdiction of the CAG. The working PSUs registered a turnover of ₹27,103.37 crore as per their latest finalised accounts as on 30 September 2019. The turnover relative to the Gross State Domestic Product (GSDP) of Odisha was 5.58 *per cent*. As on 31 March 2019, the investment (Equity and Long Term Loans) in 82 PSUs was ₹18,350.29 crore. The power sector received (₹6,754.77 crore) 87.15 *per cent* of total investment (₹7,750.38 crore) made during the period from 2014-15 to 2018-19.

*(Paragraphs 1.1, 1.2, 1.3, 1.4 and 1.8)*

### 2. Functioning of Power Sector PSUs

#### *Formation of Power Sector PSUs*

Odisha became the first State in India to reform its electricity sector. The Odisha Electricity Reform Act, setting out the basic framework of the reform, came into force from 1 April 1996.

Consequently, the Assets and Liabilities belonging to Odisha State Electricity Board (OSEB) were vested in State Government as on 01 April, 1996.

OSEB was restructured and corporatised into Grid Corporation of Odisha Limited (GRIDCO) and Odisha Hydro Power Corporation Limited (OHPC). GRIDCO took over transmission and distribution business while OHPC took charge of hydel generation business.

The only thermal power company *i.e.* Odisha Power Generation Corporation Limited established in November 1984, (outside the purview of OSEB) with 49 *per cent* shareholding of Government of Odisha was disinvested in January, 1999.

Subsequently, Government of Odisha transferred the distribution assets and properties along with personnel of GRIDCO to four distribution companies namely Central Electricity Supply Company of Odisha Limited, North Eastern Electricity Supply Company of Odisha Limited, Western Electricity Supply Company of Odisha Limited and Southern Electricity Supply Company of Odisha Limited with effect from 26 November, 1998 established as wholly owned subsidiaries of GRIDCO. They were subsequently privatised in April 1999/ September 1999 with disinvestment of 51 *per cent* shareholding of GRIDCO. They now function under the distribution and retail supply licence obtained from Odisha Electricity Regulatory Commission (OERC). They are not under the purview of C&AG Audit.

The transmission business of the State was transferred to a newly incorporated company *i.e.*, Odisha Power Transmission Corporation Limited (OPTCL) from 01 April, 2005.

Besides the four power sector PSUs namely GRIDCO Limited, Odisha Hydro Power Corporation Limited, Odisha Power Generation Corporation Limited and Odisha Power Transmission Corporation Limited, five other power sector PSUs were incorporated (January 2007 to September 2018) as subsidiary/ joint venture companies namely Odisha Thermal Power Corporation Limited, Kalinga Bidyut Prasaran Nigam Private Limited, Green Energy Development Corporation of Odisha Limited, Odisha Coal and Power Limited and GEDCOL SAIL Power Corporation Limited. Thus, the State had nine power sector PSUs as on 31 March 2019.

Of these nine PSUs, three PSUs (Kalinga Bidyut Prasaran Nigam Private Limited, Odisha Thermal Power Corporation Limited and GEDCOL SAIL Power Corporation Limited) did not commence any commercial activity till 2018-19.

The power sector PSUs, as per their latest finalised accounts as on 30 September 2019, registered a turnover of ₹9,641.40 crore. The turnover relative to the GSDP of Odisha was 1.98 *per cent* indicating a fairly important role played by the power sector PSUs in the economy of the State.

***(Paragraphs 2.1 and 2.2)***

### ***Stake of Government of Odisha***

As on 31 March 2019, the total outlay (equity, long term loans and grants, subsidies for operational and management expenses) in nine power sector undertakings was ₹16,845.13 crore. This consisted of ₹4,048.57 crore (24.03 *per cent*) towards equity, ₹11,354.60 crore (67.41 *per cent*) towards long-term loans and ₹1,441.86 crore (8.56 *per cent*) towards grants, subsidies for operational and management expenses. Out of the total long term loans of ₹11,354.60 crore, ₹1,186.54 crore (10.45 *per cent*) was availed from the State Government and balance ₹10,168.08 crore (89.55 *per cent*) was availed from financial institutions.

***(Paragraphs 2.4 and 2.10)***

### ***Performance of Power Sector PSUs***

The overall loss incurred by the nine power sector PSUs was ₹22.45 crore in 2018-19 against loss of ₹1,271.99 crore incurred in 2014-15. According to the accounts of the power sector PSUs for the year 2018-19, five PSUs together earned profit of ₹178.34 crore while three PSUs incurred loss of ₹200.79 crore. The top profit making PSUs were Odisha Hydro Power Corporation Limited (₹144.39 crore), Odisha Power Transmission Corporation Limited (₹19.80 crore) and Odisha Power Generation Corporation Limited (₹4.79 crore) while GRIDCO Limited incurred substantial loss of ₹197.50 crore.

At the aggregate level, the accumulated losses of the nine power sector PSUs was ₹4,443.12 crore as against the capital investment of ₹4,048.67 crore as on 31 March 2019. Of the nine power sector PSUs, the net worth of GRIDCO Limited had fully eroded (₹-3,853.75 crore).

***(Paragraphs 2.9 and 2.13)***

### ***Quality of accounts***

The quality of accounts of power sector PSUs needs improvement. Five accounts for the year 2017-18 and 2018-19 relating to the five PSUs were finalised during 01 October 2018 to 30 September 2019. The statutory auditors issued certification with qualifications in respect of all the accounts. Statutory auditors pointed out five instances of non-compliance with Ind-Accounting Standards by one power sector PSU.

*(Paragraph 2.20)*

## **3. Compliance Audit Observations (Power Sector)**

Compliance audit observations included in this chapter highlight deficiencies in management of PSUs with financial implications.

### **Implementation of Odisha Distribution System Strengthening Project by Odisha Power Transmission Corporation Limited (OPTCL)**

- Government of Odisha, through the Odisha Distribution System Strengthening Project, envisaged construction of 473 33/11 KV sub-stations for reduction of Aggregate Technical and Commercial losses and develop a robust cyclone/flood resilient system.

*(Paragraph 3.1.1)*

- The project did not yield the desired result due to significant delays and deficiencies in project planning.

*(Paragraph 3.1.2)*

- Audit observed delays in handing over of sites, procurement of materials before requirement and issues in contract management constraining achievement of the envisaged objectives. Execution of the project suffered due to lack of coordination with the DISCOMs. Even completed substations could not be handed over to the DISCOMs.

*(Paragraphs 3.1.3, 3.1.6 and 3.1.7)*

- Deficiencies in technical design led to procurement of high power transformers and conductors, also potentially contributing to increase in AT&C loss instead of arresting it.

*(Paragraph 3.1.4)*

- High level steering committee which was required to be constituted involving all important stakeholders including Government of Odisha, was never constituted affecting monitoring and achievement of goals.

*(Paragraph 3.1.3.1)*

- Under the scheme, Odisha Power Transmission Corporation Limited included the procurement of transformers in the scope of EPC contractors, which was not in consonance with its practice in other contracts where OPTCL itself purchased the transformers. This resulted in extra expenditure of ₹173.91 crore for procurement of 946 transformers.

*(Paragraph 3.1.2.3)*

- Improper load forecasting of transformer capacity in Detailed Project Report resulted in installation of higher capacity transformer leading to extra expenditure of ₹22.31 crore.

*(Paragraph 3.1.5.1)*

- Although the project aimed at reduction of technical loss at the rate of three *per cent* per annum with generation of additional revenue of ₹255 crore per year mechanisms like metering arrangement at each substation and energy audit were not put in place to measure the actual reduction.

*(Paragraph 3.1.5.3)*

- OERC expressed concern (March 2019) over huge AT&C loss varying from 50 *per cent* to 74 *per cent* in several areas of the DISCOMs. The intended improvement in quality and reliability of power supply did not materialise even for the closed packages due to non-completion of the project despite extended time lines as well as cost estimates going up from ₹2600 crore to ₹3843 crore.

*(Paragraphs 3.1.1 and 3.1.5.3)*

#### **4. Functioning of State Public Sector Undertakings (Non-Power Sector)**

As on 31 March 2019, Odisha had 73 State Public Sector Undertakings in the non-power sector, including three Statutory Corporations. Of these, 47 were working companies and 26 were inactive companies. The working PSUs registered a turnover of ₹17,461.97 crore as per their latest finalised accounts as on 30 September 2019. The turnover relative to the GSDP of Odisha was 3.59 *per cent*.

*(Paragraphs 4.1 and 4.2)*

##### ***Stake of Government of Odisha***

As on 31 March 2019, the total outlay in these 73 PSUs was ₹46,027.34 crore, 4.39 *per cent* (₹2,023.06 crore) equity, 2.01 *per cent* (₹923.96 crore) long-term loans and 93.60 *per cent* (₹43,080.32 crore) grants and subsidies for operational & management expense. Out of the total long-term loans of ₹923.96 crore, 39.06 *per cent* (₹360.89 crore) was availed from the State Government and balance 60.94 *per cent* (₹563.07 crore) was availed from financial institutions.

*(Paragraphs 4.4 and 4.13)*

##### ***Performance of State PSUs (Non-Power Sector)***

Owing to losses incurred by Industrial Development Corporation of Odisha Limited, Odisha Rural Housing and Development Corporation Limited and IDCOL Kalinga Iron Works Limited, profit of ₹1,001.58 crore earned by these working PSUs during 2014-15 decreased to ₹854.71 crore in 2018-19. As per latest finalised accounts for the year 2018-19, out of 47 working State PSUs, 30 PSUs earned profit of ₹1024.07 crore and 11 PSUs incurred losses of ₹169.36 crore. One PSU had a break-even status. One PSU had not yet submitted its first account. Four State PSUs (non-power sector) have earned nil profit.

The top profit making companies were Odisha Mining Corporation Limited (₹789.88 crore), Odisha Construction Corporation Limited (₹67.16 crore) and Odisha State Beverages Corporation Limited (₹29.99 crore), while Industrial

Development Corporation of Odisha Limited (₹89.54 crore), Odisha Rural Housing and Development Corporation Limited (₹42.93 crore) and IDCOL Kalinga Iron Works Limited (₹(-)14.35 crore) incurred losses.

*(Paragraph 4.12)*

### ***Quality of accounts***

The quality of accounts of PSUs needs improvement. Out of 41 accounts forwarded to the Accountant General during 01 October 2018 to 30 September 2019, the statutory auditors issued certification with qualifications in respect of 25 accounts. There were 19 instances of non-compliance with Accounting Standards and four instances of non-compliance to the Indian Accounting Standard.

*(Paragraph 4.25)*

## **5. Performance Audit (Non-Power Sector)**

### **Odisha Industrial Infrastructure Development Corporation**

Performance Audit relating to “Infrastructure Development and Project Management Activities of the Odisha Industrial Infrastructure Development Corporation” covered the period from 2014-15 to 2018-19.

- Odisha Industrial Infrastructure Development Corporation (IDCO) was incorporated on 5 January 1981 under Section 3 of the Odisha Industrial Infrastructure Development Corporation (OIIDC) Act, 1980. The objective of establishment of the Corporation was securing and assisting in rapid and orderly establishment and organisation of industries, trade and commerce in the Industrial Areas (IAs) and Industrial Estates (IEs) in the State of Odisha.

*(Paragraph 5.1)*

- In keeping with the relevant Industrial Policy Resolutions, IDCO experienced delays in creating the required Land Bank meant for orderly industrial growth, constraining availability of land to selected industries for ready use. In six districts test checked, as high as 38 per cent of category ‘A’ land acquired for Land Bank purposes was under encroachment, litigation and not available for allotment.

*(Paragraph 5.7.1)*

- IDCO did not frame regulations for allotment of land from land bank as stipulated by the Government of Odisha, potentially impacting the achievement of the objective of allotment of land in a fair and transparent manner.

*(Paragraph 5.7.1)*

- Contrary to Government/Central Electricity Authority stipulations that leasing and allotment of land should be preceded by a realistic assessment by IDCO of actual requirement, IDCO continued (March 2020) with the process of excess acquisition of land amounting to 2121.59 acres for two industries i.e., Sterlite Energy Limited and Vedanta Limited even when the industries had commissioned their respective Thermal Power Plants within their already allotted land.

*(Paragraph 5.7.2)*

- IDCO allotted 117 acres of government land at concessional rates, in violation to Industrial Policy Resolution 2007, to two TPPs i.e., Lanco and GMR, who had failed to commence commercial production within the prescribed period and were not eligible for any incentive, resulting in short realisation of ₹10.04 crore.

***(Paragraph 5.7.3)***

- IDCO did not revert 537.82 acres of government land to revenue authorities, allotted between April and December 1996 to TISCO as advance possession for an integrated steel plant, even though TISCO did not utilise the land for its intended purpose. IDCO instead reallocated the said land to TISCO between 2014-18 for alternative use ignoring prevailing rates which resulted in short realisation of ₹14.23 crore towards land premium and ₹1.42 crore towards administrative charges.

***(Paragraph 5.7.4)***

- Due to its failure to monitor and maintain an updated database, IDCO did not recover GR and Cess of ₹18.52 crore which remained outstanding against all of the industries to whom land was allotted. Besides, IDCO failed to pursue the correction of Record of Rights (RoRs) of private land of 44,932.29 acres resulting in loss of ₹33.16 crore per annum to the State exchequer since April 2019, due to non-collection of GR and Cess.

***(Paragraph 5.7.5)***

- In respect of 116 Industrial Estates/Industrial Areas (IEs/IAs) which IDCO was tasked to establish and manage, of a total area of 24,084.28 acres under the management and control of IDCO, 14,649.09 acres (61 per cent) had been allotted while 9,435.19 acres (39 per cent) remained unutilised. There were no allotments to 14 IEs/IAs. Additionally, IDCO also did not make and execute a proper development plan for providing infrastructural facilities to the IEs/IAs, despite availability of funds.

***(Paragraph 5.8.1)***

- IDCO allotted 62.16 acres of land to 18 units in Kholadwar and Sea Food Park, Deras without required notification of Industries Department and failed to comply with the relevant instructions of the Board, resulting in short recovery of ₹10.96 crore towards collection of land value.

***(Paragraph 5.8.3)***

- IDCO allotted 26.87 acres of land to 14 industrial units coming under the negative list of IPRs without obtaining the Bench Mark Value of the land from the respective sub-registrars, resulting in short realisation of land cost worth ₹13.34 crore.

***(Paragraph 5.8.5)***

- As regards transfer of lease hold properties and change of activities involving 43.50 acres of land, IDCO charged normal transfer fees instead of application of prevailing rates, resulting in short recovery of ₹27.20 crore.

***(Paragraph 5.8.6)***



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- IDCO allotted 106.13 acres of land and 65.21 acres of land before and after notification of Land Regulations 2016 respectively to 10 Educational Institutions without determining the land rate as specified in the Regulations 2016 and as specified in the decisions of its Board, resulting in short recovery of ₹18.29 crore.

***(Paragraph 5.8.8)***

- Failure of divisional offices to conduct periodical physical verification and failure of the Board to strictly monitor its decisions, constrained a review (2014-19) of rightful utilisation of allotted land and affected both finances and overall objectives of IDCO. It was noticed that though 1128.99 acres of land allotted to 1267 units remained un-utilised, IDCO neither reverted nor utilised the said land for any other purpose under OIIDC Act.

***(Paragraph 5.8.9)***

- IDCO could not carry out completion of GoI sponsored projects due to inefficient planning and ineffective mobilisation of resources such as requirement of hindrance free land, ensuring necessary and critical infrastructure in place for units to be set up, etc. These impeded the purpose of setting up the industrial parks/areas and generating commensurate employment.
  - IDCO failed to develop the Government of India sponsored Aluminium Park at Angul despite creating a Joint Venture (JV) company with NALCO, Angul Aluminium Park Private Limited in 2010, for carrying out the project. IDCO did not secure sourcing of required quantity of raw material and the JV did not develop required infrastructure for the allottees to set up their units.
  - Tardy development of Sea Food Park at Deras by IDCO due to higher cost of land acquired for the project, slow pace and inadequate development of infrastructure on the site affected the project.
  - IDCO declared availability of hindrance free land despite encumbrances and obtained approval and funds for the Government of India sponsored Plastic Park at Paradeep by setting up an SPV to carry out the project. Together with land hindrances and non-development of required infrastructure on the land, project implementation continues to be delayed even after lapse of seven years.
  - The Electronic Manufacturing Cluster at Khorda could not take off due to non-resolution of land disputes.
  - As IDCO could not acquire required land, the master plan for the land use could not be finalised, leading to PCPIR project becoming a non-starter.

***(Paragraphs 5.9.1 to 5.9.5)***

## **6. Compliance Audit Observations (Non-Power Sector)**

Compliance audit observations included in this chapter highlight deficiencies in management of PSUs with financial implications. The irregularities pointed out are as briefed below:

Delayed surrender of non- mineable land which fell within Hadagarh sanctuary and within its one kilometre radius resulted in avoidable payment of NPV and dead rent amounting to ₹65.21 crore by Odisha Mining Corporation Limited.

*(Paragraph 6.1)*

Avoidable payment on transportation of ore worth ₹0.73 crore by Odisha Mining Corporation Limited due to incorrect calculation of escalation cost.

*(Paragraph 6.2)*

Failure to produce sized Calibrated Lump Ore and consequent sale of lump ore by IDCOL Kalinga Iron Works Limited resulted in loss of ₹7.56 crore.

*(Paragraph 6.3)*

Loss of interest of ₹5.58 crore due to imprudent fund management by the Agricultural Promotion and Investment Corporation of Odisha Limited.

*(Paragraph 6.4)*

Loss of ₹0.99 crore due to sale of chrome ore at lower price by IDCOL Ferro Chrome and Alloys Limited.

*(Paragraph 6.5)*