Chapter II

Performance Audit relating to Government Companies

Ajmer Vidyut Vitran Nigam Limited

2.1 Performance Audit on Implementation of Rural Electrification Schemes

Highlights

The objective of electrification of all villages by March 2007 and providing all RHHs with access to electricity by 2009 failed in the planning and sanction stage itself as no efforts were made by the Company with the State Government to provide funds for completion of village electrification and providing electric connection to RHHs by the target date.

(Paragraph 2.1.13)

Targets relating to electrification of all Below Poverty Line Rural Households by March 2007 under Rajiv Gandhi Grameen Vidyutikaran Yojana, could not be met even by the end of March 2008.

(Paragraph 2.1.25)

The declaration of 185 villages as electrified out of 336 villages by December 2007 without obtaining certificates from *Gram Panchayat,* was not in accordance with the guidelines of Rajiv Gandhi Grameen Vidyutikaran Yojana.

(Paragraph 2.1.26)

The Company assumed avoidable liability of Rs. 25.28 crore towards inspection charges by awarding work of third party inspection.

(Paragraphs 2.1.28 and 2.1.36)

Only 8 feeders had losses below 15 *per cent o*ut of 433 feeders declared renovated. The declaration of 425 feeders as renovated was not in accordance with the criteria of achieving distribution losses below 15 per cent prescribed in the guidelines of scheme.

(Paragraph 2.1.35)

Rajasthan State Beverages Corporation Limited

2.4 IT Audit of computerisation of commercial activities

Highlights

The Company neither formulated a formal Information Technology policy nor any long-term/medium-term strategic IT plan.

(Paragraph 2.4.7)

Due to design deficiency, the system was not able to identify the stock of expired beer which led to sale of expired beer amounting to Rs. 20.21 lakh.

Due to design deficiency, the system could not ascertain the position of active/inactive stock lying in depots and therefore could not compute the demurrage.

(Paragraph 2.4.9)

Due to non-mapping of business rules and policy of the Company, the system accepted the supply of goods without linking to validation period.

(Paragraph 2.4.10)

Lack of proper validation checks resulted in acceptance of duplicate bank challans from retailers for delivery of goods and fraudulent transactions.

(Paragraph 2.4.14)

Lack of validation checks and inadequate input control made the system ineffective in ensuring the completeness and correctness of the data.

(Paragraphs 2.4.17 to 2.4.19)

Introduction

2.4.1 Rajasthan State Beverages Corporation Limited (Company) was incorporated (February 2005), in wake of the Excise Policy of Rajasthan for the financial year 2005-06, with the main objective to carry on business as manufacturer, producer, processor, grower, trader, buyer, retailer, wholesale supplier of rectified spirit, all kinds of alcohol and other spirits suitable for industrial use. The Company was provided with exclusive rights for sourcing and pricing of Indian made foreign liquor (IMFL) and beer in the state. The purpose was to make available proper quality and quantity of liquor to the consumers at a uniform rate throughout the state and to remove middlemen between manufacturers/suppliers and retailers so that the state could avoid revenue leakage.

The Company framed (March 2006) a Liquor Sourcing and Pricing Policy (LSP) under the Excise Act for carrying out its commercial activities. The Company operates its business activities through 39 depots in the State of Rajasthan. All depots have been equipped with IT infrastructure for performing their commercial functions. The manufacturers, both within and outside the state, keep their stocks in the Company's depots for distribution to the retail licensees for which the Company collects two *per cent* margin on the landed cost of IMFL/beer sold from these depots. The turnover of the Company was Rs. 734 crore and Rs. 1003 crore in the years 2005-06 and 2006-07 respectively.

The Company outsourced (March 2006) the online IT services from Tayal Software Consultancy Services (TSCS), Udaipur at a total project cost of Rs. 1.10 crore for procurement and installation of hardware equipment and for preparation of a web based application software for carrying out day-to-day operations for three years in the Company's Head office and its depots. The TSCS was responsible for maintaining integrity, security and backup of the Company data and applications. As envisaged, the commercial activities were to be carried out by developing five modules *viz*. i) Order Management System, ii) Sales Invoicing and Sales Accounting System, iii) Depot Inventory Management iv) Bank Reconciliation and v) Payment Module for cheque printing; using Oracle. The TSCS had not yet operationalised the Bank Reconciliation Module and Payment Module as of July 2008.

The system had a client server architecture with the server located at Udaipur. The head office of the Company and all its depots were linked with the main server.

Scope of Audit

2.4.2 The scope included evaluation of controls in different modules of the application software and to ascertain completeness, regularity and consistency of the database. Further, the data (Oracle dump) for the years 2006-07 and 2007-08 (up to January 2008) in respect of all the depots was obtained and analysed using generalised audit software between February to May 2008.

Audit Objectives

2.4.3 The IT audit of the commercial activities of the Company was aimed to ascertain:

- the efficiency, economy and effectiveness of the implementation and operation of the modules

- adequacy of IT control built-in
- mapping of business rules in the IT environment and
- business continuity plan/disaster recovery plan.

Audit Criteria

2.4.4 Audit criteria, against which the evidence was tested for the purpose of arriving at audit findings and conclusions, were as follows:

- Best practices for IT system development and implementation
- Liquor Sourcing Policy for the years 2005-06 and 2006-07
- Accounting Policy, Business Rules and procedures followed by the Company and
- Rules, notifications and guidelines issued by the Excise Department of the State Government.

Audit Methodology

2.4.5 Following audit methodology was adopted:

- Issue of questionnaire based on the scrutiny of records and management's response/clarification there upon
- Analysis of the data (Oracle dump) for the years 2006-07 and 2007-08 (up to January 2008) in respect of all the depots using Computer Assisted Audit Technique (CAAT) and
- Discussions and interaction with the officers of the Company and the TSCS.

Audit Findings

2.4.6 The audit findings concluded as a result of test check of the system and records are as under.

General Controls

2.4.7 Lack of IT strategy and policy

The Company had not formulated a formal IT policy and any long term/medium-term IT strategy for implementation of IT applications in a systematic manner.

In reply, the Management stated (September 2008) that in January 2006 the Company had decided to replace the wholesaler system with retail licensees with effect from April 2006 and to cater to a huge clientele, online IT solution was essential. It was further stated that the system was implemented successfully as scheduled. The reply was not acceptable in view of the fact that the Company did not give detailed thought to the key elements of the IT strategy such as policy making, funding, support required for development, arrangements, internal infrastructures *etc.* Moreover, even after two years of switchover to IT system, the Company did not formulate its IT policy which may help in ensuring consistency of plans, business policy and its strategy**.**

2.4.8 Project planning and documentation

The work of preparation of a web based application software for carrying out the day-to-day operations for running commercial activities of the Company was awarded (March 2006) to the TSCS without preparation of any perspective plan. After award of work, a sub-committee was formed belatedly (June 2006) to identify, justify and analyse the activities of the Company, which were to be computerised. The documents such as User Requirement Specifications (URS), System Requirement Specifications (SRS), change management policy and manual of the IT system were not prepared. The testing and acceptance of the application software were also not found on record.

In reply, the Management while accepting the audit observations stated (September 2008) that due to shortage of time, instead of putting efforts on studying, documenting, verifying and reporting, the Company had intensive and dedicated interaction with the service provider to develop and implement the system. It further stated that the user manual was under preparation. The reply was not convincing as in absence of proper documentation, change management controls could not be ensured in audit which may result in accidental or malicious changes in software and data.

System design

2.4.9 Drain-out of expired beer/ Demurrage charges

Rule 9.6 of LSP stipulated that any stock of beer lying unsold for a period of six months from the date of bottling or stock declared unfit for human consumption at the depot should be drained out by the Company. Any expenditure incurred by the Company should be recovered from the manufacturers and no compensation was payable in respect of such stock. In case where such beer was not drained out at the depot itself and the breweries were allowed to take the old stock of beer back to their factories, the Company's margin at the rate of two *per cent* plus demurrage was to be recovered from the supplier. While approving the brands of beer, the Excise Department had clearly instructed the manufacturers that brand labels could be used only after indicating the batch number, date of manufacturing and date of expiry.

For optimum utilisation of storage capacity, LSP provided that stock more than 60 days and 120 days old, of beer and IMFL respectively, was to be categorised as 'Inactive stock' and a demurrage of Rs. 2 per carton box per day should be charged against. The demurrage charge was to be computed once a month and adjusted against the payment due to the manufacturers.

Audit, however, noticed that the system did not have provision to capture the date of bottling of beer and the batch number of carton boxes of IMFL/beer. Due to these design deficiencies, the following discrepancies were noticed:

- The system was not able to assess the position of stock of expired beer at various depots of the Company. It infact sold out expired beer amounting Rs. 20.21 lakh to the retailers during the period 2006-08.

- The system was not able to capture the quantity of active/inactive stock.

- The system could not charge/adjust the demurrage amounts from the payments to be made to the manufacturers, though as per proviso of Rule 11 of the LSP, the Company was to pay to the manufacturers only for the stocks sold after deducting the demurrage charges, interest *etc.*

- The Company allowed three manufacturers[1] to withdraw their stock of IMFL worth Rs. 63.81 lakh during 2006-07 but failed to recover demurrage charges as the same could not be ascertained.

- It could not be ascertained whether the stock was issued at the depot level correctly on first-in-first-out (FIFO) basis as per the policy of the Company.

While accepting all the facts the Management stated (September 2008) that there was no provision to insert batch number/date of manufacturing in the software. The assessment of the active/inactive stock was being done on the basis of inward of the goods at the depot.

[1] Ranger Breweries Limited, Herbertson Limited and Shaw Wallace Distilleries.

Mapping of business rules

2.4.10 Validity of Order for supply (OFS)

The LSP stipulated that the manufacturer should complete the delivery of items within a validity date indicated in the OFS and in case of his inability to supply the quantity within the validity period, the OFS shall lapse automatically. Further, as per provisions of the LSP, the Company could extend the validity period by charging the prescribed fee. The Company allowed delivery period for supply of IMFL/beer up to 10, 15 and 21 days to manufacturers (distillers/brewers) situated in Rajasthan, Punjab and Southern remote states respectively.

It was observed that a check with reference to the validity period was not built into the system where users could enter any number of days for the validity period. Non-mapping of the business rules with reference to validity period led to deficient control of the supply from manufacturers as per the OFS *i.e.* beyond the validity period without any extension fee. It was further noticed that charging of fee in case of extension of validity period was also not made a part of the software. In case of 55 orders for supply (OsFS) during the period of 2006-08, the initial validity period was allowed for more than 21 days without any extended validity.

While accepting the fact the Management stated (September 2008) that charging of fee against validity extension was not a part of the software. It, however, stated that in no case the extended validity was allowed at the initial stage. The reply was not convincing as in 55 OsFS, the validity period was allowed up to 30 days at the initial stage itself.

2.4.11 Sale of IMFL/Wine in loose bottles

The Company issued instructions to the depot managers (May 2006) that all brands of wine and costly brands of whisky and other IMFL costing Rs. 800 per quart[2] or more could be sold in loose bottles. The cheaper brands of IMFL and all brands of beer were to be sold in Case Bags (CBs) only. The condition was relaxed to the extent that in case of damages/short filled bottles, the same could be sold in loose bottles.

Audit, however, noticed that adequate provision has not been made in the system to identify the IMFL/wine costing less than Rs. 800 per quart. Further, no validation check was available in the system to avoid generation of invoice of items in case these were sold in loose bottles even though their prices were less than Rs. 800 per quart and sufficient stock was available with the depot.

In reply (September 2008) the Management while accepting the absence of such check in the system stated that there was no necessity for putting such check as the policy could change from time to time. The reply was not acceptable as non-mapping of the business rule with reference to costly brands of whisky and other IMFL may lead to ineffective organisational control.

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[2] Quart- bottle having liquor quantity of 750 ml.

2.4.12 Credit sales

As per policy of the Company, the retailer was required to deposit the amount in any of the recognised banks through challan and produce a copy of the challan at depot for purchase of IMFL/beer from the depots of the Company. Further, the system also provided that the amount of invoice for sale of IMFL/beer should not exceed the credit balance of that retailer.

Analysis of data, however, revealed that during the audit period, 24,398 (2006-07) and 20,358 (2007-08) instances of credit sales worth Rs. 29.67 crore and Rs. 19.17 crore were permitted through system. Further analysis revealed that at the end of the year 2006-07, Rs. 27.19 lakh was outstanding against 210 of the above retailers.

Thus non-mapping of the business rules for credit sales led to generation of invoice without reference to the credit balance of the retailer.

In reply, the Management stated (September 2008) that some retailers forged the amount in challans and lifted the material. The fact remained that the system accepted the sales in excess of the credit balance of the retailer.

Application controls

2.4.13 Input control and validation checks

To ensure correctness and completeness of the data it is necessary to ensure appropriate input control and data validation. The following shortcomings were noticed in audit regarding input control and data validation.

2.4.14 The Company got printed the bank challan slips of each of its three banks[3] for each financial year with unique alpha-numeric challan number of seven digits including the bank code. Audit, however, noticed the following discrepancies:

- The system did not have appropriate input controls to identify the alpha-numeric characters of the challan numbers and also to ensure the complete code was entered. In respect of 3,942 records, the module had accepted entry of challan numbers even though the first letter of challan number denoting the bank name was missing and/or the challan number was having less than seven digits.

- The system also accepted the entries of the same challan number more than once. 1,943 and 8 numbers of duplicate challans were noticed in the same year during 2006-07 and 2007-08 respectively. In 6,158 cases the system accepted same challan numbers in 2007-08, which were already entered in the year 2006-07.

- In 2006-07, one retailer deposited Rs. 30,000 in UCO Bank, Jaipur and

[3] Punjab National Bank, Bank of India and UCO Bank.

using the same challan, fraudulently, he took delivery from two depots *viz*. Jaipur (Sikar road) and Jaipur (Ajmer road) of the Company. Further analysis revealed that two retailers had taken the delivery from two different depots (Ajmer depot and Ajmer Makhanpura depot) against the same challan number on different dates (5 May 2006 and 14 June 2006) whereas the amount was found credited only once in the Company's account. Similarly in the year 2007-08, two retailers of Jalore depot had taken the delivery of stock worth Rs. 96,000 on two different dates against the same challan without depositing any amount.

Thus, lack of inadequate input control and validation check in the system led to acceptance of fraudulent transactions.

In reply, the Management stated (September 2008) that in the financial year 2005-06 challan slips used were unnumbered and the same were in use in financial year 2006-07 also with jumbled numbers. Thus there was no check on restricting duplicate challans during that period. The reply was not acceptable as the system was accepting the entries of the same challan number more than once and did not have appropriate input controls to identifying the alpha-numeric characters of the challan numbers.

2.4.15 As per Section 206-C of the Income Tax Act, 1961, tax collected at source (TCS) at the time of sale of liquor from depots is required to be deposited on 7th of each month furnishing Permanent Account Number (PAN) of the retailers. The Company issued (May 2007) instructions to the depot managers to ensure compliance of these provisions.

Audit, however, noticed that the PAN was not being entered into the system. Further, the system has no validation check and generated the invoices for sale even in absence of PAN of the retailers.

In reply, the Management stated (September 2008) that the system had proper provision for recording the PAN of licensees. The reply was not acceptable as the system was generating the invoices for sale even in absence of PAN of the retailers as a result of inadequate input control.

2.4.16 Absence of permit number

Excise Department of Government of Rajasthan had allotted a licence (permit number) to each retailer of wine shop for each financial year. The permit numbers were, however, not being entered into the system. Audit noticed that the invoices were generated without entering permit numbers in respect of 2,61,342 records in the year 2006-07 and 3,22,945 records in 2007-08. Thus possibility of sale of the IMFL/beer to unauthorised retailers could not be ruled out.

In reply, the Management stated (September 2008) that the Company's software includes only licensees approved by the Excise Department; hence, there was no possibility of sale of the IMFL/beer to unauthorised retailers. The reply was not acceptable as the assertion of the Company was not sufficient in view of absence of the adequate input control and invoices were being generated even without entering permit numbers.

2.4.17 The date of material inward slip[4] (MIS) and other dates like date of OsFS and lorry receipt date were not validated in the system. The following discrepancies were noticed:

- 15 and 3 instances in the years 2006-07 and 2007-08 respectively were noticed wherein the OsFS dates and receipt dates of stock at depots were the same, which indicated that the OsFS were issued after arrival of stock at the depots.

- During the year 2006-07, 29 instances were noticed where the material at the depots was shown as received even before the date of issue of OsFS. In some cases the delay was more than one month. Similar instance was also noticed in the year 2007-08 in Udaipur depot.

- In 69 material inward slips (MIS) in the year 2006-07 and 53 MIS in 2007-08 the date of arrival of vehicles was subsequent to the date of preparing the MIS.

The Management accepted (September 2008) the fact that there was no validation check on the date field.

2.4.18 As per the Rajasthan Excise Rules, 1956 every manufacturer of country liquor, IMFL and beer shall have to obtain approval of the labels (irrespective of size *i.e.* quart, pint or nip) of their brands intended to be manufactured or sold in Rajasthan every year from the Excise Commissioner. Audit noticed that the date of invoice was, however, not validated with reference to the date of approval of brand. Thus, in the year 2007-08, 11,797 invoices of 79 brands for sale of liquor/beer were generated from different depots of the Company before approval of these brands by the Excise Department.

In reply, the Management stated (September 2008) that to clear the available stock with the depots, sale invoices were issued notably for those suppliers to whom some amounts of demurrage charges *etc.* relating to earlier years were outstanding. The fact remained that the system did not have any provision to validate the brand approval date while generating the invoice for sale of stock.

2.4.19 There was unique number coding for OFS (issued at HO level) and MIS and invoice for stock sold (at depot level). The system, however, accepted the same numbers which had once been entered for the OFS, for the MIS and for the invoice for stock sold and thus the following discrepancies of duplicate records were noticed:

- There were 68 records of duplicate OsFS numbers during 2006-07.

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[4] As per procedure the material inward slip (MIS) is prepared on the date of arrival of a lorry load at a depot, after verification of documents and unloading of the goods.

- In the year 2006-07, two records had the same MIS serial number in Nagour depot.

- In the year 2006-07, 26 invoices were issued on different dates with the same invoice numbers.

Thus, absence of input control and validation checks led to presence of inconsistent and incorrect data in the system.

In reply, the Management stated (September 2008) that in some of the depots, documents like MIS and invoices were not created 'on line' at initial stage of implementation of the software due to poor internet connectivity with them. Thus, while entering the MIS with 'Manual' option the same MIS serial numbers were used in Nagaur depot. It was further stated that the brands of both the MISs were properly incorporated into the stock of the depot. The reply was not acceptable in view of the fact that no validation check was incorporated in the system to avoid such discrepancies.

Other issues

2.4.20 The following discrepancies were also noticed in the modules:

- The excise fee at the rate of Rs. 4 per bulk litre was to be collected on IMFL and Indian made beer. It was noticed that in respect of 31 records pertaining to 16 depots and one record pertaining to Jaipur-Ajmer road depot in the year 2006-07 and 2007-08 respectively, the excise fee was not indicated in the data.

- Scrutiny of the closing stock of IMFL/beer revealed that the closing balances of 214 items in the year 2006-07 were more (ranged between 2 and 3,551 case bags) than the physical quantity available in the depots of the Company. Accordingly, the balances physically available with the depots were entered in the database in the next financial year.

- There was a parallel system in the Company with regards to maintenance of accounts. Audit noticed that the amounts payable to or receivable from suppliers as depicted in the balance sheet were different than the balances shown in the database. Allowance of parallel system indicated that the Company did not rely on its database.

Conclusion

Any computerisation effort has to be supplemented by adequate controls to ensure appropriate system design, mapping of business rules correctly and confidentiality, integrity and reliability of data. The computerisation of the commercial activities of the Company, started in March 2006, was not complete as two important modules *viz.* Bank Reconciliation Module

and Payment Module were not made functional. Database was unreliable due to deficient system design, incomplete data capture from manual records, deficient input controls and validation checks. The system, thus, was deficient and posed the risk of fraudulent manipulations, loss of revenue and incorrectness in the accounts of the Company. The Company, thus, did not completely rely on the system and maintained a parallel system. This defeated the objectives of the computerisation in the Company.

Recommendations

The Company:

- **Should develop and maintain complete documentation of various stages of development like User Requirement Specifications, System Requirement Specifications, User manual *etc*.**
- **Should make suitable modifications in the system design to capture the stock of expired beer and inactive stock.**
- **Should aim for incorporating all its rules and policies into the system like OFS validity, cash sales *etc*.**
- **Should build in the input controls and validation checks into the system like validation between dates, to prevent duplicate entries and to ensure complete and correct data entries; and**
- **Should formulate a clear and comprehensive IT policy.**

Rajasthan Rajya Vidyut Utpadan Nigam Limited

2.3 Performance Audit on Construction of Giral Lignite Power Project – Phase I

Highlights

The Company ignoring the advice of Lahmeyer International for global tendering as sulphur content in available Lignite ranged between 4 to 6 *per cent* invited single offer from BHEL who had experience in installation of Lignite based power plant with sulphur content of less than 2 *per cent* only. This resulted in non stabilisation of main plant even after 18 months of its synchronisation.

(Paragraph 2.3.14)

The delay in synchronisation of the plant resulted in increase in the preoperative expenses, cost of plants/equipments due to price variation, interest during construction period *etc.* to the extent of Rs. 64.27 crore.

(Paragraph 2.3.8)

Non inclusion of the lime stone handling plant in capital estimates resulted in less equity participation of Rs. 9.36 crore and recurring loss of interest of Rs. 77.22 lakh per annum.

(Paragraph 2.3.9)

The Company did not safeguard its financial interest while approving the revised bill schedule resulting in extra expenditure of Rs. 9.37 crore.

(Paragraph 2.3.15)

There was no system of checking the accuracy of quantities of material requirement assessed by the contractor and monitoring of issue of material to contractor.

(Paragraph 2.3.18)

The Company in violation of the provisions of the Income Tax Act did not deduct tax at source of Rs. 5.61 crore.

(Paragraph 2.3.19)

Introduction

2.3.1 Emphasis was laid on use of lignite for power generation in the ninth and tenth five year plans of the Government of India. In view of the successful installation of lignite based power plant in Gujarat State and heavy transportation cost being incurred on bringing coal to thermal power stations, the State Government took initiatives to exploit the lignite resources available in the state for power generation. The geological survey and investigations in the State of Rajasthan disclosed scattered deposits of lignite in the districts of Bikaner and Barmer. The mineral exploration studies carried out in the year 1991-94 also confirmed availability of 31.55 million tonnes (MT) of lignite in the Giral area of Barmer district. The lignite available at Barmer, however, has a high sulphur (4 to 6 *per cent*) and moisture content, which emits sulphur dioxide gas on firing. Hence, lime stone is required to be mixed with lignite to neutralise the effect of high sulphur content and to make it environment friendly. Considering above facts *vis a vis* the increasing demand of power, the Board of Rajasthan Rajya Vidyut Utpadan Nigam Limited (Company) decided (May 2002) to set up a lignite based power plant named Giral Lignite Thermal Power Project (GLTPP) with 125 MW capacity at Giral, District Barmer.

The Company is managed by a Board of Directors with nine directors including a Chairman and Managing Director (CMD) who is the Chief Executive of the Company. The CMD is assisted by a Chief Engineer (Project), Director (Finance) and the Chief Accounts officer of the unit.

Scope of audit

2.3.2 A performance review on the construction of the 125 MW power project for the period 2002-03 to 2007-08 was conducted from January 2008 to April 2008. The audit findings are based on a test check of records of the Thermal Design Section at head office and the generation unit located at Giral.

Audit objectives

2.3.3 Performance audit of construction activities was carried out to assess whether:

- the project was well planned keeping in view the technology to be used, the quantity and quality of raw material available, and the cost of generation and evacuation of power
- the resources identified and funds raised for the project were used in an efficient and economic manner
- the power plant was erected and commissioned within stipulated time

and cost

- all environmental regulations/norms were complied with and
- an effective monitoring and internal control mechanism was in place.

Audit criteria

2.3.4 The performance of the Company was assessed with regard to the following:

- feasibility/Detailed Project Report (DPR) of the project
- targets of the project *i.e.* pre-determined benchmarks as envisaged in the DPR/tender and purchase orders *vis-à-vis* its achievements
- policies and procedure laid down by the Company for execution of work and procurement of material and
- notification and guidelines issued by the Ministry of Environment and Forest and directives of the State Pollution Control Board.

Audit Methodology

2.3.5 The following audit methodologies were adopted:

- review of Board agenda and minutes
- review of DPR
- review of the records relating to award of various contracts and their execution
- study of orders/circulars/directions issued by the Company for implementation of the project and
- review of arrangement of funds and their effective utilisation.

Audit findings

2.3.6 The audit findings were discussed (July 2008) in the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) where the State Government was represented by the Secretary, Energy and the Company by the Chairman and Managing Director and Director (Finance). The performance audit has been finalised after considering/incorporating viewpoints of representatives of the Government/Company.

Planning

2.3.7 The Company engaged (September 2001) a consultant Lahmeyer International (LI) for preparation of a detailed feasibility report (DFR). The consultant after examination of various aspects prepared (November 2001) a DFR envisaging that a power plant of 140 MW capacity may be installed in two phases. In view of the high sulphur content in lignite, the consultant suggested using a Circulating Fluidized Bed Combustion (CFBC) boiler which was suitable for absorption of sulphur by adding lime stone with lignite. The cost of project excluding water transportation system was estimated at Rs. 749 crore including all taxes and interest during construction period (IDC). The Company, considering the assured supply of lignite and lime stone, asked (February 2002) the consultant to prepare projections for installation of one unit of 125 MW identical to the unit already installed at Surat (Gujarat). The Company also estimated that this would not only cut the *pro rata* cost of generation but would also reduce the gestation period, being based on proven technology. The consultant prepared (April 2002) a revised feasibility report envisaging an estimated project cost of Rs. 590 crore including water transportation system with taxes and IDC. As per the feasibility report the period of commissioning of the unit was estimated to be 36 months. The Company approached (September 2002) the State Government for approval so that project could be taken up. The State Government accorded its administrative approval in October 2002 and the financial approval for Rs. 618 crore was accorded in July 2003. The Company prepared a detailed project report (DPR) in October 2003. As per DPR, the State Government agreed for 30 *per cent* equity participation amounting to Rs. 185 crore and the balance 70 *per cent* amounting to Rs. 433 crore was to be arranged through borrowed funds.

Project cost and actual expenditure

The delay in supply and erection of boiler and turbine generator resulted in increase in preoperative expenses, cost of plants/equipments due to price variation, interest during construction period *etc.* to the extent of Rs. 64.27 crore.

2.3.8 The Project estimates, revised estimates and actual expenditure there against up to March 2008 are given in **Annexure 17**. It can be seen from the annexure that the initial project cost of Rs. 618 crore was revised (December 2005) to Rs. 699.99 crore and against this an expenditure of Rs. 764.26 crore had been incurred up to March 2008. The revision was necessitated due to the incorrect assessment of cost of lignite handling plant and non inclusion of cost of lime stone handling system, steep rise in the prices of steel, copper and labour *etc*. The plant was scheduled to be synchronized in July 2006 but it could be synchronized only on 28 February 2007 due to delay in supply and erection of boiler and turbine generator by Bharat Heavy Electricals Limited (BHEL). This resulted in increase in the preoperative expenses, cost of plants/equipment due to price variation, interest during construction period *etc.* to the extent of Rs. 64.27 crore. The plant has yet not been stabilized (August 2008) to achieve generation at its full capacity.

During discussions in the ARCPSE meeting, the CMD stated that problems were being faced on technical grounds as this was the first lignite based power plant with use of lignite with sulphur content of 4 to 6 *per cent* and BHEL had started taking corrective actions to overcome these problems.

The contention was not acceptable, as the Company while ignoring the advice of LI to go in for international competitive bidding had awarded the contract to BHEL though it did not have the experience of establishing a plant using lignite having high sulphur content of 4 to 6 *per cent* as pointed out in para No. 2.3.14.

In reply the Government stated (September 2008) that the work of erection of the plant was hampered due to heavy rains and flood in the area and most of the labour fell sick due to flood related diseases, which also caused delay. The reply is factually not correct as the flood due to rains occurred in August 2007 *i.e.* after the scheduled date of commissioning of the plant.

Financial Management

2.3.9 Equity contribution from the State Government

Non inclusion of the cost of LSHP in the initial project cost resulted in less equity participation of Rs. 9.36 crore and recurring loss of interest of Rs. 77.22 lakh.

The State Government had approved (July 2003) the project at a cost of Rs. 618 crore and agreed for 30 *per cent* equity participation amounting to Rs. 185 crore. The balance 70 *per cent* (Rs. 433 crore) was to be met from borrowed funds (Rs. 298 crore from PFC•, Rs. 50 crore from Canara Bank, and Rs. 85 crore from OBC∞). Audit noticed that actual project cost increased (December 2005) to Rs. 700 crore due to short provision for lignite and ash handling plant (Rs. 12.02 crore), civil structure and other works (Rs. 55 crore) and non provision of lime stone handling plant (LSHP) (Rs. 31.21 crore) in the original DPR prepared by the management. Non inclusion of the cost of LSHP alone resulted in less equity participation of Rs. 9.36 crore and recurring loss of interest of Rs. 77.22 lakh per annum (at the rate of 8.25 *per cent* average rate of funding through commercial banks) payable to the financial intuitions on borrowed funds. This also caused an increase in borrowings by Rs. 82 crore.

The Government in its reply stated (September 2008) that it was allowing only 20 *per cent* equity for all the projects and in this case despite non enhancement of equity participation the actual equity released remained more than 20 *per cent.* The reply is not convincing in view of the fact that the Government did not pay the equity participation of 30 *per cent,* as agreed to while conveying approval of the project.

• Power Finance Corporation
∞ Oriental Bank of Commerce

2.3.10 Term loan from the Power Finance Corporation

The Power Finance Corporation sanctioned (January 2004) a term loan of Rs. 248 crore and the memorandum of agreement between PFC and the Company was entered into in March 2004. The PFC enhanced (September 2004) the loan amount to Rs. 298 crore and finally revised it (April 2006) to Rs. 366 crore at the rates of interest prevailing on the date of each disbursement with a rebate of 0.5 *per cent* in rates, from the date of commissioning of the project. The loan was covered under Accelerated Generation & Supply Programme (AG&SP) scheme of Government of India and was also eligible for interest subsidy upto maximum of 3 *per cent* per annum. The disbursement of loan (Rs. 366 crore) was made during March 2004 to April 2007 at different rates of interest ranging from 8.75 to 10.25 *per cent*. The loan was repayable in 48 quarterly instalments commencing from January 2007. Audit noticed that the AG&SP subsidy on the interest payment to the PFC during April 2004 to April 2007 worked out to be Rs. 14.39 crore, against which the PFC paid Rs. 10.10 crore only. The Company, however, did not take up issue of short payment of Rs. 4.29 crore with the PFC and the reasons for the short payment were also not on record.

The Company did not take up the issue of short payment of interest subsidy of Rs. 4.29 crore with the PFC.

During discussion in the ARCPSE meeting, the Director (Finance) stated that the maximum limit of the subsidy on interest payment was three *per cent* and the admissibility of percentage of subsidy was dependent upon availability of funds with the Ministry of Power, Government of India. The Company also replied (August 2008) that the matter was being taken up with the PFC for further clarification on the criteria applied for the subsidy on interest payment.

The Government in its reply (September 2008) reiterated the same.

Implementation of the project

2.3.11 Appointment of consultant

Tender (TNE-501) for appointment of consultant for the project was floated in June 2002 in response to which eight offers* were received. An Engineering committee (Committee) constituted belatedly (May 2003) for evaluation of these offers, based on the required technical experience of consultancy, found (May 2003) that TCE consulting Engineers (TCE) was the only bidder qualifying the technical parameters of the tender document as it was the only firm which had the experience of establishment of two lignite based units of 125 MW capacity in Gujarat which were running successfully since February 2000. The Committee, however, recommended that if the price bid of TCE alone could not be considered, being a case of single bid offer, then the bid of Development Consultants Private Limited may also be considered by giving some relaxation in the qualifying criteria. The Committee, however, strongly

* (1) TCE Consulting Engineers Ltd., Banglore, (2) Fichtner Consulting Engineers (India) Pvt Ltd., Chennai, (3) L&T-Sargent & Lundy Ltd., Baroda, (4) Desein Pvt. Ltd., New Delhi, (5) Mecon Ltd., Delhi, (6) Development consultuants Pvt Ltd., Kolkata, (7) Premier Mott. Mac Donald, New Delhi and (8) Engineers India Ltd., New Delhi.

opined against the offer of Desein due to their inexperienced manpower and unsatisfactory performance in unit VI of Kota Thermal Power Station and engineering services provided for various other packages.

The main plant was not working properly even after 18 months of its installation due to defective design of ash handling plant resulting in choking of pipelines.

In contravention of the Committee's recommendation, the Board of the Company, decided (June 2003) to relax the qualifying criteria to open the price bid of three bidders including Desein. As the price quoted by Desein was the lowest at Rs. 1.40 crore, the work was awarded (July 2003) to them. Thus the decision of appointment of Desein (consultant) merely on the ground of offering the lowest rate was imprudent. The delay in synchronization of the GLTPP was attributable to the failure of the consultant in finalization/approval of various drawings for civil works and bill of quantities of structural steel related to the project. The drawings and the designs of main plant *i.e.* Steam generator and turbine generator, approved by the consultant also suffered from various shortcomings and hence the plant could not be commissioned even after 18 months of their synchronization. The defective design of ash handling plant also resulted in choking of pipelines at full load as pointed out by BHEL.

During discussion in the ARCPSE meeting, the Director (Finance) stated that the decision of appointment of the consultant was taken by the Board of Directors.

The Government while reiterating the facts which had been stated in the ARCPSE meeting replied (September 2008) that BHEL was in process of resolving problems observed in the Economizer, Ash Handling Plant (ASP) hopper and Bed Ash. However, the Company could not furnish any satisfactory justification for relaxation in the qualifying criteria and ignoring the specific advice of the Committee while appointing the consultant.

2.3.12 Milestones as per PERT chart

Milestones related to various events were not adhered to resulting in overall delay of seven months in synchronization of the project.

The consultant submitted (August 2004) a Programme Evaluation and Review Technique (PERT) chart to the Company, specifying stage wise milestone for each activity *i.e.* civil, mechanical and electrical **(Annexure 18)**. Audit observed that in deviation of the PERT chart there were delays of 1 to 14 months in initiation of tendering process of mechanical equipments as well as in finalisation of the tenders, and subsequent delays of 2 to 13 months in placement of orders of mechanical items/works which resulted in overall delays in completion of mechanical works ranging from 1 to 20 months. Further, the electrical and civil works were also completed with delays of 4 to 24 months respectively. Thus non-adherence to the milestones related to various events as prescribed in the PERT chart resulted in overall delay of seven months in synchronization of the project.

Audit analysis revealed that the delay in placement of orders was mainly due to improper planning and lack of co-ordination between the Consultant and the Company whereas delay in execution of the project was mainly attributable to delay in finalization of drawings by the Consultant.

During discussion in the ARCPSE meeting, the CMD accepted the fact of delay in overall setting up of the plant.

The Government while accepting the fact stated (September 2008) that the delay in initiation of tendering process was mainly due to late finalisation of specification as GLTPP was the first project of its kind in Rajasthan.

Construction of Project

2.3.13 Mechanical Works

Mechanical works include purchase, erection and testing of equipments and plants. For a thermal power station there are two main plants *viz*. boiler to generate steam and turbine generator to generate electricity. Other plants like fuel handling, ash handling, and cooling towers are the supportive plants for the smooth running of the main plant. Besides these, other equipments and plants such as cranes, water reservoir, pumping stations are also needed for smooth supply of water, movement of various materials, machineries, parts *etc.*

2.3.14 Procurement of main plant

Lahmeyer International (LI), in its detailed feasibility report (DFR) had advised (November 2001) for installation of the main plant on erection, procurement and commissioning basis (EPC) through international competitive bidding. LI had also recommended for adoption of Circulating Fluidized Bed Combustion (CFBC) Boiler technology. A list of 11 countries where CFBC Boilers were operating successfully was also provided with the DFR.

The boiler and generator supplied by BHEL had various technical problems from the very beginning.

The Company, ignoring the advice of LI, invited (February 2002) a single offer only from Bharat Heavy Electrical Limited (BHEL) for installation of a plant of 125 MW capacity on EPC basis. The Company placed (October 2003) an order on BHEL at a negotiated price of Rs. 243 crore[⊕] with a scheduled period of completion of 33 months (July 2006) starting from the date of LOI (October 2003). The detailed work order was issued in February 2004.

Looking at the specific characteristics of available lignite the Company should have invited global tenders to obtain more technically qualified and suitable offers.

Audit observed that BHEL did not have any experience of establishing plants using lignite with high sulphur content (4 to 6 *per cent*) and the plants supplied by BHEL in earlier years to other states were based on lignite with less than 2 *per cent* sulphur content. The boiler and generator supplied by BHEL for this project had various technical problems (including design problems) from the very beginning and could not be stabilized even after passage of more than 18 months after synchronization. Therefore, looking at the specific characteristics of the available lignite, the Company should have adhered to the advice of LI for global tendering to obtain the most technically

⊕ Rs. 222 crore – Supply of boiler and turbine; Rs. 21 crore – Erection and commissioning.

qualified and suitable offers.

During discussion in the ARCPSE meeting, the CMD stated that the work of installation of a plant on EPC basis was awarded to BHEL as they had a vast experience in this field. The reply is not acceptable in view of the fact that the plants supplied by the BHEL in earlier years to other states were based on lignite with less than 2 *per cent* sulphur content. Thus the decision of the Company to award work to BHEL without due circumspection caused heavy delay in commissioning of the plant.

The Government in its reply (September 2008) also could not furnish any satisfactory justification for awarding work to BHEL while ignoring the advice of LI for global tendering to obtain the most technically qualified and suitable offers.

2.3.15 Extra payment for HP/IP Turbine and LP Rotor

The Company did not safeguard its financial interest and approved the revised bill schedule.

The contract price of the main plant was subject to price variation with base date price of April 2003. BHEL provided a billing schedule indicating item wise price as per the base date price. The billing schedule included value of loose items of Rs. 15 crore for estimated quantity of 1,000 MT at the rate of Rs. 150 per kg. As per billing schedule, this value was subject to adjustment as per weight of loose items actually consumed. The actual consumption of loose items was 346 MT only. Consequently, BHEL sent (July 2005) a revised bill schedule wherein the difference of value of loose items was added to other equipments *viz.* HP/IP turbine (Rs. 5 crore), LP rotor (Rs. 2.65 crore) and new items (Rs. 2.16 crore). Audit observed that even though the BHEL's revised bill schedule was against commercial ethics, the Company did not safeguard its financial interest and approved the revised bill schedule. This resulted in extra expenditure of Rs. 7.65 crore on supplies of HP/IP turbine and LP rotor. Audit further noticed that BHEL also claimed price variation on revised rates of these equipments which was also paid by the Company. This also resulted in extra expenditure of Rs. 1.72 crore on account of price variation on increase rate of turbine and rotor.

During discussion in the ARCPSE meeting the Director (Finance) stated that the matter would be taken up with BHEL.

In reply, the Government stated (September 2008) that the revisions were approved within the contract value and before the completion of supplies. The price variation was allowed as per terms and conditions of the contract and no extra payment released to BHEL. The reply lacked justification as the increase in cost of HP/LP turbine and LP rotor was made without any change in their specification/design.

2.3.16 Deviation from contract terms

The plant was synchronised in February 2007 with a delay of seven months from the scheduled date of commissioning. Clause 19.01 of the work order stipulated that liquidated damages for delay in delivery were recoverable from BHEL at the rate of half *per cent* of the contract price per week subject to maximum 5 *per cent* of contract value. Audit noticed that it was the practice of the Company to deduct the due amount of penalty from each subsequent bill of the suppliers received after the scheduled date of supplies. In the instant case the Company, however, did not deduct penalty of Rs. 12.15 crore from the bills of Rs. 29.28 crore received after the scheduled date of supplies.

Further, as per clause 2.23.3 of general conditions of contract for supply and erection of lignite and lime stone handling plants, the penalty for delay in supply was to be made from cash deposit/dues of the firm/bank guarantees available with the Company. Audit observed that there were delays of 4 to 73 weeks in supply and erection of lignite handling plant by the contractor. Against the leviable penalty of Rs. 30.95 lakh for delay in supply and erection of lignite handling plant, the Company deducted Rs. 5.56 lakh only from the bills of Rs. 5.47 crore submitted by the contractor. Similarly, there was a delay of 20 weeks in supply and erection of lime stone handling plant, on which penalty of Rs. 22.36 lakh was leviable but the Company did not deduct any amount on account of penalty while passing the bills of Rs. 5.15 crore.

Further, as per clause 4 of the work order for supply of boiler and turbine, balance 2 *per cent* of contract value was to be released on successful commissioning of the plant after obtaining bank guarantee of equivalent amount. Audit observed that though plant was yet to be commissioned successfully, the Company had released (March to May 2007) Rs. 25 lakh to BHEL from the retained amount of Rs. 42 lakh being 2 *per cent* of the cost of contract. The Bank guarantee to be obtained in lieu of such amount released, was also not obtained from BHEL.

In reply, the Government stated (September 2008) that the Company had the financial hold in the form of retention money of security, bank guarantee and performance bank guarantee of the suppliers of the plants. The fact, however, remained that the company deviated from its practice of deduction of penalty amount from its bills during supply period.

Civil Works

2.3.17 Civil works include laying of foundation and construction of structure for the various equipments, buildings, cooling tower, water reservoir and pump house. The foundation and structure for lignite/limestone/ash handling plants, cooling towers were executed by the suppliers of these plants. The foundation and structure works of various other buildings, boiler, electrostatic precipitator, switch yard, pump house and fuel oil tank were awarded to various other contractors.

Contract Management

2.3.18 Issuance of material to contractor

The project had provision for a residential colony comprising of 36 quarters of three different types. The construction work of quarters was awarded to Avas

Vikas Limited (contractor) with the condition that cement and steel would be supplied by the Company to the contractor free of cost. The requirement of cement (19,380 bags) and steel (95.3 MT) for the work was assessed and communicated by the contractor.

There was no system of checking accuracy of the quantities assessed by the contractor and monitoring of issue of material to contractor.

Audit noticed that there was no system of checking the accuracy of the quantities assessed by the contractor and monitoring the issue of material to contractor or the utilization thereafter. Audit further noticed that the contractor had completed only 28 *per cent* work (June 2006) whereas the Company had issued 20,691 bags of cement and 112.36 MT steel which was in excess of the total requirement for the entire work. The Company further issued 14,300 bags during July 2006 to April 2007. The Company had thus issued a total of 15,611 bags of cement and 17.06 MT of steel to the contractor in excess of the requirement without confirming its utilisation. This indicated a complete absence of control over verification of requirement and issue of material to the contractor.

During discussion in the ARCPSE meeting, the Director (Finance) agreed to look into the irregularities noticed by Audit in issuance of cement and steel to the contractor.

In reply, (September 2008) the Government while accepting the audit observation stated that ceiling was fixed under the contract provisions and the case was under their scrutiny.

2.3.19 Income Tax deducted at source

As per section 194 C of the Income Tax Act, deduction of Income Tax at source (TDS) from the payment made to the contractor/suppliers at the prescribed rates is to be made on total value of supply of material and cost of erection in case of turnkey contracts. In terms of section 201 of the Act *ibid,* failure in deductions of TDS attracts interest on the amount of such tax at the rate of 12 *per cent* per annum from the date of release of payment to the date on which such tax is actually deposited.

The Company in violation of the provisions of Income Tax Act did not deduct TDS of Rs. 5.61 crore.

Audit observed that the Company in violation of the provisions of Income Tax Act did not deduct TDS on the supply portion of turnkey projects for the main plant on the ground that separate orders were issued for supply and erection. The amount of TDS not deducted during the years 2003-04 to 2006-07 worked out to Rs. 5.61 crore on the payments made to BHEL against contracts for the main plant. Thus the Company has invited a liability of interest of Rs. 1.63 crore on the amount not deducted as TDS and consequential loss to that extent.

In reply, the Government stated (September 2008) that in view of survey conducted in some of the projects of the Company by the Income Tax department and in accordance with the decision taken in coordination committee on 28 February 2008, the TDS was deducted on entire contract value and deposited before 31 March 2008. The reply is incorrect as the TDS for the years 2003-04 to 2006-07 was neither deducted nor deposited by the Company. The TDS was actually deducted and deposited for the year 2007-08 only.

Status of project

2.3.20 In terms of clause 22 of general conditions governing erection, commissioning and testing, attached with supply order for main plant, a pre-commissioning test at site on each item of the equipment was to be carried out by BHEL and on conclusion of satisfactory pre-commissioning tests, the trial operation was to commence. During trial operation, every equipment of plant was required to run for a continuous period of 14 days of which a minimum period of 72 hours was to be on full load. The trial operation was to be considered successful if it was proved that each item of equipment operated continuously on full load. In case the interruption in trial operation was more than eight hours at one stretch, the trial run period was to start afresh.

It was observed in audit that the boiler tripped 40 times due to different reasons as narrated below. The duration of each tripping ranged from 1 to 28 days. Trial run commenced in February 2007 was still in progress as of August 2008.

Sl. No.	Description	No. of times boiler tripped
1.	Turbine tripped due to lube oil temperature high	4
2.	Generator reverse power protection	3
3.	Combustor temperature high/not maintained	6
4.	Problems in lignite feeder	4
5.	Drum level very high/low	6
6.	Condense vacuum low	8
7.	Boiler tube leakage	5
8.	Choking of P.A. Duct	3
9.	Release of air	1
	Total	**40**

During the trial run period, the plant achieved a maximum load ranging between 10 and 125 MW.

In reply the Government accepted (September 2008) the audit observation.

Impact of non stabilization of project

2.3.21 Shortfall in power generation

The DPR had envisaged an average yearly gross electrical power generation of 821.25 million units (MU) and the net power dispatch of 743.23 MU at 75 *per cent* load factor. It was, however, observed in audit that the plant produced 1,800.25 lakh units (LU) against the projected norms of 8,063.53 LU from 28 February 2007 to 31 March 2008, resulting in shortfall of 6,263.28 LU. Due to non-stabilization of the plant, the commercial operation date (COD) was not fixed and hence, as per Rajasthan Electricity Regulatory

Commission (Commission) directives, the Company could recover only fuel cost from the sale of power and the amount of fixed cost remained un-recovered.

While accepting the fact the Government replied (September 2008) that the unit was under trial run and not taken over from BHEL.

2.3.22 Non adherence to environmental norms

The environmental clearance of the project was given by the Ministry of Environment & Forest (MOEF) in November 2004. Accordingly, the Company had incurred an expenditure of Rs. 28 crore on the construction of chimney, ash handling plant, green belt *etc.* to comply with the environmental norms as envisaged in the approval of MOEF.

The main plant supplied by BHEL could fulfil the emission norms only for 28 hours out of 951 hours of trial run period.

As per technical specification of the main plant supplied by BHEL, emission of oxides of sulphur (SOx) was required to be less than 300 parts per million (ppm). A test check of records revealed that out of 951 hours of trial run conducted from 12 October 2007 to 30 January 2008, the emission of SOx was maintained below 300 ppm for 28 hours only (2.94 *per cent*). It ranged between 300 ppm to 1000 ppm for 87 hours and for remaining 836 hours it was more than1000 ppm.

Internal control and internal audit

2.3.23 Internal control and internal audit are important exercises within the organisation to improve the attainment of goals of the organisation. Together, they create the necessary environment for efficiency and effective monitoring.

Audit observed that the requisite internal control was absent, particularly in respect of recovery of penalty/liquidated damages and issuance of material to contractors as discussed in paragraphs 2.3.16 and 2.3.18 respectively.

Internal audit of expenditure of the Company is conducted by the internal audit wing working under the supervision and control of the Director (Finance). The Company followed the internal audit manual (IAM) adopted by the erstwhile Board.

As per IAM, expenditure audit was to be done once in a year. It was noticed during audit that the first internal audit of the project was conducted for the year 2005-06, and 2006-07 although the construction activities of the project had started since 2003-04. Thus the Company could not adhere to the provisions of its own IAM. The statutory auditors in their reports had repeatedly stated that the internal audit was not commensurate with the nature and size of business of the Company. No corrective action, however, was taken by the Company.

The Government while accepting the fact stated (September 2008) that necessary steps had now been taken for strengthening of internal audit.

Conclusion

While ignoring the advice of the original consultant who prepared the detailed feasibility report, to invite global tenders for purchase of a suitable plant for use of lignite having high sulphur content, the Company invited a single offer only from BHEL, which did not have any experience of establishing such plants, resulting in heavy delay in commissioning of the project. The Company, further, relaxed crucial qualifying criteria to enable the appointment of a project consultant despite the fact that their manpower was inexperienced and its past track record with the Company unsatisfactory; ignoring the specific advice of the committee set up for the purpose. This decision of the Company, was *prima facie* not based on sound considerations as there was failure of the consultant in various stages of the project implementation including the fact that the designs of the main plant approved by the consultant suffered from several shortcomings. Faulty planning and lack of monitoring of contracts resulted in delay in execution of the project and avoidable extra expenditure, which was substantial. Against the projected norms of electrical power generation of 8,063.53 LU from 28 February 2007 to 31 March 2008, the plant produced only 1,800.25 LU resulting in shortfall of 6,263.28 LU. Since various problems remained unresolved even after 18 months of its synchronisation, the commercial operation date (COD) could not be fixed.

Recommendations

The Company needs to:

- **strengthen its planning process and adhere to time and cost milestones**
- **pursue vigorously with BHEL for eliminating the various problems being encountered for successful commissioning of the project**
- **liaise closely with the project consultant for completion of drawings and execution of remaining ancillary works**
- **take adequate care and carry out a strict evaluation before appointment of any consultant in future**
- **take follow up action for recovery of various extra payments made to BHEL and other suppliers and contractors, and**
- **quickly strengthen its internal audit and control system to achieve better economy and productivity.**

Jaipur Vidyut Vitran Nigam Limited

2.2 Performance Audit on Redressal of Consumer Grievances

Highlights

The Company even after a lapse of five years was not following the directions of Rajasthan Electricity Regulatory Commission (Commission) as no system was evolved to register and classify the complaints as per their nature and urgency.

(Paragraph 2.2.7)

The returns and information submitted by field units relating to complaints were without any supporting evidence and basic documentation.

(Paragraph 2.2.7)

Number of unreplaced defective meters increased from 17,143 to 32,481 in Jaipur district circle, 8,794 to 17,610 in Kota circle and 29,131 to 38,198 in Alwar circle within one year (2006-07).

(Paragraph 2.2.13)

The due rebate at the rate of 5 *per cent* in cases of bills raised on average basis due to non replacement of defective/stopped meters for more than two months, was not allowed to consumers.

(Paragraph 2.2.15)

There was a wide variation between the compiled quarterly reports and the annual reports of the Company relating to total complaints received and redressed within and beyond stipulated time, submitted to the Commission.

(Paragraph 2.2.21)

Compiled quarterly figures of the grievances revealed that during the period 2004-07, 42, 46 and 28 *per cent* of the total consumers encountered some or the other problem with the services provided by the Company.

(Paragraph 2.2.21)

Introduction

2.2.1 Electricity is perceived as a basic human need. The Electricity Act, 2003 and the National Electricity Policy, 2005, sought to provide good quality power to all areas at reasonable cost. One of the key elements of the Reform Policy Statement for power sector, 1999 of the Government of Rajasthan (GOR) was to protect the interest of the consumers and to ensure better quality of service to them, as the consumers are often the most neglected segment in the state owned and operated infrastructure sector.

The distribution of electricity in Rajasthan state is handled by three distribution companies including Jaipur Vidyut Vitran Nigam Limited (Company). The Company was incorporated (July 2000) after unbundling of erstwhile Rajasthan State Electricity Board (RSEB) with the prime objective of providing safe, reliable and quality power to consumers. As on 31 March 2007, there were 25.15 lakh consumers comprising of 17.91 lakh domestic, 3.31 lakh non-domestic (NDS), 0.66 lakh industrial, 3.09 lakh agricultural and 0.18 lakh other category consumers in the jurisdiction of the Company covering 12[$] districts out of total 33 districts in Rajasthan.

The consumers often face problems relating to supply of power such as non-availability of the distribution system for the release of new connections or extension of connected load, frequent tripping on lines and/or transformers and improper metering and billing.

Scope of Audit

2.2.2 The performance audit of redressal of consumer grievances covering the period of five years ending March 2007 was conducted during May 2007 to March 2008. Four circles *viz*. Jaipur city circle (JCC), Jaipur district circle (JPDC), Alwar and Kota circles out of a total of eight[*] circles and two divisions from each selected circle under jurisdiction of the Company, were selected for detailed scrutiny on the basis of Rand's random number table. Of these eight divisions, two sub-divisions from each division were selected keeping urban and rural areas in view.

Audit Objectives

2.2.3 Performance audit of redressal of consumer grievances was conducted to assess whether:

- the Company had formulated and implemented a comprehensive

$ Jaipur, Alwar, Bharatpur, Bundi, Baran, Kota, Jhalawar, Karoli, Dausa, Dholpur, Sawai Madhopur and Tonk.

* Jaipur city circle, Jaipur district circle, Alwar, Kota, Sawai Madhopur, Dausa, Jhalawar and Bharatpur.

policy for speedy redressal of consumer grievances;

- suitable publicity of the forums available for consumer grievance redressal was made;
- the system/ forums devised for grievance redressal were adequate/transparent and effective; and
- predetermined benchmarks as envisaged in regulations issued by the Rajasthan Electricity Regulatory Commission (Commission) were achieved.

Audit Criteria

2.2.4 Following criteria were adopted for the performance audit:

- Terms and Conditions of Supply (TCOS) 2004, the Electricity Act 2003 and the National Electricity Policy 2005;
- benchmarks prescribed by the Commission in guidelines issued for redressal of consumer grievances; and
- directions issued by the Commission through tariff orders and notifications issued from time to time for Complaint Handling Procedure.

Audit Methodology

2.2.5 The following audit methodology was adopted:

- analysis of records relating to compliance of directions/orders issued by the Commission;
- analysis of data regarding the number and nature/type of complaints lodged by consumers, system of registration of complaints and the promptness in their redressal;
- review of orders/circulars/directions issued by the Company to its subordinate offices to adhere to various instructions regarding registration and redressal of consumer complaints and compliance thereto; and
- review of agenda and minutes of Board of Directors meeting discussing consumer grievances issues.

Audit Findings

2.2.6 The Commission specified (March 2003) the mode and timeframe for the redressal of grievances in Standard of Performances (Regulation), 2003 (SOP) which was renamed (May 2003) as Rajasthan Electricity Regulatory Commission (Guidelines for redressal of Grievances) Regulation 2003 (Regulations) in pursuance of Section 57 of the Electricity Act 2003. In pursuance of the directions of the Commission, the Company issued (11 December 2003) detailed instructions to be followed for redressal of consumer grievances which were further elaborated in the Terms & Conditions of Supply (TCOS) 2004. For grievances related to dues, the Company established dues settlement committees at the sub-division, division, circle, zone and corporate levels.

As per the Regulations, the Company classified the consumer grievances in four categories *viz*. i) Grievances requiring immediate response, ii) Grievances requiring quick response, iii) Grievances relating to bills and recovery of dues and iv) Grievances relating to other matters such as shifting/transfer of connection, increase/decrease in connected load, reconnection of supply and release of new connection.

'No current' complaints (interruptions in power supply) were to be registered at complaint centres/substations, whereas complaints pertaining to quality of power supply were to be registered at the Junior Engineer (JEN) office. Further, complaints relating to billing, defective meters and release of connections were to be registered at the Assistant Engineer (AEN) office. The Company outsourced the registration of 'no current' complaints in Jaipur city and Kota from May 2004 and in Alwar and Bharatpur cities from February 2006, to designated call centres.

The objectives of conducting performance audit on the topic were explained to the Company during an entry conference held on 25 October 2007. With a view to obtain comments of the Government/management, findings were discussed (July 2008) in the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) where the State Government was represented by the Secretary, Energy and the Company by the Chairman and Managing Director, Directors (Technical) & (Finance) and Chief Engineer (Commercial). The performance audit has been finalised after considering/incorporating viewpoints of representatives of the Government/Company.

The results of scrutiny of records related to the redressal of consumer grievances of the Company are brought out in the succeeding paragraphs.

Documentation of the complaints

2.2.7 As per the Regulations, the Company was required to assign a unique number to each complaint and classify it in an appropriate manner on the basis of nature of the complaint and urgency with which it was required to be redressed. To enable the compilation of complaints for assessing the performance of the Company in redressal of consumer grievances, the Commission also directed (April 2002) to register 'no current' and other than 'no current' complaints in separate registers in a prescribed format.

Scrutiny of records of all the selected sub-divisions revealed that no system was evolved to assign a unique number to each registered complaint. The complaints were also not classified as per their nature and urgency. The registers for 'no current' complaints maintained at sub-division offices did not contain the required information such as date and time of registration of complaints and their redressal. Daily summary of category wise complaints were also not prepared. Records of complaints pertaining to meters, billing, voltage and release of connections were not maintained as prescribed in **Appendix A** of the Regulations. Meter Change Orders (MCOs) and Consumer Charges & Allowances Registers (CC&AR) maintained for watching the progress of complaints relating to replacement of meters and billing were incomplete.

The Company had not followed the directions of the Commission regarding compilation of information related to consumer grievances.

Thus the Company had not followed the directions of the Commission regarding compilation of information in the prescribed manner even after lapse of five years. In absence of basic documentation, returns of complaints submitted to the Commission were without any supporting evidence from the field offices and hence could not be verified by audit (as discussed in succeeding **paragraphs 2.2.19 to 2.2.21**). This indicated a need to improve the Company's approach to handling consumer complaints.

Grievances requiring immediate response

2.2.8 As per the Regulations, grievances requiring immediate response such as complaints of loose connections/disconnection of meter, miniature circuit breaker (MCB) troubles resulting in interruptions in power supply were required to be redressed within 4 hours in urban areas and 24 hours in rural areas.

2.2.9 Interruptions in power supply

The position of complaints received, redressed within and beyond stipulated time and pending at the end of the year pertaining to interruption in power supply in four selected circles for the last three years ending 31 March 2007 as reported by the Company to the Commission is given in **Annexure 13**. It was observed that there were discrepancies in the position reported to the Commission for Jaipur city circle and the corresponding information available in the call centre for the years 2004-05 to 2006-07.

Year	Total complaints received		Complaints redressed within time		Complaints redressed beyond time		Pending complaints
	Reported to Commission	Reported by Call centre	Reported to Commission (percentage)	Reported by Call centre (percentage)	Reported to Commission (percentage)	Reported by Call centre (percentage)	
2004-05	239915	55682	231121(96)	43948(79)	8438 (3.5)	11734 (21)	356
2005-06	211183	130525	201635 (95)	73034(56)	5409 (3)	57491 (44)	4139
2006-07	19403	147663	17714 (91)	93238(63)	1689 (9)	54425 (37)	0
Total	**4,70,501**	**3,33,870**	**4,50,470**	**2,10,220**	**15,536**	**1,23,650**	

Analysis of the table above revealed that the figures of complaints redressed beyond stipulated time limit for the years 2004-05 and 2005-06 were actually 11,734 and 57,491 respectively, in place of 8,438 and 5,409. Further, for the year 2006-07, the actual figures of total complaints and the complaints redressed beyond time at the Jaipur call centre were 1,47,663 and 54,425 respectively, instead of 19,403 and 1,689. Considering the major discrepancies in the figures relating to Jaipur city circle covered by Jaipur call centre alone, it was obvious that the figures reported to the Commission were not correct.

Record maintenance relating to redressal of consumer grievances was poor.

Further, a test check of records of the selected sub-divisions revealed that the record maintenance relating to redressal of consumer grievances in almost all of them was poor. Two[*] sub-divisions limited their data to that available at the call centre only, four[†] sub-divisions had no basic records and sent no written report to the divisional office, intimating figures only over telephone, and eight[‡] sub-divisions had not submitted any monthly information to the divisional offices.

While accepting (July 2008) the facts and audit observations, the Government attributed it to the shortage of technical staff and its level of literacy.

2.2.10 Interruptions due to failure of transformers

The Regulations stipulated that failed distribution transformers (DTs) should be replaced within two days in industrial/urban areas and within three days in rural areas. Analysis of records related to failure of DTs in selected circles revealed that 14,020, 16,116 and 14,284 DTs failed during the years 2004-05, 2005-06 and 2006-07 respectively as indicated in the graph given below. A review of complaints pertaining to interruption of power supply due to failure of DTs revealed that 9,852, 10,200 and 6,429 numbers of complaints were registered in the respective years. Of these, 570, 654 and 327 complaints were redressed with delay ranging between 1 and 150 days, during the said period.

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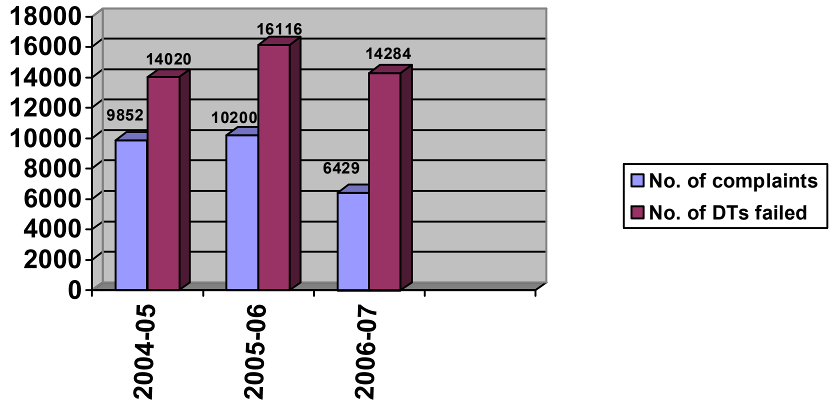
* Sub-division A-I and A-IV, Kota.

† Sub-division A-II (Alwar), MIA (Alwar), Malakhera (Alwar), Ramgarh (Alwar).

‡ Sub-division A-I (Bundi), Keshoraipatan (Kota), G-II & IV (Jaipur city), MIA, Bassi, Bagru, Sanganer (Jaipur district).



Since the number of consumers affected due to failure of one DT would always be more than one, hence, lower number of complaints registered, in comparison to number of failed DTs questions the validity of the procedure for registration of complaints of power interruptions due to failure of DTs.

No attempt was made by the Company to analyse the reasons for increasing rate of DTs failure.

It was observed that during the review period percentage of failed DTs ranged between 15 to 24 in Kota, 20 to 36 in Alwar and 20 to 23 in Jaipur district circles, which was much higher as compared to 4 to 6 in Jaipur city circle. There was an increasing trend in failure of DTs as it increased from 4,819 to 6,307 in Jaipur district, from 3,585 to 5,458 in Alwar and 1,229 to 2,229 in Kota circles during the review period. No attempt was made by the Company to analyse the reasons of increasing rate of DTs failure and to curb it.

The Government while accepting the facts, stated (July 2008) that necessary directions were being issued to the field staff to register and redress the grievances as per the Regulations.

Grievances requiring quick response

2.2.11 Voltage fluctuations

As per the Regulations, consumer complaints relating to low or high voltage (*i.e.* phase voltage exceeding tolerance), voltage fluctuation or flickering and high leakage in current affecting the quality of power supply were required to be redressed in seven days and complaints of low voltage requiring upgradation of distribution lines were to be redressed within 180 days subject to availability of material and techno economic viability.

No records pertaining to consumer complaints relating to low or high voltage, voltage fluctuations *etc.* were maintained.

Audit noticed that no records pertaining to this category of complaints were maintained in the test checked sub-divisions. The Company, however, had informed the Commission that out of 8,022 complaints, only 549 complaints were redressed beyond stipulated time during the period 2004-07 even in cases where no upgradation of distribution system was required. These figures were obviously not correct since in Kota call centre alone, there were 69,952 complaints pertaining to low/fluctuating voltage in this period, out of which 15,629 complaints were redressed beyond stipulated time.

The Government stated (July 2008) that lengthy feeders, overloaded feeders, poor earthing *etc.* were responsible for poor quality of power, and both, time and sufficient resources were needed to rectify the problem of low voltage; and this could be the reason for redressal of the complaints beyond stipulated time. Reply is not acceptable as cases requiring no upgradation of distribution system were pointed out in the para.

2.2.12 Defective/stopped meters

As per the TCOS, the stopped/defective meters should be replaced within two months from the date of detection of fault. In case the same was not done, the consumer was to be billed on average consumption basis during period of stoppage of meters. Position of redressal of grievances pertaining to the replacement of stopped/defective meters in selected four circles for the last three years ending on March 2007 as reported to the Commission was as under:

Year	Opening balance	Complaints received during the year	Total complaints	Complaints redressed		Pending complaints
				Within stipulated time *(per cent)*	Beyond stipulated time *(per cent)*	
2004-05	51638	45892	97530	44853(46)	2572(3)	50105
2005-06	21924Ψ	37606	59530	39390(66)	2087(4)	18053
2006-07*	2282Ψ	26871	29153	27061(93)	596(2)	1496
Total		**1,10,369**	**1,86,213**	**1,11,304**	**5,255**	

Ψ Opening and closing balances differ as the figures of pending complaints without redressal had been drastically reduced by the Company in the opening balance of each subsequent year while reporting to the Commission.

* Except Kota.

Complaints of all cases of defective/burnt/ stopped meters were either not registered or were not taken into account when bills were generated.

As evident from the table above, the compilation of information related to defective/stopped meters was not correct as the figures of pending complaints without redressal had been drastically reduced in the opening balance of each subsequent year. As per the Company records, there were 29,153 complaints of defective/stopped meters as on 31 March 2007. Audit analysis of billing records of three circles (Jaipur district, Jaipur city and Alwar), however, revealed that as on 31 March 2007, 87,733 consumers were billed on average basis as their meters were defective/burnt/stopped. The stopped meters noticed by the meter readers at the time of recording electricity consumption of the consumers, were reported only to the billing section without informing the concerned Junior Engineer. Thus due to lack of co-ordination between billing and technical wings, a large number of stopped meters remained unreplaced. Moreover, the possibility of loss of revenue due to a large number of consumers being billed on average basis could not be ruled out. This indicated that complaints of all cases of defective/burnt/stopped meters were either not registered or were not taken into account while generating bills.

The Government accepted (July 2008) the fact related to non-registration of complaints of defective meters noticed by meter readers at the consumer premises.

2.2.13 Replacement of meters

The position of unreplaced meters as per billing records of the selected circles during the period between April 2006 and March 2007 is depicted in **Annexure 14**. Analysis of the annexure revealed that number of unreplaced meters compared to total consumers increased from 17,143 to 32,481 in Jaipur district circle (8 to 13 *per cent*); 8,794 to 17,610 in Kota circle (3 to 6 *per cent*) and 29,131 to 38,198 in Alwar circle (13 to 16 *per cent*). Audit also observed that 38,141 defective/stopped meters (11,960 in Jaipur district circle, 6,220 in Kota circle and 19,961 in Alwar circle) were lying unreplaced for more than 12 months as on 31 March 2007.

Scrutiny of Meter Change Order (MCO) registers of the selected sub-divisions further revealed that out of 13,438 numbers of defective meters as on 31 March 2006, 3,432 meters were lying unreplaced for more than 12 months. At the end of 31 March 2007, there was significant increase in the meters which were lying unreplaced (7,116 numbers) for more than 12 months. The position of replacement of meters in Jaipur city circle was, however, found satisfactory.

The Company did not investigate the reasons for increase in number of defective numbers and the position of defective unreplaced meters remained high.

The Commission expressed concern (November 2005) over harassment being caused to a number of low tension consumers because of defective metering and directed the Company to investigate into reasons behind increase in number of defective meters. Audit, however, observed that the Company did not investigate the reasons for the same and the position of defective unreplaced meters remained adverse.

The Government stated (July 2008) that the increase in number of stopped/ defective meters was due to non-availability of meters in stores during that period and purchasing of the new meters was a long process which created scarcity of meters in the stores. Reply was not acceptable as in the selected sub-divisions meters were available in sufficient quantity and replacement was not done on priority.

Grievances relating to bills

2.2.14 Average billing

Scrutiny of revenue records of the selected circles revealed that there was a substantial increase in the number of consumers billed on average basis as the number increased from 60,410 in 2004-05 to 1,11,359 in 2006-07. Further, scrutiny of billing records of the selected sub-divisions revealed that in three[§] sub-divisions the number of consumers billed on average basis due to defective/stopped meters was more than 20 *per cent* of total consumers in the year 2006-07.

2.2.15 Allowance of rebate

Clause 30 (2) of the TCOS provides that in case a stopped/ defective meter is not replaced within a period of two months of its detection, a rebate of 5 *per cent* on average bill will be allowed to the consumer till such meter is replaced.

Legitimate rebate was not allowed to the consumers whose bills were raised on average basis.

Scrutiny of the records of selected sub-divisions revealed that this rebate was not given to any consumer whose bill was raised on average basis and thus the consumers were deprived of their legitimate due.

The Government stated (July 2008) that matter regarding allowing rebate was pending with the Commission with the revision of the TCOS.

Grievances relating to other matters

2.2.16 Release of new connections

As per clause 10 of the Regulations, in case of new connections, the demand note (DN) for depositing connection charges should be issued within 21 days of receipt of the application and connection should be released within 30 days from receipt of demand note amount in urban areas and within 45 days in rural areas.

[§] Bassi (25.69 *per cent*), Ramgarh (20.53 *per cent*), Malakhera (32.88 *per cent*).

Scrutiny of records for the period 2002-06 revealed that the performance of the Company in release of connections to non-domestic and industrial applicants was satisfactory in comparison to release of connections to domestic especially rural, and agricultural applicants.

2.2.17 Release of domestic connections

The position of delay in issuance of demand notes (DNs) and delay in release of connections in the selected circles for the period 2002-06 as depicted under **Annexure 15** revealed that in case of domestic connections, demand notes were not issued to 12,527 applicants (378 urban, 12,149 rural) within stipulated time. Moreover, 14,218 connections (1,331 urban, 12,887 rural) were not released in 45 days despite depositing of the required amount. There was a wide difference in approach in release of connections between rural and urban domestic applicants. In Jaipur district circle and Alwar circle, the release of rural domestic connection was delayed in 32 and 81 *per cent* cases, respectively.

There was a distinct disparity between release of connections to rural and urban applicants.

Further, scrutiny of 819 cases in 11[*] selected sub-divisions revealed that there was delay ranging between 30 days and 605 days beyond stipulated period in release of domestic rural connections even after completion of all necessary formalities. Thus, there was a distinct disparity between release of connections to rural and urban applicants. It was further noticed that one sub-division (Malakhera) did not maintain priority register properly and only four[♣] sub-divisions could release all the connections on time.

The Government without providing supporting documents, stated (July 2008) that the delay in release of connection to domestic applicants was due to excessive work load on AENs.

2.2.18 Release of agriculture connections

The State Government issued (September 2004) directives to the Company for release of 77,782 agriculture connections to the applicants pending as on 31 March 2003 who were in queue since March 1988. The Government also fixed targets for release of 34,428, 22,732 and 20,622 numbers of connections for the years 2004-05, 2005-06 and 2006-07 respectively by declaring a cut off date for the receipt of application for each *Panchayat Samiti*.

The Company fixed lower targets for release of agricultural connections against the directives of the State Government.

It was, however, noticed that against the above targets and without giving any reasons, the Company fixed a lower target of release of 17,000 connections in each of the year 2004-05 and 2005-06 and 7,000 connections for the year 2006-07. This indicated that the Company had no intention to release required number of connections within the period specified by the State Government. The Company achieved its own targets during 2004-05 and 2005-06 but there was shortfall of 50.62 *per cent*, 25.22 *per cent* and 81.35 *per cent* in achievement of targets given by the Government in years 2004-05, 2005-06

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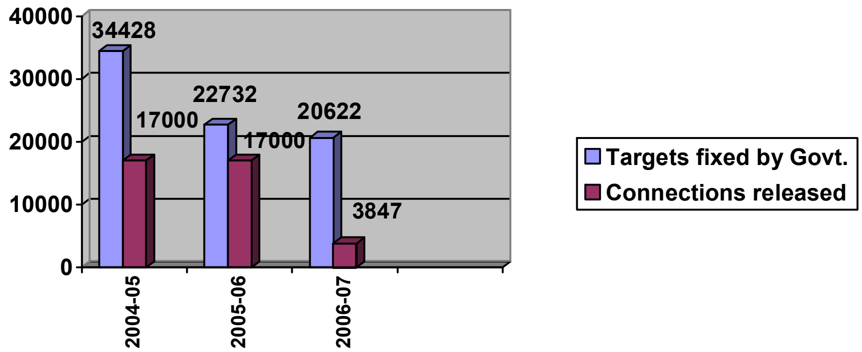
[*] Bagru, Sanganer (R), VKIA, Bassi (JPDC), Keshoraipatan, A-1, A-IV Kota (Kota circle), G II, G IV (JCC), MIA and A-II (Alwar circle).

[♣] B- I, B-III (JCC), A-I Bundi (Kota) and Ramgarh (Alwar).

and 2006-07 respectively as shown in graph given below. Further, as against the set target, it could release only 3,847 connections in the year 2006-07.



Scrutiny of records of all the seven selected sub-divisions, which were predominantly agricultural, revealed that applications for release of agricultural connections were pending since 1993-94 and there were no recorded reasons for non-release of connections to very old pending applicants.

The Government stated (July 2008) that the co-ordination committee had fixed the lower targets for the period 2004-07 and due to ban on issuing demand notes, only 3,847 connections could be released in 2006-07**.**

Performance report submitted to the Commission

2.2.19 The Commission directed (April 2002) the Company to submit monthly information on registration and redressal of complaints. The Regulations also stipulated submission of quarterly information of registration and redressal of complaints by the end of the following month of each quarter. Subsequently, as prescribed under the Electricity Act, 2003, the Company was to furnish the information to the Commission relating to the level of performance achieved *viz;* complaints received, redressed within and beyond stipulated time and pending complaints within specified period. The Commission directed (December 2005) the Company to furnish annual information for the year 2004-05 within 30 days and for 2005-06 upto 15 May 2006.

2.2.20 Audit noticed that the Company did not compile information for the year 2002-03. Further, the quarterly information was submitted with delay ranging from 8 days to 345 days during the years 2003-04 to 2006-07**.** As the annual information pertaining to the years 2004-05 and 2005-06 was not submitted on time, the Commission served (November 2006) a notice to the Company for imposition of penalty. The Company thereafter furnished (28 November 2006) the information for the years 2004-05 and 2005-06. The Company, however, again defaulted in submission of information for the year 2006-07 and submitted it after a delay of eight months. Moreover, the information relating to two circles (Sawai Madhopur and Bharatpur) for the year 2004-05, four circles (Sawai Madhopur, JCC, Jhalawar and Bharatpur) for the year 2005-06 and one circle (Kota) for the year 2006-07 was not included in the information sent to the Commission, as information pertaining to these circles was not compiled. Thus the information furnished to the Commission was incomplete to this extent.

Information on registration and redressal of complaints furnished to the Commission was incomplete.

As commented earlier, complaints were not registered in the prescribed format in any of the selected sub-divisions, in absence of which, accuracy of number and category of complaints redressed within and beyond stipulated time as submitted by the Company to the Commission could not be verified in audit. The Government stated (July 2008) that information could not be submitted in time as the sub-divisional staff was not acquainted with compilation of new information. Reply is not acceptable as the Commission had directed (April 2002) to furnish information relating to complaints and even after lapse of five years the field staff was not able to furnish complete information on time.

2.2.21 Audit analysis of the quarterly and annual information submitted by the Company to the Commission revealed that there was a wide variation between the compiled quarterly reports and the annual reports of the Company for the same year. The difference between the compiled quarterly reports and annual reports for the years 2004-07 is as given below:-

Year	Pending Complaints at the beginning of the year	Total Complaints received as per		Complaints redressed within stipulated time as per		Complaints redressed beyond stipulated period as per		Pending complaints at the end of the year
		Compiled Quarterly information	Annual information	Compiled Quarterly information	Annual information	Compiled Quarterly information	Annual information	
2004-05	10158	621679	155317	601832	157096	25857	4231	4148
2005-06	4148	484913	121186	460090	116325	24684	4722	4287
2006-07	4287	485082	119542	460437	115082	24825	4640	4107
Total		**15,91,674**	**3,96,045**	**15,22,359**	**3,88,503**	**75,366**	**13,593**	

The consumers at large encountered some or the other problem with the services provided by the Company

Even if the reports of the Company are taken as correct, the compiled quarterly figures of the grievances revealed that 42, 46 and 28 *per cent* of the total consumers had some grievance in the years 2004-05, 2005-06 and 2006-07 respectively which indicates that consumers at large encountered some or the other problem with the services provided by the Company. This percentage would have further enhanced if information of all the circles was compiled by the Company in the manner prescribed by the Commission. The overall consumer satisfaction level was therefore not seen to be satisfactory.

The Government stated (July 2008) that variation in annual and quarterly information occurred due to the fact that information furnished in respect of year ending quarter was treated as annual information and no separate annual information was sought by the Commission. Reply is not acceptable as it was observed that the Commission had specifically asked for annual information in December 2005 and the same was not furnished**.**

Forums/Committees for redressal of consumer grievances

2.2.22 Forums and committees have been constituted for redressal of complaints relating to power supply and dues as discussed below:

2.2.23 Forums for redressal of grievances

Clause 51 of TCOS stipulated that the duty in-charge *i.e.* Junior Engineer in case of rural areas and Assistant Engineer in case of urban areas were required to take appropriate action within the scheduled time for redressal of complaints. In case the grievance was not redressed or the consumer was not satisfied with the action of the duty officer in-charge, the consumer was free to approach the district level forum (DLF**)** at circle level and the corporate level forum (CLF) at the corporate level. The grievance redressal forums formed at the level of Assistant Engineer (AEN) and Superintending Engineer (SE) at the district level were directed to hold monthly meetings on a fixed day of the month to resolve the complaints which had been lodged with them.

AEN level forums for redressal of the grievances were not functional.

Scrutiny of the records of selected sub-divisions revealed that the AEN level forums were not functional during the review period. Further, the district level forums were also not functional in Kota and Alwar circles. As per the records, at circle levels in Jaipur city circle, two meetings in 2004-05 and four meetings in 2006-07 and in Jaipur district circle, seven meetings in 2006-07 had taken place but minutes of these DLF meetings were not recorded.

The corporate level forum was belatedly constituted in April 2006. The forum, however, conducted only four meetings during 2006-07 wherein only 18 cases were redressed. There was no record of total number of cases received by it.

Thus the forums which were created for speedy redressal of grievances were either non-functional or their disposal was very slow.

The Government, without furnishing supporting documents, stated (July 2008) that the forums were newly formed and the Company had made wide publicity of it, but the people did not approach them. The fact, however, remains that none of the forums was functioning effectively.

2.2.24 Committees for settlement of dues

As per Clause 52 of TCOS, for the settlement of the disputes relating to dues of the consumers, the Company established settlement committees at the sub-division, division, circle, zonal and corporate levels to be headed by Assistant Engineer, Executive Engineer, Superintending Engineer, Chief Engineer and CMD with financial limits of Rs. 10,000, Rs. 25,000, Rs. one lakh, Rs. three lakh and above Rs. three lakh respectively. The sub-divisional settlement committee was to decide the case within 60 days and other committees within 90 days from the date of registration of the case. The composition of the settlement committees is depicted in **Annexure 16**.

2.2.25 Performance of Committees

The delay in settlement of disputes relating to dues was mainly due to laxity in issuing notices to the consumers

Lower level committees: Test check of records of 9 sub-divisions[*] revealed that out of 793 cases, 137 cases were decided with delay ranging between 2 and 430 days. Similarly, in five divisions[**] 302 (out of 2,134) cases were decided with delay ranging between 6 and 632 days. Audit noticed that the delay was mainly due to laxity in issuing notices to the consumers, which were mostly sent after the stipulated period of 60 days**.** Four sub-divisions did not maintain the prescribed register on the settlement cases and three sub-divisions decided all cases timely.

Middle level committees: Test check of records of selected circles revealed that circle level committees decided 34 cases (out of 151) in Jaipur district circle, 176 cases (out of 427) in Jaipur city circle, 20 cases (out of 427) in Alwar circle and 63 cases (out of 153) in Kota circle with a maximum delay of 631 days. Similarly, 131 cases with Jaipur Zone were decided by the zonal committee with a delay upto 1,208 days.

Apex committee: The corporate level settlement committee (CLSC) decided 110 cases (out of 319) with delay ranging from 3 to 970 days during the review period.

The Government stated (July 2008) that there was delay in deciding the cases as factual details/more information/comments were required to be collected from different quarters to arrive at some settlement. It was further stated that the scheduled monthly meetings at the CLSC level had been cancelled/postponed due to preoccupation of the Chairman of the Committee. The reply is not acceptable as the meetings should have been conducted with

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[*] AEN-B-I, B-III (Rambag), Vidhyadhar Nagar, Jhotwara, Bagru, A-I, A-IV (Kota), Sanganer (R) and VKIA (R).

[**] XEN-DD-I&II (JPDC), XEN-CD-I & Bundi (Kota) and XEN-CD-II (JCC).

required periodicity along with prompt submission of factual reports, so that cases were decided on time.

Consumer Satisfaction Survey

2.2.26 To assess the level of consumer satisfaction with respect to the quality of supply of electricity, customer care, safety aspects and to develop consumer friendly policies the Company awarded (June 2005) the work of Consumer Satisfaction Survey (CSS) to A.C. Neilson (firm). The survey work was to be completed by December 2005. The contract period was extendable for further two years depending on the performance in the respective previous year. The firm submitted (18 July 2006) the survey report which rated the overall Consumer Satisfaction Index (CSI) of the Company as 0.39. The survey pointed out that:

- The domestic and non-domestic respondents in urban areas of Alwar, Bharatpur, Sawai Madhopur and Jhalawar were 'less satisfied' due to fluctuation of voltage, non availability of required load, frequency of interruption, metering and billing facility *etc.*
- The industrial consumers of Alwar circle and domestic/ non-domestic/ agricultural consumers in rural areas of Dausa, Alwar, Jaipur district and Sawai Madhopur were also 'less satisfied' due to higher time taken to attend to complaints, poor maintenance of lines and defective mode of delivery of bills by the Company.
- The consumers of all circles were 'unsatisfied' with process of release of connections.

The consumers of all circles were unsatisfied with the process of release of connections.

The Zonal Chief Engineer (Jaipur Zone) forwarded (September 2006) the survey report to the Superintending Engineers of the circles and sought their opinion/comments and also action plan proposed on it within a week's time. When non-submission of action plan on the survey report by the concerned Superintending Engineers was pointed out in audit (September 2007), the Management without furnishing supporting documents, stated (February 2008) that the most of the circle offices had recommended against further survey as proper action had already been taken to improve the consumer satisfaction on the basis of survey report.

Reply (July 2008) of the Government was silent on the action taken on the report.

Awareness generation among consumers

2.2.27 The Commission directed (November 2003) that complete contact details including the name, location and telephone number of the offices and various forums specified for registration and redressal of complaints should be given wide publicity through newspapers and radio/television. These details were also to be displayed in the offices of the Assistant Engineers and intimated to the consumers through their electricity bills at least twice in a year *i.e.* in April and September.

Audit, however, observed that the required details were not displayed in any of the selected sub-divisions. Moreover, no publicity was made through radio and television. The forums available for redressal of consumer grievances were published only four times through newspaper during the review period.

The Government accepted (July 2008) the audit observation.

Conclusion

The intent of the Government to empower consumers and to provide them with quick and easy redressal of their grievances was only partially achieved. It was seen that there was no uniformity in maintenance of records relating to consumer grievances at various levels as prescribed by the Commission. In almost all the cases, the records were incomplete and haphazard and in some cases non-existent. There were wide variations between the figures aggregated from the field formations by the Company and those submitted to the Commission. The overall position of data relating to consumer grievances in the Company was, therefore, unreliable. There was wide variation in the quality of power supply and services within the circles of the Company, *interse*. There was also a distinct disparity in the response of the Company towards rural and urban consumers in respect of redressal of their complaints and in release of connections. The Company was also slow in release of connections to agricultural consumers. The functioning of various committees and forums formed for redressal of consumer grievances was not prompt. Looking at the overall scenario relating to redressal of consumer grievances prevailing in the Company, a reasonable conclusion could be drawn that the required thrust was not being given to this area and the pre-determined benchmarks envisaged in the guidelines issued by the Commission were not being achieved.

Recommendations

The Company may consider the following:

- **ensure authenticity and aggregation of complete data relating to consumer grievances from all field formations and build up a dependable Management Information System for monitoring this area to give it the required priority**

- **take effective steps to improve consumer satisfaction levels, particularly through prompt replacement of defective meters and**

reduction in the failure rate of distribution transformers

- **address the apparent disparity in the satisfaction levels of urban and rural consumers**
- **release new connections to agricultural consumers as per targets set by the Government**
- **revitalize and monitor the working of various committees and forums set up for the redressal of consumer grievances and**
- **give broad publicity to the various mechanisms available to the consumers for redressal of their grievances**.

Introduction

2.1.1 Rural Electrification (RE) is an ambitious programme for the socio-economic development of rural areas. Section 6 of the Electricity Act, 2003 mandates that the Government of India (GOI) and State Governments will jointly endeavour to achieve this objective. The National Electricity Policy, formulated (February 2005) by the GOI *inter alia* stated that the key objective of the development of power sector is to supply electricity to all areas including rural areas. Accordingly, to accelerate the pace of rural electrification, GOI launched (March 2005) the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) as a new comprehensive programme which aimed at electrifying all villages and habitations (*dhanis*[•]) by March 2007 and providing all Rural Households (RHHs) with access to electricity by year 2009. The ongoing schemes namely Kutir Jyoti Programme (KJP) and Accelerated Rural Electrification Programme (AREP) were also merged with RGGVY. The GOI also notified (August 2006) the Rural Electrification Policy (REP) incorporating goal of quality and reliable power supply at reasonable rates, access to electricity for all households by year 2009 and a minimum lifeline consumption of one unit per household per day by year 2012. The REP also required the State Governments to prepare and notify their own Rural Electrification Plan adopting the same goals.

The execution of RE works includes electrification of villages/*dhanis*/ de-electrified villages, access to electricity for all RHHs, energisation of pump sets and development of distribution network through system improvement works.

2.1.2 The GOI designated the Rural Electrification Corporation Limited (REC) as the nodal agency to achieve the goal of electrification of villages/hamlets, access to electricity for all RHHs and financing for the projects. Besides financing the projects by way of subsidy/loans, REC has the prime responsibility of co-ordinating the rural electrification programme with the State Governments and State Utilities by executing tripartite agreements for effective implementation of RE programmes and oversee them from conceptualization to completion.

2.1.3 Prior to unbundling, the Rajasthan State Electricity Board had been executing RE works *i.e.* up to June 2000. Subsequently, the three Distribution companies[Ψ] came into existence and have undertaken RE works in their respective areas. The Ajmer Vidyut Vitran Nigam Limited (Company) apart from executing GOI sponsored schemes *viz.* KJP, AREP and RGGVY has also undertaken its own Feeder Renovation Programme (FRP) to bring down distribution losses on 11 KV feeders below 15 *per cent* so as to provide 24 hour electricity supply to all villages within its jurisdiction covering 10 districts out of 33 districts in the State.

[•] A small village having a cluster of houses.

[Ψ] Jaipur Vidyut Vitran Nigam Limited (JVVNL), Ajmer Vidyut Vitran Nigam Limited (AVVNL) and Jodhpur Vidyut Vitran Nigam Limited (JdVVNL).

2.1.4 The management of the Company is vested in a Board of Directors consisting of five Directors including a Chairman and a Managing Director (MD). The MD is the Chief Executive Officer, who is assisted by Superintending Engineer (Plan) for RE works. The field organisation is divided into nine operation and maintenance circles[∝]. The Executive Engineers are assigned duties to monitor the progress of RE works in their respective divisions.

Scope of Audit

2.1.5 The performance audit on implementation of RE schemes was conducted (July 2007 to February 2008) with a view to assess the performance of the Company in implementation of RE programmes during the five year period from 2003-04 to 2007-08. The audit findings are based on test check of records at the corporate office and eight circle offices[∇] selected through stratified random sampling method based on cumulative figures of village electrification and renovation of feeders as per random sampling.

Audit Objectives

2.1.6 The performance audit on implementation of RE schemes by the Company was carried out to assess whether:

- the scheme wise targets were in line with the long term strategic plan and achieved in the specified time schedule;
- the funding requirements were realistically assessed;
- the funds were sanctioned and released in time by the financial institutions;
- the funds were used efficiently and economically for implementation of various projects under RE;
- there was an effective monitoring mechanism to ensure timely and proper implementation of RE works; and
- an internal control mechanism was in place and functioning efficiently.

∝ Ajmer, Bhilwara, Banswara/Dungarpur, Chittorgarh, Jhunjhunu, Nagaur, Rajsamand, Sikar and Udaipur.

∇ AREP: Udaipur (out of two), RGGVY: Bhilwara, Dungarpur and Rajsamand (out of 6) and FRP: Ajmer, Chittorgarh, Nagaur, Sikar and Udaipur (out of 9).

Audit Criteria

2.1.7 The performance of the Company in implementation of various Rural Electrification schemes was assessed against the following parameters:

- Directions and guidelines issued by the GOI, REC and the State Government for rural electrification;
- Guidelines of various RE programmes for implementation of projects;
- Laid down procedures and policies of REC for execution of works and procurement of material;
- Provisions in the Electricity Act, 2003, the National Electricity Policy (February 2005), RGGVY (March 2005) and REP of the GOI (August 2006); and
- Agenda notes and minutes of the meetings of Board of Directors and Co-ordination committee with respect to RE works.

Audit Methodology

2.1.8 Audit adopted a mix of the following methodologies:

- Study of Board's agenda and minutes, minutes of meetings of the co-ordination committee and terms and conditions of turnkey contracts;
- Scrutiny of provisions/guidelines of REC with reference to formulation, execution, and monitoring;
- Analysis of the monthly progress of RE works;
- Review of utilisation of funds;
- Examination of prevailing internal control system in implementation of RE schemes; and
- Interaction with the management and issue of audit queries.

Audit Findings

2.1.9 The programme/scheme wise review was conducted and audit findings were discussed (July 2008) in the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) where the State Government was represented by the Secretary, Energy and the Company by the Chairman, Managing Director and Director (Finance). The performance audit has been finalised after considering/incorporating viewpoints of the Government/ Company.

Planning

2.1.10 The planning aspect of various schemes has been discussed in the following paragraphs.

2.1.11 Kutir Jyoti Programme (KJP)

Despite substantial population of BPL RHHs requiring electric connections, the State Government did not plan any state funded programme to maximise coverage of BPL RHHs.

The GOI fixed a target for release of 22,034 electric connections for the period of two years from 2003-04 and 2004-05 under KJP for below poverty line (BPL) RHHs representing 2.63 *per cent* of 8,39,091 BPL RHHs, which were without electric connection as on 1 April 2003. Audit observed that despite a substantial population of BPL RHHs requiring electric connections, the State Government did not plan any other State funded programme for enhancing the coverage of BPL RHHs. Despite the knowledge that it would take more than fifty years to cover all BPL RHHs with the given pace of KJP, a Central scheme, the State Government and the Company, instead of identifying resources and concentrating on planning to provide electric connections to maximum number of BPL RHHs, relied only on Central schemes. This scheme was merged with RGGVY from 1 April 2005.

2.1.12 Accelerated Rural Electrification Programme (AREP)

The GOI launched (May 2004) the AREP to cover the electrification of villages along with release of connections to BPL RHHs. The Company planned for electrification of 50 villages and release of electric connections to 1,675 BPL RHHs of Udaipur and Chittorgarh districts as against 1,470 villages and 8,18,503 BPL RHHs requiring electrification in the jurisdiction of the Company. The Detailed Project Reports (DPRs) were submitted (January 2005) to REC for sanction which was accorded during February/March 2005. The coverage under the AREP was also very low and the Company and the State Government relied totally on Central schemes only. This scheme was also merged with RGGVY from 1 April 2005.

2.1.13 Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)

The planned projects were short of the targets and goals, while sanctioned projects were Rs. 137.33 crore only out of planned out lay of Rs. 367.79 crore in RGGVY.

The position of electrification of villages, *dhanis* and RHHs (before commencement of RGGVY) as on 31 March 2005, electrification planned and electrification sanctioned under the RGGVY for the period of three years from 2005-06 to 2007-08 is given in **Annexure 9**. It can be seen that as against planning for 100 *per cent* coverage in respect of village electrification and providing electric connections to BPL RHHs, electrification sanctioned was as low as 25.56 *per cent* for village electrification and 34.88 *per cent* in respect of providing electric connection to BPL RHHs. It was observed that a Memorandum of Understanding entered (March 2001) between the GOI and the State Government for power sector reforms as well as implementation of RGGVY (March 2005), envisaged achieving 100 *per cent* electrification of potential villages by March 2007 and providing all RHHs with access to electricity by 2009. In pursuing the above objectives, the Company submitted (July/August2005) DPRs for 10 projects covering electrification of all 1,420 un/de-electrified villages and providing electric connection to BPL RHHs at an estimated cost of Rs. 367.79 crore for sanction to REC. The REC, however, sanctioned (August/October 2005) only six projects• to be completed within two years, covering 363 villages at an estimated cost of Rs. 137.33 crore. The sanctions represented an amount of 37.34 *per cent* in terms of planned outlay of Rs. 367.79 crore. It was observed that electrification of remaining 1,057 villages and providing electric connection to remaining 5,31,927 BPL RHHs at cost of Rs. 230.46 crore was delayed as no efforts were made by the Company with the State Government to provide funds for completion of village electrification and providing electric connection to BPL RHHs by the target date. The coverage of electrification in respect of *Dhanis* and above poverty line (APL) RHHs was also very low at 12.36 *per cent* and 12.88 *per cent* respectively. The overall coverage of electrification in respect of total number of RHHs was 24.84 *per cent*, which indicated that planning and sanction were far behind the targets set for Rural Electrification. Audit observed that the State Government/Company did not make any plan to electrify *dhanis*/APL RHHs other than those covered under the various schemes of the GOI during the review period. The REC subsequently sanctioned (March 2008) three more projects® covering 1,030 villages at the cost of Rs. 229.32 crore with scheduled completion by March 2010. Sanction for one project (Nagaur) covering 27 villages was, however, still pending (March 2008). Thus the objective of electrification of all villages by March 2007 and providing all RHHs with access to electricity by 2009 failed in the planning and sanction stage itself.

No efforts were made by the Company with the State Government for provision of funds for completion of village electrification and providing electric connection to BPL RHHs by the target date.

The Government stated (August 2008) that all un/de-electrified villages had already been covered in RGGVY scheme but due to fund constraints all *dhanis* could not be covered in the earlier schemes. The management during the ARCPSE meeting also stated that only those *dhanis* which had a population of over 300 were covered in earlier schemes. The reply is not acceptable as the Company did not classify *dhanis*, population wise at the time of preparation of DPRs, which were submitted to REC for approval in August 2005, when there was no fund constraint put by the GOI. Further, there were no directives in the RGGVY guidelines to include only such *dhanis* which had a population above 300.

2.1.14 Delay in notification of REP by the State Government

The State Governments were required to prepare and notify the Rural Electrification Plan of State adopting the goals in terms of REP of the GOI (August 2006) within six months *i.e.* by February 2007. These goals included quality and reliable power supply at reasonable rates, access to electricity to all households by the year 2009 and minimum lifeline consumption of one unit per household per day by the year 2012.

• Ajmer, Bhilwara, Dungarpur, Jhunjhunu, Sikar and Rajsamand.

® Banswara, Chittorgarh and Udaipur.

The State Government did not come out with any supplement plan/policy providing necessary financial support to electrify the villages/*dhanis*/ RHHs beyond what had been committed by the GOI.

The State Government notified its Rajasthan Rural Electrification Plan (RREP) belatedly in September 2007. The State Government also did not come out with any supplementary plan/policy for providing necessary financial support to electrify the villages/*dhanis*/RHHs, beyond what had been committed by the GOI. Further, there were no State sponsored rural electrification schemes aimed at achieving the goals/targets of REP of the GOI. The State Government admitted in the RREP of the State that due to delay in sanction of the schemes as well as financial cap under the provision of RGGVY, it was difficult to achieve the objective of electrifying all households by the target dates. Further, the availability of funds was limited as against requirement of massive investment for providing electricity to all RHHs. The State Government, therefore, extended the period for electrifying all households to year 2012 to be accomplished in three phases. First phase envisaged village electrification to the extent of 92 *per cent* of villages by March 2008, while second phase envisaged 100 *per cent* village electrification and 74.5 *per cent* household electrification and third phase envisaged 100 *per cent* household electrification by year 2012. It was, however, observed that even against the extended target dates of village electrification of 92 *per cent* by March 2008, actual achievement was 88.70 *per cent*. The actual achievement in respect of BPL RHHs was also only 22.34 *per cent* of total BPL RHHs.

2.1.15 Feeder Renovation Programme (FRP)

Round the clock domestic electric supply in rural India was envisaged as one of the objectives of Rural Electrification. This, however, was not financially feasible due to heavily subsidised tariff for agriculture and domestic supply in rural area as well as higher distribution losses. Reduction of distribution losses, segregation of domestic and agriculture supply and technical intervention for prevention of thefts, was therefore considered necessary, before the objective of 24 hour domestic supply of electricity in rural areas could be achieved. The Company framed (August 2005), the Feeder Renovation Programme (FRP) to achieve the above objective and decided to renovate all 2,975 rural feeders during 2005-06 to 2007-08 in three phases, at an estimated cost of Rs. 1,339 crore to be financed from borrowed funds. The Company envisaged commencement of 24 hour domestic supply of electricity to those rural areas, where distribution losses on 11 KV feeders were reduced to less than 15 *per cent*. Rural feeders were to be renovated in phases with 275 feeders in 2005-06, 1,300 feeders in 2006-07 and 1,400 feeders in 2007-08.

Funding of schemes

2.1.16 The GOI was providing subsidy of Rs. 1,500 per connection, since 18 March 2002 for release of connection to BPL RHHs under the KJP, AREP and RGGVY. It was envisaged that the power utility could draw 50 *per cent* of subsidy as advance. The State Government had directed the Rajasthan Scheduled Caste Corporation Limited (RSCCL) and the Tribal Area Development Department (TADD) to provide grant/subsidy to the extent of expenditure incurred over and above the subsidy provided by the GOI in respect of connections released to Scheduled Caste (SC) and Scheduled Tribe (ST) RHHs under KJP.

Under AREP, which was launched in May 2004, the GOI provided 40 *per cent* as capital grant of sanctioned project cost for electrification of villages and balance 60 *per cent* as loan from REC. The AREP was subsequently merged with RGGVY (April 2005). Under RGGVY, 90 *per cent* of project cost was provided by GOI as capital grant for electrification of villages/*dhanis* and the remaining 10 *per cent* was to be provided by REC as loan at the interest rate of 5 *per cent* per annum. The Company was eligible to draw 30 *per cent* of the project cost as advance under the AREP and RGGVY on sanction of projects.

For implementing FRP, the Company obtained interest bearing loans from REC and was entitled to draw 20 *per cent* of the sanctioned project cost as advance and balance on reimbursement basis by lodging claims of amount spent by the Company.

2.1.17 Sources and Utilization of funds

The Company received Rs. 731.29 crore comprising subsidy of Rs. 100.25 crore and loan of Rs. 631.04 crore for execution of RE works during 2003-04 to 2007-08 as shown in **Annexure 10**. The actual expenditure incurred upto 31 March 2008 on 66 projects (RGGVY: 6, FRP: 58 and AREP: 2) was Rs. 474.02 crore. The rate of interest on loans ranged from 5 *per cent* (RGGVY) to 10.9 *per cent* (FRP) per annum. Audit noticed that the Company did not maintain schemewise expenditure, in absence of which the actual expenditure incurred under each scheme and extent of utilisation thereof for the intended purpose could not be ascertained in audit.

Status of implementation of RE schemes

2.1.18 Kutir Jyoti Programme (KJP)

The targets of 7,034 and 15,000 for release of service connections to BPL RHHs for the years 2003-04 and 2004-05 respectively were achieved.

2.1.19 The fund management of the Company was looked after by Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPNL) and the claims under KJP were lodged by JVVNL on its behalf till August 2007. The amounts released by REC, RSCCL and TADD (funding agencies) were directly received by RRVPNL. Thus, the Company, neither lodged claims, nor received amount from funding agencies. As a result, the Company was not in a position to ascertain claimwise actual realization. As against total claims of Rs. 7.96 crore lodged by the JVVNL, during the three years, on behalf of the Company, RRVPNL passed on credit of Rs. 4.37 crore to the Company during the same period, without providing claimwise details. In the absence of details regarding realised claims, timely follow up of realisation of unrealised claims from the funding agencies could not be ensured by the Company and the same could not be verified in audit.

The Government stated (August 2008) that the reconciliation of KJP claims and realization thereof was under progress. The fact, however, remains that the Company did not have any control over lodging of claims as well as its realization.

2.1.20 The actual expenditure for release of connections to BPL RHHs was Rs. 2,660 per connection during the year 2002-03, 2003-04 and Rs. 4,033 per connection during the year 2004-05, as against the subsidy of Rs. 1,500 per connection provided by the GOI. Audit noticed that the Company incurred excess expenditure of Rs. 1.80 crore over and above the subsidy amount on release of 9,433 connections to BPL RHHs of general category during three years ending March 2005. The Company did not approach the State Government for reimbursement of the additional cost in respect of general category of BPL RHHs.

2.1.21 The Company did not draw advance of Rs. 1.65 crore from REC being 50 *per cent* of subsidy admissible on targeted 22,034 BPL service connections during 2003-04 and 2004-05. It was noticed that expenditure was met out of its borrowed funds, which resulted in avoidable loss of interest. The amount of loss of interest could not be assessed by the audit in the absence of details of periodical expenditure incurred.

The Company could not claim subsidy of Rs. 4.48 crore on release of 15,074 service connections to BPL RHHs under KJP, a merged scheme, due to not obtaining prior approval from REC.

2.1.22 The scheme of KJP was merged with RGGVY with effect from 1 April 2005 and any work under KJP required prior sanction under RGGVY from REC. The Company was entitled to subsidy of Rs. 1,500 per connection under the KJP and balance amount from other funding agencies as brought out above. It was noticed that the Company without getting approval from REC released 15,074 service connections to BPL RHHs (General category: 5,085 SC: 3,653 and ST: 6,336) under KJP during 2005-06 by incurring actual expenditure of Rs. 3,723 per connection. The Company hence could not claim subsidy of Rs. 2.26 crore from REC and differential subsidy of Rs. 2.22 crore from RSCCL (Rs. 81.21 lakh) and TADD (Rs. 1.41 crore) and thus had to spend Rs. 4.48 crore out of its own funds on account of releasing connections under the closed scheme.

2.1.23 Accelerated Rural Electrification Programme (AREP)

The Company drew irregular capital grant of Rs. 74.37 lakh, by including villages already electrified for electrification under AREP.

The schemes for electrification of 46 villages with 1,616 BPL households in Udaipur district and 4 villages with 59 BPL households in Chittorgarh district were sanctioned at the cost of Rs. 2.92 crore and Rs. 21.83 lakh respectively in February/March 2005. The work of electrification was to be carried out on turnkey basis as per guidelines. The Company drew Rs. 94.05 lakh♣ *i.e.* 30 *per cent* of total project cost as an advance. Audit noticed that out of 50 villages covered under these two schemes, 44 villages↔ had already been electrified, before the approval of the schemes and drawl of capital grant, through Central Labour Rate Contract (CLRC) during 2004-05. It was observed that inclusion of villages already electrified and carrying out work on

♣ Rs. 87.50 lakh for Udaipur and Rs. 6.55 lakh for Chittorgarh.

↔ 4 of Chittorgarh and 40 of Udaipur.

other than turnkey basis was irregular. Thus capital grant of Rs. 74.37 lakh was drawn irregularly, by inclusion of already electrified villages, for electrification under the programme. The Government stated (August 2008) that the work was carried out departmentally as the same was planned and formulated in advance. The reply is not correct as the Company actually executed these works during June 2004 to December 2004, before submission of detailed project reports to REC.

2.1.24 Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)

Six projects[•] covering 363 un-electrified villages, 1,706 *dhanis* and 3,73,309 RHHs (2,84,901 BPL RHHs and 88,408 APL RHHs) were sanctioned (August/October 2005). The projects were to be completed on turnkey basis, within a period of two years, failing which the capital grant was to be converted into interest bearing loan.

2.1.25 Targets vis a vis achievement

The table below indicates the position of project wise targets and achievement thereagainst up to March 2008.

Name of District/ Programme	Target				Achievement (*per cent*)			
	Village electrifica-tion	*Dhanis*	BPL RHH	APL RHH	Village electrification	*Dhanis*	BPL RHH	APL RHH
AJMER	14	560	31223	16580	14 (100)	462 (82.5)	15201 (48.70)	8186 (49.40)
BHILWARA	104	619	49510	36510	104 (100)	246 (39.70)	29434 (59.50)	10302 (28.20)
JHUNJHUNU	0	20	19697	15174	0	20 (100)	6198 (31.50)	12552 (82.70)
SIKAR	13	68	23670	12705	13 (100)	55 (80.90)	11482 (48.50)	11324 (89.10)
DUNGARPUR	100	171	111273	1912	100 (100)	42 (24.60)	20200 (18.20)	1912 (100)
RAJSAMAND	132	268	49528	5527	132 (100)	136 (50.70)	17013 (34.40)	5527 (100)
Total	**363**	**1,706**	**2,84,901**	**88,408**	**363 (100)**	**961 (56.33)**	**99,528 (34.93)**	**49,803 (56.33)**

Source: Detailed Project Reports, REC sanction orders and Monthly Progress Reports.

It can be seen that the Company could achieve 100 *per cent* targets of village electrification, while achievement of electrification of *dhanis* and release of BPL RHHs connection was lower than the targets. The actual achievement was below 50 *per cent* in five out of six districts, in respect of release of connections to BPL RHHs, while in respect of electrification of *dhanis*, actual achievement was also lower than *50 per cent* in two out of six districts, which indicated that the progress was far below reasonable level. The cumulative progress in respect of electrification of villages and *dhanis* was 100 *per cent* and 56.33 *per cent* as on 31 March 2008 respectively. This indicated that progress in respect of *dhanis* was significantly lower even after one year from the date of the target of 100 *per cent* village electrification envisaged by March 2007. It can be seen from **Annexure 9** that as against the target of access to electricity for all RHHs by March 2009, 13,18,472 RHHs out of

[•] Ajmer, Bhilwara, Dungarpur, Jhunjhunu, Sikar and Rajsamand.

26,72,289 representing 49.34 *per cent* were provided electricity connections as on 31 March 2008. The progress in respect of BPL RHHs was also significantly lower as cumulative achievement of providing electricity connections to BPL RHHs was 22.34 *per cent* as against progress of 63.60 *per cent* of APL RHHs as on 31 March 2008. The Company stated (July 2008) that the poor progress in implementation of sanctioned projects was mainly due to (i) ineffective monitoring of the turnkey works, (ii) deployment of inadequate labour and delay in procurement of required materials by turnkey contractors and (iii) poor quality of works.

2.1.26 A village could be declared as electrified, only if the basic infrastructure such as distribution transformer and supply lines were provided in the inhabited locality and in other public places[1], along with electrification of at least 10 *per cent* of the total households in the village, to be certified by the Gram Panchayat as such, as per directions (February 2004) of the Ministry of Power (MOP) of the GOI. Audit noticed that only 151 villages out of 336 villages of three circles were declared electrified on obtaining certificates, in terms of above stated requirement, from *Gram Panchayat* by December 2007. Thus, the electrification of balance 185 villages was not complete as per the stipulated guidelines for declaring village as electrified since the certificates from *Gram Panchayat*s were pending. Moreover, the Company even did not take over 151 villages from turnkey contractors, due to non-completion of third party inspection over quality and quantity in respect of these villages. Further, certificates from *Gram Panchayat* were not obtained in respect of 961 *dhanis* declared as electrified up to March 2008.

2.1.27 It was further observed that against the subsidy amount of Rs. 1,500 per connection to BPL RHHs, the Company awarded work at the rate ranging from Rs. 1,700 to Rs. 2,050 per connection. The difference between the actual expenditure and subsidy admissible was Rs. 3.72 crore on release of 99,528 connections to BPL RHHs from January 2007 to March 2008, which was recoverable from RSCCL in respect of the SC BPL RHHs and from TADD in respect of ST BPL RHHs as in the case of KJP. The Company, however, did not lodge claims for differential amount and also did not approach the State Government for providing subsidy for differential amount in respect of General category BPL RHHs, despite its precarious financial position. It was observed that the Company would further incur an expenditure of Rs. 7.10 crore over and above the amount of subsidy receivable from GOI, on release of remaining 1,85,373 connections to BPL RHHs and therefore needs to approach the State Government for reimbursement of the gap between actual expenditure and subsidy receivable from the GOI.

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[1] School, panchayat office, health center, dispensaries, community centers *etc.*

Despite specific provision of inspection and monitoring of works by REC, the Company awarded the work to third party, assuming avoidable liability of Rs. 2.55 crore.

2.1.28 It was observed that the Company awarded (February 2008) the work of third party inspection to REC Power Distribution Company Limited (RECPDCL), a subsidiary of REC, at the rate of two *per cent* of the contract awarded cost. This resulted in increasing the Company's liability by Rs. 2.55 crore (2 *per cent* of Rs. 127.65 crore), despite specific provision of inspection and monitoring of works by REC itself under RGVVY guidelines and there was also no provision for third party inspection in the tripartite agreement executed by the State Government and Company with the REC. The Government stated (August 2008) that it was deemed appropriate to engage an independent monitoring agency and to meet the cost of the same out of 10 *per cent* overhead charges provided under the scheme. The reply is not acceptable, since the guidelines of the scheme provided for inspection by the REC and not by any third party. Moreover the overhead charges were towards the cost of preparation of DPRs and establishment cost of the Company and not for the third party inspection.

2.1.29 As per the tripartite agreement (July 2005), the Company was required to keep the funds received for RGGVY in a separate bank account. The Company did not open any separate bank account and kept an amount of Rs. 16.38 crore drawn as advance (up to November 2007) towards release of connections to BPL RHHs, in the general collection account. The Company utilised only Rs. 7.76 crore for the purpose for which it was drawn and balance amount of Rs. 8.62 crore was utilised temporarily for other purposes, thus affecting the progress of implementation. The Government stated (August 2008) that the Company had incurred a total expenditure of Rs. 15 crore at the rate of Rs. 2,200 per connection on 68,437 service connections released up to November 2007. The reply was factually incorrect as the Company was eligible to adjust the expenditure against the subsidy at the rate of Rs. 1,500 per connection only which worked out to Rs. 7.76 crore on 51,765 service connections in respect of five out of six circles. Moreover the reply was silent on opening a separate bank account in terms of requirement of the scheme.

2.1.30 The scheme required use of services of franchisees, such as NGOs, Users Association, Co-operatives, Panchayat institutions, in collection of revenue, with a view to improve collection efficiency. The Company, however, had appointed franchisees only in 94 villages as against the requirement of deployment of franchisees in all the 363 villages electrified (December 2007) under the scheme.

Company's Own Programme

2.1.31 Feeder Renovation Programme (FRP)

The Feeder Renovation Programme (FRP) was aimed at reducing distribution losses to less than 15 *per cent* on its rural feeders so as to achieve financial turn around, enabling 24 hours supply of electricity in rural areas. The works under programme were to be executed using loans obtained from REC. As per the guidelines, a feeder could be declared as renovated only if the distribution losses of a feeder were less than 15 *per cent* along with commencement of

24 hour domestic rural supply.

2.1.32 Process of Implementation of FRP

The Detailed Project Reports were prepared, showing details of existing system, proposed renovation in the system, bills of material and techno-economic viability of project. The Company decided to execute work on turnkey basis and in case of non feasibility, reasons were to be recorded by the Managing Director (MD). The Company was to ensure timely supply of meters and transformers to turnkey contractors. The works were to be supervised by Junior Engineer (100 *per cent*) on weekly basis, Assistant Engineer (20 *per cent*) on fortnightly basis and Executive Engineer (10 *per cent*) on monthly basis. Energy audit of the renovated feeders was also to be carried out regularly.

2.1.33 Targets vis a vis Achievement

The Company awarded turnkey works for 2,499 feeders comprising of 193 feeders in 2005-06, 1,178 feeders in 2006-07 and 1,128 feeders in 2007-08. The work of remaining 476 feeders was carried out through CLRC without recording any reasons as envisaged in the guidelines. The table below indicates the targets fixed, achievement and shortfall up to 31 March 2008.

Year	**Targets as per work plan**	**Actual Achievement**		**Short fall**	**Percentage of shortfall to targets**
	Number of feeders				
		CLRC	**Turnkey Works**		
2005-06	275	36	--	239	86.91
2006-07	1,300	239	355	706	54.31
2007-08	1,400	201	960	239	17.07
Total	**2,975**	**476**	**1,315**	**1,184**	**39.80**

Source: Monthly progress reports.

Despite awarding the contract on turnkey basis at higher rates ranging from 14 to 40 *per cent* on material cost and upto 55.1 *per cent* on erection cost, the shortfall in achievement ranged from 17.07 to 86.91 *per cent.*

It was observed that the turnkey works were awarded at higher rates ranging from 14 to 40 *per cent* on material cost and up to 55.1 *per cent* on erection cost as compared to the estimated cost. The objective of payment of extra premium to turnkey contractors was to secure timely completion of works by placing single point responsibility for execution. It can be seen from the above, that implementation of feeder renovation was very slow, despite awarding the contract on turnkey basis. The shortfall in achievement was abnormally high ranging from 17.07 to 86.91 *per cent*, besides postponing the schedule of execution of 500 feeders by one year to March 2009. Audit further noticed that as against remaining 1,184 feeders, the work on 773 feeders had not commenced (December 2007) on account of resistance from the consumers, delay in joint survey and preparation of road map. The Government stated (August 2008) that initially the works were carried out on CLRC basis due to scarcity of capable contractors to achieve the targets of FRP. The reply is not acceptable as the objective of execution of works on turnkey basis was to achieve expeditious execution of works with single point responsibility and the targets were still not achieved, even by getting substantial work done on CLRC basis in second and third year also.

2.1.34 Audit analysed that the slow pace of feeder renovation was due to delay in awarding of works by two to four months, non-supply of meters and transformers by the Company, deployment of inadequate manpower and delay in procurement of other materials by the contractors, poor quality of works executed by turnkey contractors and lack of effective monitoring. Audit also noticed cases of incorrect reporting of completion of turnkey works. It was observed that the intended benefits/goals of programme also could not be achieved, due to delay in completion of works by 1 to 13 months as discussed in paragraphs 2.1.35, 2.1.38 and 2.1.44. As per terms of clause 9 of the contract, in case of non completion of work within the specified period, the liquidated damages at the rate of 0.25 *per cent* per week, for first four weeks, 0.50 *per cent* per week thereafter subject to maximum of 5 *per cent* of total contract value, was leviable from the contractor. The liquidated damages were not yet finalised and recovered.

Out of 433 feeders declared as renovated, only 8 feeders had losses below 15 *per cent* and were eligible for 24 hour supply.

2.1.35 It was noticed that out of 433 feeders renovated by March 2007 in 5 selected circles, only 8 feeders could reduce distribution losses below 15 *per cent* and were eligible for 24 hour supply. The distribution losses in 83 feeders ranged between 15 to 30 *per cent,* while in 145 feeders, losses ranged between 30 to 50 *per cent* and in 42 feeders, losses were more than 50 *per cent*. The details of distribution losses in respect of balance 155 feeders were not available on record. The distribution losses were high because of use of sub-standard/low size materials by the contractors and non-completion of the works. Thus intended objectives of reducing distribution losses and commencing 24 hour supply in rural area were not achieved as the field officials were declaring the feeder renovated without completing the work in all respects. The Management had not devised any system, to verify the correctness of reporting, in respect of completion of work of feeder renovation, which resulted in irregular declaration of 425 feeders as renovated in these circles, against the criteria prescribed in the guidelines of scheme. The Government stated (August 2008) that the feeders were declared renovated after completion of physical works, though the losses had not come down to required level of 15 *per cent*. The fact remained that the Company did not adhere to its own guidelines, while declaring the feeders as renovated and no specific approval from the Board of Directors as well as State Government was sought, for diluting the criteria on which the success of the entire programme of FRP was based. Further, the Company had not taken any steps to analyse the reasons for not achieving the targets of reduction of distribution losses, to below 15 per cent in most of the renovated feeders.

The Company assumed increased liability of Rs. 22.73 crore towards inspection charges by awarding work of third party inspection, despite specific provision for inspection of work by a third party to be deployed by the REC.

2.1.36 It was observed that the Company awarded (February 2008) the work of third party inspection for inspection of renovated feeders to RECPDCL at the rate of two *per cent* of cost of feeder renovation, for on going works and at the rate of one *per cent,* for already renovated feeders plus service tax. This resulted in increasing the Company's liability by Rs. 22.73 crore including service tax towards third party inspection charges, despite the specific clause 2 (vi) of the sanction letters of loans stating that the inspection of work executed by the Company, was to be carried out through a third party to be deployed by REC. The work order included inspection of 651 already renovated feeders (cost of Rs. 323 crore) and 1,783 feeders with ongoing works (cost of Rs. 850 crore). The Company erroneously included only 651 feeders as already renovated instead of 911 feeders already renovated up to January 2008. This resulted in avoidable expenditure of Rs. 1.22 crore on short inclusion of 260 feeders (cost Rs. 122.07 crore), being the difference of one *per cent* in rate of inspection of feeders already renovated and those on which work was ongoing. The Government, while quoting a clause of REC sanction orders, relating to scheme evaluation stated (August 2008) that expenditure incurred on deployment of third party inspection was in order. The reply is not acceptable as the clause quoted by the Government was applicable for the new schemes (May 2007 onwards). Thus the Company was under no obligation to engage third party for monitoring and inspection as per clause 2(vi) of the sanction letters.

2.1.37 As per the guidelines of FRP, energy audit was to be carried out regularly to ensure that the distribution losses on the renovated feeder remain below the level of 15 *per cent* continuously. It was noticed in audit that despite declaring 1,791 feeders as renovated, no energy audit duly verifying the input (received) units and output (sold) units on each feeder was conducted (March 2008). It was also observed that the feederwise tagging of the consumers, covered on renovated feeders was not done properly. In the absence of energy audit, the aim of sustaining the losses below 15 *per cent* on continuous basis, was not being ensured, thus defeating the very objective of FRP.

2.1.38 The Company was to appoint Feeder Managers (FM) for monitoring the works, so as to ensure the expected end results of renovated feeders. The FMs were, however, appointed with substantial delay in July 2007, when the renovation of as many as 1,051 feeders was shown as completed by the Company. During scrutiny of records of selected Udaipur circle, it was noticed that the monitoring of 233 feeders for renovation was not done (December 2007) by FM, even after his appointment.

Contract Management

2.1.39 During the course of audit of various contracts under these schemes, the following irregularities were noticed.

2.1.40 Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)

The Company awarded works of electrification of villages/*dhanis* and release of connections to BPL RHHs to AIL[•] (Ajmer, Dungarpur, Jhunjhunu and Sikar) and to KPTL[Ψ] (Rajsamand) during May/June 2006 on turnkey basis by inviting open tenders.

Allowing different rates for same material resulted in extra expenditure of Rs. 3.93 crore.

Audit noticed that the specification of the materials used was alike in all the works. The ex-works rates (exclusive of taxes, freight & insurance *etc.*) of same material were, however, different for different works. Details of ex-works cost and its over all impact on all works is given in **Annexure 11.** Allowing different rates for same material, resulted in extra expenditure of Rs. 3.93 crore on four works[@] which lacked justification. The Government stated (August 2008) that the works in different circles were in different packages and the quantities were different; thus, they should not be compared. The reply is not acceptable as the reasonability of prices should have been ensured as the materials used in all the works were alike with similar specifications.

2.1.41 Further, in case of non completion of work within the specified period, the liquidated damages at the rate of 0.25 *per cent* per week, for first four weeks, 0.50 *per cent* per week thereafter subject to maximum of 5 *per cent* of total contract value, was leviable on the contractor as per clause 9 of turnkey contract. Audit noticed that none of the works were completed within the scheduled period and the delay up to March 2008 ranged between 27 to 32 weeks. The Company, however, did not levy penalty of Rs. 6.38 crore on the contractors as indicated in **Annexure 12.** The Government stated (August 2008) that levy of penalty would be decided before final payment is made to the contractors.

2.1.42 Execution of Project through Power Grid Corporation of India Limited (PGCIL)

The Company had taken the avoidable liability of services charges Rs. 2.70 crore by engaging PGCIL as middlemen.

The work of Bhilwara project involving electrification of 104 villages, 619 *dhanis* and release of electric connections to 49,510 BPL RHHs was entrusted to PGCIL on cost plus services charges basis. PGCIL sub-contracted the work to ABB Constructions at the cost of Rs. 33.70 crore. It was observed that the Company had assumed, the avoidable liability of service charges of 8 *per cent* of project cost amounting to Rs. 2.70 crore, which could have been saved, if the Company awarded and monitored the project directly, as was done in five other projects. Thus involving PGCIL as middlemen, resulted in avoidable additional expenditure of Rs. 2.70 crore.

• Angelique International Limited

Ψ Kalpataru Power Transformers Limited.

@ Ajmer, Sikar, Jhunjhunu and Rajsamand

2.1.43 Audit further noticed that while executing the quadripartite agreement, the Company accepted the condition of direct release of payments to the PGCIL by REC. The PGCIL irregularly retained 10 *per cent* service charges instead of 8 *per cent,* out of the amount released by REC. The Company did not take up the matter with REC/PGCIL for refund of excess retention of service charges (December 2007) of Rs. 48.92 lakh. The Government stated (August 2008) that there was no mention of 8 *per cent* service charges in the quadripartite agreement and did not furnish reply relating to acceptance of condition regarding release of payments directly to PGCIL by the REC. The reply was not correct as payment of 8 *per cent* service charges was decided in its 78th Board meeting held on 29 September 2005.

2.1.44 Feeder Renovation Programme (FRP)

The Company awarded contracts of renovation of 2,499 feeders to 14 turnkey work contractors during the period between 2005-06 and 2007-08 by inviting open tenders. Audit noticed that as per clause 5 and 6 of terms and conditions of work orders, the contractors were required to furnish security deposit (SD) equivalent to two *per cent* of the contract value and Performance Bank Guarantee (PBG) equivalent to five *per cent* of the contract value. The Company enhanced the value of 25 work orders by Rs. 118.62 crore, as per the revised Bill of Quantities (BOQ) on the basis of joint survey. The Company, however, did not recover the SD of Rs. 2.37 crore and PBG of Rs. 5.93 crore on enhanced amounts of contracts, as per terms and conditions of work orders and thus failed to safeguard its financial interest. The Government stated (August 2008) that the contractors had been directed to deposit the balance amounts of security deposit and performance bank guarantee.

The delay in assessing retrieved material and deposit thereof by the contractors could lead to misuse, theft and misappropriation.

2.1.45 In five circles[⊕], audit noticed that the Company replaced 21,182 single phase and 24,092 three phase transformers alongwith laying 13,372 kilometres of aerial bunch cable during renovation of 970 feeders up to March 2008. As per clause 15 of work orders, the contractors were to deposit the retrieved material regularly in the concerned sub-divisions and furnish the details of retrieved materials to the concerned Executive engineers, before handing over the line/work. The contractors, however, did not deposit the feeder wise retrieved material to the concerned sub-divisions and also did not furnish the required details to the concerned Executive engineers. The delay in assessing the retrieved material and deposit thereof by the contractors, could lead to misuse, theft and misappropriation. In the absence of details, the Company could not maintain records of feederwise retrieved materials classifying it as useable and non-useable for the purpose of accounting in the financial statements appropriately and to avoid excess procurement of material. The Government stated (August 2008) that the deposit of retrieved material would be ensured at the time of finalization of account of contractors. The fact remains that the contractors failed to deposit retrieved material immediately, after renovation of each feeder.

[⊕] Ajmer, Nagaur, Sikar, Chittorgarh and Udaipur

Monitoring

2.1.46 Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)

In order to implement the programme effectively, REC directed the Company to appoint a nodal officer with designated duties to monitor the works of sanctioned schemes. Audit noticed that no nodal officer, at the level of the Company, for over all supervision and effective monitoring of works of all the sanctioned schemes, was appointed (December 2007). No reports were submitted by circle offices as regards quality and quantum of work done by contractors as per REC specifications/standards in respect of 363 villages declared electrified. Audit further noticed in the selected three districts (Bhilwara, Rajasamand and Dungarpur) that decisions taken in the meetings with district administration were neither documented nor intimated to the management, for effective follow up action. Lack of effective monitoring at Company's level resulted in delay in completion of works.

2.1.47 Feeder Renovation Programme (FRP)

Lack of effective monitoring resulted in non-achievement of the prime objective of reduction of distribution losses below 15 *per cent*.

As per guidelines of FRP, the works were to be supervised by Junior Engineer (100 *per cent*) on weekly basis, Assistant Engineer (20 *per cent*) on fortnightly basis and Executive Engineer (10 *per cent*) on monthly basis. Energy audit of the renovated feeders was to be carried out regularly. Audit noticed that no such checks were conducted by the concerned field engineers. While reviewing the progress of RE works periodically, the Managing Director observed that the achievement of progress was claimed without actually achieving the same and pointed out deficiencies like use of sub-standard material, delay in procurement of materials and non-submission of road map by turnkey contractors for implementation of schemes and directed the Superintending Engineers (SEs) to monitor the works effectively to ensure that all works were completed within the scheduled time, as per the various contracts. Effective remedial actions, however, were not taken by SEs, before declaring the feeder, as renovated, as per guidelines. The Company had not devised any system for verification of progress of FRP and simultaneous evaluation of its effectiveness in order to ensure corrective actions in subsequent phases. Thus the monitoring over the execution of FRP works was ineffective and deficient, which resulted in non- achievement of the main objective of reduction of distribution losses below 15 *per cent*.

Internal Control and Audit

2.1.48 Internal control system is an essential pre-requisite for the efficient and effective management of an organization. During the course of audit, it was noticed that the Company did not take adequate measures for effective internal control in execution of RE works as discussed below:

- Inadequate control to monitor timely implementation of RE projects and declaration of village electrification under RGGVY and renovated feeders under FRP.

- No system was devised for timely deposit of retrieved material by turnkey work contractors executing FRP works and proper monitoring thereof.

- No mechanism existed to ensure the quality and quantum of material brought/used by turnkey work contractors before release of payments.

- There was lack of monitoring over the performance of field officers towards supervision of FRP works.

- No system was evolved to account for the schemewise expenditure to ensure the utilisation of funds for the intended purpose.

- No system was established for raising timely claims and their realization under KJP.

- No system was devised for assessing the performance of renovated feeders to take corrective action in case of their poor performance.

2.1.49 The Company had its own Internal Audit Wing, which conducted audit in accordance with an annual programme. It was, however, noticed that despite substantial expenditure incurred on RE works, audit of these works was not covered under the annual programme during three years ending March 2008. It was observed that Company made a total payment of Rs. 89.49 crore under RGGVY and Rs. 384.15 crore under FRP to turnkey contractors during three years ending March 2008. Thus, the internal audit system was deficient and ineffective as a key control element of the management.

Conclusion

Against the goals of quality and reliable power supply at reasonable rates, electrification of all villages by March 2007, access to electricity for all households by year 2009 and a minimum lifeline consumption of one unit per household per day by year 2012 incorporated in RGGVY and the Rural Electrification Policy (REP), the planned projects were short of the targets and goals, while extent of sanctioned projects was even lower. Under RGGVY, which was the flagship scheme for rural electrification, the sanctioned projects covered an amount of Rs 137.33 crore only against a planned outlay of Rs. 367.79 crore. Thus the objective of electrification of all villages by March 2007 and providing all RHHs with access to electricity by year 2009, failed in the planning and sanction stage itself.

Slow and tardy implementation of sanctioned projects further restricted the achievement of various milestones and goals of rural electrification in both the schemes of RGGVY and FRP. As against the target of access to electricity for all rural households by year 2009, 13,18,472 RHHs out of total RHHs of 26,72,289 representing 49.34 *per cent* were provided with electricity connections as on 31 March 2008. The cumulative progress of providing electricity connections to BPL RHHs was only 22.34 *per cent*

and to APL RHHs was 63.60 *per cent* of the respective total households as on 31 March 2008. The State Government also did not come out with any supplementary plan/policy providing necessary financial support to electrify the villages/*dhanis*/RHHs, beyond what had been committed by the GOI. There were no State sponsored rural electrification schemes aimed at achieving the goals/targets of REP of the GOI. The Company's own Feeder Renovation Programme to bring down distribution losses on 11 KV feeders below 15 *per cent,* so as to provide 24 hour domestic electricity supply in a day to all villages, performed poorly as the shortfall in achievement was abnormally higher ranging from 17.07 to 86.91 *per cent.* Only 8 feeders out of 433 feeders renovated upto March 2007, test checked in five selected circles, could achieve distribution losses below 15 *per cent* and qualify for 24 hour electricity supply. The Company incurred extra expenditures in various cases; there was lack of adequate monitoring of all works including turnkey works. The internal control and internal audit system were inadequate for monitoring and optimising results of RE works.

Recommendations

It is recommended that the State Government and the Company should:

- **ensure electrification of *dhanis* and RHHs in a time bound manner so as to achieve prime objective of the scheme**
- **strictly adhere to the plans, policy, rules and guidelines for optimising operational and financial performance**
- **evolve a system to get the reimbursement of expenditure actually incurred for implementation of RE programmes to avoid financial loss**
- **evolve a mechanism for conducting energy audit regularly to reduce and sustain reduced distribution losses on continuous basis**
- **observe transparency in assessing the reasonability of prices at the time of finalisation of rates under turnkey works of various schemes to avoid unnecessary and unreasonable expenditure**
- **ensure accountability of its staff in monitoring the progress of departmental as well as turnkey work contracts and**
- **strengthen Internal control and Internal audit by enlarging its scope and standardizing its procedures.**