

Chapter - 4

Compliance Audit Observations

4.1 Allotment/ transfers of land in Industrial Areas by Madhya Pradesh Industrial Development Corporation Limited

4.1.1 Introduction

Madhya Pradesh Industrial Development Corporation Limited¹ (Company), has been designated (2004) as the single window secretariat for facilitating and promoting investment in the State. The Company functions under the administrative control of the Industrial Policy and Investment Promotion Department (Department) of the Government of Madhya Pradesh (GoMP). Its five Regional Offices (ROs) at Indore, Bhopal, Jabalpur, Rewa and Gwalior have been tasked with promoting, encouraging and developing industries and industrialization in the State through development of Industrial Areas (IAs)/ Growth Centres (GCs)/ Special Economic Zones (SEZs)/ Industrial Parks (IPs) as well as the requisite industrial infrastructure like roads, water supply, electrification, etc.

4.1.2 Audit Objectives

Compliance audit of the activities of the Company was conducted with the objective of assessing whether the land allotment/ transfer process was transparent, the land premium, lease rent and development charges were applied in accordance with applicable rules, regulations, guidelines, etc. and whether there was a proper monitoring mechanism.

4.1.3 Sources of Audit Criteria

Audit findings were benchmarked against the criteria sourced from the following:

- Madhya Pradesh State Industrial Land and Industrial Buildings Management Rules, 2015 (Rules);
- Industrial Promotion Policy, 2014 and amendment of December 2018; and
- Decisions, orders and policies of GoMP and the Board of Directors (BoD) for alienation, acquisition, allotment and fixation of lease premium, lease rental, development charges, annual maintenance charges, etc.

4.1.4 Audit Scope and Methodology

Audit of the Company was carried out during June-August 2019 and covered the land allotment and transfer transactions of the Company during the three year period of 2016-17 to 2018-19. Audit methodology involved scrutiny of the relevant records at the Corporate Office of the Company, as well as at three of its ROs² (Gwalior, Bhopal and Indore). Joint physical inspection of three Industrial Areas³ that transacted the highest allotments was carried out along with the Departmental authorities.

The details of total cases of land allotments, transfers, units due for commencement of production and selected sample for audit scrutiny pertaining to the period from 2016-17 to 2018-19 are given below:

¹ Formerly known as Madhya Pradesh Trade and Investment Facilitation Corporation Limited (MPTRAI FAC).

² Selected on the basis of random sampling, using Interactive Data Extraction and Analysis (IDEA) software.

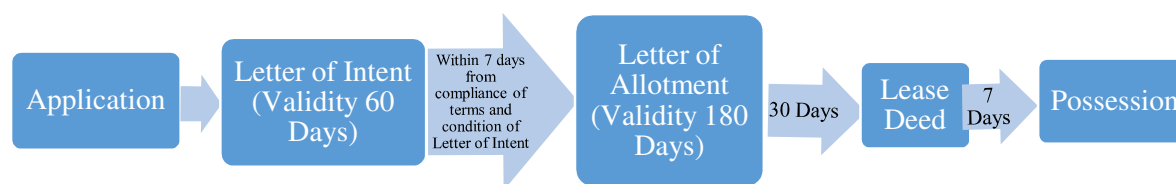
³ Malanpur (RO, Gwalior), Bagroda (RO, Bhopal) and Pithampur III (RO, Indore).

Table 4.1.1: Selection of cases for audit scrutiny

Particulars	RO Gwalior	RO Bhopal	RO Indore	Total
Land Allotment cases	48	558	235	841
<i>Selected for scrutiny</i>	16	37	85	138
Units due for commencement of production	22	21	95	138
<i>Selected for scrutiny</i>	6	6	29	41
Land Transfer cases	40	65	89	194
<i>Selected for scrutiny</i>	11	18	23	52

4.1.5 Audit Findings

The land allotment and transfer was to be made as per the Rules⁴ issued by GoMP from time to time. The procedure for land allotment and the relevant timelines are detailed below:



Audit findings in this regard are discussed in the following paragraphs.

4.1.5.1 Allotment of land to highly polluting and dangerous category of industries

Clause 4 (vi) of the Rules provides that land to highly polluting and dangerous category of industries like those manufacturing pesticides, carbon black and others (Annexure A of the Rules) was to be allotted in those Industrial Areas only, where a separate zone has been earmarked for such industries.

Audit observed that no separate zone was earmarked for such industries and land was allotted to the following highly polluting and dangerous industry units in the Industrial Areas:

Table 4.1.2: Details of allotment to highly polluting and dangerous category of industries

Sl. No.	Name of Unit	Nature of Industry	Month of Allotment	RO
1	M/s Vandana Plastic	Tyre processing oil (with carbon black as its by-product)	June 2016	Indore
2	M/s Kush Agro Crop Science	Pesticides	May 2017	

Government replied (June 2020) that these units are not covered in Annexure A of the Rules.

The reply is not correct, as pesticides and black carbon are covered at Sl. No. 2(iii) and 3(ii) of Annexure A to Rule 4(1)(vi).

4.1.5.2 Continuation of restricted activity by a unit

As per Clause 4(1) of the Rules, industries performing restricted activities, *inter alia*, include Cement Concrete Mixture plants, which are not eligible for allotment of land in an Industrial Area.

Audit observed that the Company allotted (September 2007) land to M/s Prem Stone Industries for establishing a Stone Cutting and Polishing unit. Instead, it commenced a Cement Concrete Mixture Plant and operated till June 2017 when the allottee requested for its

⁴ Land Allotment Rules, 2015 (applicable w.e.f. April 2015).

transfer to another allottee. In spite of being aware of the violation (May 2012), the Company did not cancel the allotment. The new allottee also continued to operate the same plant until cancellation of the allotment.

The Company replied (June 2020) that the allotment to the new allottee had been cancelled in June 2019 due to running of Cement Concrete Mixture Plant.

Cancellation of the allotment after lapse of substantial period of noticing the prohibited activity reflects poor monitoring mechanism of the Company.

4.1.5.3 Allotment of excess land in violation of Rules

As per Clause 6 of the Rules, the covered area should neither be less than 40 *per cent* nor more than 60 *per cent* of the plot area. The total requirement of land would have to be decided by the Company accordingly. Also, as per Clause 4(viii) of the Rules, land can be allotted to units falling under the provisions of IT Investment Policy⁵ of Department of Science and Technology (DoST), GoMP.

Audit observed that land allotments in the following cases were not as per Rules:

Table 4.1.3: Details of allotment of excess subsidised land

Name of Unit	Covered area as per application submitted by the unit (Sq.mts)	Maximum eligibility of land as per Rules (Sq.mts)	Actual land allotted (Sq.mts)	Excess allotment (Sq.mts)	Allotment date
M/s Ajanta Pharma	13,049	32,623.00 ⁶	1,91,982.00	1,59,359.00	September 2018
M/s Pratap Technocrats	Not applicable as the allotment was as per IT Investment Policy 2016	9,388.70 ⁷	41,132.84	31,744.10	September 2018

- In the case of M/s Ajanta Pharma, the Company's failure to assess allottable land as per Rules resulted in excess allotment of 1,59,359 Sq. mts of land and consequent benefit of ₹ 8.96 crore⁸ to the allottee;
- In case of M/s Pratap Technocrats, in deviation from the eligibility criteria mentioned in the Policy, the unit was allotted excess 7.88 acres (31,744.10 Sq. mts) of land with the undue rebate on the entire area of 10.16 acres (41,132.84 Sq. mts) land, resulting in additional benefit of ₹ 37.51 lakh to the unit; and
- Besides the above, the Company allotted 2,85,000 Sq. mts of land to M/s Wonder Cement without assessing its eligibility as per Rules. Since the unit has not submitted the

⁵ As per the provision of the IT, ITeS and Electronic System Design and Manufacturing Policy 2016, a unit in the ESDM Sector would be eligible for allotment of land at concessional rate. The maximum area to be allotted shall be arrived on the basis of one acre land for every 50 people employed in the core operation (main economic activity) and shall *exclude* people employed in support services, such as security guards, gardening, drivers etc. and the rebate of 75 *per cent* on the cost of the land allotted was to be allowed.

⁶ Maximum eligible land = 13,049 Sq.m.*100/40=32,623 Sq.m.

⁷ The unit proposed employment for 316 persons (including 200 unskilled workers) in its application. Thus, unit was eligible for 2.32 acres (one acre*116 employees/50 employees); 2.32 acres = 9,388.70 Sq. mtr. of land.

⁸ Premium (with rebate) for eligible area i.e. 32,623 sq.m ₹ 2.40 crore + premium (without rebate) for additional area i.e. 1,59,359 sq. m. ₹ 30.60 crore = ₹ 33.00 crore (-) premium charged ₹ 24.04 crore = ₹ 8.96 crore.

proposed covered area to be constructed as per Clause 6 of Allotment Rules, the quantum of land to be allotted and excess land allotted cannot be ascertained.

In response, Government stated (June 2020) as follows:

- In case of M/s Ajanta Pharma, with a view to attract capital investment and proposed employment, the land was allotted with the approval of Managing Director, MPTRIFAC;
- In case of M/s Pratap Technocrats Limited, the land was allotted as per the GoMP letter dated 28 January 2017, where the instructions were issued to provide a concession of 75 per cent in the value of land as provided in the IT Investment policy 2016; and
- In case of M/s Wonder Cement, the land was allotted in line with the Department's approval for allotment vide letter dated 26 August 2016. Further as per the Rule 12(i) of Rules, the Government is empowered to allot the land.

The reply is not acceptable as:

- In case of M/s Ajanta Pharma, the fact of excess allotment has not been mentioned in the note submitted to Managing Director, MPTRIFAC as is being done in other cases submitted to MD;
- In case of M/s Pratap Technocrats Private Limited, the reply is incorrect, as the IT Investment Policy referred to in the GoMP letter clearly caps the area of subsidized land to be allotted at one acre for every 50 jobs created. Though the concession of 75 per cent is considered, the quantum of subsidized land has not been ascertained as per IT Policy; and
- In case of M/s Wonder Cement, Department's approval dated 26 August 2016 clearly mentioned that the land was to be allotted as per the provisions of the Land Allotment Rules 2015, which necessitates the disclosure of 'covered' area, which has not been complied with.

Thus, in violation of laid down rules and procedures, the Company had allotted excess land in these cases.

4.1.5.4 Non-commencement of production by the units in allotted cases

Clause 15(i) of the Rules states that the industrial units have to start their production within a specified time⁹, failing which, they have to apply for extension stating the reasons thereof. The extension for the first year would be given without a penalty, but with a condition to make 50 per cent investment of the proposal. However, the next extension would be given with a penalty of 10 per cent of the premium. Also, as per Clause 11(a) of the lease deed, if a lessee fails to invest the minimum fixed investment (25 per cent) within three years from the date of allotment, the amount of concession would be recovered along with 12 per cent interest.

Audit scrutiny revealed the following:

- Out of the 138 selected cases, 22 units could not commence production during the stipulated period and without any application for extension, continued possession of land.

⁹ Micro and SSI within two years, medium industries in three years and large units within four years from the date of possession.

The Company was unaware of the current status¹⁰ of the envisaged projects and did not initiate any further action as per Rules (*Annexure 4.1.1*).

- Amongst the cases allotted prior to 2016-17 but becoming due for commencing production during the audit period, out of the 41 selected cases, 21 units¹¹ were yet to commence production and had submitted application for extension where further action taken by the Company was not found on records (*Annexure 4.1.2*).

The Company has not carried out regular inspections to watch the progress of commencement of production/ activity and no penal action has been taken against the lessee units for delayed/ non-commencement of production.

Government replied (June 2020) that notices were issued for non-commencement of activities. 14 units (RO, Indore) have started their production, one unit (RO, Indore) has started trial production and six (three units of RO Bhopal and three units of RO Indore) units that have not started the production, have been served notices. It was further stated that notices would be issued to those units that are under implementation stage.

4.1.5.5 Deficiencies in land transfer cases

The Company, besides making fresh allotments of land, also allowed transfer of land as regulated by the Rules. Audit examined 52 land transfer cases and noticed the following cases of deviation/ non-compliance:

- The Company allowed transfer of land in five cases¹² without ensuring minimum investment by the allottees as required in Clause 18(b)(i)¹³ of the Rules;
- The Company violated Clause 42(ii)¹⁴ of the Rules in four cases¹⁵ wherein on cancellation of original lease deed (discontinuance of business/ non-commencement of operation), it allowed transfer of land instead of allotting the land afresh (as per details in *Annexure 4.1.3*);
- The Company did not adhere to Clause 18(a)(5)¹⁶ and thus failed to recover development charges from the new allottees in three cases¹⁷, where old allottees had not paid the same, resulting in undue benefit to the allottees and loss to Government exchequer to the tune of ₹ 3.30 crore; and

¹⁰ Actual schedule of implementation, financial arrangements, plant and machinery installed at the site, power connection and production commencement status.

¹¹ Three units of RO, Bhopal and 18 units of RO, Indore.

¹² M/s Airen Agro Sales Private, M/s Prem Stone Industries, M/s Ratan Basic Drugs, M/s IFB Industries and M/s Decore Exxoils Private limited.

¹³ Transfer of land to other parties can only be permitted if transferor unit had invested minimum 25 per cent of proposed investment (as per application for land allotment) in Fixed Capital.

¹⁴ If the Lease Deed is cancelled, the lessee can sell machinery, building etc. established on land and can submit an application to competent authority to transfer the land in favour of other party within three months from the cancellation of Lease Deed.

¹⁵ M/s Ratan Basic Drugs, M/s Al-Subh Aarambh Buildcon and Services Limited, M/s IFB Industries and M/s Decore Exxoils Private Limited (prior to takeover by M/s. Decore in November 2004, M/s progressive Extractions & Export Private Limited).

¹⁶ If the original allottee has not paid the development charges at the time of allotment, the same would be collected from the new unit (transferee) at the time of transfer.

¹⁷ M/s Aman Sethi/ BR Overseas, M/s Decore Exxoils/ Badri Cotsyn and M/s Excellent Packaging/ Nobel corrugators.

- In the absence of periodic inspections, the Company failed to identify allottees who could not complete minimum construction on the allotted land within stipulated time and levy penalties as specified under Clause 15 (vi)¹⁸ of the Rules.

Government replied (June 2020) as follows:

- As the units had already started operation/ production, there was no need to obtain the proof of investment;
- The permission of transfer was accorded as per approval from appropriate authority (MPTRIFAC);
- Development charges were not recovered as per the GoMP order dated 8 May 2018¹⁹; and
- The inspections were carried out as per need basis.

The reply is not acceptable in view of the following:

- The land was allotted at concessional rates to ensure industrialisation/ employment generation in the region. The Company should have therefore obtained proof of investment/ continuation of business (like value of investments/ assets as per annual audited balance sheet) at regular intervals, and specially before allowing transfer, to ensure compliance to the condition of minimum investment;
- Allowing transfer of land by units who had defaulted in payment of dues, and had also not commenced operations within the stipulated time, was against the provisions of the Rules;
- The said order clearly stated that Development Charges shall not be payable upon transfer in cases where land was utilized for industrialization. As these units have not commenced production or have discontinued production since long, they were not covered under this exception; and
- Carrying out inspection as per need clearly indicates that there was no systematic monitoring system to identify cases of failure to commence production within the stipulated period, resulting in non-compliance to the Rules.

In the absence of effective system to monitor compliance to the Rules/ terms and conditions of allotment by the allottees/ lessees, the Company was unable to take requisite action in the case of allottees who failed to commence operations within the stipulated period.

4.1.5.6 Non-revision of land premium rates as per the directions of State Government

Clause 9 (v) of the Allotment Rules (2015) provides that rates of land be fixed as per the Collector Guidelines of the Industrial Area and approved by the BoD. Further, GoMP directed (January 2016)²⁰ that the ROs should enhance the rates in their respective Industrial Areas to the prevailing rates if the rates worked out as per Clause 9 (v) (after allowing

¹⁸ The allottee unit would complete the minimum construction on the allotted land for the utilization of land within three/ five years (Allotment Rules 2015) from the date of commencement of production. Otherwise, unused land would be taken back from the allottee and the premium of unused land will not be refunded and the same land would be allotted to new allottee charging premium at the prevailing rates. In cases where it is not possible to allot land to new units, lease rent equivalent to 15 times of prevailing annual lease rent would be charged from the allottee.

¹⁹ As per the order dated 8 May 2018, the Development Charges shall not be payable in land transfer cases where land was already in use for industrialisation.

²⁰ Reiterated by MPTRIFAC (February 2016).

prescribed discount) are less than the prevailing land premium rate in that area/ adjoining areas.

Audit observed that land premium rates as per the revised Rules were lower than the prevailing land premium in respect of 10 Industrial Areas²¹ in RO at Indore and Bhopal. However, they did not increase the prevailing premium rates. As a result, there was a short recovery of ₹ 1.43 crore²² in RO Bhopal and ₹ 22.99 crore²³ in RO Indore (Details are given in **Annexure 4.1.4 and 4.1.5**). Whereas, in RO Gwalior, land premium rates²⁴ were increased as per GoMP orders for allotments where rates went below the prevailing rates and BoD approval was obtained.

Government replied (June 2020) that the rates of land premium have been decided after the approval of BoD and the rates fixed were rational and as per Rules.

The reply is not acceptable. Non-enhancement of the rates, wherever required, lead to financial loss to the Company.

4.1.5.7 Non-revision of Annual Maintenance Charges (AMC)

As per Clause 9(iv) of the Rules, ROs shall assess/ calculate the Annual Maintenance Charges (AMC) by proportionately dividing entire maintenance cost by the total allocable land and work out/ fix rate of AMC per Sq. m. and collect the same based on land allotted to the respective unit. AMC charged per Sq.m. during the period 2016-17 to 2018-19 is detailed below:

Table 4.1.4: Annual Maintenance Charges for 2016-17 to 2018-19

Name of the RO	2016-17		2017-18		2018-19	
	SSI/Medium	Large	SSI/Medium	Large	SSI/Medium	Large
RO, Indore	6.00 to 30.00	8.00 to 30.00	6.00 to 30.00	7.00 to 30.00	5.00 to 30.00	7.00 to 30.00
RO, Bhopal	6.46	8.61	6.46	8.61	6.00	8.00
RO, Gwalior	6.00	6.00	6.00	6.00	6.00	6.00

(₹ per Sq.m.)

Government replied (June 2020) that the AMCs were fixed for the years 2016-17 to 2018-19 by the Board of Directors of the Company.

Audit observed that although the rates of AMC were approved by the BoD, the method of calculation was not available on record. Hence, the correctness/ adequacy of the AMC charges to recover the cost could not be vouched in Audit.

4.1.5.8 Non-realization of outstanding dues from the industrial units

As per Clauses 9 (ii) and (iv) of the Rules, the Company is to recover the annual lease rent as well as AMC as per existing rates fixed from time to time. In case of delay, the amount was to be recovered with interest @ 10 per cent per annum as per Clause 10(iii). Also, as per common terms and conditions of the lease deed, the lease would be deemed to have been cancelled if lease rent and maintenance charges, or any part thereof, remains unpaid for six calendar months since becoming due, and the lessees fail to make remedy for the breach

²¹ Mandideep, Bagroda, Acharpura and Kiratpur (RO, Bhopal), Pitampur I and II, Pitampur III, SEZ, Meghnagar and Nimrani (RO, Indore).

²² Land allotment (30 cases out of 37 selected cases) and transfer cases (in all 18 selected cases).

²³ Land allotment (40 cases out of 85 selected cases) and transfer cases (in all 23 selected cases).

²⁴ For those slab/ size of allotments, where rates were lower than prevailing premium under new telescopic method of rebate.

within 60 days of notice given by the lessor or become insolvent or enter into an agreement with these creditors for composition of the industry.

Out of the selected 190 cases (138 allotment cases and 52 transfer cases) examined, Audit observed that an amount of ₹ 2.31 crore²⁵ was outstanding (June 2019) towards lease rent, AMC, interest, etc. from 75 units. Of these, ₹ 1.60 crore was outstanding for recovery from five²⁶ units.

Government replied (June 2020) that Company had been established with a view to provide industrial infrastructure and give subsidised land to industrialists in the State, and not for the purpose of cancellation of the allotments on the basis of faults of the allottees. Also, recovery of dues is a continuous process and notices are issued for recovery.

Conclusion

As brought out in the foregoing paragraphs, the Company has not complied with the Rules governing allotment/ transfer of land to industrial units in several cases in terms of monitoring the commencement of operations by allottees, finalizing appropriate land premium rates, annual maintenance charges etc., which could potentially impact achievement of the objective of industrialization and generation of employment in the State.

Recommendations

The Company should ensure strict compliance with Land Allotment Rules, allotment orders, terms and conditions of the lease deed with regard to commencement of business by the allottees and timely payment of dues, so as to achieve envisaged objective of industrialisation and generation of employment in the State in a time-bound manner.

²⁵ Out of this, ₹ 1.85 crore is outstanding since last two years and ₹ 0.46 crore is outstanding since last one year.

²⁶ One unit of RO, Bhopal (₹ 0.81 crore from April 2018), one unit from RO, Gwalior (₹ 0.43 crore from March 2017 onwards) and three units of RO, Indore (₹ 0.36 crore from April 2018 onwards). One unit of RO, Gwalior has not started activities and the allotted plot was vacant as physically verified by the Audit in September 2019.

4.2 Implementation of Phase-IX of commercial plantation by Madhya Pradesh Rajya Van Vikas Nigam Limited

4.2.1 Introduction

Madhya Pradesh Rajya Van Vikas Nigam Limited, Bhopal (Company) was incorporated (July 1975) as a fully owned Company of Government of Madhya Pradesh (GoMP) with the objective of accelerating and increasing forestry production by plantation of fast growing species of higher economic value and capable of diversified use for industrial and commercial purposes by implementing projects for raising commercial plantations of Teak, Bamboo and mixed miscellaneous species in a phased manner.

4.2.2 Phase-IX of commercial plantation by the Company

The Company prepares the Project Report, which is a phase-wise programme of plantation for a period of five years containing detailed targets, technical parameters, monitoring and evaluation, project cost, yield and revenue, financial analysis, etc. The work planned to be undertaken in the Phase is further divided into annual micro plans²⁷ approved by Chief General Manager (CGM) for each coupe²⁸ at the Division²⁹ level.

The Company implemented eight Phases and currently implementation of Phase-IX (2015-16 to 2019-20) was in progress. The preparation of Project Report for Phase IX was initiated in September 2013 and approved by the Board of Directors (BoD) in December 2014. The objectives of Phase-IX of the project were to:

- i) Improve ecological status of area by enrichment of forest cover;
- ii) Convert low valued / degraded/ poor site quality forests into high value man made forests to obtain quality produce for diversified use as commercial, industrial and domestic forest produce;
- iii) Increase the bio-diversity of the area and mitigate climate change effect;
- iv) Realize maximum production and financial return in minimum possible time and period by adopting intensive management practices; and
- v) Improve social-economic condition of local people by generating sustainable employment.

The year wise budget for the Phase-IX was ₹ 439.90 crore for the year 2015-16 to 2023-24 and actual expenditure was ₹ 278.11 crore during 2015-16 to 2019-20.

4.2.3 Audit Objectives

Compliance audit of the activities of the Company was taken up with the following objectives:

- Pre-plantation activities³⁰ including nursery maintenance, were carried out as per the prescribed plan, norms and guidelines; and
- Plantation and its maintenance were undertaken as per the prescribed plan, norms and guidelines.

²⁷ Micro plan is a plan containing basic details, description of area and technical details of prescription to be applied in plantation and activity-wise estimated cost for a coupe.

²⁸ Coupe is a small division of a compartment identified for yearly felling and subsequent plantation.

²⁹ The Company has 11 Divisions.

³⁰ Pre-plantation activities include selection of area, plantation stock, area preparation, etc.

4.2.4 Source of Audit Criteria

The criteria adopted for audit is derived from the following sources:

- State Forest Policy and Forest Conservation Act, 1980;
- Policy, rules, decisions, guidelines issued by the Ministry of Environment and Forest (MoEF), Government of India (GoI)/ Department of Forest, GoMP/ Compensatory Afforestation Management and Planning Authority (CAMPA)/ Finance Commission, and the Company;
- Agenda and minutes of the BoD Meetings of the Company related to various plantation activities; and
- Norms for plantation, maintenance of plantation, prescribed in the Phase-IX (Project Report) and ten years' Working Plan, Annual Micro Plans of the Divisions.

4.2.5 Audit Scope and Methodology

Audit was conducted from August 2019 to November 2019, covering the three year period 2016-17 to 2018-19 relating to Phase-IX commercial plantation. The Head Office of the Company and eight³¹ out of total 11 Divisions were selected³² for detailed scrutiny of records covering 78.06 per cent (3.06 lakh hectare) of the total land base of the Company (*Annexure 4.2.1*). Entry conference was held in August 2019 wherein audit objectives, criteria, scope and methodology were discussed with the Managing Director of the Company. Exit conference was held in July 2020 with the Principal Secretary, Forest Department, GoMP and Managing Director of the Company to discuss audit findings and their response/ replies were considered appropriately.

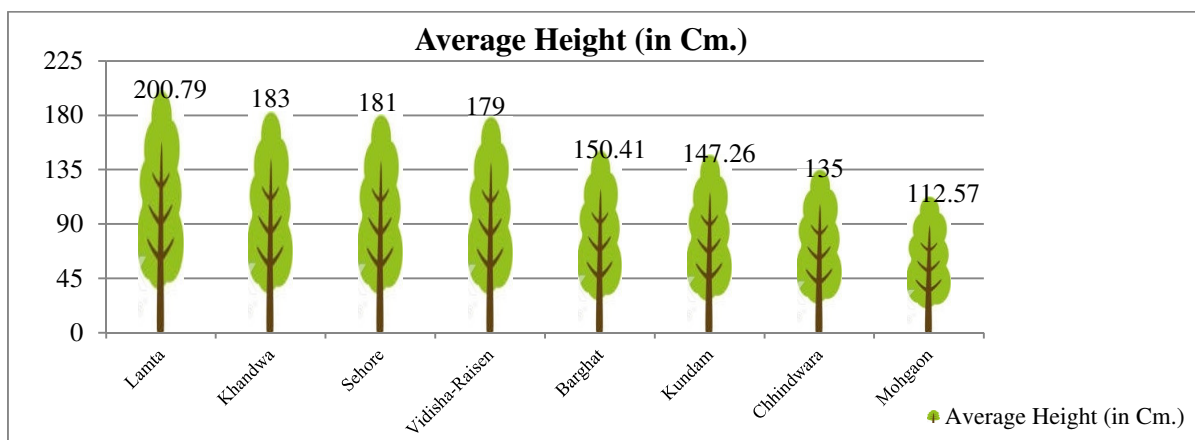
4.2.6 Audit Findings

The Company's activities can be categorised mainly into five stages, viz. selection of area, raising and maintaining planting stock in nurseries, area preparation, planting and maintenance of plantations. Significant audit findings are discussed below.

4.2.6.1 Patterns of growth in plantations

The Company has fixed growth standards (October 2003) for rainfed teak at 180 cm. height and 8 cm. girth in the third year of plantation with a survival rate of 80 per cent.

Growth, in terms of girth and survival, was as per the norms and the height of plantation measured in 2018 (in third year of plantation) for sampled Divisions are given below:



³¹ Vidisha-Raisen, Sehore, Khandwa, Chhindwara, Barghat-Seoni, Lamta-Balaghat, Kundam-Jabalpur and Mohgaon-Mandla.

³² On the basis of random sampling, using Interactive Data Extraction and Analysis (IDEA) software.

Growth in three Divisions surpassed the targets, while one Division nearly achieved and four Divisions could not achieve the growth targets. Apart from the natural adverse site and weather conditions, inadequate growth was mainly attributable to various controllable factors.

4.2.6.2 Disputed/ encroached forest land

As per Para 3.3 of the Policy of Land Transfer (May 2003), no disputed land was to be transferred by the Forest Department to the Company.

During the period 2016-19, the Department transferred 19,417.27 hectare land over eight Divisions to the Company, including disputed/ encroached land of 1047.51 hectare (350.77 hectare i.e. 0.11 *per cent* of encroachment was cleared by the Company subsequently) (**Annexure 4.2.2**). As of 31 March 2019, the Company had 10883.18 hectare (2.79 *per cent*) of encroached land out of its total land holding. Since the Company includes the encroached land in its plan for plantation activities, it results in non-achievement of targets with reference to plantation areas.

Further, land was transferred by the Department to the Company after a joint survey. Thus, it was the responsibility of both the Company and the Department to identify and transfer land which was not encroached/ disputed.

Government stated (July 2020) that Policy of Land Transfer emphasizes transfer of land in the vicinity of land in possession of the Company to avoid honeycombing and facilitate administrative control and transfer cannot be rejected based on little patches of encroachment. It was further stated that the term ‘disputed land’ is used only for dispute between the Revenue Department and Forest Department and that, encroachment cannot be termed as disputed land.

The reply of Government is not acceptable, since 5.39 *per cent* of total land transferred to the Company during audit period was encroached and it hinders the achievement of targets due to its inclusion in the plans.

4.2.6.3 Preparation of map for lantana eradication with GPS reading

As per Company’s instructions (September 2015), Lantana eradication in plantation area was to be proposed based on Global Positioning System (GPS) surveyed map containing GPS coordinates to ensure exact location, proper monitoring, avoid extra expenditure and risk of non-eradication of lantana.

Audit observed that four Divisions (Kundam (in 2016-17), Barghat (in 2016-17 and 2017-18), Vidisha-Raisen (2018-19, no need in 2016-17 and 2017-18) and Lamta (in 2016-17, 2017-18 and 2018-19) did not prepare proposals with GPS surveyed maps and the Personal Digital Assistants (PDA) for the plantation year 2016-19 failing the basic objective of proper monitoring and control as intended by this system.

Government accepted (July 2020) the audit observation in respect of three Divisions³³ and stated that in one Division (Vidisha-Raisen) the GPS maps were used during 2018-19. Government further stated that it had directed the Company to utilise the PDAs procured for the purpose.

The records produced to audit in respect of Vidisha-Raisen Division, however, do not support the contention of the Government.

³³ Kundam, Barghat and Lamta.

4.2.6.4 Use of fertilisers by the Divisions

The Divisions were required to carry out soil testing for each plantation site by sending soil samples to State Forest Research Institute (SFRI), Jabalpur every year and nutrients as recommended by the SFRI were to be applied and administered by the Division in accordance with Para 1.11³⁴, 5.6.1.4³⁵ and 5.6.1.5³⁶ of the Project Report regarding 'Maintenance of Plantation'. The details such as name of nutrients dose/ plant, method of application, etc. were to be mentioned in the micro plans of plantation site concerned.

Audit noticed that three Divisions (Khandwa and Sehore during 2017-18; 2018-19 and Kundam Division during 2016-17 and 2018-19) did not conduct soil testing annually. Soil-testing, conducted annually by other five Divisions (Vidisha-Raisen, Lamta, Barghat, Mohgaon and Chhindwara) recommended for Urea (Nitrogen) and Potash (MOP). However, ignoring the recommendations of the soil testing results, the Company issued (May 2002/ July 2016) instructions for usage of only Di Ammonia Phosphate (DAP)³⁷ during the first and second year of plantation to all the Divisions.

Audit observed that the Divisions had administered fertilizers on an ad-hoc basis, as two Divisions³⁸ administered Urea and Potash only in 2016 whereas five Divisions³⁹ did not administer Urea and Potash at all during the entire audit coverage period.

Government stated (July 2020) that the issue of providing fertiliser on the basis of soil testing was discussed at Head Office during 2016 and it was decided to provide only DAP as per the prevalent practice. It was further stated that, the SFRI recommendations were not economically feasible as the cost was more than potential increase in revenue.

The reply is not acceptable as the BoD of the Company has not taken the decision to provide the fertilisers on the recommendations of SFRI and instead administered the DAP for four years by considering the lower fertile area to be planted in Phase-IX. Further, the increase in cost by use of fertilisers on the basis of scientific soil testing can be compensated by higher production obtained from proper growth of plantation as observed by Company in comparative study.

Thus, the nutrients required for optimum growth could not be gauged/ administered, which resulted in under-growth of plantations (commented in para on *Patterns of growth in plantations*) leading to short production from teak plantation than the estimates.

4.2.6.5 Delay in approval of Working Plan of the Divisions

According to the Working Plan Code, 2004, published by the MoEF, GoI, every forest is managed/ harvested as per the Working Plan⁴⁰ duly approved by MoEF, GoI. As felling activity is to be carried out as per the approved Working Plan, any delay in its preparation/ approval, beyond expiry of the ongoing Working Plan, delays the process of felling and transportation and the subsequent plantation in the area.

³⁴ Soil testing for every soil type in each site will be done by the SFRI, Jabalpur.

³⁵ Nutrients as per the detailed project report and recommendation of SFRI on the basis of soil analysis will be applied.

³⁶ As the requirement of nutrients of all plantation sites may not be the same, the quantity and amount may vary from site to site.

³⁷ Based on the 90 per cent of the plantation for 30 gm. DAP per plant for first year and 40 gm. of DAP for second year.

³⁸ Lamta and Barghat.

³⁹ Mohgaon, Chhindwara, Vidisha-Raisen, Sehore and Khandwa.

⁴⁰ The Working Plan for a period of ten years is prepared/ implemented by the Divisions with the approval of MoEF, GoI.

Audit observed that preparation/ approval of the Working Plan was delayed as discussed below:

- In respect of four Divisions (Kundam, Barghat, Lamta and Mohgaon), the Working Plan for 2017-18 expired on 31 March 2018 and the Working Plan 2018-19 was approved by MoEF only after September 2018 (when felling was to commence) with delays⁴¹ ranging from 10 to 12 months; and
- In respect of Chhindwara Division, the last Working Plan was valid until 31 March 2019 and the succeeding Working Plan was not approved as of October 2020.

Due to the above mentioned delays, felling could not be executed in 619 hectare⁴² during 2018-19 (felling period of September 2018 to July 2019) in these four Divisions, which impacted plantation due during 2019-20 and future realisation of production by one year.

The Company replied (July 2020) that the Working Plan is a detailed scientific report, which requires 2 to 3 years for preparation, as it involves the activities of ensuring availability of forest land, forest survey, stock mapping, preparation of maps, etc. and Divisions are facing problems of shortage of staff and resources. It was further submitted that the shortfall in felling was carried out in the following year and completed.

The reply is not acceptable since the Company directed the Divisions to commence planning only 19 months (August 2016) prior to expiry of the current plan and itself took approximately 9-10 months in review of final report of Working Plan and another 4.5 months in sending the Plan to Department of Forest, GoMP.

4.2.6.6 Fixation of annual targets

The Project Report proposed year-wise targets of plantation for each Division of the Company for the period 2015-20.

Audit observed that the overall annual targets fixed⁴³ by the Company for five-year period 2015-20 were 19.01 *per cent* less than the targets envisaged in the Project Report. The actual plantation remained 20.03 *per cent* (34026.46 hectare from 42105.53 hectare) short of the targets fixed under Phase-IX (*Annexure 4.2.3*). The main reasons for short fixation were as follows (details given in *Annexure 4.2.4*):

- Non-availability of plantable area in various coupes on account of non-availability of suitable plantable area, court cases, opposition of felling by various groups, transfer of encroached land by Department;
- Inclusion of wrong/ non-plantable coupe/ encroached land in planning stage; and
- Non-inclusion of targets for Bamboo, Khamer, Aonla.

The Company and Government stated (September 2019 and July 2020) that targets fixed in Project Report were for five years which were based on past experience and annual targets were fixed based on Working Plan. Further, non-availability of plantation area was due to transfer and inclusion of encroached/ disputed lands in Project Report, opposition in felling by various groups and inclusion of different type of areas in each coupe lead to difference in gross and net plantation area.

⁴¹ The Working Plan approval in four Divisions (Kundam, Barghat, Lamta and Mohgaon) was delayed by 10 months (30 January 2019), 12 months (6 March 2019), 10 months (30 January 2019) and 10 months (30 January 2019) respectively from expiry of previous Working Plan in March 2018.

⁴² Kundam (93 Hectare), Barghat (103 Hectare), Lamta (405 Hectare) and Mohgaon (18 Hectare).

⁴³ Targets and achievement in respect of all the Divisions is considered for reporting.

The reply is not acceptable. As per Para 4.2 of Project Report, the actual availability of suitable area for plantations was to be determined after preparation of treatment maps and the projected Division-wise targets could be changed but without altering the overall projected targets. This was not fully complied with to achieve the targets envisaged in Project Report.

4.2.6.7 Non-plantation of species approved in Project Report

As per the Project Report, based on Cost Benefit Ratio (CBR) and Internal Rate of Return (IRR), five species (Commercial Rainfed Teak, Commercial Rainfed Bamboo, Commercial Rainfed Khamer, High Input Aonla and High Input Teak) were found viable for plantation and targets were fixed for their plantation during the five-year period 2015-20. (*Annexure 4.2.5*).

However, the Company, while fixing the annual targets for the Divisions, ignored the objective in respect of bio-diversity in the Project Report. It fixed lower targets for Bamboo plantation and did not plan for plantation of High Input Aonla and Commercial Rainfed Khamer (*Annexure 4.2.6*).

The Company stated (September 2019) that although Aonla, Bamboo and Khamer were planned for plantation in Phase-IX, these were not planted due to insufficient production in 2010 and 2011.

Government stated (July 2020) that the plantation was carried out as per the field survey of coupes identified for plantation in Working Plan and based on past unsuccessful experience with Bamboo, Khamer and Aonla, these were not planted. It was further stated that the CBR and IRR are applicable for 35 years only and the maturity periods differ for different species and hence cannot be compared; if the targets in Project Report are not realistic these may be reviewed and modified suitably by the Company.

The reply is not acceptable. The Company should have set realistic targets based on its past experience regarding production from Bamboo, Khamer and Aonla plantations, and recalculated the CBR and IRR in the Project Report, which was prepared in December 2014.

4.2.6.8 Plantation through poly-pots method

As per Para 5.5.5 of the Project Report, to carry out a comparative study of growth and survival of plantation of teak by root-shoots, 10 *per cent* area of each coupe was to be planted using poly-pot method and the remaining 90 *per cent* was to be planted by way of root-shoots, as poly-pots are more expensive compared to root-shoots.

Audit review of the plantation pattern followed in the selected Divisions during the audit coverage period revealed the following:

- There was no uniformity amongst the Divisions in complying with the Project Report with regard to plantation, as detailed below:

Year	Poly-pot plantation as per provision (no. of Divisions)	Poly-pot plantation in excess of provision (no. of Divisions)	No poly-pot plantation (no. of Divisions)
2016-17	3 (one partial)	0	5
2017-18	1	3 (100 <i>per cent</i> plantation)	4
2018-19	1	3 (90 <i>per cent</i> plantation)	4

- No comparative analysis of growth was done in Chindwara Division, where poly-pots plantation was carried out; and

- Excess expenditure due to coverage of poly-pot plantation beyond 10 *per cent* worked out to ₹ 23.97 crore⁴⁴ in three Divisions⁴⁵ in 2017-18 and 2018-19 when compared to cost of root shoots plantation (*Annexure 4.2.7*).

The absence of comparative study will lead to un-informed decision making in future planning for plantation and impact the growth and production from future plantation.

In response, the Company (September 2019) and the Government stated (July 2020) following:

- Poly-pot plantation was not carried out as per provisions in three Divisions since the soil was not apt for it and it was carried out partially in one Division where the soil was found degraded, since poly-pots is thrice more expensive than root shoots; and
- Three Divisions had higher poly-pot plantation since 2006 owing to low fertility and excessive biotic pressure and in 2017 plantation was done from grants received from CAMPA; thus no extra expenditure was incurred.

The reply is not acceptable since the Company failed to implement the Project Report on a uniform basis and also outcome of 10 *per cent* area plantation using poly-pot method was not known. It further indicates that the provisions in the Project Report are general in nature and do not recognise the basic issues relating to conditions where poly-pot plantation is to be applied.

Conclusion

The Company could not carry out the envisaged plantation due to short fixation of targets for plantation and non-adherence to various provisions of Project Report. There was non-plantation of species specified in Project Report and non-compliance with the directions for carrying out poly-pot/ root shoot plantation in specified percentage to study the growth and survival of teak plants.

Recommendations

- **Project Report may be prepared in a more realistic manner considering factors related to each Division to the extent possible, rather than issuing general directions.**
- **The Company may commence the activities of preparation of Working Plan sufficiently in advance so that the new Working Plan could be approved before expiry of the existing Working Plan.**

⁴⁴ Difference of ₹ 21.37 per poly-pot plant. Extra expenditure does not take into account the higher revenue if any due to higher yield of Poly-pot plantation, as there was no data.

⁴⁵ Vidisha- Raisen, Sehore and Khandwa.

4.3 Implementation of Swadesh Darshan Scheme of Government of India

4.3.1 Introduction

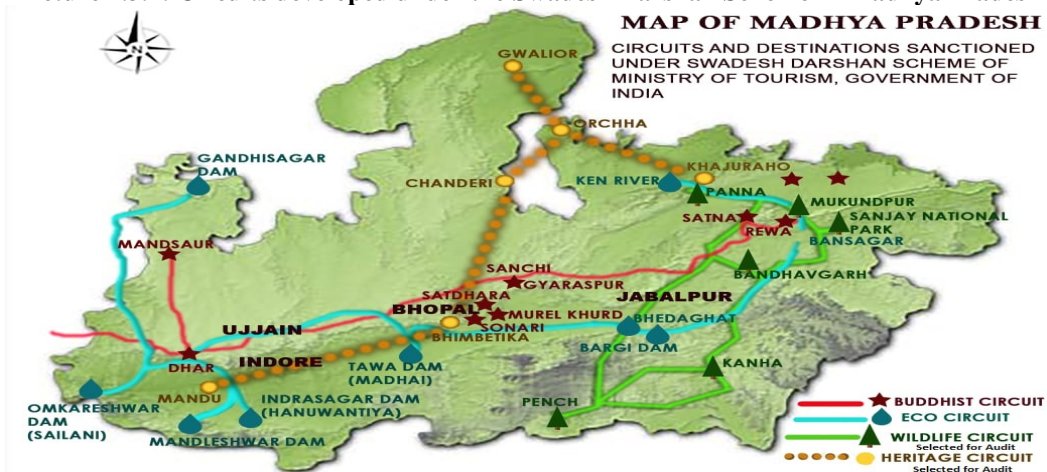
The Ministry of Tourism (MoT), Government of India (GoI) launched the Swadesh Darshan Scheme (Scheme) in 2014-15 for integrated development of theme-based tourist circuits⁴⁶ in India with the idea of positioning the tourism sector as a major engine for job creation and driving force for economic growth as well as build synergy with various sectors to enable tourism to realise its potential in this regard.

The objective of the Scheme was to develop potential tourist circuits in a planned and prioritised manner, promote cultural and heritage value of the country and create employment through active involvement of local communities. The duration of the Scheme was 14th Finance Commission period (April 2015 to March 2020).

The Scheme being a central sector scheme was 100 per cent centrally funded and GoI sanctioned (December 2015 to September 2017) Central Financial Assistance (CFA) of ₹ 359.75 crore for development of four circuits⁴⁷ in the State of Madhya Pradesh. Planning for proper execution of Scheme and the process of leasing out way side amenities created under the Scheme was the responsibility of the Madhya Pradesh Tourism Board (Board). Execution of Scheme involving construction of facilities, submission of Utilisation Certificates, etc. was the responsibility of the Madhya Pradesh State Tourism Development Corporation Limited (Company).

The map indicating the destinations of four circuits to be developed under the Scheme is given below:

Picture 4.3.1: Circuits developed under the Swadesh Darshan Scheme in Madhya Pradesh



4.3.2 Audit Objectives

Compliance Audit was conducted with a view to assess whether the Scheme Guidelines were complied with by the Company and the Board with respect to:

- Planning and implementation of the Scheme; and
- GoI's grants and the assets created were utilized for the envisaged purposes.

⁴⁶ A Circuit means connection of at least three major tourist destinations (with defined entry and exit points) which are distinct and apart, to encourage the tourists to visit the other similar places nearby.

⁴⁷ Wildlife Circuit (₹ 92.22 crore), Buddhist Circuit (₹ 74.94 crore), Heritage Circuit (₹ 92.97 crore) and Eco Circuit (₹ 99.62 crore).

4.3.3 Sources of Audit Criteria

Audit findings were benchmarked against the criteria sourced from the following:

- Swadesh Darshan Scheme Guidelines (Guidelines), terms and conditions of sanction accorded by the MoT for development of circuits;
- Detailed Project Reports (DPR) of the circuits approved by the MoT;
- Agenda and Minutes of Meetings of Board of Directors (BoD) of the Company and Board and State Level Monitoring Committee (SLMC), delegation of financial powers at various levels;
- Timelines for completion of works as per Sanction Orders and Work Orders;
- Guidelines, circulars and instructions issued by the GoI/ GoMP with regard to implementation of the Scheme; and
- Works Manual, instructions, circulars, Schedule of Rates (SOR) issued by Madhya Pradesh Public Works Department (MPPWD).

4.3.4 Scope and Methodology of Audit

Audit was conducted from November 2019 to January 2020, covering the three-year period 2016-17 to 2019-20. The Entry Conference was held in November 2019 and Exit meeting was held in August 2020 with the Managing Director of the Company and Deputy Secretary of Tourism Department (Department), GoMP. Out of the four circuits planned and sanctioned under the Scheme for the State, Wildlife circuit and Heritage circuit with a total sanctioned project cost of ₹ 191.99 crore (Wildlife circuit ₹ 92.22 crore and Heritage circuit ₹ 99.77 crore comprising 53.37 per cent of sanctioned project cost) were selected for Audit based on the progress of work⁴⁸ as of 31 March 2019.

The Company placed a total of 120 Work Orders valuing ₹ 125.95 crore (76 Work Orders valuing ₹ 58.23 crore under Wildlife Circuit and 44 Work Orders valuing ₹ 67.72 crore under Heritage Circuit) for development of the above two selected Circuits. Out of these, all the 32 Work Orders valuing ₹ 1.00 crore and above, totaling ₹ 100.19 crore (12 Work Orders valuing ₹ 41.28 crore for Wildlife Circuit and 20 Work Orders valuing ₹ 58.91 crore for Heritage Circuit) were selected for detailed scrutiny (*Annexure 4.3.1*). These represented nearly 71 per cent and 87 per cent of the value of Work Orders under the Wildlife Circuit and Heritage Circuit respectively.

4.3.5 Audit Findings

4.3.5.1 Implementation of the Scheme as per approved components

As per approval/ sanction of GoI, the GoMP was required to submit an undertaking to the MoT that adequate land free of encumbrance was available and was in possession of the State Government to accommodate all the features of the project. Further, as per Clause 9 of the Sanction Order, the GoMP was also required to take all necessary clearances as per prevailing rules and regulations, including those relating to environment, forest and pollution control, before undertaking the project.

However, the GoMP did not consider the above aspects in the Detailed Project Report (DPR). Instead it submitted (October 2015) undertakings to this effect to GoI and requested

⁴⁸ Wildlife Circuit (80.00 per cent); Heritage Circuit (71.36 per cent); Buddhist Circuit (63.89 per cent) and Eco Circuit (55.36 per cent).

(November 2015) for release of Scheme funds. The funds were released⁴⁹ (December 2015) by the GoI as per the Sanction Order.

Status of completion of Wildlife and Heritage Circuit as on 31 March 2020 is given in **Table 4.3.1:**

Table 4.3.1: Status of completion of Wildlife and Heritage Circuit as on 31 March 2020

Name of Circuit	Date of submission of DPR by GoMP	Date of approval of DPR by GoI	Amount sanctioned by GoI (₹ in crore)	Scheduled date of completion as per Sanction Order	Expenditure incurred (₹ in crore)	Actual Physical Progress (in per cent)	Status of Physical Completion of Components of Circuit
Wildlife	06.10.2015	07.12.2015	92.22	06.06.2018	81.84 (88.74 per cent)	99.75	Total Components – 127
							Not Taken up ⁵⁰ - 5
							Completed -120
							Not Completed – 2
Heritage	08.09.2016	19.09.2016	99.77	18.03.2019	74.39 (74.56 per cent)	96.47	Total Components – 220
							Not Taken up ⁵¹ - 27
							Completed -167
							Not Completed – 26

A. Wildlife Circuit:

Audit observed that GoMP did not consider the aspect of obtaining ‘No Objection Certificate (NOC)’ from National Tiger Conservation Authority (NTCA) for carrying out the approved components of works⁵² (valuing ₹ 3.15 crore) in the buffer zone of Panna National Park and Pench National Park, in the DPR. After the observation of GoI, the Principal Secretary (Tourism), GoMP requested (September 2015) NTCA for granting required permissions for executing works in the buffer zones of National Parks. However, neither the permission nor any denial from NTCA for carrying out the work was found on records produced to Audit. After lapse of 30 months from the month of original sanction of the Scheme, the MoT, based on the request of the Company/ GoMP, shifted (July 2018) the sanctioned amount of these components to additional works at Bandhavgarh National Park and for additional work of construction of Tourist Facilitation Center (TFC) at Jabalpur. Thus, the works in Panna National Park and Pench National Park were shelved and the component of works shifted for TFC at Jabalpur and Bandhavgarh National Park was completed (July 2019 and June 2020 respectively) with a delay of one year and two years from the scheduled completion of Wildlife Circuit (June 2018).

⁴⁹ 20 per cent of the total CFA as first instalment for starting the work.

⁵⁰ Dropped, re-appropriated and not taken up.

⁵¹ Same as F/n 50 above.

⁵² Work of canopy walk and camping site at Panna National Park and canopy walk and *Machaans* at Pench National Park.

B. Heritage Circuit:

i) The Company could not implement 15 components⁵³ of work valuing ₹ 21.56 crore, due to non-availability of place⁵⁴ and not obtaining permission for construction from Archaeological Survey of India (ASI)⁵⁵/ Forest Department⁵⁶ (*Annexure 4.3.2 and 4.3.3*) mainly due to non-inclusion of this aspect in project DPR. As a result, the MoT issued (March 2019) revised Sanction Order and reduced the CFA by ₹ 6.80 crore (from ₹ 99.77 crore to ₹ 92.97 crore) by dropping three components⁵⁷. Further, three⁵⁸ other components were also dropped by MoT and the corresponding CFA of ₹ 2.00 crore was re-appropriated towards additional components of works at Kutni Dam at Pathariya Fort and for Solar Illumination at Orchha. However, the said works remained incomplete till date (March 2020) mainly due to delayed re-appropriation.

Similarly, in the case of nine⁵⁹ approved components, GoMP could not obtain permission from ASI on time. Hence, based on the proposal of the GoMP, the MoT approved (March 2019) reduction in the CFA by ₹ 2.08 crore and corresponding re-appropriation of CFA towards addition in CFA of other six⁶⁰ approved components, of which two⁶¹ works are yet to be completed (March 2020) mainly due to delayed re-appropriation.

ii) GoMP failed to acquire land⁶² from the State Authorities in time for four approved components⁶³ valuing ₹ 3.00 crore at Bhimbetka. Subsequently, the MoT, GoI approved (January 2020) to drop these components of works and consequent reduction of corresponding CFA of ₹ 3.00 crore.

⁵³ Construction of Tansen Museum of Music, development in Kakan Math, Tourist Facilitation Center and Tourist Information Center at Yellow Building in Khajuraho, illumination at various monuments in Khajuraho, Raneh Fall, illumination at various monuments in Chanderi, development at Gwalior Fort, development of Bateshwar Temple Complex, development of Padhavli, development of Mitawali, development around of Heritage Gate (Gudri Darwaza), public amenities near various monuments, Dhubela, development at RewaTaal and development Around Various Monuments.

⁵⁴ One Component - Construction of Tansen Museum of Music.

⁵⁵ Thirteen Components - Development in Kakan Math, Tourist Facilitation Center and Tourist Information Center at Yellow Building in Khajuraho, Illumination at various monuments in Khajuraho, illumination at various monuments in Chanderi, development at Gwalior Fort, development of Bateshwar Temple Complex, development of Padhavli, development of Mitawali, development around of Heritage Gate (Gudri Darwaza), public amenities near various monuments at Khajuraho, Dhubela, development at RewaTaal and development Around Various Monuments at Mandu.

⁵⁶ One Component - Raneh Fall.

⁵⁷ Tansen Museum of Music, development in Kakan Math and Tourist Facilitation Centre and Tourist Information Center at Yellow Building in Khajuraho.

⁵⁸ Illumination at various monuments in Khajuraho, Raneh Fall and Illumination at various monuments in Chanderi.

⁵⁹ Development at Gwalior Fort, development of Bateshwar Temple Complex, development of Padhavli, development of Mitawali, development around of Heritage Gate (Gudri Darwaza), public amenities near various monuments, Dhubela, development at Rewa Taal and development around Various Monuments.

⁶⁰ Development around Baija Taal, development around Italian Garden, development around Laxmi Bai Smarak, Other works at Orchha, Pathariya Fort at Kutani Dam, Solar Illumination and Focus light at Badal Mahal.

⁶¹ Baija Taal and other works at Orchha.

⁶² A proposal for acquiring land of 0.405 hectare was submitted (August 2017) by the Company to Forest Department, which instructed (March 2019) the Company to submit the proposal on online portal. The Company, instead of applying for permission for land on online portal, taken up (August 2019) the matter with Collector, Raisen to take up necessary action in this regard. However, subsequently it was revealed that it was a revenue land and the same could not be acquired by the Company in time.

⁶³ Construction of Rock Art museum, interpretation center, Souvenir Shop, Public Amenities and other works.

The Department stated (August 2020) that after obtaining in-principle availability of land and in-principle NOCs⁶⁴ from the concerned Departments only, the components of works were included in respective DPRs. However, subsequently based on the actual position at the time of execution of work, final permission was not accorded by the concerned Departments. It was clarified by the Company (August 2020) that letter was written to NTCA for intimation only and not for obtaining permission.

The reply is not acceptable since clear permission was to be obtained from appropriate authorities⁶⁵ before inclusion of the same in the DPRs, but the GoMP had given undertaking to MoT for release of funds, without ensuring final NOCs/ permissions. Further, letter written to the NTCA was for obtaining NOCs for the works and was not intimation.

4.3.5.2 Delays in tendering and awarding works

As per Clause 6 of the Sanction Orders, the components of works sanctioned were to be completed within a period of 30 months from the date of sanction of the Wildlife Circuit and Heritage Circuit, i.e. by June 2018 and March 2019 respectively. However, there were delays in floating of tenders and awarding of work as indicated in **Table 4.3.2**:

Table 4.3.2: Delays in tendering, awarding of works and completion of works vis-à-vis Sanction Orders

Delay range (in Days)	No. of cases of delay in tender proceedings			No. of cases of delay in award of works			No. of cases of delay in completion of work		
	Wildlife Circuit	Heritage Circuit	Total	Wildlife Circuit	Heritage Circuit	Total	Wildlife Circuit	Heritage Circuit	Total
No Delay	0	1	1	0	0	0	3	14	17
> 0 – 30	0	0	0	0	0	0	0	0	0
> 30 – 90	6	8	14	0	0	0	1	0	1
> 90 – 180	1	1	2	1	2	3	1	1	2
>180- 365	2	2	4	6	6	12	2	1	3
>365- 730	1	5	6	3	9	12	5	4*	9
> 730	2	3	5	2	3	5	0	0	0
Total	12	20	32	12	20	32	12	20	32

* Works under one Work Order of Heritage Circuit have not been completed (May 2020) even after lapse of 410 days from the Scheduled Date of Completion of Heritage Circuit (March 2019).

Audit observed that in 31 Work Orders⁶⁶ out of the 32 Work Orders examined, the tenders were floated with delays ranging from 35 days to 1164 days from the sanction dates. All the 31 Work Orders were awarded to the Contractors with delays ranging from 171 days to 1187 days from the date of approval of the project by GoI (**Table 4.3.2** and **Annexure 4.3.4**). This indicates lack of preparedness by the Company to execute the Sanction Orders timely.

As per Para 23.1 of the Tender Document, the successful bidder was required to submit the Performance Security and sign the Contract Agreement within 15 days from the date of issue of Letter of Acceptance (LoA). Audit observed that in case of 29 Work Orders⁶⁷, the successful bidders delayed submission of the Performance Security and signing of Contract Agreement by 3 days to 227 days⁶⁸ (**Annexure 4.3.4**). This contributed to subsequent delays in completion of works to be executed under these Work Orders. As a result, works under 14 Work Orders were completed with delays ranging from 34 days to 610 days from the scheduled date of completion of Wildlife and Heritage Circuits and the works under

⁶⁴ Provisional approval for availability of land and NoC from concerned Departments, subject to final approval for the same subsequently.

⁶⁵ NTCA in case of Wildlife Circuit and ASI in case of Heritage Circuit.

⁶⁶ 12 Work Orders under Wildlife Circuit and 19 Work Orders under Heritage Circuit.

⁶⁷ 11 Work Orders under Wildlife Circuit and 18 Work Orders under Heritage Circuit.

⁶⁸ Wildlife Circuit – 3 days to 167 days and Heritage Circuit – 3 days to 227 days.

one Work Order were not completed so far (May 2020). Works under the remaining 17 Work Orders were completed on time.

Government stated (August 2020) that the delay in tendering, submission of Performance Security and awarding of works was due to delayed finalisation of acquisition of land, not obtaining of requisite permissions from various agencies, not obtaining possession of site, delay in design and drawing of works, etc.

4.3.5.3 Execution of Work Orders

As per the terms of the Work Orders, the Contractors were required to complete the assigned works within the stipulated time period. In respect of 10 Work Orders, the Contractors could start the work with delays ranging from 23 days to 420 days mainly due to reasons attributable to the Company, like non-availability of NOCs, non-finalisation of revenue land from Forest Department/ ASI/ Revenue Department for construction of components of works and non-synchronisation of activities, like delay by the Architect in finalising the design and drawing of the works, approval of script and layout drawing by ASI, etc. (*Annexure 4.3.5*). As a result, works under the above Work Orders were completed with delays ranging from 56 days to 851 days with respect to the time period as per Work Orders, delaying the upgraded facilities to tourists.

Audit examination of execution of the 32 sampled Work Orders revealed the following deficiencies:

- **Construction of cafeteria, parking, compound wall, etc. Near Mukundpur Zoo (Wildlife Circuit):** Tender for the work was invited (February 2016) after notification (January 2014) of revised tender documents. However, the Company without any recorded reason, adopted the eligibility criteria for selection of contractor, as per the pre-revised tender documents. Thus, the Company did not comply with Clause 14 and Annexure 4.3.1 of the Tender Documents⁶⁹, regarding physical and financial pre-qualification criteria for deciding eligibility of the bidders. This work was completed by the contractor with a delay of 424 days from the scheduled date of completion mainly due to health problem of partner, death of partner, forest issues and allotment of additional works; and
- In violation of Para 2.075⁷⁰ of MPPWD's Manual, the Company allotted the works for execution of new components valuing ₹ 12.60 crore to the existing Contractors under 12 sampled Work Orders of Wildlife Circuit (*Annexure 4.3.6*), at the same rates/ terms and conditions instead of inviting fresh tenders.

GoMP in its reply stated (August 2020) that:

- Tender for the work of construction of cafeteria, parking, compound wall, etc. near Mukundpur Zoo was already evaluated as per prequalification criteria as per Form-A; and
- Though, the additional works were of different components, their nature was similar to the original work. Hence, the same were allotted to existing Contractors, to ensure completion of works in time.

The reply is not acceptable as:

- The NIT for the construction work of cafeteria, parking, compound wall, etc. near Mukundpur Zoo (Wildlife Circuit), was invited (February 2016) by the Company after

⁶⁹ Revised Tender Documents notified by MPPWD vide Appendix 2.10 effective from 01 January 2014.

⁷⁰ Para 2.075 of Madhya Pradesh Work Department Manual provided that tenders must be invited for all the proposed works valuing more than ₹ 15,000. Hence, the Company was required to invite tenders for executing different components of works of the Scheme.

considerable period from notification of new tender document (January 2014). Thus, the qualification criteria as prescribed in the notification of new tender document should have been followed; and

- Awarding of work to existing Contractors owing to similar nature of work cannot be undertaken without any cost analysis that it may be beneficial to the Company. Further, the objective of completion of works in time was also not achieved as 10 out of the 12 referred to works were delayed by 28 days to 969 days.

4.3.5.4 Delay in completion of works

As per terms of the Tender Document, the Contractor was required to complete the assigned work within the stipulated time period (including rainy season). However, in case of 10 out of 32 Work Orders, the work was completed with delays ranging from 119 days to 969 days due to factors like non-shifting of electrical lines, restriction on movement of material by Forest Department, death of partner, heavy rainfall, increase in quantum of work, etc.

In case of seven Work Orders, the Company granted extension of time to the Contractors on various grounds without imposing penalty of ₹ 70.54 lakh. The extension granted to the Contractors on these grounds, was not justified as the same did not fall under the category of Force Majeure as per terms of Contracts. The Company had also not imposed penalty of ₹ 53.36 lakh, in case of three Work Orders, so far (October 2020), for delay in completion of work by the Contractors. (*Annexure 4.3.7*).

GoMP stated (August 2020) that it had accorded time extension to the Contractors without levy of penalty on justified grounds, as the works were actually affected due to heavy rain, death of partner, etc. However, in some cases, GoMP stated that the penalty, if any, would be recovered from the final bills of works.

4.3.5.5 Monitoring of the Company in execution of works through Forest Department

As some of the works under Wildlife Circuit were to be carried out in Forest areas, the Company decided (May 2016 to February 2017) to entrust the execution of these works to respective National Park Authorities (Forest Department) based on a proposal received from the Forest Department. In such cases, as per the terms of the Sanction Order and release order, the Company, being the implementing agency of the Scheme, was responsible for monitoring of works, getting the works executed in time and ensuring monthly submission of physical and financial progress by Forest Department.

Audit observed that the Company did not institute a monitoring mechanism to monitor physical and financial progress of the works to be executed through the Forest Department. It allotted seven components⁷¹ of works in five National Parks and disbursed (May 2016 to December 2016) ₹ 3.24 crore to Park Authorities for their execution. The Park Authorities completed (April 2019 to February 2020) the works⁷², with delay ranging from 10 months to 20 months from the scheduled date of completion (June 2018) of the Circuit due to non-

⁷¹ Mukundpur National Park - Canopy Walk, Kanha National Park - *Machaan-s* and Forest Walking trails, Pench Tiger Reserve - Nature Trails, Bandhavgarh Tiger Reserve - *Machaan-s* and Signages, Sanjay National Park - Canopy Walk.

⁷² Mukundpur National Park - Canopy Walk (August 2019), Kanha National Park - *Machaan-s* and Forest Walking trails (September 2019), Pench Tiger Reserve - Nature Trails (November 2019), Bandhavgarh National Park - *Machaan-s* and Signages (February 2020) and Sanjay National Park - Canopy Walk (April 2019).

finalisation of land by the Park Authorities for construction, revision in estimates of the work by the Forest Department, delay in submission of drawing by the Architect, etc.

In the absence of any monitoring mechanism in place, the Company failed to monitor the financial and physical progress of the work assigned to the Forest Department, resulting in delay in completion/ non-completion of works.

GoMP stated (August 2020) in its reply that:

- Efforts were made by the Company to obtain progress of the works and Utilisation Certificates (UCs) from respective Park Authorities by conducting meetings with them at various levels. UCs for the entire scheme fund released to Park Authorities, have been received now; and
- Due to delay in finalisation of land, change in drawing due to Right of Way (RoW) issue and non-availability of skilled agency for execution of work, the said works were delayed.

4.3.5.6 Handing over of assets created

Para 8 of the Sanction Order of Heritage Circuit provided that GoMP/ Company would be responsible for maintenance and management of created facilities. An undertaking was given by GoMP to the effect that the facilities/ assets created from the CFA received from GoI were to be operated and maintained by the Company, National Parks authorities, Archaeological Survey of India and by Public-Private-Partnership (PPP) mode in accordance with the location/ nature of those facilities/ assets. Further, GoMP also assured GoI that it would have necessary arrangement/ agreement for operation and maintenance (O&M) of the created assets.

Audit observed that:

- i. Except in the cases of leasing out of Way Side Amenities (WSA), no agreement/ arrangements for the O&M of the assets handed over to the Forest Department, ASI or any other agency, were found on record.
- ii. The Board delayed tendering/ handing over of WSAs at three locations⁷³ ranging from four months to 21 months, resulting in postponing of the intended benefits of the facilities to the tourists.

GoMP stated (August 2020) that while no agreement had been executed with any agency for O&M of the created assets, the facilities are being operated and maintained by the Company/ Forest Department/ ASI effectively as they are also Government agencies. Further, the delay in leasing of WSAs were procedural and unavoidable.

Proper co-ordination between the Company and the Board is required, so that tendering for WSA can be initiated by the Board well in advance and gap between construction and leasing out of WSA is minimised.

4.3.5.7 Utilisation of the CFA in non-compliance to Scheme Guidelines and submission of wrong Utilisation Certificates

As per Para 5.1 of the Scheme Guidelines (issued in December 2015 and revised in July 2018), the funds under the Scheme were to be released by GoI to the Company in five

⁷³ Karhaiya, Obedullaganj and Rohaniya WSAs.

instalments⁷⁴ for execution of works. In order to get disbursement of next instalment, UCs for utilisation of minimum 75 per cent of the CFA received in previous instalment, were to be submitted to GoI. The Company received (June 2020) CFA amounting to ₹ 78.78 crore under the Wildlife Circuit against the sanctioned amount of ₹ 92.22 crore and ₹ 85.33 crore under the Heritage Circuit against the sanctioned amount of ₹ 92.97 crore.

Scrutiny of the receipt of CFA from GoI and UCs submitted by the Company revealed the following discrepancies:

i. In respect of the works of Forest Information Centre (FIC) and Solar Lighting System at Bandhavgarh National Park, the Company submitted (December 2016) wrong excess UC of ₹ 35.73 lakh. The works were actually taken up (October 2017 and March 2019) after the date of submission of UCs and the actual expenditure at the time of submission of UC was 'Nil'. The reasons for submission of wrong excess UCs were not available on record.

GoMP stated (August 2020) that ₹ 15.46 lakh was utilised (December 2016) in FIC from another ongoing work order before October 2017 and as per UC submitted (November 2016) by Bandhavgarh National Park, ₹ 33.73 lakh were spent by it on Solar Lighting.

The reply is not correct as ₹ 15.46 lakh was actually utilised in White Tiger Forest Lodge - Bandhavgarh, which is a commercial hotel of the Company, not FIC. Further, as per UC submitted (November 2016) by Bandhavgarh National Park ₹ 33.73 lakh was utilised towards Solar Pumps and Boring not Solar Lighting.

ii. Para 4.4 of the Scheme provided that there would not be any duplication/ overlap of works with other Schemes of the Government of India. The Company, in violation of the above, included the work of Slimnabad WSA⁷⁵ in DPR of Wildlife Circuit, which was being developed under another GoI funded Scheme namely 'Mega Circuit Jabalpur' and the work upto plinth level was already completed in that Scheme. The Company incurred an additional expenditure of ₹ 74.94 lakh on the work from the CFA of Wildlife Circuit.

GoMP stated (August 2020) that due to withdrawal of Mega Circuit Jabalpur Scheme by GoI, the work of Slimnabad WSA remained incomplete. As exact location of WSA was not finalised in sanction of Wildlife Circuit, this WSA was identified to be completed under Wildlife Circuit due to suitability of its location and with intension of optimum utilisation of partially completed WSA.

Reply is not acceptable as even after identification of partially completed WSA to be developed under Wildlife Circuit, corresponding value of already completed work was not reduced from the sanctioned CFA.

iii. The Scheme guidelines did not provide for utilisation of CFA for carrying out works in existing infrastructure/ facilities owned/ commercially operated by the Company. However, the Company allotted nine works valuing ₹ 11.46 crore for executing the works at its own commercial units, which were also not included in DPR and incurred an expenditure of ₹ 4.07 crore on the same (*Annexure 4.3.8*), thereby diverting the Scheme Funds. Approval of GoI for the same was also not obtained by the Company.

Government stated (August 2020) that the works in existing infrastructure of the Company were not explicitly denied/ barred in Scheme Guidelines. The executed works were necessary in view of providing better facilities to the tourists and were within the sanctioned amount of

⁷⁴ 20 per cent, 30 per cent, 30 per cent, 15 per cent and 5 per cent of sanctioned CFA in the first, second, third, fourth and fifth instalment respectively.

⁷⁵ The Work Order was placed in November 2014 and put on hold (April 2015) due to non-receipt of funds from Central Government. Financial progress of work at the time of stoppage of work was ₹ 13.28 lakh.

CFA. The Department, in its reply (August 2020) clarified that in the DPR only components and locations were approved and not the exact place/ land where the components were to be executed.

The reply is not satisfactory as these components of works and execution of the said works were not included in DPRs and were not sanctioned by GoI rather, these works were executed by diverting funds from other approved components.

iv. As per Para 8 of the Sanction Order of Heritage Circuit, the GoMP/ Company were responsible for maintenance and management of created facilities. In violation of the above, the Company awarded the work for construction of Light and Sound show at Mandu (₹ 4.62 crore) and the work of its Operation and Maintenance (₹ 1.00 crore⁷⁶) for five years to M/s Tricolor India Schauspiel Pvt. Ltd., Noida⁷⁷ from the CFA of the Heritage Circuit against the administrative and financial sanction of ₹ 4.50 crore for the work of Sound and Light Show, Mandu. Approval of GoI for excess amount of ₹ 1.12 crore was not obtained. Further, the Company had already incurred an expenditure of ₹ 5.17 crore against the said Work Order.

Though the Company demanded (December 2019) the funds for the Operation and Maintenance from State budget, the same has not been received (August 2020).

v. The Company disbursed (May 2016) ₹ 26.19 lakh⁷⁸ to Sanjay Tiger Reserve for executing works of Parking and FIC through the Forest Department. However, after lapse of 10 months, the Company took up the execution of the work (March 2017) itself and issued Work Order for the same. The fund released to the Forest Department remained unutilised and was refunded to the Company in July 2018 i.e. after lapse of two years from the date of its disbursement. Both the works were completed (January 2019) with a delay of seven months from the scheduled date of completion of Wildlife Circuit (06 June 2018).

Government stated (August 2020) that the works of Parking and FIC at Sanjay National Park have been completed.

The reply is not acceptable because, though the works were completed but the same have been delayed by seven months.

4.3.5.8 Monitoring of Swadesh Darshan Scheme

Monitoring of Swadesh Darshan Scheme by Government of India: As per Para 6 “Monitoring” of the Scheme Guidelines, monitoring of progress of works under Wildlife Circuit and Heritage Circuit was done by Government of India (GoI) by obtaining monthly monitoring frameworks from the Company/ Board. In addition to that, regular monitoring meetings were to be held by MoT, Mission Directorate and Central Sanctioning and Monitoring Committee (CSMC). After considering the progress, MoT re-appropriated/ dropped various components of works by re-appropriating/ curtailing the corresponding CFA.

Monitoring of Swadesh Darshan Scheme by Government of Madhya Pradesh: Monitoring of the progress of works under Wildlife and Heritage Circuits was done by State Level Monitoring Committee (SLMC) constituted by GoMP. In addition to that monthly monitoring frameworks were obtained by GoMP from the Company/ Board and project consultants were also appointed for planning and monitoring works.

⁷⁶ Sound and Light show at Mandu has been completed on 10 February 2019, operation and maintenance work has been started by the Contractor, for which the payment is pending.

⁷⁷ To whom the work of construction of Sound and Light Show was also awarded.

⁷⁸ ₹ 21.20 lakh towards Forest Information Center and ₹ 4.99 lakh towards Parking Area Development.

During audit it was observed that regular meetings were held at State and Centre level to monitor the progress of work.

Conclusion

As per the Sanction Orders, the Scheme was to be completed by March 2020 viz. the duration of the 14th Finance Commission. Major part of both the Circuits have been completed and the Circuits have been operational and open to tourists with minor works being continued simultaneously at few places. There were avoidable delays in tendering and award of work which pushed back the completion schedule of the works.

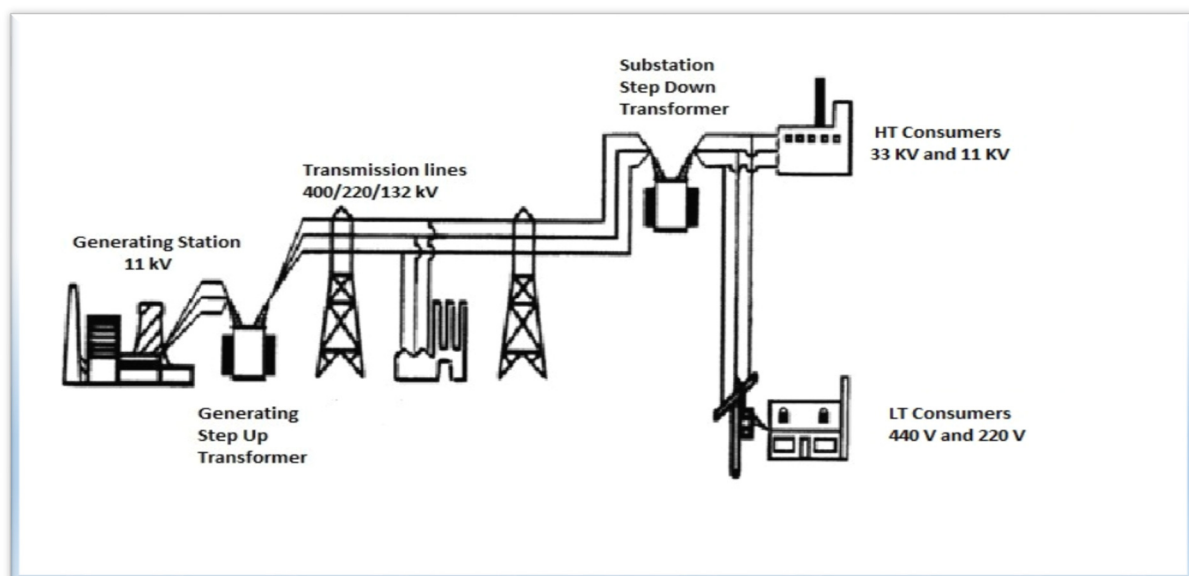
4.4 Procurement, Repairs and Maintenance of Transformers in Madhya Pradesh Power Transmission Company Limited

4.4.1 Introduction

The Madhya Pradesh Power Transmission Company Limited (Company) was incorporated (November 2001) under the Companies Act, 1956 as a fully owned Company of the Government of Madhya Pradesh (GoMP), on unbundling the erstwhile Madhya Pradesh State Electricity Board (MPSEB) with the objective of developing and maintaining an efficient, adequate and properly coordinated transmission system in the State. The Company functions under the overall administrative control of the Energy Department (Department) of GoMP headed by the Principal Secretary, Energy.

4.4.2 Role of Transformers in activity of the Company

A transformer is a static equipment installed in the transmission network (at EHV sub-stations) for stepping up or stepping down of voltage. Power is usually generated at relatively low voltage and to reduce the transmission loss, it is stepped up to high voltage of 132 KV, 220 KV and 400 KV through power transformers for transmission to load despatch centres. At load despatch centres, it is stepped down to 132 KV, 66 KV and 33 KV for supplying electricity to Distribution utilities. The various types of power transformers used in transmission network are mainly of 40 Mega Volt Ampere (MVA), 63 MVA, 100 MVA, 160 MVA and 315 MVA. A pictorial representation of the transmission process is given below:



The status of sub-stations, transformers (the capacity of transformers varies between 40 MVA to 315 MVA) installed at various sub-stations and transformation capacity of the Company as on 31 March 2019 is given in the table below:

Table 4.4.1: Details showing the status of sub-stations, transformers and transformation capacity

Sl. No.	Particulars	Status
1	Number of sub-stations	366
2	Number of Transformers	887
3	Transformation capacity (in MVA)	60,731

(Source: Information provided by the Company)

4.4.3 Audit Objectives

Audit of the Company was carried out with the objective of assessing the following:

- Whether transformers were procured in a transparent and timely manner in accordance with the applicable rules and norms; and
- Whether repairs transformers were undertaken in an efficient manner.

4.4.4 Sources of Audit Criteria

Audit findings were benchmarked against the criteria sourced from the following:

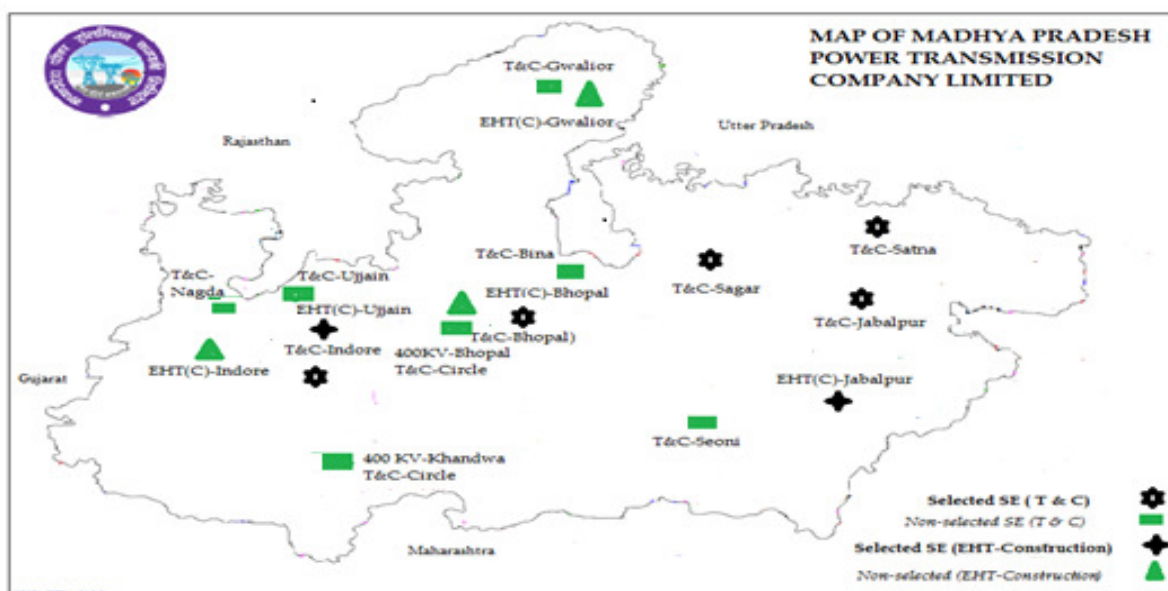
- Norms and standards of Madhya Pradesh Electricity Regulatory Commission (MPERC), Central Electricity Authority (CEA) and Central Electricity Regulatory Commission (CERC);
- Purchase and Stores Manual/ procedures of Company, terms and conditions of tender for supply and Repair and Maintenance (R&M) of transformers;
- Long term and annual plans prepared by the Company; and
- Agenda and Minutes of Board of Directors (BoD) Meetings.

4.4.5 Scope and Methodology of Audit

Audit was conducted from October 2019 to December 2019, covering the three-year period 2016-17 to 2018-19. The Corporate Office of the Company and seven out of 12 Testing and Communication Circles⁷⁹ were selected⁸⁰ for scrutiny of records.

The locations of Testing & Communication (T&C) Circles and Extra High Tension-Construction (EHT-Construction) Circles of the Company are given in the Map below:

Picture 4.4.1: Map showing T&C Circles and EHT-Construction Circles in Madhya Pradesh



The details of procurement of transformers and repairs undertaken during 2016-17 to 2018-19 are given in the **Table 4.4.2**:

⁷⁹ Out of 12 Testing & Communication (T&C) Circles, five Circles were selected for audit. Out of five EHT-Construction (EHT-Construction) Circles, two Circles were selected.

⁸⁰ On the basis of random sampling, using Interactive Data Extraction and Analysis (IDEA) software.

Table 4.4.2: Details showing year-wise expenditure incurred on procurement of transformers and R&M of Sub-Stations

Year	Own procurement				Turnkey procurement				Exp. on R&M of S/s (including T/fs)
	No. of contracts	No. of transformers procured	No. of transformers supplied/ Commissioned as on August 2020	Expenditure (₹ in crore)	No. of contracts	No. of transformers procured	No. of transformers supplied/ Commissioned as on August 2020	Expenditure (₹ in crore)	
2016-17	8	64	64/50	211.00	9	31	31/31	124.95	52.83
2017-18	4	41	41/41	100.30	3 ⁸¹	0	0	0	51.98
2018-19	7	50	42/26	141.02	9	17	17/12	54.10	50.23
Total	19	155	147/117	452.32	21	48	48/43	179.05	155.04

(Source: Information provided by the Company)

Audit examined all 19 contracts of the Company's own procurement of transformers, 21 turnkey contracts (out of 21 Turnkey Contracts, transformers were supplied in 18 contracts only, which were examined) involving supply of transformers, and all three agreements of repair of damaged transformers executed by the Company during 2016-17 to 2018-19.

4.4.6 Audit Findings

The Company neither has any procurement manual nor any procurement plan⁸² for procurement of transformers. For procurement of transformers, the requirements are sent by the field units in a piece-meal basis, which are financially and technically vetted by the Planning and Design Wing of the Company. After financial and technical vetting, the Procurement Wing invites tenders for procurement of transformers in an ad-hoc manner. On the basis of Comparative Statement prepared for the financially and technically qualified bidders, the purchase orders are placed on the lowest (L-1) bidder. Due to large quantity to be supplied, the Company distributes the tendered quantity amongst the qualified bidders by counter offering the L-1 rates to them. Irregularities noticed in procurement of transformers are discussed in the succeeding paragraphs.

4.4.6.1 Deficiencies in procurement of Transformers for own use

During the period 2016-17 to 2018-19, the Company awarded 19 contracts for procurement of 155 transformers for own use (transformers procured by the Company for use in departmentally constructed sub-stations or capacity augmentation) at a total cost of ₹ 452.32 crore. Audit examined all the contracts and observed the following:

1. In one case, the Company procured (January 2017) transformers of 160 MVA capacity at rates which were found to be higher than the previous purchases (December 2016) of the same capacity of transformers, resulting in extra expenditure of ₹ 2.25 crore⁸³.
2. In the remaining 18 contracts, the Company has either not invited tenders of the same capacity of transformers in the same year, or the rates were not comparable due to different specification of the tenders.

⁸¹ In three turnkey contracts, no transformers were supplied by turnkey contractors.

⁸² As pointed out in Audit Report (PSUs) 2016-17, the Company was not preparing CAPEX plans as required under the Guidelines for Capital Expenditure issued (July 2005) by the MPERC.

⁸³ For 15 transformers, difference being ₹ 0.15 crore*15 = ₹ 2.25 crore [ex-works price per transformer being ₹ 3.58 crore (excluding the cost of oil and spares valuing ₹ 0.37 crore) under tender no. TR-108/2016 against ₹ 3.43 crore under tender no. TR-07/2016].

The Government in its reply (September 2020) stated that there was a difference in scope of supply as the transformers supplied under previous tenders were without oil and those supplied under subsequent tenders were with oil.

The reply is incorrect as the cost of transformer oil has already been de-loaded by Audit for calculating the excess expenditure.

3. In two cases, the Company failed to restrict the rate of procurements made from L-2 bidder to that of L-1 rate without recording any reasons. Consequently, the Company had to incur an avoidable expenditure of ₹ 1.05 crore. The details are given below:
 - a. The Company floated (November 2017) tender (TR-42/2017) for procurement of total 11 nos. of 160 MVA transformers. M/s BHEL and M/s BBL emerged as L-1 (₹ 4.31 crore) and L-2 (₹ 4.37 crore) bidders respectively, with a difference of ₹ 0.06 crore per transformer. In its endeavour to safeguard itself against any unforeseen risk with any of the suppliers, the Company decided to spread the order (seven nos. to L-1 and four nos. to L-2 bidder) amongst these two suppliers. However, while placing order (February 2018) on the L-2 bidder, the Company did not restrict its offer to the L-1 rates. Further, order for two more transformers was placed (January 2019) on L-2 bidder at the original rates offered (L-2) by that firm. This resulted in avoidable excess expenditure amounting to ₹ 0.36 crore on procurement of six transformers from L-2 firm.
 - b. Similarly, the Company floated (October 2018) tender (TR-68/2018) for procurement of four nos. 315 MVA transformers. M/s T&R and M/s BHEL emerged as L1 (₹ 9.19 crore) and L-2 (₹ 9.42 crore) bidders respectively, with a difference of ₹ 0.23 crore. While placing order (January 2019) on the L-2 bidder, it did not restrict its offer to the L-1 rates and further, order for one more transformer was placed (July 2019) on the L-2 bidder at the originally offered (L-2) rates. This resulted in avoidable excess expenditure amounting to ₹ 0.69 crore on procurement of three transformers from L-2 firm.

The Government in its reply (September 2020) stated that the rates of counter offer were worked out considering the value of load losses and oil quoted by L-1 and L-2 bidders. Further, Audit has taken ex-works price instead of Free on Rail Destination (FORD) price for comparison.

The reply is not acceptable as Audit has already taken the FORD rates for comparison, not the ex-works rates, as quoted by the Government. Financial bid is considered only of those bidders who qualify technical parameters. So, the value of load losses (notional cost, for which no payment is done to the firms) shall not form the basis for price difference for deciding the L-1 bidder. Even in case of the FORD rates, the rate offered to L-2 bidder shall not be more than the rate quoted by L-1 bidder.

4. In one case, due to non-incorporating of Price Fall Back clause⁸⁴ and 50 per cent quantity reduction clause in the agreement (as is being done by Transcos in other States), the Company could not avail of the benefit of reduced price (upon receipt of lower quotes for

⁸⁴ Price Fall Back clause stipulates that “If the price of the equipment ordered under the specification remains unsupplied within the scheduled/ contractual delivery period and up to the finalization of the new tender and price of the equipment falls in new tender, then the contractor will reduce the price of the equipment to the level of new tender price and if they fail to do so, previous unsupplied quantity will be cancelled without prejudice”.

the same product in subsequent tender) and had to incur an extra expenditure of ₹ 1.20 crore⁸⁵.

The Government in its reply (September 2020) stated that being pointed out by Audit, necessary provision for price fall back for balance quantity has now been incorporated in tender bidding document.

Government accepted the Audit observation and incorporated the clause in the format of the tender bidding document.

4.4.6.2 Deficiencies in procurement of transformers from Turn Key Contractors

Para 5 (i) of Best Practices In Transmission System (BPITS) notified (January 2002) by Central Electricity Authority (CEA), Ministry of Power, Government of India stipulated that in case of turnkey contracts, sub-stations may be packaged for turnkey execution except transformer/ reactors which may be procured separately by the Company and erected by the turnkey contractor.

Audit examined 18 turnkey contracts⁸⁶ in which the Company procured 48 transformers for construction work of 132 KV, 220 KV and 400 KV sub-stations during 2016-17 to 2018-19, and observed the following:

- The Company awarded 12 turnkey contracts (eight in 2016-17 and four in 2018-19) including the responsibility of procurement/ supply of transformers, ignoring the recommendation of BPITS as stated above. Had the Company followed the best practices, they could have saved ₹ 58.51 crore, as it ended up paying higher price (11.39 per cent to 84.34 per cent) for 48 transformers (31 transformers in 2016-17 and 17 transformers in 2018-19) to five turnkey contractors, when compared to the cost of the transformers of the same capacity purchased directly by the Company during the same period, as detailed in **Annexure 4.4.1**.
- In case of one turnkey contract, the rates of 12 transformers (three transformers of 160 MVA and nine transformers of 50 MVA) awarded (March 2016 to June 2016) by the Company during the year 2016-17 were found to be higher by ₹ 5.60 crore, when compared to previous procurement of transformer of same capacity, as detailed in **Annexure 4.4.2**. However, no effort was made by the Company to negotiate with the Turnkey Contractors to get the lowest price earlier received and the turnkey contracts were finalised at higher rates.

The Government in its reply (September 2020) stated that the prices in turnkey contracts are compared and decided for complete package in accordance with evaluation criteria provided in the tender. Negotiation on the basis of prices of transformers or any other equipment and material is not done and it is not practically possible.

⁸⁵ In tender no. KfW/ MPPTCL/ TR-108 for procurement of 15 transformers of 160 MVA in which ex-works rate of ₹ 3.58 crore (excluding the cost of oil and spares valuing ₹ 0.37 crore) per transformer was L-1 with the supply schedule of 20 months (started from 6 months from the date of supply order and completed at 20th month @ one transformer each month) to be completed up to the month of September 2018. In tender no. TR-07/2016, for procurement three transformers of 160 MVA, the L-1 ex-works rates was ₹ 3.43 crore per transformer (three initial plus two additional) with the delivery schedule of completion of supply up to November 2017. ₹ 1.20 crore = (₹ 3.58 crore - ₹ 3.43 crore) * 8 transformers (being 50 per cent of initial tender).

⁸⁶ Out of the total 21 contracts executed for purchase of transformers in the audited period, there were no procurement actually made against three contracts.

The reply is flawed as Audit has pointed out the non-adherence to the provisions of BPITS during the time of framing the contracts themselves, due to which the Company incurred higher prices for procurement of 48 transformers from the turnkey contractors. Further, even the CVC guidelines allow to negotiate with L1 bidder in the financial interest of the Company after due recording of the reasons.

4.4.6.3 Uneconomical execution of procurement contracts

The Company avails 70 per cent of the project cost⁸⁷ in the form of loans from Financial Institutions⁸⁸ (FIs) and thus, an efficient fund management is necessary for minimizing the financial cost.

Audit observed the following deficiencies in procurement of transformers which resulted in avoidable financial burden on the Company:

- The supply of 60 transformers⁸⁹ was received without ensuring readiness of the site for erection, resulting in delays in commissioning ranging from 3 to 28 months (as per details in *Annexure 4.4.3 and 4.4.4*) in their installation. Payment for these transformers was released to the supplier firms immediately after supply, resulting in avoidable payment of interest of ₹ 9.60 crore⁹⁰ to FIs besides blockage of funds to the tune of ₹ 296.51 crore as the payment could have been postponed at least if the supply was synchronized with erection activity. Further, due to these delays, substantial guarantee period (the transformer comes with a manufacturer's guarantee period of 60 months) of the transformers lapsed even before their installation.

Table 4.4.3: Details of Transformers lying idle

(₹ in crore)					
Sl. No.	Year	Number of Transformers that were lying idle	Idle period (months)	FORD price	Interest loss
Own procurement cases					
1	2016-17	18	3-15	82.77	4.14
2	2017-18	6	3-7	18.64	0.67
3	2018-19	4	3-5	9.24	0.24
Procurement under Turnkey contracts					
1	2016-17	18	3-28	135.33	3.87
2	2017-18	-	-	-	-
3	2018-19	05	3-8	50.53	0.68
Total		51	3-28	296.51	9.60

- Audit noticed that the clause of levying of interest on unadjusted amount of Mobilization Advance (MA) was not incorporated in NIT of various projects [Kreditanstalt fur Wiederaufbau Banking group (kfw), ADB, JICA] consistently. The Company released ₹ 17.83 crore as interest-free mobilization advance in 14 transformer supply contracts (out of 19 own procurement Contracts). As the Company disbursed its interest bearing funds to the supplier firms as interest-free advance, it suffered loss of interest of ₹ 1.44 crore⁹¹

⁸⁷ In case of ADB and JICA funded projects.

⁸⁸ Kreditanstalt fur Wiederaufbau Banking group/ Asian Development Bank/ Rural Electrification Corporation/ Power Finance Corporation at the prevailing rates (ranging from 11.50 per cent to 12 per cent) of interest.

⁸⁹ Value ₹ 110.65 crore of 28 transformers received in 8 contracts out of the 19 own procurement contracts and 32 transformers valuing ₹ 185.86 crore received in 11 cases out of the 21 turnkey contracts.

⁹⁰ Calculated for (i) ₹ 110.65 crore at the rate of 11.50 per cent/ 12 per cent and (ii) ₹ 185.86 crore at the rate of 12 per cent being the lowest rate for 70 per cent of the value of the transformers till July 2020 after allowing two months period as lead time for erection.

⁹¹ Amount of MA- ₹ 17.83 crore, 70 per cent of ₹ 17.83 crore = ₹ 12.48 crore, interest on ₹ 12.48 crore for one year at the rate of 11.50 per cent = ₹ 1.44 crore.

assuming that full advance have been recovered within one year⁹² from the date of release.

- Out of 887 transformers installed up to period 2018-19, the load in respect of eight transformers remained between 2.50 to 24.06 *per cent* (as detailed in *Annexure 4.4.5*) which indicates that the Company erred in assessing the realistic load growth prior to taking up the project, without the confirmation of the user utilities, i.e. DISCOMs. Thus, the investment amounting to ₹ 28.28 crore in the transformers installed on these underutilised substations remained blocked.
- Three transformers valuing ₹ 18.34 crore procured and installed (December 2018) at 220 KV sub-station, Suwasara could not be put to commercial use even after one year from the period of their installations due to non-completion of some minor civil works by the Company. This resulted in blockage of funds.

The Government accepted (September 2020) the audit observations and stated that the supply of material should have been received at the time of actual requirement at site to avoid idling of funds. It also stated that efforts are being made to synchronize the erection activity with receipt of equipment/ material. It further stated that:

- Terms of interest-free MA were included in a few NITs/ Tenders under JICA-II projects;
- The sub-station capacity requirements were worked out on the basis of load forecast, normally envisaging a time horizon of five years. Therefore, they are always subject to a certain amount of uncertainty; and
- The transformers of Suwasara sub-station could not be energised due to delay in charging of 50 MVA transformer.

The reply is not acceptable as:

- The condition of releasing MA was not uniform across all the Tenders/ NITs. Further, most of the contracts were silent about the terms and conditions of recovery/ adjustment of the MA. In the absence of specified recovery period, huge sums paid as MA were lying unrecovered for period as high as 20 months;
- Audit had also commented earlier in respect of two Sub-stations, i.e. Gwalior-II and Sirmour (Paragraph 2.1.25 of C&AG's Audit Report for the year 2016-17), that the Company failed to assess the load requirement properly due to which the sub-stations are loaded with only 25 *per cent* of their installed capacity, still Management has not taken proper steps to assess the load requirement; and
- In case of Suwasara sub-station, Government's reply confirms the audit contention that two transformers of 160 MVA were still lying unutilized as on September 2020 due to non-completion of minor civil works.

4.4.6.4 Non-repair of damaged transformers

The Central Electricity Authority (CEA) and Central Electricity Regulatory Commission (CERC) stipulate the following norms for the transformer, being the costliest equipment in a sub-station:

⁹² The supply of the transformers begins after three to six months from the date of LOI issued to the firm and the firms submitted their bills against the supply within two months. As such, the amount of interest free MA could have been recovered at least after eight months to one year.

- It is expected to serve the entire life of a sub-station, which is considered to be 35 years; and
- As ageing of the transformer is generally not the main reason⁹³ of failure, so before declaring the transformer unserviceable, a detailed examination by the technical as well as financial experts, along with transformer repairer firm, should be done so that expected cost of repair of damaged transformer could be assessed to decide whether repair will be economical or not.

Audit noticed that:

- The Company did not have any Repair and Maintenance Plan (R&M Plan);
- For the served life, the Company fixed the criteria of useful life of transformer as 25 years in contravention of the norms of 35 years as fixed by the CEA/ CERC; and
- The officials of the Survey Committee⁹⁴ declared the damaged transformers as uneconomical taking into account only the life served by the transformer, without assessing the cost of repair, in most of the cases. During the period 2016-17 to 2018-19, out of eleven damaged transformers, nine transformers of various capacities were declared uneconomical for repair by the Survey Committee without assessing the cost of repair, as detailed in **Annexure 4.4.6** which is against the financial propriety and CEA/ CERC norms.

The Government stated (September 2020) that there existed R&M Fund. Further, as per the evidences furnished by the Company, out of the 11 damaged transformers, only two transformers were declared as uneconomical for repair on the basis of assessment of repairability, and not the others.

The reply confirms the Audit contention, as the Government has furnished documentary evidence for assessment of reparability of only two transformers, whereas nine were actually replaced. This *inter alia* proves that the Company has not been following the best practices while taking the repair/ replacement decision. The reply is silent about the existence of R&M Plan. The Uttar Pradesh Power Company follows a system wherein a transformer is considered feasible for repair if the repair cost is not more than 40 *per cent* of the cost of a new transformer of the same capacity. Some yardstick on same/ similar lines can be adopted by the Company.

4.4.6.5 Avoidable expenditure on repair of transformer

When the Company decides to repair a damaged transformer, it generally asks the Original Equipment Manufacturers (OEMs) to offer their rates for repair. After assessing the economy of the repair, the Company places work orders to the OEMs to repair the damaged transformers. Only three agreements have been executed by the Company with OEMs for repairing the transformers during 2016-17 to 2018-19.

Audit noticed that a 400 KV transformer was damaged/ tripped in June 2015. The detailed checking (September 2015) indicated that there was earth fault on 'R' phase of territory winding of the transformer, for which the OEM offered (October 2015) the rate of ₹ 2.56 crore for repair. However, the Company asked the OEM to submit offer for replacement of all three windings, i.e. 'R', 'Y' and 'B' phases and placed (June 2016) work

⁹³ Bushing failure, insulation failure, OLTC failure etc. are the main contributor towards failure of transformer.

⁹⁴ Comprising of the Superintending Engineer (T&C), Executive Engineer (T&C) and Regional Account Officer of the respective area.

order to OEM for repair of the transformer at ₹ 4.59 crore, without citing any reason on record and the work was completed in June 2017. Thus, due to unwarranted repair of ‘Y’ and ‘B’ phases of the transformer which were not damaged as per MoM with the Officials of the Company and OEM, the Company incurred an avoidable expenditure of ₹ 2.03 crore (₹ 4.59 crore - ₹ 2.56 crore).

Government stated (September 2020) that the failed transformer had already served for 10 years during which the paper insulation of other phases would also have deteriorated. Therefore, it was considered economical to get all the three phases repaired in anticipation of failure of other windings.

The reply is not justified as during inspection of damaged transformer by the OEM and Company’s officials, only winding of ‘R’ phase was found to be defective. The anticipation of possible deterioration of the ‘Y’ and ‘B’ phase windings appears to be only presumptive.

Conclusion

The Company neither has any Procurement Manual nor prepares any procurement plan for transformers. The transformers are requisitioned by the field units on a piece-meal basis and procured through open tender, after financial and technical vetting by the Planning and Design Wing of the Company. Audit observed that the Company assessed the need of procurement of transformers neither on an annual basis nor long-term transmission system plan basis and failed to derive the benefit of systematic purchases. The Company procured transformers from turnkey contractors at higher rates in contravention to the recommendations of the CEA. Further, due to absence of any Repair and Maintenance Plan, the Company did not carry out any cost benefit analysis to repair or replace the damaged transformers and declared them as uneconomical for repair on the served life basis, which is contrary to the established norms.

Recommendations

- **The Company may assess its annual requirement on the basis of ongoing as well as augmentation works and prepare annual procurement plan accordingly.**
- **A Repair and Maintenance plan may be drawn up so as to make efficient repair instead of declaring the damaged transformers as uneconomical for repair even before it has exhausted its useful life, or replacement decisions to achieve economy in operations.**
- **The Company should strive to comply with the provisions of MPERC/ CEA regulations/ GoMP orders particularly with regard to purchase of transformers from turnkey contractors and repair/ replacement of transformers.**

4.5 Revenue billing and collection efficiency in DISCOMs

4.5.1 Introduction

The unbundling of the erstwhile Madhya Pradesh State Electricity Board (MPSEB) led to the incorporation⁹⁵ of three Power Distribution Companies (DISCOMs) viz. Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (MPMKVVCL)⁹⁶, Madhya Pradesh Poorva Kshetra Vidyut Vitaran Company Limited (MPPoKVVCL)⁹⁷ and Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (MPPaKVVCL)⁹⁸ under the administrative control of the Energy Department (Department), Government of Madhya Pradesh (GoMP). These DISCOMs were entrusted with reliable and quality power distribution in the State for agriculture, households and industries at competitive rates.

4.5.2 Audit Objectives

Compliance audit of the DISCOMs was conducted with the objective of assessing whether billing for energy consumption and collection of revenue was in accordance with the provisions of Electricity Supply Code and Tariff Orders.

4.5.3 Sources of Audit Criteria

Audit findings were benchmarked against the criteria sourced from the following:

- The Electricity Act, 2003 and Madhya Pradesh Electricity Supply Code, 2013 (Supply Code);
- Retail Supply Tariff Orders (Tariff Orders) issued by Madhya Pradesh Electricity Regulatory Commission (MPERC) from time to time;
- Agenda and Minutes of meetings of Board of Directors (BoD) of the DISCOMs; and
- Orders/ Guidelines/ Circulars/ Instructions issued by the Energy Department, GoMP and MPERC from time to time.

4.5.4 Audit Scope and Methodology

Audit was conducted from June 2019 to November 2019, covering the three-year period 2016-17 to 2018-19. Audit methodology involved a scrutiny of records at the Corporate Office and five field units (O&M Circle Offices) of each of the DISCOMs⁹⁹ selected on a random sample basis as detailed in **Table 4.5.1**:

⁹⁵ MPMKVVCL and MPPoKVVCL were incorporated in May 2002 and MPPaKVVCL was incorporated in July 2002 as 100 per cent subsidiaries of Madhya Pradesh Power Management Company Limited.

⁹⁶ MPMKVVCL (Corporate Office at Bhopal) serves the districts of Bhopal, Hoshangabad, Harda, Vidisha, Raisen, Sehore, Rajgarh, Betul, Gwalior, Datia, Bhind, Morena, Sheopur, Guna, Ashoknagar and Shivpuri.

⁹⁷ MPPoKVVCL (Corporate Office at Jabalpur) serves the districts of Jabalpur, Seoni, Narsinghpur, Mandla, Umariya, Balaghat, Dindori, Katni, Chhindwara, Sagar, Damoh, Tikamgarh, Niwari, Chhatrapur, Panna, Sidhi, Singrauli, Shahdol, Anuppur, Rewa and Satna.

⁹⁸ MPPaKVVCL (Corporate Office at Indore) serves the districts of Indore, Burhanpur, Alirajpur, Khargone, Khandwa, Dewas, Dhar, Jhabua, Ujjain, Barwani, Shajapur, Mandsaur, Neemuch, Agar and Ratlam.

⁹⁹ Each DISCOM had total number 15 Circle Offices under its jurisdiction.

Table 4.5.1: Details of the field units selected in each DISCOM

Sl. No.	MPMKVVCL	MPPoKVVCL	MPPaKVVCL
1	SE (O&M), Hoshangabad	SE (O&M), Satna	SE (City), Indore
2	SE (O&M), Sheopur	SE (O&M), Chhindwara	SE (O&M), Mandasaur
3	SE (O&M), Betul	SE (O&M), Chhatarpur	SE (O&M), Khargone
4	SE (O&M), Gwalior	SE (O&M), Rewa	SE (O&M), Barwani
5	SE (O&M), Rajgarh	SE (O&M), Katni	SE (O&M), Shajapur

Further, records of billing data for the month of March each year during the period 2016-19 were selected for detailed scrutiny.

Out of a total of 2,666 High Tension (HT) consumers in the 15 selected field units¹⁰⁰ of the three DISCOMs, the records relating to 356 cases¹⁰¹ of consumers were selected¹⁰² for detailed scrutiny.

The Entry Conference was held with Chief General Manager/ Chief Financial Officer of MPMKVVCL, MPPoKVVCL and MPPaKVVCL on 3 June 2019, 15 July 2019 and 22 July 2019 respectively. Exit meeting with the Department and Managing Director of the DISCOMs could not be held till August 2020 in spite of repeated requests.

4.5.5 Distribution mechanism in the DISCOMs

As of 31 March 2019, there were a total of 1,55,80,051 consumers having a connected load of 2,62,76,148 KW¹⁰³ under all categories (LT: Domestic, Commercial, Agriculture connections & others and HT Consumers) serviced by the three DISCOMs.

The DISCOMs generate the monthly bills of the consumers, except for flat billing consumers, as per the provisions of the Supply Code and Tariff Orders issued from time to time. MPERC, while finalising the Tariff Orders, fixes the targets for the distribution losses for each DISCOM, and any losses over and above the target level are to be borne by the DISCOMs.

The financial sustainability of DISCOMs primarily depends on the minimization of distribution losses and maximization of their billing and collection efficiency. The incidence of distribution losses¹⁰⁴ in the power distribution system and billing/ collection efficiency is given **Chart 4.5.1**:

¹⁰⁰ The selection of units was done on random sampling basis which was also approved by Nodal Statistical Officer.

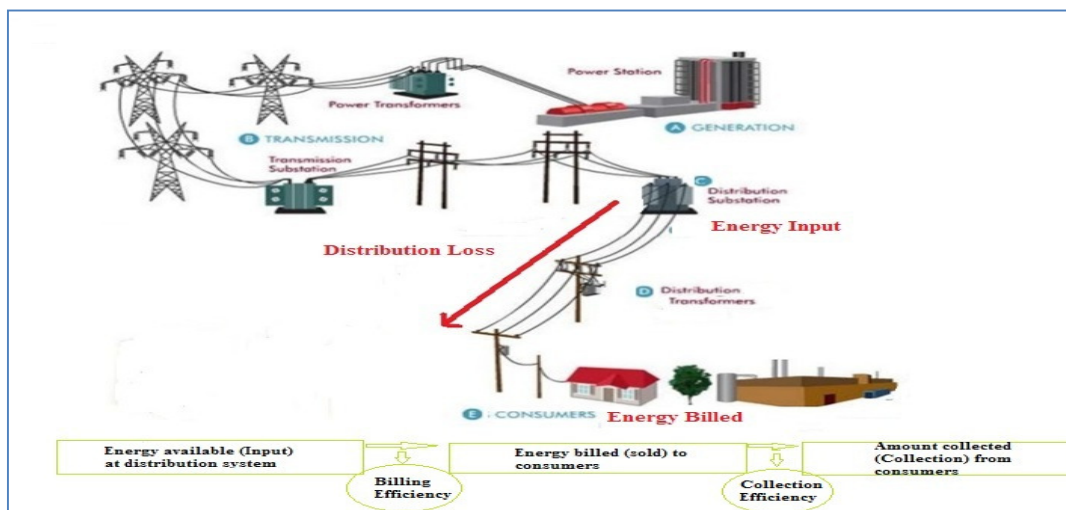
¹⁰¹ MPMKVVCL-116, MPPoKVVCL-108 and MPPaKVVCL-132.

¹⁰² Selection of consumers on the basis of judgmental sampling.

¹⁰³ MPMKVVCL- Total 43,88,117 consumers having a connected load of 80,19,631 KW (March 2019).
MPPaKVVCL- Total 53,53,179 consumers having a connected load of 1,08,32,062 KW (March 2019).
MPPoKVVCL- Total 58,38,755 consumers having a connected load of 74,24,455 KW (March 2019).

¹⁰⁴ Distribution losses are the difference between energy injected into the DISCOMs and the energy billed to the consumers by the DISCOMs.

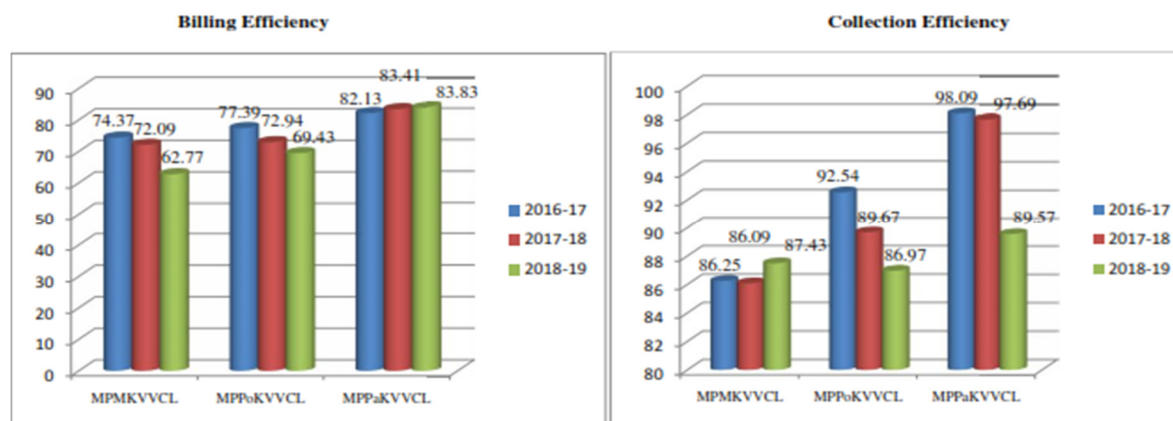
Chart 4.5.1: Chart showing Electricity distribution system and losses



Thus, it is vital for the DISCOMs to improve their billing efficiency¹⁰⁵ to minimise their distribution losses by reducing the gap between units injected to DISCOMs and units billed to the consumers. Further, improvement in collection efficiency¹⁰⁶ by strengthening the system of realisation of dues against the units billed is required for financial sustainability of the DISCOMs.

The position of billing efficiency and collection efficiency with respect to units input during the previous three years (2016-17, 2017-18 and 2018-19) are given below:

Chart 4.5.2: Chart showing the Billing and Collection Efficiency as a percentage of units input in DISCOMs



(Source: R-15, Annual financial statements and details worked out by Audit)

As it is evident from the chart above, during the period 2016-17 to 2018-19, the billing efficiency improved only in MPPaKVVCL from 82.13 per cent to 83.83 per cent whereas in MPPoKVVCL and MPMKVVCL, the billing efficiency declined by 7.96 per cent and 11.60 per cent respectively. Similarly, the collection efficiency improved only in MPMKVVCL from 86.25 per cent to 87.43 per cent, whereas in MPPaKVVCL and MPPoKVVCL collection efficiency declined by 5.57 per cent and 8.52 per cent respectively. However, all the three DISCOMs continuously failed to achieve the targets fixed by MPERC during the audit period as detailed in table below. Details are available in (Annexure 4.5.1).

¹⁰⁵ Billing Efficiency is the proportion of units sold/ billed to consumers against the total units of power injected/ supplied.
¹⁰⁶ Collection Efficiency is the proportion of revenue realised against total revenue billed.

Table 4.5.2: Statement showing the details of billing efficiency, distribution losses and excess losses against the targets fixed by MPERC

Name of the Discoms	FY	Energy Input (in MUs)	Energy sold (in MUs)	Billing Efficiency (in per cent)	Losses incurred (in per cent)	Target fixed by MPERC (in per cent)	Excess against the target fixed by MPERC (in per cent)	Loss (in MUs)
MPMKVVCL	2016-17	19268.20	14328.82	74.37	25.63	19	6.63	1277.48
	2017-18	21235.65	15308.23	72.09	27.91	18	9.91	2104.45
	2018-19	23928.64	15020.57	62.77	37.23	17	20.23	4840.76
MPPoKVVCL	2016-17	17326.78	13409.47	77.39	22.61	18	4.61	798.76
	2017-18	19333	14102.00	72.94	27.06	17	10.06	1944.90
	2018-19	21142.90	14680.33	69.43	30.57	16	14.57	3080.52
MPPaKVVCL	2016-17	21387.40	17565.20	82.13	17.87	16	1.87	399.94
	2017-18	22323.96	18621.22	83.41	16.59	15.5	1.09	243.33
	2018-19	24572.40	20598.63	83.83	16.17	15	1.17	287.50

(Source: R-15 and Annual Financial Statement furnished by the PSUs and details worked out by Audit)

4.5.6 Audit Findings

4.5.6.1 Incorrect reporting of Billing Efficiency

As per the methodology prescribed (May 2013) by the Department, billing efficiency was to be computed by dividing total energy sold/ billed to consumers from the units injected. Further, as per the established practice, sale units cannot be more than the units available/ purchased.

Audit review of reported data at Corporate Office of the DISCOMs and selected field units revealed that the DISCOMs reported inflated billing efficiency by 0.01 per cent to 10.49 per cent (during 2016-17 to 2018-19) by including additional units which were not billed to the consumers in contravention of the orders of the Department, as detailed in **Table 4.5.3:**

Table 4.5.3: Details of the excess reported billing efficiency

DISCOMs	Billing efficiency excess reported (in per cent)		
	2016-17	2017-18	2018-19
MPMKVVCL	10.49	9.57	NA
MPPoKVVCL	0.19	0.08	0.03
MPPaKVVCL	0.00	0.01	0.07

(Source: Calculated by Audit on the basis of information furnished by DISCOMs)

On review of the billing efficiency as reported by the MPMKVVCL, MPPoKVVCL and MPPaKVVCL in their Annual Financial Statements (*details given in Annexure 4.5.2*), it was observed that:

- MPMKVVCL included 2019.67 MUs and 2031.82 MUs additional units (which were not billed to the consumers) in its energy sold to show improved billing efficiency by 10.49 per cent and 9.57 per cent during 2016-17 and 2017-18 respectively, in contravention of the orders of the Department; and

- Out of 15 field offices, one field unit¹⁰⁷ in MPPoKVVCL and one field unit¹⁰⁸ in MPPaKVVCL were showing billing efficiency at the rate of more than 100 per cent due to generating the bills against assessed consumption¹⁰⁹ and booking of normative units¹¹⁰ in case of agriculture consumers, in contravention of the established practice¹¹¹ of sale. As a result, MPPoKVVCL and MPPaKVVCL reported inflated billing efficiency of up to 0.19 per cent and 0.07 per cent respectively during 2016-17 to 2018-19.

Government in its reply stated (September 2020) that:

- In case of MPMKVVCL, the actual consumption of flat rate consumers/ agricultural pumps was much higher than the units allowed by MPERC. Therefore, adjustment of additional units was made in the books of accounts. However, no such adjustment was made from 2018-19; and
- In case of MPPaKVVCL and MPPoKVVCL, consumption pattern of the irrigation pumps varies in each area of the DISCOM based on water availability. The normative units fixed by MPERC are based on average units consumed in different districts of the DISCOM as well as State of Madhya Pradesh as a whole. Due to variance in the consumption pattern, the sold units may be booked more than input so as to bear the loss on account of normative billing units of other districts. The inflated billing in the reported districts was not due to assessed units on account of defective meters.

The reply of the Government is not acceptable as

- Additional units booked by MPMKVVCL during 2016-17 and 2017-18 were not in the line with the Tariff Orders; and
- The losses of one field unit should not be adjusted with other field units by booking of higher sold units and leading to inflated billing.

4.5.6.2 Failure in achieving the target of billing efficiency fixed by MPERC

All the DISCOMs registered distribution losses over and above the targets fixed by MPERC as given in **Table 4.5.2** above. Out of the 15 field units selected, only three field units¹¹² achieved the target levels whereas, 12¹¹³ field units failed to reduce the distribution losses upto the target levels fixed by MPERC (**Annexure 4.5.3**). The aggregate summarised position of the distribution losses in 12 field units (DISCOM-wise) is detailed in the **Table 4.5.4**:

¹⁰⁷ Field unit Chhindwara (MPPoKVVCL).

¹⁰⁸ Field unit Mandsaur (MPPaKVVCL).

¹⁰⁹ Billing against assessed consumption means the generation of bill on basis of previous three months' average or billing against assumed units.

¹¹⁰ Normative units are the units fixed by MPERC for energy accounting in the case of flat billing of agricultural consumers i.e. 1590 units per HP per annum in 2018-19.

¹¹¹ As per the established practice of sale, sold units cannot be more than units purchased for sale.

¹¹² Mandsaur, Indore (MPPaKVVCL) and Chhindwara (MPPoKVVCL)

¹¹³ MPMKVVCL: Hoshangabad, Betul, Gwalior, Sheopur and Rajgarh; MPPoKVVCL: Satna, Rewa, Katni and Chhatarpur; and MPPaKVVCL: Shajapur, Barwani and Khargone.

Table 4.5.4: Details of distribution losses (in MUs) incurred by 12 units in excess of the targets

DISCOM	FY	Energy Input (in MUs)	Energy sold (in MUs)	Billing Efficiency (in per cent)	Losses incurred by DISCOMs (in per cent)	Target fixed by MPERC (in per cent)	Excess against the target fixed by MPERC (in per cent)	Loss in MUs	Value of the loss of units as per ABR ¹¹⁴ (₹ in crore)
MPMKVVCL	2016-17	6048.87	3842.31	63.52	36.48	19.00	17.48	1057.32	689.86
	2017-18	6733.65	4085.35	60.67	39.33	18.00	21.33	1436.24	1031.98
	2018-19	7414.19	4699.56	63.39	36.61	17.00	19.61	1454.30	1025.92
	Sub-group total								3947.87
MPPoKVVCL	2016-17	5540.94	4118.63	74.33	25.67	18.00	7.67	424.94	236.28
	2017-18	6620.55	4417.22	66.72	33.28	17.00	16.28	1077.84	673.09
	2018-19	7260.00	4491.09	61.86	38.14	16.00	22.14	1607.31	1074.38
	Sub-group total								3110.09
MPPaKVVCL	2016-17	3819.23	2871.73	75.19	24.81	16.00	8.81	336.42	195.71
	2017-18	3943.56	3030.53	76.85	23.15	15.50	7.65	301.84	192.02
	2018-19	4346.03	3315.44	76.29	23.71	15.00	8.71	378.89	240.21
	Sub-group total								1017.15
Grand Total								8075.11	5361.55

(Source: Information furnished by the Management)

Thus, failure of the DISCOMs in complying with the losses targets fixed by MPERC resulted in losses to the extent of ₹ 5,361.55 crore (MPMKVVCL- ₹2,749.76 crore, MPPoKVVCL- ₹ 1983.85 crore and MPPaKVVCL- ₹ 627.94 crore) during 2016-17 to 2018-19 in respect of 12 selected field units (*Annexure 4.5.3*) which could not be realised through tariff and had to be borne by the DISCOMs.

Government stated (September 2020) that efforts were being made to reduce the losses through meterisation, Distribution Transformers (DTRs)¹¹⁵, Automatic Meter Reading meters and installation of Capacitor Banks (CBs)¹¹⁶. Further, in case of MPPaKVVCL, the position of distribution losses has improved during 2018-19. In respect of MPPoKVVCL and MPMKVVCL, it stated that paucity of funds is the main reason for shortfall in meterisation.

Despite efforts made by the DISCOMs as stated in the reply, 14.27 per cent of rural domestic consumers and 80.86 per cent of agriculture DTRs were still unmetered as of March 2019. Further, CBs were not installed on 29.34 per cent of the sub-stations (March 2019). The status of meterisation in rural areas and installation of CBs are indications that steps taken by the DISCOMs to strengthen the infrastructure were insufficient despite strengthening of infrastructure being emphasised by MPERC and UDAY Scheme also.

Consequently, no DISCOM could reduce the distribution losses up to the targets fixed by MPERC during 2016-17 to 2018-19

4.5.6.3 Deficiencies in infrastructure

For reduction in distribution losses, the infrastructure i.e. 100 per cent meterisation, smart metering and installation of CBs for recording of units injected and units billed should be adequate and efficient. Audit noticed the following deficiencies in respect of DTR meterisation, smart meters and CBs:

¹¹⁴ Average Billing Rate means total demand raised to the consumers divided by total sold units.

¹¹⁵ Meterisation for DTRs is required for recording actual units consumed and billed, so as to identify theft prone areas (in totality for a group of consumers availing supply from a given DTR).

¹¹⁶ Capacitor Banks are the equipment's installed at the sub-stations (SSs) to save energy and minimise distribution loss.

- **Shortfall in meterisation:** Despite directives issued (2016) by MPERC for 100 per cent meterisation of Distribution Transformers (DTRs), 78.13 per cent¹¹⁷ of DTR's were not metered and meters of 57.31 per cent¹¹⁸ of the metered DTRs were lying defective or meter reading not taken (*details given in Annexure 4.5.4*) as of 31st March 2019 in the selected field units;

- **AMR based meter reading:** Automatic Meter Reading (AMR) based meter reading is an important tool for increasing billing efficiency, as it avoids provisional billing. However, 36.09 per cent LT high value consumers¹¹⁹ (*Annexure 4.5.5*) were not being billed (March 2019) using AMR either due to absence of AMR enabled meters or installation of meters without modem¹²⁰; and

- **Capacitor Banks (CBs):** These are the equipment's installed at the sub-stations (SSs) to save energy and minimise distribution loss. CBs were not installed in 409 SSs out of a total 1,394 SSs in 15 selected field units (*Annexure 4.5.6*). Had the CBs been installed, the DISCOMs could have saved 2323.94 MUs¹²¹ in a year¹²².

Government replied (September 2020) that the work plan is being prepared and continuous efforts are being made to increase the infrastructure of DTR metering, AMR meters and capacitor banks.

The reply of the Government is not acceptable, as continuous efforts being done by DISCOMs did not prove its sufficiency and 80.86 per cent of agriculture DTRs were still unmetered (March 2019). The DISCOMs could not submit any effective plan before MPERC for achieving this target (March 2019).

4.5.6.4 High incidence of provisional billing

As per Clause 8.35 (b)¹²³, read with Clause 8.21¹²⁴ of the Supply Code, provisional billing should have been done upto a maximum of one month for defective meters only.

The aggregate position of billing of unmetered and metered (provisional as well as actual) consumption in DISCOMs as on March 2019 is as depicted in the **Chart 4.5.3:**

¹¹⁷ 2,16,620 DTRs out of 2,77,249 DTRs.

¹¹⁸ 34,749 DTRs out of 60629 metered DTRs.

¹¹⁹ 13,693 out of total 37,937LT consumer having load more than 10 KW.

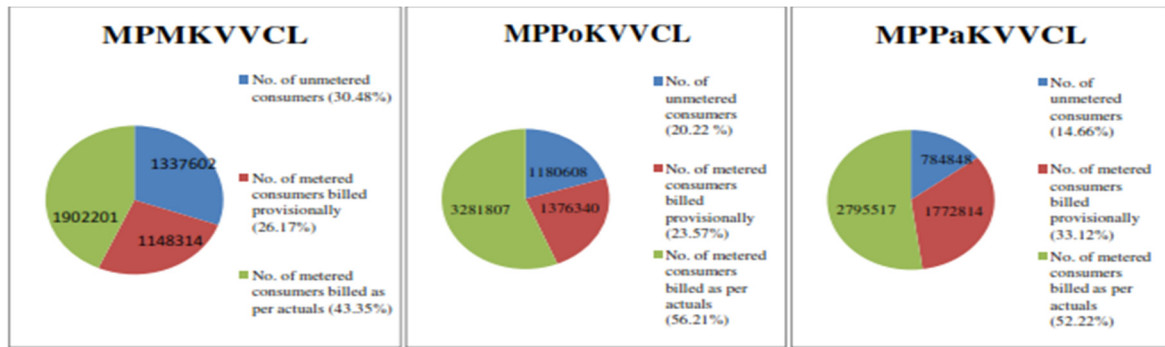
¹²⁰ A device which enables communication of reading at remote server from meter installed at consumer's premises without which the AMRs purpose could not be achieved.

¹²¹ 613.50 MVAR (613500 KVAR) (total capacity of *Annexure-4.5.6*)*3.788 MUs (As one MVAR of CB saves 3.788 MUs on average basis in a year) = 2323.94 MUs.

¹²² Losses worked out for the year 2018-19.

¹²³ If during the period when the main meter is defective, the check meter is not installed or is also found defective, the quantity of electricity supplied shall be determined on the basis of average monthly consumption of previous three months meter reading cycles.

¹²⁴ Defective meters should be replaced within fifteen days in urban area and thirty days in rural area.

Chart 4.5.3 Chart showing total consumers being billed without metered consumption

Analysis of the billing data and revenue statement (R-15) in the 15 sampled field units revealed that the percentage of provisional billing against metered consumers was not only high at the end of March 2019 but increased in comparison to 2016-17 as shown in **Table 4.5.5** below and detailed in **Annexure 4.5.7**.

Table 4.5.5: Details showing the aggregate position of provisional billing in sampled field units during 2016-17 to 2018-19

DISCOMs	2016-17			2017-18			2018-19		
	Total No. of metered consumers (Nos.)	Provisional Billing (Nos.)	Per cent	Total No. of metered consumers (Nos.)	Provisional Billing (Nos.)	Per cent	Total No. of metered consumers (Nos.)	Provisional Billing (Nos.)	Per cent
MPMKVVCL	833680	115085	13.80	877159	490654	55.94	954338	440416	46.15
MPPoKVVCL	1309839	367154	28.03	1413879	389385	27.54	1495363	607919	40.65
MPPaKVVCL	1449217	80485	5.55	1537098	63833	4.15	1635660	484362	29.61

(Source: R-15 and information furnished by the Management)

Audit noticed that the DISCOMs resorted to provisional billing in the following cases, due to which billing efficiency could not be assessed realistically:

- **Provisional billing of non-defective metered consumers:** Though provisional billing was to be done only in case of defective meters, the DISCOMs continued to bill 21.46 per cent¹²⁵ metered consumers on provisional basis despite having installed and working meters during audit period.

Government replied (September 2020) that the billing against assessed consumption is done in the case of consumers whose meter reading is found suspicious/ not satisfactory. However, in case of MPPaKVVCL, Government accepted that it is not possible for them to curb pilferage of energy due to scarcity of staff.

- **Provisional billing when metered consumption was available:** Further, the field units of the DISCOMs, in violation of the pronouncements of the Electricity Ombudsman¹²⁶, levied total of 45.30 MUs (for 62,222 consumers), 49.61 MUs (48,459 consumers) and 24.97 MUs (29,573 consumers) additionally as assessed units in the bills of the consumers whose metered consumption was available for billing during 2016-17, 2017-18 and 2018-19 respectively (as detailed in **Annexure 4.5.9**).

¹²⁵ Out of total 9,54,338 metered consumers, 3,27,729 consumers in MPMKVVCL, 2,72,797 consumers out of total 14,95,363 metered consumers in MPPoKVVCL and 2,76,112 consumers out of total 16,35,660 metered consumers in MPPaKVVCL as of March 2019.

¹²⁶ While deciding a case (L0026212, dated May 2013 and W0357416, dated February 2017) the Electricity Ombudsmen clearly pronounced that as per Section 8.35 of the Supply Code, assessed units should be levied when the consumer meter is stopped/ defective and no assessed units should be levied when the meter consumption is available for billing.

Government reiterated (September 2020) that billing against assessed consumption is done in the case of consumers whose meter reading is found suspicious/ not satisfactory.

The above replies are not acceptable because as per Supply Code, there is provision of provisional billing in case of defective meters only and not on account of reading found suspicious/ not satisfactory. In these cases, metered consumption was available, in spite of this, additional units (assessed consumption) were also levied. Further, assessed units cannot be levied on suspicion basis.

- **Replacement of defective meters:** The DISCOMs did not comply with the relevant provisions of the Supply Code w.r.t. replacement¹²⁷ of defective meters in 12 field units¹²⁸ out of total 15 sampled field units. The replacement of defective meters ranged between 4,532 (6.70 per cent) and 12,780 (68.02 per cent) during 2016-17 to 2018-19 in all three DISCOMs (*Annexure 4.5.8*). Due to this, 1,12,687 (11.81 per cent), 3,35,122 (22.41 per cent) and 2,08,250 (12.73 per cent) meters were lying defective in MPMKVVCL, MPPoKVVCL and MPPaKVVCL respectively in 2018-19.
- **Continuous provisional billing:** In case of the 15 selected field units, 14.58 per cent¹²⁹ metered consumers were being billed on provisional basis for three years continuously whereas Supply Code provides that provisional billing is only applicable for a maximum period of one month and only in case when meter is defective (*Annexure 4.5.10*). The continuous provisional billing was done due to defective meters and not taking meter readings.

Government stated (September 2020) that replacement of defective meters is a continuous process and vigorous efforts are being made to replace the defective meters in the field units.

The reply of the Government is not acceptable as replacement of defective meters did not show any improvement. The replacement of defective meters in the selected 12 field units ranged from 8.20 per cent to 55.13 per cent during 2018-19 against 7.53 per cent to 65.55 per cent of 2016-17. Further, out of total 56,89,566 consumers, 40,85,361 consumers were metered (March 2019) and 8,76,638 metered consumers (21.46 per cent) were billed provisionally despite the meters not being defective in selected field units.

4.5.6.5 Non-installation of meters for agricultural consumers

The field units release the connections to irrigation pumps under agriculture category (Category-5). Out of total 56,89,566 consumers only 10,71,679 (18.80 per cent) consumers¹³⁰ are covered under the category of irrigation pumps in 15 selected field units as of March 2019. Against these total agricultural consumers, only 2,387 (0.22 per cent) agricultural consumers were metered.

¹²⁷ Replacement of defective meters ranged between 6.7 per cent to 68.02 per cent, 11.28 per cent to 39.13 per cent and 7.53 per cent to 88.92 per cent in MPMKVVCL, MPPoKVVCL and MPPaKVVCL respectively.

¹²⁸ MPMKVVCL-Hoshangabad, Betul, Gwalior, Sheopur and Rajgarh. MPPoKVVCL- Satna, Rewa, Katni, Chhatarpur and Chhindwara, MPPaKVVCL-Mandsaur and Khargone.

Percentage of replacement of meters in three field units (Shajapur, Barwani and Indore City) of MPPaKVVCL ranging between 46.80 per cent to 88.92 per cent so considered as satisfactory.

¹²⁹ Out of total 4,40,416 LT metered consumers 1,16,210 were provisionally billed in MPMKVVCL, out of total 6,07,919 LT metered consumers 1,04,384 were provisionally billed in MPPoKVVCL and out of total 4,84,362 LT metered consumers 2,902 (figure pertains to town area only and other data not available) were provisionally billed in MPPaKVVCL.

¹³⁰ Total agricultural consumers/ total Consumers: MPMKVVCL-2,97,609/ 15,37,958; MPPoKVVCL-4,11,090/ 21,49,106; and MPPaKVVCL-3,62,980/ 20,02,502.

In respect of electricity consumption by the irrigation pumps of agriculture consumers, MPERC vide its Tariff Order for the year 2018-19 approved normative units of 1590 units/ HP annum for connections for both rural and urban areas for claim of subsidy from the GoMP. Further, MPERC instructed that the actual consumption would be considered for energy audit and accounting purposes and emphasized for 100 *per cent* meterisation for all connections.

However, the DISCOMs contested that the actual consumption of these agricultural consumers was higher than the normative units fixed by MPERC, and requested to fix the normative units at 1680 units/ HP/ annum for rural connections and 1740 units/ HP/ annum for urban connections in its Aggregate Revenue Requirement (ARR) for the year 2018-19. MPERC found the claim of the DISCOMs without basis of actual consumption pattern. But the DISCOMs could not submit actual pattern of consumption as meters for agricultural DTRs were not installed. As the DISCOMs failed to submit the reliable supporting data for their claim, MPERC did not consider the normative units proposed by the DISCOMs.

Government replied (September 2020) that 100 *per cent* meterisation could not be done due to paucity of funds and therefore, agriculture consumers were billed at flat rates.

The reply is not acceptable as considering the directives of MPERC (2016), it was the responsibility of the DISCOMs to prepare the detailed plan and arrange the required funds for achieving the target of 100 *per cent* meterisation. Further, the agriculture pump consumers are billed as per flat billing rate but MPERC demands for the metered data for fixation of normative units (on which basis tariff subsidy is claimed from State Government) in Tariff Order, thus due to non-submission of requisite metered data by the DISCOMs, MPERC could not fix the normative units as proposed by them.

4.5.6.6 Deficiencies in enforcement activities

Prevention of theft of electricity aims at reduction in line losses and improving billing efficiency. The DISCOMs fix targets for their field units to carry out raids to prevent theft of electricity and assess the detected theft cases as per the provision envisaged in Clause 2.2¹³¹ of Section 10 of Supply Code 2013.

Audit scrutinised the performance of enforcement and assessment of theft cases detected and observed the following deficiencies:

- MPMKVVCL and MPPoKVVCL fixed the target of raid checking to be performed by the field units. Against the targets fixed, the field units of these two Discoms were to perform the raid activities. However, MPPaKVVCL did not fix any targets of raid checking for its field units, the raids were conducted by the field units on random basis. Audit observed that the field units of two DISCOMs, viz. MPMKVVCL and MPPoKVVCL continuously failed to achieve the targets fixed for raid checking. The compliance against the targets ranged between 34.75 *per cent* and 68.66 *per cent* during 2016-17 to 2018-19. Audit further noticed that irregularities noticed against the checking performed by the field units were in range of an average of 19.24 *per cent* to 40.13 *per cent* cases (*Annexure 4.5.11*). Despite the significant number of detection of irregularities noticed during raid checking, the field units did not comply with the targets fixed for raid checking. This also indicated the negligent behaviour of the Discoms in performance of raid checking.

¹³¹ Clause 2.2 of the Section 10 of Supply Code stipulates that when a case of theft of energy is detected, the Authorized Officer shall assess the energy consumption under Section 135 of the Electricity Act, 2003, for the entire period during which such theft of electricity was detected or for a period of 12 (twelve) months immediately preceding the date of inspection, whichever is less. The assessment order would comprise of fixed charges, energy charges and other applicable charges as per applicable tariff.

Government stated (September 2020) in respect of MPPoKVVCL, that the targets could not be achieved due to shortage of manpower and manual work flow. Further, MPMKVVCL, contested that the actual number of connections checked was more than the numbers as reported by Audit because the field units did not report the cases where no irregularities were found. Regarding non fixation of targets in respect of MPPaKVVCL, it stated that fixation of any arbitrary targets for raid did not seem viable and might not yield required output as the field staff might resort to unwarranted checking to increase the number of raids.

The reply indicates that the DISCOMs were not following a uniform practice for conducting raids which is a major tool of monitoring to prevent theft. In case of MPPaKVVCL regarding not fixing any target of raids, MPPaKVVCL did not frame any alternate plan for enforcement activities to check the theft of power. Also, the reply is not correct in respect of MPMKVVCL as Audit did include all the cases (including the cases where no irregularity was found) to determine the number of actual checking performed against the targets.

- With regard to assessment of theft cases¹³² of agriculture pump connections, Audit observed that the DISCOMs, in contravention of Clause 2.2 of Section 10 of the Supply Code 2013, considered the theft period for one crop season (which is generally one to five months) instead of 12 months as provisioned in the Supply Code. This incorrect basis of assessment led to short billing by ₹ 6.97 crore (*Annexure 4.5.12*) and the DISCOMs had to suffer loss to the same extent.

Government in its reply stated (September 2020) that the authorised officer is empowered to detect the period of theft and in case of agricultural pump connections, the period of theft is determined considering crop period and on the basis of enquiry with nearby farmers.

The reply is not tenable as the Supply Code, 2013 does not provide considering the crop period as theft period in case of agriculture pump connections. Further, as per the provisions of the Supply Code 2013, the authorized officer shall assess the energy consumption for the entire period during which such theft of electricity was detected or for a period of 12 (twelve) months immediately preceding the date of inspection, whichever is less. Therefore, detection of theft period by authorised officer for assessment of energy consumption should be based on evidence, and not discretionary.

Further, in respect of assessment of cases of theft of electricity and settled through *Lok Adalat*, new connections would have to be released to the applicants in case they do not have one. Audit checked a total of 33,119 cases (domestic, non-domestic and agriculture pump connections) settled during 2016-17 to 2018-19 in 15 selected field units and noticed that no new connections were released while settling these cases by the field units, in violation of the terms and conditions of *Lok Adalat*. The reason as quoted by the field units was that realisation of assessed amount from the consumers was their priority and connection was to be realised at the request of the consumers. Thus, by not releasing connections, the DISCOMs had to suffer the loss of revenue of ₹ 8.00 crore (considering the minimum charges) in 15 selected field units (*Annexure 4.5.13*).

The reasons are flawed as the connections should have been released as required under the terms and conditions for the settlement of the cases under *Lok Adalat*, which would have also minimized the theft of electricity.

The Government replied (September 2020) that new connection is served to the consumers where release of permanent connections is found feasible.

¹³² Audit test checked 1,537 cases of agriculture pump connections theft cases out of total 99,838 cases settled in 15 field units during 2016-19.

The reply is incorrect as waiver of assessment amount was subject to release of new connection besides the Government did not furnish the details of consumers where serving the connection was not feasible.

4.5.6.7 Discrepancies in billing of HT Consumers

Billing of HT consumers is to be done as per the provisions of the Supply Code and Tariff Orders issued by MPERC from time to time.

Audit scrutinised the billing files of 356 HT consumers¹³³ out of a total of 2,666 HT consumers in 15 selected field units of the DISCOMs and noticed the following discrepancies in the billing of 94 HT consumers:

- In contravention of the orders of MPERC and the decisions of Electricity Ombudsman regarding Rural Area Rebate¹³⁴ to be allowed to HT consumers, 43 HT consumers were not allowed eligible rebate in rural areas¹³⁵ resulting in excessive billing of these HT consumers by ₹ 12.30 crore during 2016-17 to 2018-19 (*Annexure 4.5.14*);

Government agreed (September 2020) with the audit observation in the case of 4 HT consumers of MPPoKVVCL. With regard to the remaining 39 cases it was replied (September 2020) that 24 hours uninterrupted supply through urban/ industrial feeder was being provided to these consumers. It also clarified that the MPERC directed (November 2018) the Electricity Ombudsmen to re-examine the issue of providing this rebate to consumers getting 24 hours uninterrupted supply in rural area.

The reply is not acceptable as reason for extending rebate to the consumers getting 24 hours uninterrupted supply in urban/ industrial and rural areas was also not accepted by the Electricity Ombudsmen in various cases¹³⁶.

- Ten HT consumers of five field units were applied incorrect Tariff category in contravention to the provisions of the Tariff Orders issued by MPERC. Consequently, these HT consumers were short billed by ₹ 3.61 crore (*Annexure 4.5.15*).

Though Government agreed to the audit observation in case of 10 HT consumers, the recovery against 9¹³⁷ out of these 10 HT consumers was still pending (September 2020).

- In contravention of Section 4.43¹³⁸ of Madhya Pradesh Supply Code, 2013, permanent connections were served to 29 HT consumers (in five field units¹³⁹) who were eligible for temporary connections. Since rates of energy charges in permanent connection is

¹³³ MPMKVVCL- 116, MPPoKVVCL-108 and MPPaKVVCL-132.

¹³⁴ As per the provisions in the Tariff Orders issued by MPERC, 5 per cent rebate would be allowed against Fixed Charges and reduction in Minimum Consumption (kwh) at the rate of 20 per cent would be allowed for the consumers of HV-3 (Industrial and non-industrial consumers) getting supply through feeders of predominantly rural areas.

¹³⁵ The State Government notified rural areas vide notification No.2010/F13/05/13/2006 dated 25 March 2006. Hon'ble MPERC adopted the same definition of rural area as given in the aforesaid notification for identifying the rural area in all the Tariff Orders.

¹³⁶ Case no. L00-33-66, L00-46-17 and L00-22-17.

¹³⁷ Full recovery in case of consumer M/s Eklavya Awasiya Vidhayalaya (sl. no. 1), has been made and partial recovery in case of consumer M/s JawaharNavodayaVidhalaya (sl. no.3) has been made. One consumer i.e. M/s WCL has filed (February 2020) court case in the High Court, Jabalpur against the notice of recovery and change of tariff served by the MPMKVVCL, the matter is still sub-judice (September 2020) of *Annexure-4.5.15*.

¹³⁸ Any person requiring power supply for purpose that is temporary in nature, for a period of less than one year/two years may apply for temporary power supply. The period of temporary connections can be extended up to five years for construction of buildings/ power plants and for the purpose of setting up of industries.

¹³⁹ Betul (three connections), Rajgarh (15 connections), Chhindwara (one connection), Barwani (one connection) and Mandsaur (nine connections).

comparatively lower than temporary connections, the DISCOMs had to suffer loss of revenue of ₹ 22.64 crore (*Annexure 4.5.16*).

Government agreed (September 2020) with the observation in case of 15 HT consumers out of 29 HT consumers. Further, in case of 5 HT consumers pertaining to connection for construction purposes, Government replied that the permanent connections were served to these consumers either on the basis of their application or considering the conditions of temporary supply for the maximum period of 5 years as per Supply Code. In case of 9 HT temporary consumers of solar generators, Government stated that the condition of minimum consumption shall not be applicable. Billing is done on the basis of demand recorded on each occasion of availing supply during the billing month.

The reply of Government is not acceptable as MPERC while deciding a writ petition (12/2015) clarified that the construction purpose is temporary in nature, irrespective of the connection period and allowance of permanent connections for construction purposes is not in line with provisions of Supply Code. In case of 9 HT temporary consumers of solar generators, the condition of minimum consumption and billing on the basis of energy recorded during the billing month on highest monthly demand as quoted by the Government is incorrect for billing of the fixed charges to consumers under the temporary category¹⁴⁰.

- In violation of Clause 3.4¹⁴¹ of Supply Code, 12 HT consumers in seven field units were allowed contracted load lower than the minimum required load of 100 KVA for 33 KV supply voltage. Due to not increasing the contracted load upto the minimum required load, these consumers were short billed by ₹ 0.45 crore on account of levying short fixed charges during April 2016 to March 2019 (*Annexure 4.5.17*).

Government agreed (September 2020) with the audit observation in one case of MPMKVVCL¹⁴². Further in case of MPPaKVVCL and MPPoKVVCL, it replied that connections at the load below 100 KVA at 33 KVA voltage were served to the consumers prior to Supply Code, 2013 and prior to Electricity Act, 2003 and its provisions cannot be applied retrospectively.

The reply of Government regarding MPPaKVVCL and MPPoKVVCL is not acceptable as it has accepted the audit observation with respect to MPMKVVCL in a similar case. Further, audit worked out the short billing after the date of notification of Supply Code, 2013 and not with retrospective effect.

Thus, it is evident from the above that out of 356 selected HT consumers in 15 field units, 51 HT consumers were short billed by ₹ 26.70 crore¹⁴³ and 43 HT consumers were billed excess by ₹ 12.30 crore due to not adhering to the relevant provisions of the Supply Code and Tariff Orders.

¹⁴⁰ As per provision 1.17(c) of Tariff Order the billing demand for fixed charges in case of temporary connection shall be the demand requisitioned by the consumer or the highest monthly maximum demand during the period of supply commencing from the month of connection, ending with the billing month whichever is higher.

¹⁴¹ Clause 3.4 of Supply Codes Provides that the minimum contract demand of a consumer should be 100 KVA at supply voltage of 33 KV, provided that if the licensee is satisfied that there are sufficient grounds for deviation in the norms above stated and such deviation is technically feasible, it may grant the same for reasons to be recorded in writing.

¹⁴² In case of M/s Dwaraka insulation (at sl. no. 1 of the *Annexure-4.5.17*, recovery of ₹ 6.88 Lakh was made. In case of M/s Raj Industries (at sl. no.2 of the *Annexure- 4.5.17*), necessary approval from MPERC for deviation in load at 33 KVA had already been taken in 2008.

¹⁴³ ₹ 3.61 crore+ ₹ 22.64 crore+₹ 0.45 crore=₹ 26.70 crore.

4.5.6.8 Accumulation of arrears in revenue

The field units of DISCOMs have the responsibility for realisation of the revenue billed to the consumers. To improve the financial health of the DISCOMs, it is required to reduce the arrears of revenue and increase the collection efficiency. The position of arrears in various categories of consumers in 15 sampled field units is summarised in **Table 4.5.6** and (*Annexure 4.5.18*):

Table 4.5.6: Details of arrears in revenue realization in sampled field units

(₹ in crore)				
Name of DISCOMs	No. of field units selected	March 2017	March 2018	March 2019
MPMKVVCL	5	1287.76	1749.74	1269.30
MPPoKVVCL	5	612.97	901.06	704.15
MPPaKVVCL	5	621.49	588.44	646.51
Total	15	2522.22	3239.24	2619.96

(Source: R-15 statement)

The above table indicates that the arrears of revenue realization in all categories of consumers¹⁴⁴ increased during 2016-17 to 2017-18. However, the arrears decreased in 2018-19 in comparison to 2017-18 (mainly in domestic category) due to launch (2018) of the *Mukhya Mantri Bakaya Bill Mafi Yojana* by the GoMP under Sambal Yojana.

- **Disconnection of defaulting consumers:** In violation of Clause 9.14¹⁴⁵ of the Supply Code, the DISCOMs failed to disconnect the connections of the defaulting consumers and the arrears continued to accumulate in such cases. Analysis of arrears in the sampled field units revealed that an amount of ₹ 504.03 crore¹⁴⁶ was due as of 31st March 2019 from 7,62,198 consumers having arrears of more than one year but still not disconnected (*Annexure 4.5.19*). The period of arrears ranged from 12 to 36 months.
- **Non-recovery of dues from Government Departments:** The DISCOMs also failed to take effective steps for recovery of its dues from various Government (Central and State) Departments which increased from ₹ 77.09 crore during March 2017 to ₹ 147.95 crore in March 2019;
- **Non-follow up of Revenue Realisation Certificates (RRCs):** After finalisation of Permanent Disconnection (PD) of the consumers, the recovery of the dues should have been done on priority by issue of RRCs within six months of non-realisation of the dues against the PD cases. In the 15 sampled field units, the arrears after finalisation of PD of the consumers was ₹ 208.77 crore against 5,75,167 consumers as of March 2019 (*Annexure 4.5.20*). Out of these, arrears of ₹ 106.55 crore pertained to 2,48,724 consumers who were permanently disconnected 3 years earlier but the amount could not be realised till date (November 2019). Audit further noticed that out of 2,48,724 permanent disconnected consumers, in the case of 40,205 consumers, RRCs of ₹ 26.10 crore were issued for realisation of arrears. Remaining 2,08,519 cases of arrears of ₹ 80.45 crore were pending for further action, i.e. issuance of

¹⁴⁴ Domestic, non-domestic, public water works, LT industry, irrigation pumps, other agricultural and HT consumers.

¹⁴⁵ Clause 9.14 of Supply Code stipulates that the service connection of the consumer would be liable to be disconnected after 15 days of the notice served after due date given in monthly bills, if a consumer fails in payment of any bill in full by the due date.

¹⁴⁶ ₹ 244.45 crore due from 3,58,620 consumers in MPMKVVCL, ₹ 211.36 crore due from 3,41,309 consumers in MPPoKVVCL and ₹ 48.22 crore due from 62,269 consumers in MPPaKVVCL.

RRCs as of March 2019. This resulted in accumulation of arrears against PD cases and adversely affected collection efficiency.

• **Temporary connections:** DISCOMs should have obtained advance amount in case of temporary connections as per Clauses 4.47 and 4.50¹⁴⁷ of the Supply Code and strictly monitored the monthly bills of these connections so that there is no accumulation of arrears. However, Audit noticed that there were huge arrears amounting to ₹ 20.87 crore in 15 selected field units after finalisation of PD of temporary connections (*Annexure 4.5.21*).

Thus, due to deficiencies in disconnection of defaulting consumers, failure in persuasion with Government Departments, negligence in realisation of dues against PD consumers and temporary connections as discussed above, the arrears of ₹ 2,619.96 crore in 15 sampled field units remained unrecovered as of November 2019.

Government stated (September 2020) that continuous efforts were being made to recover the dues from the defaulting consumers and dues against Government Departments. In case of RRCs, efforts are also being made to recover the same but 100 *per cent* recovery in RRCs is not possible. Further, in case of dues against permanently disconnected temporary connections, efforts were being made to recover the dues and concerned officers would be held responsible in case of non-recovery.

The reply is not acceptable as collection efficiency in 2018-19 decreased in comparison to 2016-17 in case of MPPoKVVCL and MPPaKVVCL indicating that efforts made for realization of dues were inadequate. However, in case of MPMKVVCL, the collection efficiency increased by 1.18 *per cent* in 2018-19 against 2016-17.

4.5.6.9 Undue waiver of arrears of consumers in Sambal Yojana

As per Section 138 (interference with meters and works of licensee) of the Electricity Act, 2003, whoever unauthorisedly reconnects the electric line(s) or other works which have been disconnected (due to arrears), shall be punishable with imprisonment for a term of up to three years, or with a fine up to ten thousand rupees, or both. This penalty or fine should have been treated as assessed amount as civil liability in these cases.

Further, the GoMP instructed (August 2018) DISCOMs (in Sambal Yojna¹⁴⁸) to take back all litigations pending under Sections 135 and 138 and decided to waive off all civil liabilities pending against these cases. The arrears of the civil liabilities were to be borne by GoMP and DISCOMs in the ratio of 50:50.

During test-check of the records of the field units, Audit observed that in six field units¹⁴⁹ out of 15 sampled field units, while booking cases under Section 138 of the Electricity Act, 2003 in respect of the agriculture pump connections, the field units incorrectly included regular electricity arrears amounting to ₹ 3.40 crore (*Annexure 4.5.22*) in the amount of civil liability (fine and litigation amount) assessed under Section 138 and waived off (August/September 2018) the same in violation of the terms and conditions of the Scheme.

¹⁴⁷ In case of temporary connections, the licensee (DISCOMs) should charge energy bills in advance against the estimated consumption of 90 days and the advance should not be less than the charges for actual consumption.

¹⁴⁸ In June 2018, the State Government launched Sambal Yojna under which two schemes i.e. *Saral Bijli Scheme* (flat billing at ₹ 200) for registered labour/ karmkar and *Mukhaya mantra Bakaya Bill Mafi scheme* for BPL and registered labour/ karmkar (clearance of dues of these consumers as on June 2018). Further, the Government also decided to settle the cases booked under Section 138 and 135 against registered labour, BPL and agricultural pump connections.

¹⁴⁹ Hoshangabad, Rajgarh, Satna, Rewa, Chhindwara and Mandsaur.

Government stated (September 2020) that MPPoKVVCL had issued directions to re-examine the cases under Section 138. MPPaKVVCL had partially re-examined the cases pointed out by Audit and revised claim to GoMP was under process. MPMKVVCL assured that action to recover arrears from the farmers will be made.

Though the Government confirmed the audit observation but recovery was still pending (September 2020). Also the reply is silent about action taken for fixing the responsibility in case of MPPoKVVCL and MPMKVVCL.


Conclusion

It is evident from preceding paragraphs that the DISCOMs reported incorrect Billing Efficiency by booking additional units of sale. They resorted to provisional billing extensively, in violation of the various provisions of the Supply Code and Tariff Orders, which also impacted realistic reporting of billing efficiency of the DISCOMs. All this had adverse impact on the financial health of DISCOMs.

Recommendations

- **The DISCOMs need to comply with the provisions of Tariff Orders, Supply Code and directives of MPERC scrupulously and ensure correct billing of consumers and collection of revenue to achieve higher billing and collection efficiency.**
- **Appropriate steps need to be taken expeditiously to recover the dues by disconnection of defaulting consumers, vigorous persuasion with the Government Departments and defaulting consumers for realisation of dues from Permanently Disconnected consumers and temporary connections.**

Bhopal
The 28 June 2021



(BIJIT KUMAR MUKHERJEE)
Accountant General (Audit-II)
Madhya Pradesh

Countersigned

New Delhi
The 30 June 2021



(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

