

# Chapter 3

## **Financial Management**



# Financial Management

## 3.1 Release and Utilization of Funds

The projected requirement of Gross Budgetary Support (GBS) for the R-APDRP scheme over the XI Plan period (2008 - 12) was ₹ 31,577 crores. The CCEA Note of May 2013 for continuation of the R-APDRP scheme projected that the estimated outlay required for the scheme (2008 - 17) would be ₹ 44,011 crore with GOI grant of ₹ 28,424 crore. The budgeted estimates and actual releases over 2008-15 (the scheme was subsumed in IPDS w.e.f. December 2014) were, however, much lower as presented in the following table:

**Table 1 : Details of budgeted funds and release of funds under R-APDRP**

(₹ in crore)

Financial year	Budget Estimate		Released	
	Loan	Grant	Loan	Grant
2008-09 <sup>2</sup>	0	1.00	325.00	25.00
2009-10	1,650.00	80.00	1,321.09	1.26
2010-11	3,600.00	100.00	2,256.79	100.00
2011-12	1,959.00	75.00	1,600.00	67.87
2012-13	2,997.00	117.00	1,217.45	17.04
2103-14	500.00	75.00	640.00	8.70
2014-15	1,116.54	144.50	578.47	16.78
<b>TOTAL</b>	<b>11,822.54</b>	<b>592.50</b>	<b>7,938.80</b>	<b>236.65</b>
	<b>12,415.04</b>		<b>8,175.45</b>	

The budgetary estimates for 2008-15 were ₹ 12,415.04 crore (43.68 per cent of the revised GBS - ₹28,424 crore projected for the period 2008 - 17). The actual releases during 2008-15 were only ₹ 8,175.45 crores which was only 65.85 per cent of budgetary allocation. The reasons for the lower budget allocation as against the outlay

<sup>2</sup> Supplementary of ₹ 325.00 crore and ₹ 25.00 crore was obtained towards loan and grant respectively.

and even lower release of funds for the scheme were not available in the records produced to Audit.

The poor utilisation of the earmarked funds in APDRP scheme resulting in non-achievement of the targets was also commented upon by the PAC while considering the CAG's Report no. 16 of 2007. From the above, it appears that the situation with regard to the utilisation of the earmarked funds had not improved even under R-APDRP.

MOP stated (March 2016) that as against the revised programme size of ₹ 44,011 crore, total sanctioned cost of Part A and B projects was ₹ 39,244 crore as on 31 March 2015 of which the GOI loan component sanctioned was ₹ 17,855 crore (45.49 per cent of total sanctioned cost). The balance amount for Part-B was to be arranged by the Utilities from Banks/ financial institutions (FIs) /own resources. MOP further added that against the GOI loan sanction of ₹17,855 crore, MOP had budgeted for ₹ 11,822.54 crore (BE) and the revised budget estimate was ₹8,346.57 crore which works out to about 47 per cent of GOI loan component sanctioned. Further, actual GOI loan releases were ₹ 7,938.79 crore as against revised budget estimate of ₹ 8,346.57 crore which works out to 95 per cent of RE budget and about 44.46 per cent of total GOI loan sanctioned.

The fact was that MOP failed to fully utilise the funds allocated under the scheme even in a span of six years and implementation of the scheme was slow.

### **3.2 Expenditure incurred under Part C of the Scheme**

The allocation for enabling activities under Part C was ₹ 1,177 crore as under:

- ₹ 850 crore for the services rendered by PFC for operationalisation of the Scheme, validation of baseline data system and yearly verification of AT&C loss figures of project areas, appointment of advisors and project management consultants to vet the project proposals, monitor implementation of the projects and MIS etc.;
- ₹ 200 crore for Capacity Building and Franchisee Development and exposure to latest developments in electricity distribution within India and abroad;
- ₹ 50 crore (increased to ₹250 crore vide MOP Order dated 8 July 2013) for few Pilot Projects for adopting new innovations; and
- ₹ 77 crore for miscellaneous activities such as 'Best Practices' workshops and conferences, Consumer attitude survey, Project specific evaluation and Standardisation of specification of equipment and contractual documents.

Against the allocation of ₹ 1,177 crore, MOP released only ₹ 236.65 crore up to March 2015.

### 3.3 Lapses in release and utilization of funds in the States

Clause 2 of the 'Terms and Conditions' of the QA regarding release/ disbursement of loans *inter-alia* provided that 30 per cent of the project cost can be released as GOI loan up front on approval of the project in case of Part A projects. Similarly, 30 per cent of the project cost can be released as GOI loan up front on approval of the project in case of Part B projects in Special Category States and 15 per cent in other States. Audit noticed the following issues:

#### 3.3.1 Release of only the first installment

Scrutiny of records revealed that in 198 Part A projects, 317 Part B projects and 47 SCADA projects of the selected sample, only the first instalment amounting to ₹3,808.71 crore was released as upfront advance as detailed below:

**Table 2 : Projects in which only first instalment was released**

(₹ in crore)

Year	Release of First Installment by GOI								
	Part A - 100% Funded by GOI			Part B - 25% Funded by GOI			SCADA - 100% Funded by GOI		
	No. of Projects	Cumulative no. of projects	Amount Released	No. of Projects	Cumulative no. of projects	Amount Released	No. of Projects	Cumulative no. of projects	Amount Released
2009	60	60	169.34	-	-	--	5	5	45.27
2010	104	164	168.26	51	51	186.61	--	5	--
2011	18	182	20.58	159	210	1,402.11	18	23	144.43
2012	4	186	4.51	30	240	478.74	18	41	113.92
2013	--	186	--	37	277	170.53	--	41	--
2014	12	198	31.69	27	304	122.66	3	44	12.14
2015	--	198	-	13	317	316.20	3	47	421.72
<b>TOTAL</b>	<b>198</b>		<b>394.38</b>	<b>317</b>		<b>2,676.85</b>	<b>47</b>		<b>737.48</b>

Part A projects had to be completed within three years of sanction. As can be seen from the table, for 186 Part A and 41 SCADA projects, only the first instalment was released even though three or more years have lapsed since the first release. No further funds have since been released. It is also noticed that a number of Part B projects have been pending for up to six years.

MOP stated (March 2016) that in respect of Part B projects, implementation period is 5 years and up to 25 *per cent* of project cost (90 *per cent* in case of Special Category States) is provided as GOI loan and the balance funds were to be raised by the Utilities as counterpart fund from other sources, viz., PFC/REC/Banks/own resources. As such, in case of Part B projects after release of initial advance of GOI loan (15 *per cent*), major funding (75 *per cent*) was from counterpart funds and Utilities were availing the same for project implementation. Hence, last 10 *per cent* GOI loan was not yet due in most of the Part B projects.

The reply of MOP may be seen in light of the fact that:

- The test checked cases include Part A and SCADA projects, with 100 *per cent* funding by GOI, which had a completion period of three years and where second instalment has not been released even after lapse of four to seven years from the date of sanction of the projects raising doubts on completion of these projects.
- The table also indicates Part B projects where the 1<sup>st</sup> installment has been released more than five years ago and hence these projects ought to have been completed as per plan.

### 3.3.2 Separate Bank Account

As per clause no.13.0 (b) of R-APDRP guidelines, Utilities had to open a separate bank account (Escrow account) for receipt and utilisation of funds. It was, however, observed that:

- Maharashtra State Electricity Distribution Company Limited (MSEDCL) operated a separate “current” account with the bank only for the purpose of receiving funds from the PFC. The funds received from PFC, after maintaining a minimum balance of ₹ 5,000, were automatically transferred through standing instruction to another operative account of MSEDCL, which was common for all other schemes, Operation and Maintenance (O&M) and other expenses of MSEDCL. Pooling of funds in the common operative account was in violation of the scheme guidelines.

MSEDCL replied that the funds were transferred to the cash credit account as the interest rates were around 10 to 11.50 *per cent* as against the interest rate of 4 to 5 *per cent* in respect of savings account. It was added that there was no delay in project implementation due to diversion of funds and stated that scheme guidelines would be followed for future schemes.

- In Chhattisgarh, ₹ 304.67 crore received as R-APDRP funds from February 2013 to March 2015 were initially put into the overdraft account of the Utility. Out of the ₹ 304.67 crore R-APDRP funds, ₹ 233.19 crore was transferred to the R-APDRP scheme account and balance fund of ₹ 71.48 crore was lying in the overdraft account as on August 2015. Evidently, the Utility used the scheme fund to reduce its own overdraft. By depositing the scheme funds in the overdraft account of the Utility instead of the Separate Account opened for scheme funds, the Utility benefitted at the cost of the scheme.

MOP stated (March 2016) that the Utility has been advised to comply with the scheme guidelines in view of the audit observation.

Audit is of the opinion that in cases where higher interest has been earned due to parking of R-APDRP funds in a different account, such interest needs to be credited into the R-APDRP account.

### 3.3.3 Counterpart Funding

As per the terms of the scheme, a Quadripartite Agreement (QA) had to be entered amongst SEBs/Utilities, GOI, PFC and the State Government before implementation of projects. Signing of QA was a prerequisite for release of funds under the R-APDRP. The Ministry of Power/ PFC had to monitor compliance of the conditions precedent agreed to in the QA before releasing funds.

Clause 5.3 of the QA stipulated that the Utility shall ensure that the balance funds of Part B projects (to be raised from PFC/ REC / multi-lateral institutions and/ or own resources) will be fully tied up within two months of the sanction of a project and that agreement with Financial Institutions (FIs) for counterpart funding will be appended to the Loan Agreement with Nodal Agency.

It was noticed that in eight States, though the 1<sup>st</sup> installment of the Part B projects had been released during 2010 to 2014 (*Annexure III*), neither the PFC nor the MOP had any information as to whether the requisite counterpart funding had actually been tied up.

PFC replied (October and November 2015) that it took an undertaking from the utilities to the effect that the counterpart funding would be tied up within two months of sanction of the project. Details of counterpart loan extended by PFC only were maintained by them. They reviewed the tie up of balance funds for Part B projects on a

continuous basis in various fora, review meetings and through e-mails. The requirement of appending the counterpart loan agreement with GOI loan agreement does not serve any purpose as the Part-B counterpart loans from the FIs are to be governed by the respective terms of the FIs. The details of counterpart funding, as required shall be obtained at the time of conversion of loan into grant.

MOP stated (March 2016) that:

- The onus of tying up of counterpart fund is on the Utilities, being owners of projects and not on the PFC. PFC is maintaining information to the extent furnished by the Utilities in respect of tying-up of counterpart fund.
- The QA required the Utilities to ensure tie up of counterpart funds within two months from sanction of Part B projects. The same was amended in the 28<sup>th</sup> meeting of the Steering Committee held on 6 August 2013 when Utilities were allowed to ensure tie up of counterpart funds within two months from award of Part B projects by the utilities.
- The Utilities are required to submit the details of counterpart funding while submitting claims for further release of GOI loan or conversion of loan into grant. PFC, while processing release of further tranche of GOI loan for Part B projects, ensures that Utility has tied-up and utilised counterpart funds as per R-APDRP guidelines.

The above reply should be seen in light of the fact that:

- Non-tying up of counterpart funding can lead to financial crunch for the Utility in implementation of the projects and should have been ensured by the MOP/ PFC before release of funds as envisaged in the scheme to ensure projects implementation in a time bound manner.
- Para 4.0 (c) of R-APDRP Guidelines entrusted the responsibility of monitoring the implementation of the precedent conditions agreed to in the Quadripartite Agreement to PFC, before funds of MOP and PFC were released. Hence, it was incumbent upon PFC to monitor whether counterpart funding were tied up by the Utilities in cases where funds have been released under Part B Projects.
- The contention of PFC that *'the requirement of appending the counterpart loan agreement with GOI loan agreement does not serve any purpose'* is not acceptable

as such agreement assures MOP/ PFC that adequate finances were available for implementing the project.

- The contention of PFC that counterpart loans from the FIs were to be governed by the respective terms of the FIs also needs to be seen in the light of the fact that the counterpart loan was also eligible for conversion of loan into grant, subject to fulfillment of stipulated conditions.

### 3.4 Transfer / abandonment of works by Utility

Clause 16.0 of the QA, *inter alia*, stipulates that the Utility shall not transfer or abandon the project at any stage without written consent of the PFC. Further, when projects were transferred or abandoned, the entire outstanding dues from the Utility were to be repaid to the PFC.

It was observed that projects of 24 towns in **Tamil Nadu** had been cancelled by the Steering Committee as the AT & C losses verified by the TPIEA were less than 15 *per cent* in these towns. However, the funds released for these towns, amounting to ₹ 163.95 crore, were yet to be recovered/ adjusted by PFC.

MOP stated (March 2016) that PFC is pursuing with Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) regularly for recovery of loan proceeds along with interest accrued.

### 3.5 Diversion of funds

Para 12 (g) of the QA envisaged that funds provided to the Utility under R-APDRP shall not be diverted for any other scheme or purpose.

Audit scrutiny in 29 States indicated cases of diversion of funds of ₹ 535.39 crore in 8 States (*Annexure - IV*) out of which, recovery only in respect of ₹ 368.54 crore has been made till March 2015.

It was also noticed from the Internal Audit Report of MOP for the year 2011-12 that in five cases there were diversion of funds amounting to ₹ 1,365.52 crore in different States as detailed below:

**Table 3 : Cases of diversion of R-APDRP Funds**

(₹ in crore)

Sl. No.	State (Utility)	Amount Diverted
1.	Tamil Nadu (TANGEDCO)	572.91
2.	Maharashtra (MSEDCL)	540.38
3.	Andhra Pradesh (Now Telangana) (APCPDCL)	124.14
4.	Rajasthan (JVVNL)	104.94
5.	Karnataka (BESCOM)	23.15
<b>Total</b>		<b>1,365.52</b>

MOP, while stating (March 2016) that PFC had sought clarifications from the Utilities of Rajasthan, Maharashtra, Karnataka and Tamil Nadu added that PFC had suggested that as long as the Utility met its payment obligations in a timely manner, fund management by the Utility as per its own policy may be acceptable as the Utility was taking interest risk on the GOI loan. It was further stated that PFC/MOP cannot exercise any direct operational control on the bank accounts as they are managed by the concerned Utilities.

MOP's reply did not address the issue of specific cases of diversion of funds pointed out by Audit. Further, while the responsibility of fund management rests with the concerned Utility, MOP/PFC cannot absolve themselves of supervisory responsibility to ensure that the funds were utilized in accordance with the scheme guidelines.

### 3.6 Overlapping of Schemes

It was noticed that in **Assam**, projects taken up under R-APDRP were also taken up under other schemes as indicated below:

**Table 4 : Cases indicating overlapping of Projects**

Project/ Part of the Project	Value of the Project / Part of the Project	Other Scheme under which included
Part B project in Dhing - supply and installation of Vacuum Circuit Breaker (VCB) 9 unit for 33/11 KV sub-station	₹ 30.05 lakh	Scheme under Asian Development Bank (ADB). Material procured under ADB project kept on standby.

Part B project in Dibrugarh – supply and installation of one 5 MVA PTR	₹ 57.96 lakh	Scheme under Asian Development Bank. Material procured under R-APDRP installed outside ring fence of respective projects.
Bongaigaon Project area – supply and installation of 33KV VCB and 11 KV Outdoor VCB	₹ 6.82 lakh	

MOP stated (March 2016) that PFC appraised projects on the basis of DPRs submitted by the Utilities, adding that the Utilities submit claims in the prescribed formats including a certificate that the same items were not being claimed from any other sources. It was further added that the concerned Utilities need to reply to the specific issues raised by Audit.

While it is true that the responsibility for preparing DPRs rests with the Utility, MOP and PFC need to monitor the implementation of the scheme effectively to avoid such overlapping of schemes to ensure optimal utilisation of the scheme funds.

### **3.7 Release of funds not in consonance with conditions of agreement**

Release of funds were noticed in some States which were not in consonance with the identified milestones/conditions of agreement as given below:

#### **Andhra Pradesh**

- An advance of ₹2.83 crore was released to the SCADA / Distribution Management System (DMS) implementing agency – M/s Chemtrols Industries Ltd. without the implementing agency setting up site office as required in the agreement.

#### **Chhattisgarh**

- Though an amount of ₹ 27.98 crore was recoverable from the utilities due to cancellation of projects/ other reasons in 32 towns/cases, a further ₹ 545.48 crore was released without adjusting the previous releases.
- A penalty of ₹ 1.31 crore was imposed in six towns/cases of Part B and penalty of ₹ 1.55 crore was imposed on the ITIA of Part A which were not adjusted in funds released subsequently by PFC.
- Earnest Money Deposit (EMD) forfeited from the contractor was not accounted for in the scheme account.

The Ministry did not offer any comments on the audit observation (March 2016).

### 3.8 Utilisation Certificates (UCs)

The terms & conditions of the sanction of loans to the Utilities under the scheme provided *inter alia*, that each layer of funding should keep a strict monitoring on the funds parked in the accounts of the next lower level. It also stipulated that the details of funds released, actual utilization and physical targets achieved vis-à-vis funds released etc. were required to be furnished to MOP at the end of the year. Moreover, as per Rule 226 of GFR, a UC (in Form 19-B) should be furnished within a reasonable time, not later than 18 months from the expiry of financial year in which loan is disbursed.

It was noticed that PFC submitted two sets of UCs to the MOP; one indicating the total disbursement of GOI funds made by PFC to Utilities and the other indicating the utilisation of funds by the Utilities as received from them periodically by PFC.

Audit observed that :

- As per the UCs furnished by PFC in respect of the GOI loan funds, PFC had fully disbursed the funds released by GOI amounting to ₹ 8,606.62 crore as of March 2016. However, in respect of the funds released to the Utilities by PFC, UCs for an amount of ₹ 4,155.88 crore ( 48.29 *per cent* of the total funds released) were forwarded by the PFC to MOP. It is pertinent to note here that the loans disbursed during 2013-15 were only ₹ 1,218.47 crore indicating that the UCs in respect of the balance amount of loan disbursed were overdue.
- Instances where UCs had not been received from Utilities up to a period of six years from the release of funds (₹ 706.57 crore) are presented in *Annexure - V*.
- PFC did not maintain the stipulated monthly/ annual project-wise report in respect of funds released, actual utilization and physical targets achieved vis-à-vis funds released.

PFC informed (February 2016) that town-wise expenditure was not separately maintained in their Enterprise Resource Planning (ERP) system. It also stated (March 2016) that progress/ status /issues of project implementation are discussed/ reviewed in various forums /meetings/ regional review meetings etc. and it provided fortnightly MIS reports to MOP. Further, PFC indicated that all India sanctions/ disbursement details are informed to MOP from time to time while requesting further release of funds

and that the utilisation details are submitted for those claims of utilities for which further fund release is sought.

MOP in their reply (March 2016) referred to the fact that the Pay & Accounts office was provided with the UCs of the previous tranche before releasing the next tranche of installment and stated that a system of checks and balances exists at MOP as well as the Pay & Accounts office.

The replies of the PFC and MOP need to be seen in light of the following facts:

- PFC did not provide specific returns as envisaged in the sanction letters issued by MOP.
- The fortnightly MIS reports referred to in the reply did not indicate anything about the release of funds and expenditure incurred.
- In the sample scrutinized by Audit, it was seen that Utilities have not submitted even a single UC for 198 Part A (33.22 *per cent* of sample), 47 SCADA (61.11 *per cent* of sample) and 317 Part B (55.61 *per cent* of sample) projects.
- The reply of MOP is not in accordance with the provisions of Rule 226 of GFR which stipulates that UCs are required to be furnished within a reasonable time not later than 18 months from the expiry of financial year in which loan is disbursed.

### **3.9 Non-inspection of the books of accounts of State Utilities**

Para 14.0 of the QA inter-alia stipulated that the State Utility (SU) shall make available for the inspection of the Central Government / PFC or its nominated agency all its books of account and other documents maintained by it.

It was noticed in Audit that no such inspection was carried out by PFC or its nominated agency to ensure optimum utilization of the funds released under the scheme.

PFC replied (February 2016) that they did not inspect the annual accounts of the Utilities related to R-APDRP scheme implementation due to manpower shortage and being engrossed with activities like operationalization of scheme, resolution of issues, disbursement process etc.

The fact remains that inspection as envisaged under the scheme has not been done.

### 3.10 Conversion of loan into grant

Responding to the observation of the PAC on the Report of the CAG regarding APDRP Scheme (Report no. 16 of 2007), MOP had stated that conversion of loan into grant has been linked to their timely completion and the Committee expressed hope that this provision shall have salutary effect on the various projects and their timely completion.

Accordingly, the R-APDRP guidelines provided for conversion of loan for Part A projects into grant once the projects were completed within three years of sanction. As per the R-APDRP guidelines, Part A Projects would be considered as completed on establishment of the required system duly verified by an independent agency appointed by the MOP through the nodal agency. From the scrutiny of the records, it was seen that none of the Part-A projects were certified as completed by the independent agency. Consequently, there were no instances of conversion of loans into grants and hence, the provision for conversion of loan into grants could not incentivise timely completion.

MOP stated (March 2016) that conversion of Part-A loan into Grant is to be initiated after verification of Part-A completion by Third Party Independent Evaluation Agency-Information Technology (TPIEA-IT) which is going on in most States where 100 *per cent* towns have been declared Go-Live. It further stated that the CCEA, while considering continuation of R-APDRP in XII Plan, extended Part A completion from three to five years and also delegated powers to the Steering /Monitoring Committee to consider giving further extension of time for completion of projects under R-APDRP on case to case basis.

The extension of completion time from three to five years defeated the purpose of conversion of loan into grant as a motivating factor to get projects completed in time. Further, it is seen that 182 projects sanctioned before 2011 (that is more than five years ago) have not yet been certified as complete (March 2016).

#### Recommendations

1. Ministry should ensure that Utilities tie-up Counterpart funding before release of funds.
2. Ministry may ensure that Utilisation Certificates are submitted by the concerned Utilities as per timelines prescribed in the General Financial Rules.