# Chapter III

# Economic Sector (PSUs)

# CHAPTER III
# ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKING)

## 3.1 Functioning of State Public Sector Undertakings

### Introduction

**3.1.1** The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature keeping in view the welfare of people and also occupy an important place of the economy in the State. As on 31 March 2015, there were 11 SPSUs in Manipur. None of these SPSUs was listed on the Stock exchange. During the year 2014-15, no SPSU was incorporated and none was closed down. The details of the State PSUs in Manipur as on 31 March 2015 are given in **Table No. 3.1.1** below.

**Table No. 3.1.1 Total number of SPSUs as on 31 March 2015**

| Type of SPSUs | Working SPSUs | Non-working SPSUs[1] | Total |
|---|---|---|---|
| Government Companies | 8 | 3 | 11 |
| **Total** | **8** | **3** | **11** |

The working State PSUs registered a turnover of ₹ 35.22 crore as per their latest finalised accounts and provisional figures given by the Companies as of September 2015. This turnover was equal to 0.22 *per cent* of State Gross Domestic Product (GDP) of ₹ 16,364 crore for 2014-15. The working SPSUs incurred an aggregate loss of ₹ 20.69 crore as per their latest finalised accounts as of September 2015. The overall losses of working SPSUs were mainly on account of heavy losses incurred by two power sector SPSUs (i) Manipur State Power Company Ltd. and (ii) Manipur State Power Distribution Company Ltd. as discussed under **paragraph 3.1.15**. The SPSUs had 3,501 employees as at the end of March 2015.

As on 31 March 2015, there were three non-working SPSU, against which the State Government had invested ₹ 3.73[2] crore. The investments in the non-working SPSUs do not contribute to the economic growth of the State.

### Accountability Framework

**3.1.2** Audit of the financial statements of a company in respect of financial years commencing on or after 1 April, 2014 is governed by the provisions of the Companies Act, 2013. However, audit of a company in respect of financial years that commenced earlier than 1 April, 2014 continued to be governed by the Companies Act, 1956.

[1] Non-working SPSUs are those which have ceased to carry on their operations.
[2] Does not include loans from Hindustan Paper Corporation and loans from financial institutions.

According to Section 2(45) of the Companies Act, 2013 (Act), a Government Company is one in which not less than 51 *per cent* of the paid up capital is held by the Central and/or State Government(s) and includes a subsidiary of a Government Company. The process of audit of Government companies under the Act is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013.

**Statutory Audit**

**3.1.3** The financial statements of a Government Company (as defined in Section 2 (45) of the Companies Act, 2013) are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 139(5) or (7) of the Companies Act. These financial statements are subject to supplementary audit to be conducted by the CAG under the provisions of Section 143(6) of the Act.

Further, the Statutory Auditors of any other company (Other Company) owned or controlled, directly or indirectly, by the Central and/or State Government (s) are also appointed by CAG as per the provisions of Section 139(5) or (7) of the Act.

As per the provisions of Section 143(7) of the Act, the CAG, in case of any company (Government Company or Other Company) covered under sub-section (5) or sub-section (7) of Section 139 of the Act, if considers necessary, by an order, cause test audit to be conducted of the accounts of such Company (Government Company or Other Company) and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test Audit.

**Role of Government and Legislature**

**3.1.4** The State Government exercises control over the affairs of these SPSUs through its administrative departments. The Chief Executive and Directors on the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the SPSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government companies are to be placed before the Legislature under Section 394 of the Act. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

## Stake of Government of Manipur

**3.1.5** The State Government has financial stake of ₹ 55.47[3] crore in these SPSUs. This stake is of mainly three types:

- **Share Capital and Loans-** In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.

[3] Does not include loans from NABARD and other Central agencies, FDs etc.

- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when required.

- **Guarantees-** State Government also guarantees the repayment of loans (with interest) availed by the SPSUs from Financial Institutions.

## Investment in State PSUs

**3.1.6** As on 31 March 2015, the investment (capital and long-term loans) in 11 SPSUs was ₹ 55.47 crore as per details given in **Table No. 3.1.2** below.

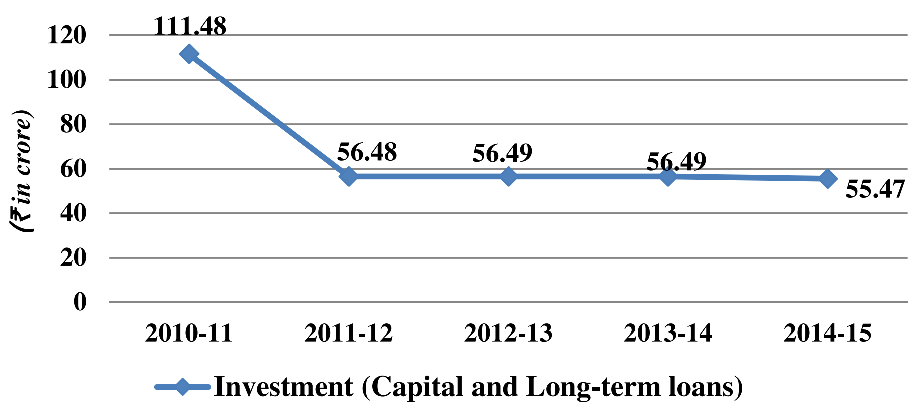
**Table No. 3.1.2 Total investment in PSUs**

*(₹ in crore)*

| Type of SPSUs | Government Companies | | |
|---|---|---|---|
| | Capital | Long Term Loans | Total |
| Working SPSUs | 50.11 | 0.0026 | 50.11 |
| Non-working SPSUs | 3.73 | 1.63 | 5.36 |
| **Total** | **53.84** | **1.63** | **55.47** |

Out of the total cumulative investment of ₹ 55.47 crore in SPSUs as on 31 March 2015, 90.34 *per cent* was in working SPSUs and the remaining 9.66 *per cent* in non-working SPSUs. This total investment consisted of 97.06 *per cent* towards capital and 2.94 *per cent* in long-term loans. The investment has declined from ₹ 111.48 crore (2010-11) to ₹ 55.47 crore (2014-15) during last five years as shown in **Chart No. 3.1.1** below.

**Chart No. 3.1.1 Total investment in SPSUs**



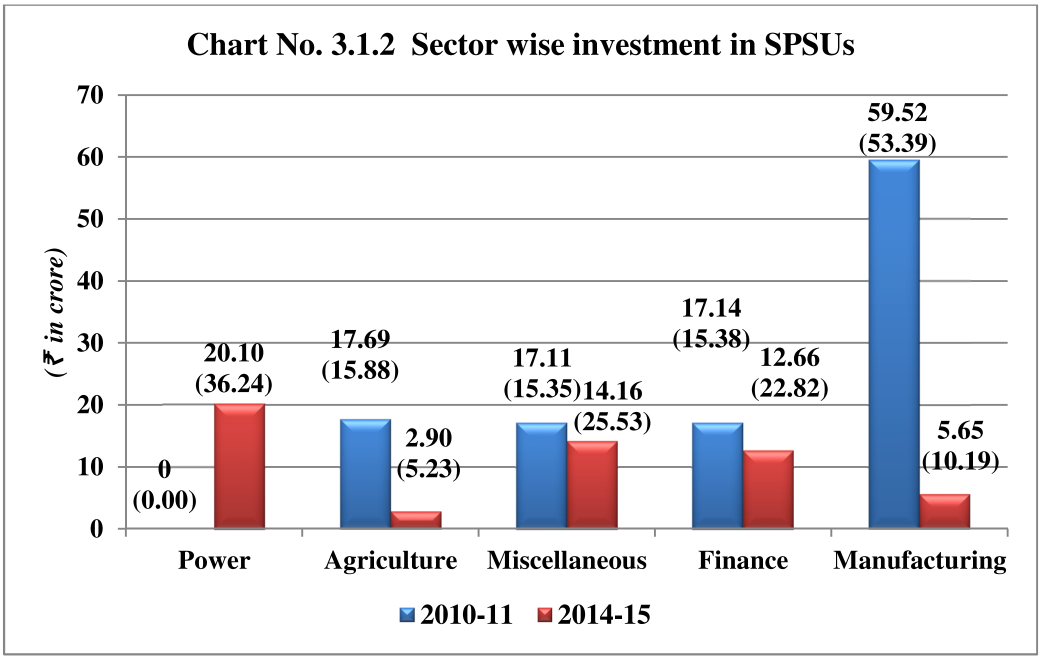

**3.1.7** The sector wise summary of investments in the SPSUs as on 31 March 2015 is given in **Table No. 3.1.3** below.

**Table No. 3.1.3 Sector-wise investment in SPSUs**

| Name of Sector | Government / *Other*[4] *Companies* | | Total | Investment |
|---|---|---|---|---|
| | Working | Non-Working | | (*₹ in crore*) |
| Power | 2 | NA | 2 | 20.10 |
| Manufacturing | 2 | NA | 2 | 5.65 |
| Finance | 2 | NA | 2 | 12.66 |
| Miscellaneous[5] | 2 | 1 | 3 | 14.16 |
| Agriculture & Allied | NA | 2 | 2 | 2.90 |
| **Total** | **8** | **3** | **11** | **55.47** |

***NA – Not applicable***

The investment in all the five sectors and percentage there of at the end of 31 March 2011 and 31 March 2015 are indicated in **Chart No. 3.1.2** below. The thrust of SPSU investment was in power sector which constitutes the highest percentage (36 *per cent*) of total investment in SPSUs during 2014-15. This investment was due to formation of two power sector companies, viz., (i) Manipur State Power Company Ltd. and (ii) Manipur State Power Distribution Company Ltd. during 2013-14.




***(Figures in brackets show the percentage of total investment)***

From the above chart it can be seen that investments of State Government except for power sector has decreased in all other sectors during 2014-15 as compared with 2010-11.

The decrease of investment (91 *per cent*) under manufacturing sector was mainly due to liquidation of three companies, viz., (i) Manipur Cement Ltd., (ii) Manipur Cycle Corporation Ltd. and (iii) Manipur Spinning Mills Corporation Ltd. during the period 2010-15.

4 '*Other Companies*' as referred to under Section 139(5) and 139(7) of the Companies Act, 2013.

5 Includes investment of ₹ 0.02 crore in one working company under infrastructure sector.

The total Investment in finance sector decreased from ₹ 17.14 crore in 2010-11 to ₹ 12.66 crore in 2014-15. This was due to conversion of one working SPSUs[6] into a Society by dissolving it during 2011-12.

## Special Support and Returns During the Year

**3.1.8** There was no budgetary outgo towards equity, loans, guarantees issued, loans converted into equity and interest waived in respect of SPSUs during the year 2014-15.

## Reconciliation with Finance Accounts

**3.1.9** The figures in respect of equity and loans as per records of SPSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the SPSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2015 is stated in **Table No. 3.1.4** below.

**Table No. 3.1.4 Equity, loans, guarantees outstanding as per the Finance Accounts *vis* a *vis* records of SPSUs**

*(₹ in crore)*

| Outstanding in respect of | Amount as *per* Finance Accounts | Amount as *per* records of SPSUs | Difference |
|---|---|---|---|
| Equity | 45.19 | 53.84 | 8.65 |
| Loans | - | 1.63 | 1.63 |

Audit observed that the differences occurred in respect of 10 SPSUs[7] and some of the differences were pending reconciliation over a period of more than 18 years. The Government and the SPSUs should take concrete steps to reconcile the differences in a time-bound manner.

## Arrears in Finalisation of Accounts

**3.1.10** The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year i.e., by the end of September in accordance with the provisions of Section 96 (1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act.

The **Table No. 3.1.5** below provides the details of progress made by working SPSUs in finalisation of accounts as of 30 September 2015.

[6] Manipur Film Development Corporation Ltd.

[7] In respect of one SPSU, viz., Manipur Police Housing Corporation Ltd., the figures were matching.

**Table No. 3.1.5 Position relating to finalization of accounts of working SPSUs**

| Sl. No. | Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|---|
| 1 | Number of Working SPSUs | 8 | 7 | 7 | 7 | 8 |
| 2 | Number of accounts finalised during the year | 23 | 17 | 21 | 23 | 16[8] |
| 3 | Number of accounts in arrears | 120 | 110 | 96 | 80 | 72 |
| 4 | Number of Working SPSUs with arrears in accounts | 8 | 7 | 7 | 7 | 8 |
| 5 | Extent of arrears (numbers in years) | 11 to 28 years | 9 to 27 years | 5 to 26 years | 2 to 26 years | 2 to 27 years |

From the table, it could be observed that the number of accounts in arrears has decreased from 120 (2010-11) to 72 (2014-15). The accounts were in arrears for periods ranging from 2 years (Manipur State Power Company Ltd. and Manipur State Power Distribution Company Ltd.) to 27 years (Manipur Tribal Development Corporation Ltd.).

The reasons for delay in finalization of accounts were attributed to:

- Lack of required control over the Companies by the Government;
- Abnormal delay in compilation and approval of the accounts and delayed submission of the same to the Statutory Auditors by the Management and
- Delay in adoption of accounts in Annual General Meeting.

The Administrative Departments are responsible for overseeing the activities of these entities and to ensure that the accounts are finalised and adopted by these SPSUs within stipulated period. During the period 2014-15 (upto September 2015), the Departments concerned were informed (August 2014 and August 2015) of the arrears in finalisation of accounts by these SPSUs. In addition, the Principal Accountant General (Audit) had also taken up (October 2015) the matter with the State Government for clearing the arrears of accounts and emphasizing on the importance of preparation of accounts on time. Despite all these efforts, 72 accounts of working SPSUs are in arrear as of December 2015 in respect of 8 working SPSUs.

**3.1.11** The State Government had invested ₹ 2.48 crore (Equity), in eight SPSUs during the years for which accounts had not been finalized as detailed in ***Appendix 3.1***. In the absence of finalisation of accounts and their subsequent audit, it could not be assessed whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved. Government's investment in such PSUs remained outside the control of State Legislature.

[8] Sixteen accounts included ten accounts of Manipur Handloom & Handicrafts Corporation Ltd for the period 1995-96 to 2004-05; five accounts of Manipur Food Industries Corporation Ltd. for the period 2003-04 to 2007-08 and one account of Manipur Electronics Development Corporation Ltd.

**3.1.12** In addition to above, as on 30 September 2015 there were arrears in finalisation of accounts by non-working SPSUs. Three non-working SPSUs had arrears of accounts for periods ranging from 20 to 30 years as shown in **Table No. 3.1.6** below.

**Table No 3.1.6 Position relating to arrears of accounts in respect of non-working SPSUs**

| No. of non-working companies | Period for which accounts were in arrears | No. of years for which accounts were in arrears |
|---|---|---|
| 3 | 1984-85 to 2014-15 | 20 to 30 years |

## Impact of Non-Finalisation of Accounts

**3.1.13** As pointed out above (**paragraph 3.1.10** to **3.1.12**), the delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. Due to pendency of accounts, the actual contribution of SPSUs to the State GDP for the year 2014-15 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

## Recommendations

The Government may consider to:

- Set up a cell to monitor clearance of arrears of accounts and set the targets for individual companies and
- Increase the staff strength of the companies with suitable manpower to liquidate the arrears in accounts.

## Performance of SPSUs as per Their Latest Finalised Accounts

**3.1.14** The financial position and working results of working Government companies are detailed in ***Appendix 3.2***. A ratio of SPSU turnover to State GDP shows the extent of SPSU activities in the State economy. **Table No. 3.1.7** below provides the details of working SPSU turnover and State GDP for a period of five years ending 2014-15.

**Table No. 3.1.7 Details of working SPSUs turnover *vis-à-vis* State GDP**

***(₹ in crore)***

| Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| Turnover[9] | 5.71 | 3.54 | 5.35 | 7.03 | 35.22 |
| State GDP[10] | 9137 | 11123 | 12910(P) | 14324(A) | 16364(P) |
| Percentage of Turnover to State GDP | 0.06 | 0.03 | 0.04 | 0.05 | 0.22 |

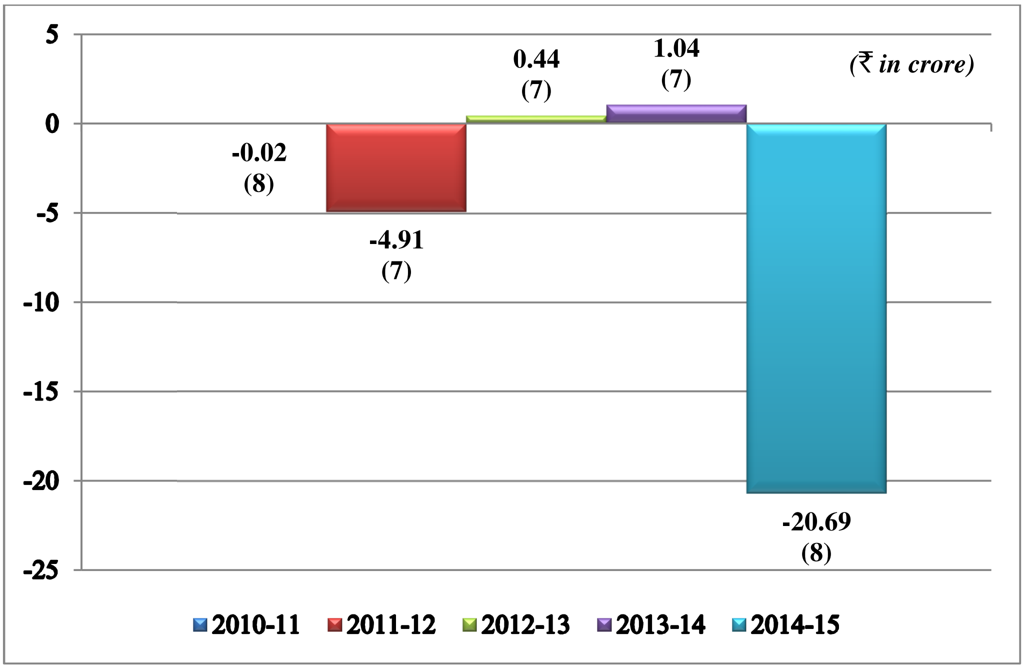
[9] Turnover as per the latest finalised accounts of SPSUs as on September 2015.

[10] State GDP figures as per information furnished by the Department of Economics and Statistics (at current price with base year 2004-05); (P)=Provisional, (A)=Advance.

As compared to the State GDP which showed an increasing trend throughout the period from 2010-11 to 2014-15, the turnover of the working SPSUs showed a decreasing trend up to 2011-12 and thereafter the turnover showed an increasing trend. Although there has been an overall increase in the percentage of turnover of SPSU to the State GDP from 0.06 *per cent* in 2010-11 to 0.22 *per cent* in 2014-15, the contribution of SPSU turnover to the State GDP still remains meager.

**3.1.15** Overall profits earned and losses incurred by State working SPSUs during 2010-11 to 2014-15 are given below in a **Chart No. 3.1.3** below.

**Chart No. 3.1.3 Profit/Loss of working SPSUs**




*(Figures in bracket show the number of working SPSUs in the respective years)*

During the year 2014-15, out of eight working SPSUs, four SPSUs earned profit of ₹ 1.86 crore which was mainly contributed by Manipur Industrial Development Corporation Ltd. (₹ 1.33 crore). Four SPSUs incurred loss of ₹ 22.54 crore of which Manipur State Power Distribution Company Ltd. (₹ 12.05 crore) and Manipur State Power Company Ltd. (₹ 8.00 crore) were the major contributors.

**3.1.16** Some other key parameters of State SPSUs are given in **Table No. 3.1.8** below.

**Table No. 3.1.8 Key parameters of State PSUs**

*(₹ in crore)*

| Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| Return on total Capital Employed (*per cent*) | (-) 2.23 | (-)14.96 | 0.71 | 1.84 | (-)20.95 |
| Debt | 31.06 | 5.91 | 10.43 | 10.43 | 3.05[11] |
| Turnover[12] | 5.71 | 3.54 | 5.35 | 7.03 | 36.34 |
| Debt/ Turnover Ratio | 5.44 | 1.67 | 1.95 | 1.42 | 0.08 |
| Accumulated losses | 6.94 | 10.37 | 40.76 | 45.19 | 74.74 |

The accumulated losses of SPSUs registered significant increase of ₹ 67.80 crore from ₹ 6.94 crore in 2010-11 to ₹ 74.74 crore in 2014-15. The Debt-Turnover ratio of SPSUs had improved from 5.44 in 2010-11 to 0.08 in 2014-15 mainly due to decrease of ₹ 28.01 crore in debt from ₹ 31.06 crore in 2010-11 to ₹ 3.05 crore in 2014-15.

**3.1.17** The State Government has not formulated (September 2015) any dividend policy.

## Winding up of Non-Working SPSUs

**3.1.18** There were three non-working SPSUs[13] as on 31 March 2015. So far, no steps have been taken by the Government to wind up these Companies under the provisions of the Companies Act, 1956. The number of non-working SPSUs at the end of each year during the past five years are given in **Table No 3.1.9** below.

**Table No 3.1.9 Non-working PSUs**

| Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| No. of non-working companies | 6 | 6 | 3 | 3 | 3 |
| **Total** | **6** | **6** | **3** | **3** | **3** |

The Government did not take any initiative to wind up non-working companies.

## Accounts Comments

**3.1.19** Out of eight working companies, only one working company, viz., Manipur Electronics Development Corporation Ltd., forwarded its audited accounts (2012-13) to the Principal Accountant General (Audit), Manipur during the year 2014-15. The submitted accounts of the company and the accounts of Manipur Food Industries Corporation Ltd.[14] (2007-08) which was submitted earlier were selected for Supplementary audit. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicate that the

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[11] Includes loan from NABARD (₹ 1.37 crore) and loan against fixed deposit (₹ 0.04 crore).

[12] Turnover of working SPSUs as per their latest finalised accounts as of 30 September of the respective year.

[13] (i) Manipur Agro Industries Corporation Ltd., (ii) Manipur Plantation Crops Corporation Ltd. and (iii) Manipur Pulp & Allied Corporation Ltd.

[14] MFICL submitted accounts for five years (2003-04 to 2007-08) out of which accounts for 2007-08 were selected for audit. Ten years accounts of MH&HC (1995-96 to 2004-05) were also finalised.

quality of maintenance of accounts needs to be improved. The details of aggregate money value of comments of statutory auditors are given in **Table No. 3.1.10** below.

**Table No. 3.1.10 Impact of audit comments on working Companies**

*(₹ in crore)*

| Sl. No. | Particulars | 2012-13 | | 2013-14 | | 2014-15 | |
|---|---|---|---|---|---|---|---|
| | | No. of accounts | Amount | No. of accounts | Amount | No. of accounts | Amount |
| 1 | Decrease in profit | 1 | 0.07 | 1 | 0.21 | 1 | 0.25 |
| 2 | Increase in loss | - | - | 3 | 0.90 | - | - |
| 3 | Non-disclosure of material facts | - | - | 6 | 15.18 | 1 | 1.37 |
| 4 | Errors of classification | - | - | - | - | 1 | 0.23 |

During the year, the statutory auditors had given qualified certificates on the accounts. The compliance of companies with the Accounting Standards remained poor. The audit comments were mainly on the non-compliance with the Accounting Standards namely AS-2 (Valuation of Inventories) and AS-15 (Employee Benefits).

## Response of the Government to Audit

### Performance Audits and Paragraphs

**3.1.20** For the Economic Sector (PSUs) Chapter of the Report of CAG for the year ended 31 March 2015, one performance audit, one thematic audit and one compliance audit paragraph involving Manipur State Power Distribution Company Ltd and Manipur Industrial Development Corporation Ltd were issued to the Principal Secretaries of the respective administrative departments with request to furnish replies within six weeks. The State Government has not furnished their reply (February 2016).

## Follow up Action on Audit Reports

### Replies outstanding

**3.1.21** The Reports of the CAG represent the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. All Administrative Departments are to submit replies/explanatory notes to paragraphs/performance audits included in the Audit Reports of the CAG within a period of three months[15] of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Committee on Public Undertakings (COPU). The position of replies/explanatory notes to paragraphs/performance audits pending to be received from the State Government/Administrative Departments concerned is given in **Table No. 3.1.11** below.

[15] *Suo moto* replies to be furnished within three months in case Audit Paragraphs are not selected by the PAC/COPU during this period.

**Table No. 3.1.11 Explanatory notes not received (as on 30 September 2015)**

| Year of the Audit Report (Commercial/ SPSU) | Date of placement of Audit Report in the State Legislature | Total Performance Audits (PAs) and paragraphs in the Audit Report | | Number of PAs/ paragraphs for which explanatory notes were not received | |
|---|---|---|---|---|---|
| | | PAs | Paragraphs | PAs | Paragraphs |
| 2013-14 | 29 June 2015 | Nil | 3 | NA | 3 |
| **Total** | | **0** | **3** | **0** | **3** |

From the above, it could be seen that explanatory notes to three paragraphs included in the Audit Report (2013-14) in respect of two departments, which were commented upon, were awaited (September 2015).

### Discussion of Audit Reports by COPU

**3.1.22** The status as on 30 September 2015 of performance audits and paragraphs relating to SPSUs that appeared in the State Audit Reports of the last five years (2009-10 to 2013-14) and discussed by the Committee on Public Undertakings (COPU) was as given in **Table No. 3.1.12** below.

**Table No. 3.1.12 Performance Audits/Paras appeared in State Audit Reports *vis-à-vis* discussed by COPU as on 30 September 2015**

| Period of Audit Report[16] | Number of reviews/ paragraphs | | | |
|---|---|---|---|---|
| | Appeared in Audit Report | | Paras discussed | |
| | PAs | Paragraphs | PAs | Paragraphs |
| 2009-10 | Nil | 3 | Nil | Nil |
| 2010-11 | 1 | Nil | 1 | Nil |
| 2011-12 | 1 | Nil | 1 | Nil |
| 2012-13 | Nil | 2 | Nil | Nil |
| 2013-14 | Nil | 3 | Nil | Nil |
| **Total** | **2** | **8** | **2** | **0** |

### Compliance to Reports of the COPU

**3.1.23** Action Taken Notes (ATNs) to 110 recommendations pertaining to four Reports of the COPU presented to the State Legislature between March 1987 and March 2011 had not been received from the Government (September 2015) as indicated in **Table No. 3.1.13** below.

[16] 32 performance audit/paragraphs (7 performance audit and 25 paragraphs) pertaining to Audit Reports from 1995-96 to 2006-07 are yet to be discussed by COPU. Audit Report for 2007-08 was discussed by COPU but recommendation is yet to be published.

**Table No. 3.1.13 Compliance to COPU Reports**

| Year of the COPU Report | Total number of COPU Reports | Total No. of recommendations in COPU Report | No. of recommendations where ATNs not received |
|---|---|---|---|
| 10th Report (1986-87) | 1 | 8 | 8 |
| 11th Report (1995-96) | 1 | 53 | 53 |
| 12th Report (1998-99) | 1 | 9 | 9 |
| 13th Report (2010-11) | 1 | 40 | 40 |
| **Total** | **4** | **110** | **110** |

The above reports of COPU contained recommendations in respect of paragraphs pertaining to five departments of the State Government, which appeared in the Reports of the CAG of India for the years 1983-84 to 2008-09.

## Recommendations

The Government may ensure:

- Furnishing of replies to inspection reports/ draft paragraphs/ performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule;
- Recovery of loss/outstanding advances/overpayments within the prescribed period and
- Revamping of the system of responding to audit observations.

## Disinvestment, Restructuring and Privatisation of SPSUs

**3.1.24** No disinvestment, privatization or restructuring of SPSUs occurred during 2014-15.

# PERFORMANCE AUDIT

## MANIPUR STATE POWER DISTRIBUTION COMPANY LTD

## 3.2 Implementation of Re-Structured Accelerated Power Development and Reforms Programme

### *Highlights*

- APDRP was modified during the XI$^{th}$ Plan as "Re-structured Accelerated Power Development and Reform Programme" (R-APDRP) with the aim of restoring the commercial viability of the distribution sector by putting in place appropriate mechanism so as to substantially reduce the Aggregate Technical and Commercial (AT&C) losses, establishment of reliable and automated sustainable systems for collection of base line data, adoption of IT in the areas of energy accounting, consumer care and strengthening of Distribution network of State Power Utilities.

**(*Paragraph 3.2.1*)**

- The decision to install prepaid energy meters instead of tamper proof electronic meters in 13 project towns as per the DPRs resulted in extra expenditure/liability of ₹ 57.27 crore.

**(*Paragraph 3.2.8.3*)**

- Allocation of pre-paid energy meters in 8 towns out of 13 project towns was not as envisaged in the Detailed Project Reports. While no prepaid energy meters were allocated to 3 project towns (Lilong (I/W), Moreh and Samurou), less number of energy meters than provided in Detailed Project Reports were allotted in Kakching, Mayang Imphal and Laxmi Thongkhong project towns while in Nambol and Thoubal project towns excess allocations were made. 4785 numbers of prepaid energy meters were allocated to one town (Churachandpur) where R-APDRP is not implemented.

**(*Paragraph 3.2.8.4*)**

- Inspite of measures taken to reduce the AT&C loss, the achievement in this regard was not satisfactory as the AT&C loss in the four 'Go Live' towns out of the total 13 project towns ranged between 70.11 *per cent* and 86.53 *per cent* as on March 2015. In respect of one project town (Ningthoukhong) which was declared 'Go Live', the AT&C loss had increased from pre-project level of 78.11 *per cent* to 86.53 *per cent* as on 31 March 2015.

**(*Paragraph 3.2.9.4*)**

- R-APDRP fund of ₹ 119.66 crore was diverted for a period ranging between three to seven months in violation of the scheme guidelines.

**(*Paragraph 3.2.10.3*)**

- R-APDRP materials worth ₹ 0.57 crore were diverted for other works not connected with the scheme.

***(Paragraph 3.2.11.3)***

- MSPDCL released (October 2013 to April 2014) advance for erection of material value of ₹ 9.61 crore to 7 numbers of Turn-Key firms before fulfillment of the mandatory conditions for payment of advance resulting in extension of undue financial benefit to the firms. Excess advance paid to M/s Shyama Power India Ltd. Gurgaon of ₹ 1.26 crore was not recovered/adjusted resulting in extension of undue financial benefit to the firm. Advance payment of ₹ 58.98 crore was released (October 2013 to April 2014) to eight numbers of Turn-Key firms without mentioning any clause of interest in contravention of CPWD Works Manual 2012 provisions.

***(Paragraph 3.2.11.4)***

- The Company failed to take adequate safeguards for proper performance of the contracts and minimum Contract Performance Guarantee of ₹ 17.86 crore remains uncollected from the Turn-Key Firms.

***(Paragraph 3.2.11.5)***

- No justification for procurement of 6953 lesser numbers of 7.5 metre poles than provided in DPRs was found on record.

***(Paragraph 3.2.11.7)***

## 3.2.1 Introduction

Power Sector reforms in India have been going on for more than a decade. Initially, the focus was more on bringing about structural changes like unbundling of State Electricity Boards (SEBs) and creation of independent generation, transmission and distribution companies. In the subsequent period, power generation received maximum focus. However, in the recent past, it was felt that power distribution is the weakest link in the entire value chain and Power sector cannot achieve viability and sustainable development unless issues in the power distribution are resolved.

The Government of India (GoI) introduced 'The Accelerated Power Development and Reform Programme' (APDRP) in the year 2002-03 with the objective of improving the financial viability of the State Power Utilities/Boards, reduce Transmission and Distribution (T&D) losses, improve reliability, quality and availability of power supply. The Ministry of Power (MoP), GoI took up an evaluation exercise of APDRP through independent agencies, such as Indian Institute of Management (IIM) Ahmedabad, Administrative Staff College of India and Tata Consultancy Services. While recommending the continuance of APDRP beyond X$^{th}$ Plan (2002-2007), the agencies made certain suggestions for achieving better results which, inter alia, include direct release of funds to utilities, adoption of Information Technology in a big way, adherence to specific reform milestones, better project management, third party quality checks, continuance of cash incentives to utilities and training of utility staff.

APDRP scheme was modified during the XI$^{th}$ Plan (2007-2012) as "Re-structured Accelerated Power Development and Reform Programme" (R-APDRP) with the aim of restoring the commercial viability of the distribution sector by putting in place appropriate mechanism so as to substantially reduce the Aggregate Technical and Commercial (AT&C)[17] losses, establishment of reliable and automated sustainable systems for collection of base line data, adoption of IT in the areas of energy accounting, consumer care and strengthening of Distribution network of State Power Utilities. The scheme also envisages establishment of Supervisory Control & Data Acquisition System/Distribution Management System (SCADA/DMS) in large towns, capacity building, incentive scheme for distribution personnel *etc.*

The project area coverage will be urban areas-towns and cities with a population of more than 30,000. The population limit will be 10,000 in the case of Special Category States *viz* all North Eastern States, Sikkim, Uttarakhand, Himachal Pradesh and Jammu & Kashmir. Projects under the present scheme shall be taken up in two parts. Part-A shall include the projects for establishment of baseline data and IT applications for energy accounting/auditing and IT based consumer service centres. Part-B shall include regular distribution strengthening projects.

In Manipur, R-APDRP is implemented by Manipur State Power Distribution Company Ltd. (MSPDCL)[18] through the Deputy General Manager (Project Monitoring Unit), Urban Projects, as shown in the Organogram in ***Appendix 3.3***.

### 3.2.2 Organisational Setup

The Company is headed by the Managing Director assisted by a Company Secretary and Vigilance Officer and other Managers and Directors of various branches. The Headquarters/ Corporate office of the Company is situated in Imphal and has Branch offices in every district of the State.

### 3.2.3 Scope of Audit

The performance audit was conducted during May 2015 to September 2015 in which performance of Electricity Department, Government of Manipur (EDM)/Manipur State Power Distribution Company Ltd (MSPDCL) during the period from 2009-10 to 2014-15 was assessed. Records of MSPDCL and 13 project towns implementing R-APDRP in the State were test checked.

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[17] Sum total of technical loss, commercial losses and shortage due to non-realisation of total billed amount.{Total energy Input Less energy realised/ total energy Input}*100.

[18] Electricity Department Manipur was unbundled and corporatized into two successor Companies viz., Manipur State Power Company Limited (MSPCL) and Manipur State Power Distribution Company Limited (MSPDCL) in pursuance of GoM Order No. 5/5/2011-Power effective from 1 February 2014.

All these thirteen projects under Part-A[19] and Part-B[20] were selected for audit scrutiny. The details of the projects selected for audit scrutiny indicating their date of sanction, release of funds, stipulated date of completion and status as on 31 March 2015 is given in ***Appendix 3.4A and 3.4B.***

### 3.2.4 Audit Objectives

The performance audit was conducted to assess whether:

- Policy was adequate for preparation of baseline data for covering Consumer Indexing, Global Information System (GIS) Mapping, and Metering of Distribution Transformers *etc.*;
- Initiative and planning required for implementation of programme were appropriate and adequate;
- Programme was implemented in an efficient, effective and economical manner;
- An efficient mechanism was evolved for quality control of works carried out and equipments purchased for implementation of the programme;
- The mechanism for monitoring of the projects was adequate to ensure adherence to timelines and incorporated effective remedial measures at appropriate stages and
- An evaluation was carried out to assess the progress, outcome and intended benefits under the programme.

### 3.2.5 Audit Criteria

The audit criteria were derived from the following sources:

- Electricity Act 2003;
- Guidelines for R-APDRP issued by the MoP;
- Quadripartite Agreement;
- Standard procedures for award of contract with reference to principles of economy, efficiency and effectiveness;
- CPWD Works Manual and
- General Financial Rules.

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19 Projects for establishment of baseline data and Information Technology (IT) applications for energy accounting/auditing and IT based consumer service centre.

20 Projects on regular distribution strengthening.

## 3.2.6 Audit Methodology

Scope, objectives and criteria of the performance audit were explained to the Management of MSPDCL in presence of Joint Secretary (Power), Government of Manipur (GoM) in an Entry Conference held in May 2015. Thereafter, the audit team test checked records at the Corporate Office and Divisional Offices; issued audit observations/memos to the Management for comments; interacted with the Management, analysed data with reference to audit criteria, and discussed audit findings with the Management. The draft performance audit report was discussed with the management of MSPDCL in the presence of Deputy Secretary (Power) in an Exit Conference held in December, 2015. The reply of the Management has been incorporated in the report at appropriate places.

## Audit Findings

Important audit findings are discussed in the following paragraphs.

## 3.2.7 Planning

Proper planning is critical and an integral part of programme implementation. Timely establishment of institutional mechanism planned in the policy and proper performance of the role assigned to it is of paramount importance for the successful implementation of the programme. As per the guidelines for R-APDRP, a quadripartite agreement shall be entered into between state utilities, Government of India, Power Finance Corporation and the State Government to implement the R-APDRP. As a part of its obligation, the State Government will undertake to comply with the following:

i) Constitution of SERC;

ii) Constitution of DRC at State level and

iii) Achieve target of AT&C loss reduction to 15 *per cent* by 2021-22[21].

The position of institutional mechanism in place and measures taken to achieve the target of AT&C losses as per the R-APDRP is given in the following paragraphs:

### 3.2.7.1 Constitution of Corporation and State Electricity Regulatory Commission (SERC)

A Memorandum of Agreement (MOA) was signed (July 2004) between MoP, Government of India and State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. As per the MOA, Electricity Corporation was to be set up for generation, transmission and distribution of electricity in the State by August 2004 and made fully functional by July 2005.

[21] As per Ministry of Power, Government of India DO No. 14/5/2011-APDRP (Vol-II) dated 27 April 2015, the AT&C loss trajectory for Manipur is 25 *per cent* by 2019-20

Accordingly, the Manipur State Power Distribution Company Ltd. (MSPDCL) was incorporated (under the Companies Act, 1956) on 15 July 2013 and it became functional on 1 February 2014, after delay of 8 years and 6 months.

The State government was also required to set up State Electricity Regulatory Commission (SERC)/Joint Electricity Regulatory Commission (JERC) by November 2004. However, JERC for the states of Manipur and Mizoram was constituted in January 2005 and it became operational in January 2008.

### 3.2.7.2 Constitution of Distribution Reforms Committee (DRC)

In pursuance of the Guidelines for R-APDRP and Memorandum of Agreement signed by the State Government with Ministry of Power for implementation of APDRP, State Level Distribution Reforms Committee (DRC) was formed in January 2010. The DRC is required to meet at least once in three months to monitor compliance of conditionalities of projects *etc* under R-APDRP. However, it was observed that during the period from January 2010 to March 2015, DRC had conducted only three meetings against the requirement of 21 meetings. Thus, there was a shortfall being 86 per cent. This indicated that the implementation of the programme was not monitored as envisaged in R-APDRP guidelines.

### 3.2.7.3(i) Establishment of Special Courts

As envisaged in Section 153(1) of National Electricity Act, 2003, Special Courts for speedy trial of offences relating to theft of power *etc.* were required to be set up in each State. The Government of Manipur constituted (June 2004) Special Courts for the purpose of trial of the offences under the said Act. The position relating to setting up of courts in Manipur, cases of power thefts and other such offences noticed and punished is given in **Table No. 3.2.1** below.

**Table No. 3.2.1 Position of court cases for power theft and other offences**

| Date of setting up of Special Court | Nos. of offences recorded between the period April 2008 to March 2015 | Nos. of cases in which trial conducted | Nos. of cases in which penalties imposed | Nos. of cases pending for decisions | Duration of pendency of each case (Months) |
|---|---|---|---|---|---|
| June 2004 | 489 | 461 | 461 | 28 | 6-8 |

(***Source: As furnished by the Company***)

From the above table, it is noticed that, in Manipur, 489 offences were recorded during the period from April 2008 to March 2015, out of which trials were conducted and penalties were imposed in 461 cases (94 *per cent)*. Decision in respect of 28 cases was pending for the last six to eight months.

### 3.2.7.3(ii) Measures against theft of electricity

The Electricity Supply Act 2003 contains provisions for ensuring minimum pilferage and power losses. As per Section 163(1) of the Electricity Act 2003 a licensee or any person duly authorized by a licensee may enter the premises of a consumer for ascertaining the amount of electricity supplied or the electrical quantity contained in the supply and also for inspection, testing etc.

However, details of inspections done as per the above provisions and the number of cases of pilferage/theft of electricity were not made available to audit. Thus, audit cannot comment on adequacy of measures taken by the utility against theft of electricity. Audit noticed that the Company appointed (April 2015) District Nodal Officers (DNOs) for taking assistance from Superintendents of Police of the concerned districts for revenue drive for improving revenue collection. However, no specific targets were set and records for conducting revenue drives were not produced to audit.

## 3.2.8 Detailed Project Reports (DPR) of Project Towns

The guidelines for R-APDRP provide that the utilities shall prepare DPR in two parts for each of the project area. Part-A shall include the projects for establishment of baseline data and IT applications for energy accounting/auditing and IT based consumer service centres. Part-B shall include regular distribution strengthening projects. In Manipur, 13 project towns were identified and DPRs were prepared for all the 13 project towns and sanctioned (March 2010) by the nodal agency (Power Finance Corporation). The targeted date of completion of the Part-A of the projects was March 2015 (later extended to June 2016) whereas Part-B of the projects was stipulated to be completed by February 2016. So far, (September 2015), none of the projects was completed.

Audit noticed instances where works actually executed were not as per approved Detailed Project Report as discussed in the succeeding para.

### 3.2.8.1 Delay in appointment of IT Consultants

As per R-APDRP guidelines, utilities may appoint IT Consultants through an open bidding process from the panel of IT Consultants prepared by the Nodal Agency (PFC) for preparing DPRs of Part-A projects. PFC Ltd. in its letter dated 2 January 2009 instructed the State Government to make arrangements for preparation of DPRs (Part-A) for early submission and subsequent sanction of the projects.

Audit noticed that the Electricity Department, in pursuance of Government letter No. 7/2/2008-Power dated 16 January 2009, invited tender (5 May 2009) for appointment of IT Consultant for Greater Imphal (Phase-1) from the 20 firms of empanelled IT Consultants. However, the Department later discovered that only one IT Consultant is to be selected for the whole state and as such the NIT of May 2009 was cancelled and M/s Feedback Ventures Pvt. Ltd. New Delhi was appointed (25 September 2009) as IT Consultant. Thus, the process for appointment of IT Consultant took 143 days against the prescribed time limit of 15 to 25 days.

### 3.2.8.2 Delay in submission of Part-B of the DPRs

As per guidelines, the sanction process and other formalities for execution of Part-A and Part-B projects can be taken up simultaneously except Part-B activities which are likely to start 3-6 months after the start of Part-A projects, for making arrangements for ring fencing of the project area and verification of the starting figure of AT&C loss of the project area by an Independent agency appointed by the MoP. This would help the utilities to reduce the overall project execution cycle.

The Part-A projects for the 13 towns were approved by the R-APDRP Steering Committee in March 2010. It was noticed that DPRs for Part-B projects were submitted to PFC after two years in March 2012 at a total cost of ₹ 497.59 crore. However, as the PFC Ltd. advised the EDM for modifications and further revision of the Part-B DPRs, the 3rd meeting of the DRC (5 November 2012) approved the revised Part-B DPRs for the 13 projects for a total cost of ₹ 398.87 crore ***(Appendix 3.4A & Appendix 3.4B)*** and submitted to PFC Ltd. on 8 November 2012 only. The R-APDRP Steering Committee ultimately approved the Part-B projects in February 2013. Thus, there was delay in submission of DPRs (Part-B) for a period exceeding two and a half years from the date of sanction of Part-A projects. This had adversely affected the objective of reducing the overall project execution cycle.

### 3.2.8.3 Extra expenditure on purchase of prepaid energy meters

Part-B of the R-APDRP deals with renovation, modernization and strengthening of 11KV SS/ Transformers/Transformer Centres, re-conductoring of lines at 11 KV level and other distribution strengthening projects. The works to be executed under Part-B include, among others, replacement of electromagnetic energy meters with tamper proof electronic meters.

On the approval (February 2013) of the R-APDRP Steering Committee, PFC approved (March 2013) the implementation of Part-B projects in 13 Project towns in the State of Manipur at the total cost of ₹ 398.87 crore. For replacement of electromagnetic energy meters with tamper proof electronic meters, a sum of ₹ 22.98 crore was earmarked for metering works in the 13 project towns. However, it was observed that the State Government approved (May 2013) a proposal for replacement of electronic energy meters with prepaid energy meters. Accordingly, work orders for supply and installation of 60,336 prepaid energy meters were placed on two contractors at a cost of ₹ 80.25 crore which exceeded the approved cost as per DPRs (₹ 22.98 crore) by ₹ 57.27 crore.

During the Exit Conference, the Company replied (December 2015) that it was done with the approval of the Government and there is specific order, copies of which will be intimated. However, the relevant documents are yet to be received in Audit (February 2016).

### 3.2.8.4 Allocation of prepaid energy meters

The Company awarded (September 2013), work order for supply and installation of prepaid energy meters (Single phase: 22,784 Nos. and 3-phase: 1,484 Nos.) and 2 Vending Software and 20 sets of Hardware items for the 12 project towns (excluding[22] Imphal city) to M/s Genus Power Infrastructure Ltd. Jaipur at a total cost of ₹ 33.74 crore (Supply: ₹ 29.16 crore + installation: ₹ 4.58 crore).

[22] The allocation of pre-paid energy metres in Imphal city was as per the quantity mentioned in LOA to M/S NE Energy Solutions.

It was, however, noticed in audit that the allocation of the energy meters among the 13 project towns were not done as per the supply orders and DPRs. As per information furnished to audit, the prepaid energy meters were allocated amongst 10 numbers of towns including Churachandpur, a non-R-APDRP town. No prepaid energy meters were allocated to 3 numbers of towns (Lilong - Imphal West, Moreh and Samurou). In respect of only four towns (Bishnupur, Lilong Town, Moirang and Ningthoukhong), the allocation was made as per the quantity mentioned in the LOA and DPRs. In respect of three project towns (Kakching, Mayang Imphal and Laxmi Thongkhong), the allocated numbers were less than numbers mentioned in LOA and DPRs. In Nambol and Thoubal, the allocations were in excess of the LOA.

The reasons/circumstances under which the prepaid energy meters could not be allocated on the basis of DPRs and supply orders were not provided to audit. Thus, the intended benefits could not be achieved in six project towns out of 13 project towns. The position of prepaid energy meters procured as per DPRs/supply order, actual allocation made by the Company and the number installed as of September 2015 are shown ***Appendix 3.5***.

During the Exit Conference, the Company replied (December, 2015) that the installation of prepaid meter system in Churachandpur town, was done with the approval of the Government. However, the order of the Government is yet to be furnished to audit (February 2016).

## 3.2.9 Appointment of Independent Evaluating Agencies

**3.2.9.1** Para 7.1 of the guidelines for the R-APDRP requires that baseline data for Part-B Projects should be verified by the Third Party Independent Evaluating Agency (TPIEA). Audit observed delays in appointment of IT Independent Agency and verification of baseline data by independent agency as mentioned in following paragraphs:

### 3.2.9.2 Verification of baseline data

As per para 7.1 of the guideline, baseline data and required system was to be verified by an Independent Agency appointed by the Nodal Agency on behalf of MoP and Part-B projects are required to be taken up after verification of initial AT&C loss by MoP through the Nodal Agency.

An Independent Agency namely M/S WAPCOS was appointed by the nodal agency for verification of the baseline AT&C loss. Audit observed that the Company had taken-up implementation of the Part-B (involving regular distribution strengthening works) of all the 13 projects during September 2013 without getting the initial AT&C losses verified by M/S WAPCOS.

Till date of audit (September 2015), the initial baseline data of only 10 project towns out of 13 project towns has been verified by this independent Agency. Thus, the above guidelines of R-APDRP were not adhered to during implementation of the projects.

It may not be out of place to mention here that only four towns (Thoubal, Ningthoukhong, Bishnupur and Moirang) have been declared 'Go Live'[23] till March 2015. Another project (Nambol) was declared 'Go Live' in August 2015. Thus there was a delay in declaring 'Go Live' in eight R-APDRP Project towns.

### 3.2.9.3 Delay in appointment of Information Technology Implementing Agency (ITIA)

R-APDRP Steering Committee[24] in its 16th meeting (2 March 2010) approved a total loan amount of ₹ 31.55 crore towards 13 Part-A projects under R-APDRP. As per the terms and conditions of the sanction order, the Utility[25] is required to appoint IT Implementing Agency (ITIA) within three months from the date of sanction order or the date of release of advance from PFC whichever is earlier. Thus, the ITIA was required to be appointed by June 2010.

Audit noticed that M/s Tata Consultancy Services Ltd (TCS) was appointed as common ITIA for the seven North Eastern States in July 2011 after a delay of one year thereby hampering the timely implementation of the programme.

### 3.2.9.4 AT&C losses in 'Go Live' projects

As per para 9.1 of R-APDRP guidelines, the State Utility is required to evolve adequate mechanism for prevention of AT&C loss and achieve AT& C loss reduction at least by three *per cent* per year starting one year after the year in which first project of Part-A is completed. Though, MSPDCL took up various measures to reduce the AT&C loss, such as, strengthening of transmission and distribution systems; 100 *per cent* metering of feeders, distribution transformers, consumers; ring fencing of 13 project towns; introduction of computerised billing and revenue collection system *etc.*, the achievement in this regard was not satisfactory as the AT&C loss in the four 'Go Live' towns out of the total 13 project towns ranged between 70.11 *per cent* and 86.53 *per cent* as on 31 March 2015. The position of AT&C losses of 13 project towns is given in **Table No. 3.2.2** below.

**Table No. 3.2.2 Position of AT&C losses of the 13 project towns**

| Sl. No. | Name of Town/project | AT&C losses (in *per cent*) | | Remarks |
|---|---|---|---|---|
| | | Before sanction of project (initial baseline data) 2008-09 | At the end of 2014-15 | |
| 1 | Bishnupur | 79.86 | 70.11 | Go Live declared |
| 2 | Imphal Town | 60.19 | Yet to be completed | |
| 3 | Kakching | 79.88 | Yet to be completed | |
| 4 | Laxmi Thongkhong | 93.32 | Yet to be completed | |
| 5 | Lilong (I/W) | 84.15 | Yet to be completed | |
| 6 | Lilong Town | 96.11 | Yet to be completed | |
| 7 | Mayang Imphal | 71.96 | Yet to be completed | |
| 8 | Moirang | 96.38 | 72.60 | Go Live declared |
| 9 | Moreh | 88.26 | Yet to be completed | |

[23] Go Live: Project becoming operational.

[24] The Steering Committee approved DPRs of R-APDRP projects after validated and appraised techno commercially by PFC and fixing time schedule for completion of projects.

[25] In Manipur, MSPDCL from February 2014; previously Electricity Department Manipur (EDM).

| Sl. No. | Name of Town/project | AT&C losses (in *per cent*) | | Remarks |
|---|---|---|---|---|
| | | Before sanction of project (initial baseline data) 2008-09 | At the end of 2014-15 | |
| 10 | Nambol | 81.90 | Yet to be completed | |
| 11 | Samurou | 93.84 | Yet to be completed | |
| 12 | Thoubal | 88.95 | 70.22 | Go Live declared |
| 13 | Ningthoukhong | 78.11 | 86.53 | Go Live declared |

***(Source: As furnished by the Company)***

As seen from the above, AT&C losses of only four 'Go Live' towns could be assessed till the end of 2014-15 though the Part-A projects were originally scheduled to be completed within three years (March 2013) from the date of sanction. Due to slow progress, the R-APDRP Steering Committee extended the date of the projects till June 2016. It was noticed in that AT&C losses in respect of Ningthoukhong town as on 31 March 2015 had increased even after declaring the project as Go live' as AT&C losses were found to be 86.53 *per cent* against 78.11 *per cent* fixed before sanction of the project. This indicated that the scheme objective of reducing AT&C loss was not achieved in this project town. On this being pointed out, the Company stated (March 2016) that apparent increase in AT&C loss was on account of prepaid energy bills collected from Ningthoukhong town was not accounted in the MIS report. The reply is not acceptable as it is not only indicative of system weakness but also has high risk of misappropriation of revenue.

However, the AT&C losses in Bishnupur Project town had shown an improvement from 79.86 *per cent* before sanction of project to 70.11 *per cent* at the end of 2014-15. Similarly, AT&C losses had registered a substantial improvement in two other towns of Moirang and Thoubal.

## Fund/Financial Management

### 3.2.10 Release and utilization of funds

**3.2.10.1** Regular and timely release of funds is an essential requirement for effective implementation of any programme. Delays, irregular or short release of funds have a cascading impact on the execution of time-bound activities that are interlinked. The position of fund released by the PFC and expenditure incurred by the MSPDCL for both Part-A and Part-B projects of R-APDRP (as of March 2015) is shown in the **Table No. 3.2.3** below.

**Table No. 3.2.3 Position of funds released by the PFC and expenditure incurred by the MSPDCL for both Part-A and Part-B projects of R-APDRP**

***(₹ in crore)***

| Particulars | Project cost | Fund released by PFC | Fund released by REC | Total fund released | Expenditure |
|---|---|---|---|---|---|
| R-APDRP (Part-A) | 31.55 | 9.47 | - | 9.47 | 10.42 |
| R-APDRP (Part-B) | 398.87 | 119.66 | 39.88 | 159.54 | 182.93 |

Position relating to project wise release of funds and utilization there against is given in ***Appendix 3.4A and 3.4B.***

Audit noticed that the nodal agency (PFC) had released (April 2011 for Part-A and March 2013 for Part-B) upfront advance of 30 per cent of the project cost at the time of sanction of the projects but had not release further installments as discussed in the succeeding para.

**3.2.10.2 Second installment of loan not released**

As per para 5.1 of the R-APDRP guidelines and quadripartite agreement, initially 100 *per cent* funds for the approved Part-A projects shall be provided in the form of a loan from GoI. The loan along with interest thereon shall be converted into a grant once the required system is established and verified by an independent agency appointed by the Ministry of Power (MoP) through the Nodal Agency. No conversion to grant will be made in case projects are not completed within three years from the date of sanctioning of the project. Upto 30 *per cent* of the approved project cost can be released as GoI loan up front on approval of the project. Based on progress/utilization, 60 *per cent* cost would be disbursed as GoI loan progressively. Balance 10 *per cent* of the project cost would be disbursed as GoI loan only after full utilisation of the loan disbursed through earlier tranches.

Audit test check showed that a sum of ₹ 31.55 crore was approved for the 13 Part-A projects in March 2010. PFC Ltd. released a sum of ₹ 9.47 crore, being 30 *per cent* of the approved cost in March 2011. However, no further fund was released by PFC Ltd after March 2011 till March 2015 in spite of request (March 2015) for request for release of second tranche under R-APDRP by the Government of Manipur. Thus, for all the 13 projects, no further installment was released for a period of four years.

Para 5.2 of the R-APDRP guidelines provided that for Part-B projects, initially upto 90 *per cent* funds shall be provided as loan from GoI. The balance (10 *per cent)* shall be raised from Financial Institutions, namely, PFC/Rural Electrification Corporation (REC)/multi-lateral institutions and/or own resources. Out of the 90 *per cent* of project cost to be funded through GoI loan, 30 *per cent* was to be released up front on approval of the project. Release of 50 *per cent* was to be based on progress and the remaining 10 *per cent* only against full utilisation of GoI and FIs loans.

Test check of records showed that R-APDRP Steering Committee approved (February 2013) a sum of ₹ 398.87 crore for 13 Part-B projects in the State. The PFC Ltd. released (March 2013) a sum of ₹ 119.66 crore as upfront loan on approval of the projects. No further installment was released by the PFC Ltd. till March 2015.

Further, the Company had tied-up counterpart funding in October 2014, after a delay of one year and eight months from the date of release of Part-B funds (March 2013).

#### 3.2.10.3 Irregular deposit of funds to Bank accounts operated by the State Government

The Nodal Agency (M/S PFC), released (30 March 2013) a sum of ₹ 119.66 crore as first instalment of loan for implementation of Part-B projects in the 13 project towns ***(Appendix 3.4B)***. Test check of records of MSPDCL revealed that the Finance Department, Government of Manipur instructed (2 April 2013) the Company to deposit the above amount into the bank account No. 30249613647, which was jointly operated by the Principal Secretary (Finance) and Under Secretary (Finance Resource), Government of Manipur. Accordingly, the Company (previously Electricity Department Manipur) withdrew ₹ 119.66 crore (3 April 2013) from the bank account (No. 31677191266) maintained for R-APDRP funds and credited into account No. 30249613647.

The State Government subsequently returned the above amount in two installments (₹ 59.00 crore on 12 July 2013 and ₹ 60.66 crore on 7 November, 2013). Thus, Central fund of ₹ 119.66 crore was temporarily diverted to the other bank account for period ranging between three months and seven months.

### 3.2.11 Implementation

#### 3.2.11.1 Projects not prioritized

As per para 4 of the R-APDRP guidelines, the utilities shall prepare Detailed Project Reports (DPRs) in two parts (Part-A and Part-B) for each of the project areas. The DPRs should indicate the order of priority of the projects. Prioritization of projects for reduction of AT&C losses should be based on the prevailing AT&C losses and input energy for improvement in revenue collection and increase in customer satisfaction. Audit noticed that order of priority of the projects was not indicated while forwarding the DPRs to the Nodal Agency.

#### 3.2.11.2 Liquidated damage not levied

As per the LOAs of the 13 Part-B projects, if the supply of equipments/materials and erection, testing and commissioning and handing over of the equipments is delayed beyond the schedule date or any time extensions granted, the firms shall pay to the Company (previously EDM) a liquidated damages as penalty at the rate of 0.5 *per cent* of the total contract price for the package for each week of delay or part thereof in the handing over of respective line. The above amount of liquidated damages shall be subject to a maximum of five *per cent* of the total contract price.

It was observed that, the schedule for completion of supply and erection works had overshot by nine months and three months respectively (as of June 2015). As time extension had not been sought/granted, liquidated damage of ₹ 14.95 crore (five *per cent* of ₹ 298.98 crore) for delay in supply and ₹ 2.91 crore (five *per cent* of ₹ 58.20 crore) for delay in erections works was recoverable from the nine Turn-key firms. However, liquidated damages were not recovered from the Turn-key firms inspite of issue of notices to the defaulting firms (April 2015).

During the Exit Conference, the Company replied that the amount involved will be recovered from future payments. Information regarding recovery of the same is yet to be received (February 2016).

### 3.2.11.3 Diversion of R-APDRP materials

Test check of records showed that the Managing Director, MSPDCL vide his office order (25 June 2015) issued instructions for diversion of R-APDRP materials worth ₹ 6.40 lakh for Moreh Town to 'L.T. AB cabling works' in Senapati Division which was not part of the R-APDRP. On another instance (6 April 2015), R-APDRP materials worth ₹ 3.73 lakh from the same town were diverted to 'Testing and charging of newly constructed 33/11 KV Sub-Station' at Joupi, Chandel District under $10^{th}$ Plan Rajiv Gandhi Grameen Vidyutikaran Yojana. Materials for 'Renovation and modernization of 33/11 KV Sub-station' for Lilong Town worth ₹ 47.35 lakh were diverted to a non-R-APDRP area at Karong, Senapati District. Thus, R-APDRP materials worth ₹ 57.48 lakh were diverted for the works not connected with the scheme as per details given in ***Appendix 3.6.*** Diversion of R-APDRP materials for works executed in non-R-APDRP areas is likely to hamper the implementation of the programme as envisaged.

During the Exit Conference (December 2015), the Company replied that it was a temporary diversion of materials and detailed replies would be submitted soon. Information regarding recovery of the same is yet to be received (February 2016).

### 3.2.11.4 Extension of undue financial benefit to Turn-Key firms

Para 32.6 of CPWD Works Manual 2012 lays down that in respect of certain specialized and capital intensive works with estimate cost ₹ 2.00 crore and above, the Mobilisation Advance (MA) limited to 10 *per cent* of tendered amount at 10 *per cent* simple interest can be sanctioned to the contractors on specific request as per terms of contract. Para 37.15 *ibid* further provides that advance payments demanded by firms against fabrication contracts, Turn-Key contracts *etc.* should be limited to 30 *per cent* of contract value.

a) As per LOAs for implementation of Part-B projects (Supply and Erection) (September, 2013), advance payment of 20 *per cent* of the Ex-Works price of equipments plus full inland freight and insurance charges shall be paid against submission of irrevocable Bank Guarantee (BG) for the equivalent amount.

   In respect of erection work, advance payment of 20 *per cent* of the erection price shall be paid on establishment of site office, commencement of work and certification by the engineer that satisfactory mobilisation for erection has been done.

   Test check of records showed that MSPDCL released (October 2013 to April 2014) erection advance of 20 *per cent* amounting to ₹ 9.61 crore to seven numbers of Turn-Key firms before fulfillment of the mandatory conditions and before commencement of supply of materials by the firms resulting in extension of undue financial benefit to the firms to that extent.

During the Exit Conference (December 2015), the Company replied that erection works were to be done simultaneously as soon as materials were received, and hence the advance was paid.

The reply was not tenable as instances were found where advance was paid much before supplies had started *e.g* advance payment for erection work of Bishnupur project town was paid to M/S T&T Projects in December 2013 whereas supply of the materials was started in March 2015.

b) The Company issued a work order for erection portion for Imphal City to M/s Shyama Power India Ltd. Gurgaon at the total contract price of ₹ 32.30 crore (inclusive of Service tax, Cess, VAT and Departmental charges). As per the work order, ₹ 4.83 crore (20 *per cent* of total erection charges of ₹ 24.15 crore) was paid to the firm in October 2013. The work order was, however, amended (October 2014) and the value of contract was reduced to ₹ 23.38 crore. Thus, the admissible 20 *per cent* advance was arrived at ₹ 3.57 crore (20 *per cent* of ₹ 17.83 crore). The excess advance paid as per the original work order worked out to ₹ 1.26 crore (₹ 4.83 crore – ₹ 3.57 crore). However, the excess advance of ₹ 1.26 crore was not recovered/adjusted resulting in extension of undue financial benefit to the firm.

The Company accepted (December, 2015) the audit observation on non-adjustment of excess advance in respect of Imphal town project and stated that there was some miscommunication among the officials concerned and gave assurance that the amount will be adjusted from unpaid bill of about ₹ 2 crore of the contractor.

c) Scrutiny of records also showed that LOAs for supply of all equipments/materials and also for erection works for implementation of Part-B projects in the 13 project towns were issued to nine Turn-Key firms in September 2013. Audit noticed that interest free mobilization advance for supply of the materials/equipments amounting to ₹ 58.98 crore was released (October 2013 to April 2014) to eight Turn-Key firms in contravention of the provisions of the CPWD Manual. Release of interest free mobilisation advance besides being contrary to the provisions of CPWD Manual also violated the instructions (2007 and 2011) of Central Vigilance Commission regarding securing the mobilisation advance by a Bank Guarantee of 110 *per cent*.

Thus, exemption of interest on the Mobilisation Advance was an extension of undue financial benefit to the Turn-Key firms.

The reply of the Company was awaited (February 2016).

### 3.2.11.5 Contract Performance Guarantee (CPG) not collected

Para 21.1 of CPWD Manual 2012 stipulates that the successful tenderer shall deposit an amount equal to 5 *percent* of the tendered and accepted value of work as performance guarantee in one of the accepted forms. Further, Para 7.4 of LOAs for implementation of R-APDRP (Part-B projects) also provides that Contract Performance Guarantee (CPG) at the rate of 15 *per cent* of the contract price shall be furnished by the Turn-Key Firms (TKFs) and the guarantee shall be valid upto 90 days after the end of warranty period as specified in the bidding document.

Test check of LOAs for implementation of Part-B projects awarded (September 2013) to nine TKFs at the total contract value of ₹ 357.18 crore showed that the Company did not collect the required CPG and the TKFs were allowed to execute the works without submission of CPG in violation of the provisions of CPWD Manual and terms of LOAs. The Company, thus, failed to take adequate safeguards for proper performance of the contracts as CPG of ₹ 17.86 crore (5 *per cent* of ₹ 357.18 crore) was not collected.

Para 11 of LOA issued to M/s TCS for implementation of Part-A projects also stipulates that the firm should furnish bank guarantee from any Scheduled commercial bank towards performance guarantee at the rate of 10 *per cent* of the contract price. However, M/s TCS did not submit the required bank guarantee.

On this being pointed out, the Company stated that the TKFs were asked to submit the CPG failing which an amount equivalent to 15 *per cent* of the contract price will be retained upto 90 days after the end of the warranty period.

During the Exit Conference (December 2015), the Management accepted the audit observation and further stated that CPG was not yet submitted and payments would be held up from the payable amounts of the contractor's liabilities. However, the documents in this regard are yet to be received (February 2016).

### 3.2.11.6 Bank guarantee not renewed

As per the LOAs issued for implementation of Part-B projects, the TKFs were entitled to 20 *per cent* advance for supply of materials/equipments and also for erection works to be paid against submission of irrevocable bank guarantee for the equivalent amount from a Nationalised/Scheduled Bank having branch in Manipur. As per the terms of the LOA, advance amounting to ₹ 58.98 crore (supply: ₹ 49.37 crore and erection: ₹ 9.61 crore) were released to the firms against submission of irrevocable BG of the equivalent amount. However, test check of the records revealed that out of 7 firms to whom advance for erection had been released had not renewed 11 BGs beyond their validity period and therefore these BGs had expired (during January 2014 and March 2015) even though the work had not been completed (February 2016).

In case of Part-A projects also, M/s TCS was paid 10 *per cent* advance amounting to ₹ 1.14 crore against submission of bank guarantee. However, the bank guarantee was not renewed after its expiry on 21 January 2014.

### 3.2.11.7 Extra expenditure on purchase of galvanised poles: ₹ 10.61 crore

The Company issued (September 2013) work orders/LOAs for Part-B projects in the 13 project towns for procurement of 10643 numbers of Steel Tubular Poles (STPs) of nine metre length and 10299 numbers of STPs of eight metre length at the total cost of ₹ 21.07 crore and ₹ 18.62 crore respectively. In addition, work orders for procurement of 22071 numbers of 7.5 meter poles were also issued to a contractor.

Subsequently, the Company decided (October 2014) to galvanise 8275 numbers of 9 meter STPs and 7920 numbers of 8 meter STPs at the rate of ₹ 49.19 per kg at a total cost of ₹ 10.61 crore.

Audit observed that on account of galvanization of 8275 numbers of 9 meter STPs and 7920 numbers of 8 meter STPs, the Company had to place orders for only 15118 numbers of 7.5 meter STPs instead of 22071 numbers of 7.5 meter STPs as originally decided. Thus, for avoiding excess cost, the Company decided to procure 6953 numbers of 7.5 meter STPs less than originally envisaged in DPRs as shown in ***Appendix 3.7***.

However, the deviation from the DPRs was not approved by the Steering Committee and no justification for this deviation was on record.

During the Exit Conference (December 2015), the Company replied that there was no extra expenditure as they had adjusted galvanized pole with MS Pole, and that a detailed reply would be given after consultation with the technical persons involved. However, the detailed reply was awaited (February 2016).

### 3.2.11.8 Irregularities in execution of works under R-APDRP (Part-A projects)

The Electricity Department, Government of Manipur issued two work orders (December 2011) to M/s APE Power Pvt. Limited for supply and erection of energy meter for feeders, distribution transformers and HT consumers under R-APDRP Scheme (Part-A project) in Manipur at a cost of ₹ 12.79 crore for supply of materials and ₹ 2.88 crore for erection.

As per the terms and condition of the orders for supply of materials, an advance payment of 25 *per cent* of the order value if required is to be made against submission of irrevocable bank guarantee of equivalent amount from a Nationalised/Scheduled Bank. For erection work, 100 *per cent* payment was required to be made after completion of work. The work schedule for supply of materials had to be commenced within one month of issue of work order and to be completed within three months from the date of receipt of technically and commercially clear order and the erection work be completed within 6 months from the date of receipt of technically and commercially clear order.

The Electricity Department, Government of Manipur released (May 2012) 25 *per cent* of the work order value for supply of materials amounting to ₹ 3.20 crore in favour of M/S APE Power Pvt. Ltd.

However, due to inordinate delay in execution of the work by M/s APE Power, MSPDCL cancelled (February 2015) the supply order of materials and also cancelled unexecuted work thereof. While issuing the cancellation of order, the Company took into account only 170 Nos. of sub-standard poles supplied by M/s APE Power Ltd. and did not take into account the actual status of work executed. The work completed by M/s APE Power as of date (September 2015) *vis-à-vis* the LOA issued was as below in **Table No. 3.2.4** below.

**Table No. 3.2.4 Position of work completed by M/s APE Power as of date (September 2015) *vis-à-vis* the LOA issued**

| Materials | LOA Qty. | Executed | Balance |
|---|---|---|---|
| Boundary Meters | 72 | 53 | 19 |
| DT Meters | 1168 | 1072 | 96 |
| HT Meters/Feeder Meters | 331 | 89 | 242 |

Till March 2015, MSPDCL had released ₹ 10.53 crore (₹ 6.70 crore from Part-A and ₹ 3.83 crore from Part-B) to M/s APE Power Pvt. Ltd. Audit observed that:

(a) As per R-APDRP guidelines for Part-A works, the total amount approved for ring fencing and system metering was ₹ 2.47 crore. However, the contract amount for the works with M/s APE Power Limited was ₹ 15.67 crore which exceeded the approved cost by ₹ 13.20 crore. No justification for exceeding the R-APDRP guidelines was on record.

(b) The Department did not deduct at source a sum of ₹ 0.49 crore (VAT at the rate of 5.6 *per cent* and Departmental charges at the rate of 11.75 *per cent*) from the advance payment of ₹ 3.20 crore.

(c) Payments of ₹ 7.33 crore to M/s APE Power Limited was made without any accompanying invoice and certification that the work was completed.

(d) Out of the advance paid to M/s APE Power Ltd. of ₹ 3.20 crore, an amount of ₹ 2.56 crore only was adjusted in the subsequent payments.

**(e)** Inspite of delay in executing of works, MSPDCL did not levy penalty and liquidated damages of 10 *per cent* of the work order value amounting to ₹ 1.33 crore (10 *per cent* of ₹ 10.84 crore (Material) plus ₹ 2.42 crore (Erection))

### 3.2.11.9 Excess Payment to Turn-Key firms: ₹ 0.25 crore

As per supply orders issued to various Turn-Key firms for supply and execution of R-APDRP Part-B schemes, an advance of 20 *percent* of the contract amount was to be paid to the turnkey firms which were to be adjusted in the subsequent bills. Test check of records showed that in four towns, MSPDCL paid ₹ 1.26 crore being full amount of freight charges without adjusting the 20 *per cent* advance already paid till March 2015. This resulted in excess payment to the Turn-Key firms amounting to ₹ 0.25crore as detailed below in **Table No. 3.2.5** below.

**Table No. 3.2.5 Position of excess payment to the Turn-Key firms**

*(₹ in crore)*

| Sl. No. | Name of Town | Turn-Key Firm | Amount |
|---|---|---|---|
| 1 | Bishnupur town | M/s T&T Projects Ltd., Guwahati | 0.02 |
| 2 | Nambol town | M/s T&T Projects Ltd., Guwahati | 0.04 |
| 3 | Moirang town | M/s Techno Power Enterprises (P) Ltd., Dimapur | 0.16 |
| 4 | Ningthoukhong town | M/s Electrokings, Jorhat | 0.03 |
| **Total** | | | **0.25** |

During the Exit Conference, the Company replied (December 2015) that effective action would be taken to recover the excess amount. However, intimation in this regard is yet to be received (February 2016).

### 3.2.11.10 Computerisation of commercial activities

The activities to be covered under Part-A include adoption of IT applications for meter reading, billing and collection; energy accounting and auditing; MIS; redressal of consumer grievances; establishment of IT enabled consumer service centers etc.

With the objective of increased consumer satisfaction, computerization of commercial activities (billing, collection *etc*) was required to be done in the project towns. However, it was noticed in audit that computerization of commercial activities was done only in five[26] 'Go Live' towns and in one project (Lilong Town), commercial run had started (September 2015).

### 3.2.11.11 Customer Service System (CSS)

The Customer Service System (CSS) should comprise of logging, tracking and redressal of customer requests and queries. CSS is supposed to meet functions like requests for temporary disconnections, special connection/disconnection, interface with spot metering and billing system *etc.* Audit noticed that CSS is yet (December 2015) to be established in the State.

### 3.2.11.12 Online Connection Management System (CMS)

Online CMS was installed in the five 'Go Live' projects and another one project (Lilong Town) where commercial run has started. As informed to audit, the system supports the collection for energy billed from multiple payment channels for enhancement of customer convenience. The system also supports expeditious disconnections and dismantlement.

### 3.2.11.13 Erroneous Energy Accounting

Billing centers were established in only five 'Go Live' projects and another one project where commercial run has started. The billing system comprised of bill generation, printing and dispatch to the consumers. Scrutiny of the AT&C loss

[26] Four project towns were declared 'Go Live' till 31 March 2015. One town *viz.*, Nambol declared 'Go Live' in August 2015.

report for March 2015 showed that in case of Bishnupur ('Go Live' project), the net input energy (KWH) from feeder (Bishnupur 11 KV) was 17363 KWH while the billed unit showed 56132 KWH (323 *per cent* of net input energy). Thus, the energy accounting was not reliable. Though AT&C losses ranged between 70.11 *per cent* and 86.53 *per cent* in the four 'Go Live' towns, there was no proper analysis for huge losses in these towns.

### 3.2.11.14 Consumer Grievance Redressal Forum (CGRF)

As per Section 42(5) of the Electricity Act, 2003, every distribution licensee shall, within six months from the appointed date or date of grant of licence, whichever is earlier, establish a forum for redressal of grievances of the consumers in accordance with the guidelines as may be specified by the State Commission.

It was noticed from the Annual Report of Joint Electricity Regulatory Commission (2013-14) that the Commission had notified Regulations on Consumer Grievance Redressal and directed the State Power Department to set up Internal Grievance Redressal Cell (IGRC) and Consumer Grievance Redressal Forum (CGRF) and also to draw the awareness of all consumers of grievance redressal mechanism through wide publication in local newspapers/media. Accordingly, one CGRF was set up in the State. Further, 18 numbers of IGRCs have also been set up at different places of the State

However, during examination of records in the 13 project towns, none of the Divisions could produce Grievance Register. Thus, grievances of the consumers, such as wrong billing, replacement of meters, replacement of damaged service lines, voltage complaints *etc.* could not be ascertained in audit. Moreover, no quarterly/periodical consumer grievance meetings were held at divisional headquarters for collection of grievances and their redressal.

### 3.2.11.15 Electricity Ombudsman

Section 42(6) of the Electricity Act, 2003 provides that any consumer, who is aggrieved by non-redressal of his grievances under Sub-Section 5, may make a representation for the redressal of his grievance to an authority to be known as Ombudsman to be appointed or designated by the State Commission. Sub-section 7 further stipulates that the Ombudsman shall settle the grievance of the consumer within such time and in such manner as may be specified by the State Commission.

As noticed from the Annual Report of JERC (2013-14), the Chief Engineer of the Commission was designated (January 2014) as Electricity Ombudsman for Manipur and Mizoram as an interim arrangement. Thus, no regular Electricity Ombudsman has, so far, been appointed and Complains/Petitions filed to the Electricity Ombudsman were not available on records.

## 3.2.12 Capacity Building

**3.2.12.1** Capacity building exercises were to be carried out to train the personnel engaged in the implementation of the scheme. Audit noticed that Partner Training Institutes (PTIs) were identified following which resource institute was also identified for imparting training to the distribution personnel.

As informed to audit, capacity building exercises was carried out to train the utility personnel (Deputy Managers and Assistant Managers) on ‘Pre-Post Go Live Scenario’, ‘Asset Management under R-APDRP Part-A’ *etc.* However, the required 6 months certificate programme in power distribution is yet (December 2015) to be imparted to technician/line men.

## 3.2.13 Quality Control System

### 3.2.13.1 Assistance of expert agencies

As per R-APDRP guidelines it was desirable for the Utility to obtain the assistance of expert agencies, such as, Indian Electrical and Equipment Manufacturing Association, Confederation of Indian Industry and BIS for standardizing the materials/equipments used in the programme. However, the EDM/MSPDCL did not obtain the assistance of expert agencies for standardizing the equipments/materials. Further, pending completion of the projects, instances of failure of the items/systems after completion of the project could not be ascertained in audit.

### 3.2.13.2 Performance parameters

It is expected that there should be improvement in performance in power supply, reduction in AT&C losses (reduction in power failures, reduction in number/duration of outages *etc.*) of existing Distribution Transformers where capacitors are installed. Further, reduction in load on connecting feeders and reduction in distribution loss should be as envisaged. However, as Capacitor Bank installation and commissioning for all 13 towns are currently in progress, the results achieved in these regards could not be assessed in audit.

## 3.2.14 Monitoring Mechanism

### 3.2.14.1 Inadequate monitoring by DRC

As per the scheme guidelines, Distribution Reforms Committee (DRC) was constituted (January 2010) with the following objectives:

- To recommend the project proposal of the Company to the Ministry of Power;
- To monitor compliance to the conditionalities and
- To monitor the achievement of milestone and targets under the scheme.

However, DRC meetings were held only three times since inception, the last being held in November 2012. Tenders for Part-B projects were invited during May 2013 and works were awarded during September 2013. However, no DRC meeting was held during the aforesaid period to monitor the tendering process and implementation of the work.

#### 3.2.14.2 Project Monitoring Unit (PMU)

With a view to streamline project monitoring, a Project Monitoring Unit (PMU) was created (June 2014) in the Corporate Office of the MSPDCL. In order to make the functioning of PMU effective, fortnightly meetings are to be mandatorily taken up at the level of Deputy General Managers (DGMs) with the TKFs. The DGMs are to send copies of minutes of the fortnightly meetings to the General Managers, Executive Director (Technical) and Managing Director. Further, the TKFs are to increase their manpower with managerial capabilities and to furnish the list of manpower deployed along with the work execution schedule to the DGMs.

Divisional offices did not produce to audit copies of minutes of fortnightly meetings with the TKFs, indicating that such meetings were not held. Further, list of manpower deployed by the TKFs and work execution schedule were also not available with the Divisional offices.

### 3.2.15 Conclusion

- Planning for implementation of the programme was deficient as there were delays in constitution of DRC, appointment of IT Consultant, submission of DPRs and non-prioritisation of projects based on prevailing AT&C losses which stands at an average of 84.06 *percent*.

- Financial management was inefficient resulting in diversion of scheme fund, delay in obtaining counterpart fund from Financial Institution and non-opening of separate bank accounts.

- Programme implementation was not effective resulting in delay in appointment of IT Implementing Agency, extension of undue benefits to Turn-Key firms, diversion of materials and issue of Letter of Awards in excess of approved cost.

- Monitoring of the programme implementation and evaluation was inadequate as regular meetings of DRC and Project Monitoring Unit were not being held.

### 3.2.16 Recommendations

The Company may consider the following:

- Financial management may be strengthened to ensure transparency and financial discipline in programme implementation;
- Instances of undue benefit to contractors should be avoided;

- The implementation of the programme to be strictly in accordance with the guidelines/DPRs;
- Monitoring mechanism should be strengthened to ensure accountability in timely completion of the programme implementation and
- Deviations from the DPRs/Project Guidelines should be done only after approval of the Steering Committee of R-APDRP.

## 3.3 Audit of Energy Billing System (EBS) of Manipur State Power Distribution Company Ltd.

### 3.3.1 Introduction

The Manipur State Electricity Department (EDM) has been unbundled and corporatized into two functionally independent State owned successor entities with effect from the 1 February 2014 - The Manipur State Power Company Limited (MSPCL) as the Holding Company (HOLDCO) is to discharge the functions of the State Transmission and Generation Utility and the functions of State Load Dispatch Centre (SLDC) and The Manipur State Power Distribution Company Limited (MSPDCL) as the deemed distribution licencee (Discom). The MSPDCL is responsible for the implementation of the Energy Billing System (EBS) in the State.

To enable accurate and timely energy accounting and auditing, the State Electricity Department, Government of Manipur entrusted (2005) the task of computerisation of the Billing System of Electricity to National Informatics Centre (NIC), Manipur as a pilot project at a cost of ₹ 6.07 lakh. The Energy Billing System of MSPDCL has subsequently been implemented (2010-11) in two divisions of Imphal Electrical Division (IED) *i.e.,* IED-I and IED-II in Manipur.

The draft thematic Audit Report was issued to the MSPDCL/State Government on 7 December 2015. However, reply of the Company/Government was not received till date (February 2016).

The thematic audit report has therefore been finalised without the reply of the Company/Government.

### 3.3.2 Scope

The thematic audit covers the period from inception of the Project (2005) upto March 2015. Audit was carried out from July 2015 to August 2015 in the two divisions of IED-I and IED-II where EBS has been implemented.

### 3.3.3 Objectives

The objective of the audit was to review and evaluate the effectiveness of the billing system in achieving the organisational objectives of reduction of time lag in issuing computerised bills, provision of accurate billing and accounting information. This was done through evaluation of management controls and analysis of data, using 'IDEA' software, in respect of consumers from inception of the Project upto March 2015. The audit findings are as below.

### 3.3.4 Financial Management

The total fund allocated for implementation of EBS is given in **Table No. 3.3.1** below.

**Table No. 3.3.1 Details of fund position**

*(₹ in Lakh)*

| Year | Project | Divisions covered by the project | Funds allocated | Expenditure incurred |
|---|---|---|---|---|
| 2004-05 | Pilot Project on EBS | Imphal Electrical Division-I (IED-I) | 6.07 | 6.07 |
| 2010-11 | Rolled out Phase-I | IED-II, IED-III and Imphal Maintenance Division (now IED-IV) | 32.86 | 32.86 |
| **Total** | | | **38.93** | **38.93** |

***Source: Departmental records***

As per Pilot Project and the Phase–I, the EBS was to be implemented in IED-I, IED-II, IED-III and IED-IV. However, only IED-I and IED-II have implemented the EBS. The Company had incurred an expenditure of ₹ 5.06 lakh on IED-III Project and ₹ 7.69 lakh on IED-IV project. In view of non-implementation of IED-III and IED-IV projects, the entire expenditure of ₹ 12.75 lakh has been rendered unfruitful.

### 3.3.5 IT Security Policy

A well-defined IT Security Policy helps to create an environment that ensures security of equipments, maintain system security and availability, data integrity, and individual privacy by preventing unauthorized access to information and information systems and by preventing misuse of, damage to, or loss of data.

Though the Company stated that IT security policy has been formulated, a copy of the same was not produced to Audit though called for (August 2015). Thus, Audit is not in a position to comment on adequacy of the IT security policy.

Audit observed that there were no records or documents detailing control procedures/system at each level to monitor the cases of creation of new database of consumers, deletion of consumers from master data bank, acceptance of duplicate or unauthentic records. In the absence of such documented control procedures, the possibilities of security breaches/unauthorised changes in the master database could not be ruled out.

### 3.3.6 Lack of IT Policy and IT Strategic Plan

Information technology planning provides a structured means of addressing the impact of technologies, including emerging technologies, in an organisation. During the planning process, relevant technologies are to be identified and evaluated in the context of broader business goals and targets. Based on a comparative assessment of relevant technologies, the direction for the organisation can be established.

The IT strategic plan/IT long term plan is the starting point for any investment in an IT system as it identifies future changes which have to be budgeted for. The plan is vital for an organisation because it provides an increasing potential for enhancing the value of existing products or services, providing new products and services, introducing alternative delivery mechanisms and to overcome challenges from rapid pace of technological changes.

The Company had not formulated a formal IT policy and a long-term IT strategy for monitoring the implementation of IT application in a systematic manner with clear roles and responsibilities.

### 3.3.7 Inadequate Business Continuity Plan

The Energy Billing System is a critical system to ensure timely generation of bills and revenue realisation by the Company. If the consumers' bills are not generated in time due to any untoward incident/disaster, the revenue earning capacity of the Company may be adversely affected.

Thus, it is essential for the Company to prepare and document a disaster recovery and business continuity plan. Although backup of the billing data was taken at periodical intervals, there was no formal policy regarding the frequency of test check of backup data for recovery.

### 3.3.8 Lacunae in change management control

Change management control refers to controls to be exercised in carrying out changes to the system. It *inter-alia*, covers authorisation for changes to the system to incorporate tariff changes and for effecting improvement in the system, monitoring progress in making such changes to the system, use of systematic approach to program design, documentation standards to ensure that program can be easily read and understood and testing of software program *etc*. Timely changes in tariff have a significant bearing on revenue.

A proper documentation of changes made to the system is necessary so that the same could be readily understood to facilitate further modification as and when necessary. Though the Company stated that the General Manager (Electric Circle-I) is responsible for any modification to the system when tariff is changed, the Company could not produce copy of order/circular entrusting the GM (EC-I) with the responsibility of any modification to the system when tariff is changed. This shows that there was no documented delineation of duties and responsibilities for modification to the system. The range of applicable rates as per the various tariff orders issued by the Company are given in **Table No. 3.3.2** below.

**Table No. 3.3.2 Range of applicable rates as per Tariff Order**

| Tariff Order | Range of rates (₹ per kwh) applicable to consumers | | |
|---|---|---|---|
| | Domestic | Commercial | High Tension (HT) |
| 2010-11 | 2.20 to 3.20 | 2.50 to 4.00 | 2.50 to 3.50 |
| 2012-13 | 2.40 to 3.60 | 2.50 to 4.40 | 2.50 to 4.00 |
| 2014-15 | 2.80 to 4.60 | 2.90 to 5.60 | 2.70 to 5.40 |

Audit observed that in respect of 2234 bills of all categories pertaining to the period 01 September 2012 to 28 March 2014, the tariff rate applied was as per Tariff Order 2010-11, instead of applicable Tariff Order 2012-13 which resulted in a loss of ₹ 5.89 lakh.

Similarly, in respect of 2429 (2013 + 416) bills of all categories pertaining to the period 01 April 2014 to 24 March 2015, the tariff rate applicable was as per Tariff Order 2014-15, whereas tariff rate of the Tariff Order 2012-13 was applied which resulted in a loss of ₹ 4.58 lakh. The total loss in revenue due to wrong application of tariff rate works out to ₹ 10.47 lakh as shown in **Table No. 3.3.3** below.

**Table No. 3.3.3 Table showing number of bills where wrong tariff has been applied.**

*(in ₹)*

| Name of Division | Tariff applied | Tariff to be applied | No. of Bills issued with wrong tariff | Energy charge as per wrong tariff | Applicable Energy charge | Loss in revenue |
|---|---|---|---|---|---|---|
| IED-I | 2010-11 | 2012-13 | 2,234 | 74,00,570 | 79,89,240 | 5,88,670 |
| IED-I | 2012-13 | 2014-15 | 2,013 | 32,48,391 | 36,80,834 | 4,32,442 |
| IED-II | 2012-13 | 2014-15 | 416 | 4,54,665 | 4,80,525 | 25,860 |
| **Total** | | | **4,663** | **1,11,03,626** | **1,21,50,599** | **10,46,972** |

Audit observed that the Company/erstwhile EDM authorised the NIC to make tariff changes in the customers' bills from time to time. However, there were no control procedures in the Company to oversee whether correct rates were applied in all the cases. The system was also not able to throw out exception reports in case revised rates were not applied to certain consumers.

## 3.3.9 Insufficient Input Control

Input to the Energy Billing System comprises data and instructions for processing. Data entry is done manually via keyboard. Effective control over both these types of inputs is critical as they involve considerable human intervention and are, therefore, error prone and susceptible to fraud. From analysis of the database it was observed that the consumer ID number comprises of 18 digits; comprising of four digits code for sub division, two digits for feeder code, three digits as route number, four digits as pole number and last five digits being the consumer serial number.

Audit scrutiny showed that in the case of Imphal Electrical Division-II, the number of digits of Consumer ID numbers are not uniform as shown in **Table No. 3.3.4** below.

**Table No. 3.3.4 Table showing inconsistency in number of digits in Consumer ID**

| Number of digits in Consumer ID | | No. of Consumers with less digits |
|---|---|---|
| Standard Digits | Applied Digits | |
| 18 | 14 | 9 |
| 18 | 15 | 90 |
| 18 | 16 | 900 |
| 18 | 17 | 9000 |
| **Total** | | **9999** |

The above inconsistencies in number of digits in consumer IDs indicated absence of effective control over data relating to energy billing system and the data integrity is compromised.

### 3.3.10 Incorrect data in the Consumer Bill Transaction Table

(i) Processing of bills in the energy billing system involves operations such as validation of data received from the billing units, updating of records, performing calculations and generation of bills. Audit verification of the Consumer Bill Transaction Table revealed that the database contained inconsistent data, invalid entries indicating lack of validation checks and input controls as follows:

a) The payment date was found prior to the bill generation date in case of 1216 (IED-II) and 4067 (IED-I) consumers.

b) The bill serve date was found prior to the bill generation date in case of six (IED-II) and 38100 (IED-I) number of bills.

c) Instances were noticed where critical fields in the data base were left blank or erroneous entry was made without system generating any error report. For example Treasury Receipt numbers were left blank in many cases, alpha numeric entry was accepted in one case etc.

Unreliable processing of information in the system resulted in inclusion of incorrect data in the system.

(ii) Further, it was observed that though the Energy Billing System was computerised with effect from 2005 there were cases of non-billing of active consumers for a period ranging from two days to 461 days in 37 instances in IED-I and from 28 days to 181 days in 95 instances in IED-II resulting in loss of revenue to the tune of ₹ 0.73 lakh. As an illustrative example four cases of non-billing are shown in **Table No. 3.3.5** below.

**Table No. 3.3.5 Table showing non-billing consumers**

| Sl. No | Division | Consumer ID | Last Bill served upto | Next Bill served from | Non Billing Period | | | Amount (₹) |
|---|---|---|---|---|---|---|---|---|
| | | | | | From | To | No. of days | |
| 1 | IED-I | 101204026111301452 | 07/08/2008 | 12/11/2009 | 08/08/2008 | 11/11/2009 | 461 | 9957.60 |
| 2 | IED-I | 101112000000006674 | 18/12/2012 | 21/12/2012 | 19/12/2012 | 20/12/2012 | 2 | 9.40 |
| 3 | IED-II | 102101000000010905 | 20/11/2014 | 21/05/2015 | 21/11/2014 | 20/05/2015 | 181 | 1608.00 |
| 4 | IED-II | 102201000000019349 | 03/10/2014 | 01/11/2014 | 04/10/2014 | 31/10/2014 | 28 | 104.80 |

a) In case of consumer No. 101204026111301452 the last bill served was upto 7 August 2008 and the next bill would start from 8 August 2008. However, the company served next bill with effect from 12 November 2009 resulting in non-billing of 461 days;

b) In case of consumer No. 101112000000006674 the last bill served was on 18 December 2012 and the next bill would start from 19 December 2012.

However, the company served next bill with effect from 21 December 2012 resulting in non-billing of 2 days;

c) In case of consumer No. 102101000000010905 the last bill served was on 20 November 2014 and the next bill would start from 21 November 2014. However, the company served next bill with effect from 21 May 2015 resulting in non-billing of 181 days and

d) In case of consumer No. 102201000000019349 the last bill served was on 3 October 2014 and the next bill would start from 4 October 2014. However, the company served next bill with effect from 1 November 2014 resulting in non-billing of 28 days.

In both the cases (i) and (ii), the system was not able to generate error reports. Thus, any wrong entry or inconsistency in data may go unreported by the system indicating lack of data validation checks.

### 3.3.11 Conclusion

The Energy Billing System (EBS) was implemented without any IT policy and long-term IT strategy. There was no documented Business Continuity plan. Thus continuation of the billing function in case of any eventuality was not ensured. The Company did not have effective management controls such as delineation of duties and responsibilities. This led to application of wrong tariff. There were several deficiencies in input controls and processing controls in the system. Consequently, the system failed to ensure data integrity. Lack of effective controls resulted in generation of erroneous bills and non-billing of certain periods.

### 3.3.12 Recommendations

The Company may consider to ensure:

- An effective, comprehensive IT policy and business continuity plan;
- A system to provide re-verification of changes in tariff, inconsistencies in input data, wrong entries etc by generating appropriate error/exception reports and
- Establishment of effective monitoring mechanism and internal audit system.

## COMPLIANCE AUDIT

## MANIPUR INDUSTRIAL DEVELOPMENT CORPORATION LTD.

### 3.4 Undue Benefit to the Supplier

**Payment of irregular advance amounting to ₹ 167.41 lakh to a contractor, out of which supplies for ₹ 115.49 lakh had not been received by the Company even after expiry of more than one year of contract agreement, resulted in extension of undue benefit to the supplier**

Rule 159 (1) of General Financial Rules, 2005 stipulates that payment for services rendered or supplies made should be released only after the services have been rendered or supplies made. Advance payments should not exceed 30 *per cent* of the contract value in case of private firms, for which adequate safeguard in the form of bank guarantee (BG) *etc.* should also be obtained.

Manipur Industrial Development Corporation Ltd. (the Company) entered (November 2012 and September 2013) into an agreement with M/s Good Health (India) Pvt. Ltd. (supplier) for supply of steel (TMT bars) and cement valuing ₹ 239.16 lakh as per details given below. The terms and conditions of the award for supply orders provided for payment of 100 *per cent* advance against BG of equal amount from any bank at Imphal. The stipulated date of completion of supplies of steel and cement was 31 May 2013 and 18 October 2013 respectively.

***(₹ in lakh)***

| Material | Quantity to be supplied | Date of Agreement/ BG | Amount | Date of payment of Advance | Stipulated date of completion | Date of expiry of BG | Quantity not received | Value of material not received as on February 2015 | Time lapsed after stipulated date of completion |
|---|---|---|---|---|---|---|---|---|---|
| TMT Steel Bars | 276.00 MT | 30/11/12 | 193.66 | 01/12/12 | 31/05/13 | 31/5/13 | 144.66 MT | 101.38 | 1 yr & 9 months |
| Cement | 10,000 Bags | 16/09/13 | 45.50 | 18/09/13 | 18/10/13 | 18/3/14 | 3,100 Bags | 14.11 | 1 yr & 4 months |
| **Total** | | | **239.16** | | | | | **115.49** | |

The Company paid (December 2012 and September 2013) an advance of ₹ 239.16 lakh for delivering of the supplies as per the agreement. Audit observed that:

i) The Company had paid advance of 100 *per cent* instead of only 30 *per cent* as stipulated in Rule 159(1) of General Financial Rules, 2005. Thus, the advance given to the contractor, in excess of 30 *per cent* of the value of ordered quantity amounting to ₹ 167.41 lakh[27], was irregular and an undue benefit to the contractor.

ii) Even after payment of advance for full ordered quantity for the supplies, the contractor had supplied material valuing ₹ 123.67 lakh

[27] At 30 *per cent*, the admissible advance is only ₹ 71.75 lakh. So excess advance paid is ₹ 239.16 lakh - ₹ 71.75 lakh = ₹ 167.41 lakh.

only and the balance material valuing ₹ 115.49 lakh remained to be delivered (February 2016). Thus, the Company had failed to take any concrete action against the supplier for ensuring delivery of the material within scheduled time frame.

iii) The Company had not secured its interests properly as the BG for supply of steel bars and cement had already expired in May 2013 and March 2014 respectively before completion of the supplies. The Company had not taken any action to get the date of BGs extended till the completion of the supplies or recovery of the advance paid. Consequently, the un-adjusted advance already paid to the supplier amounting to ₹ 115.49 lakh remained unsecured and chances of recovery of the same appeared remote.

Thus, the Company extended undue advantage to M/s Good Health (India) Pvt. Ltd. (supplier) in the form of excess irregular advance to the tune of ₹ 167.41 lakh out of which supplies amounting to ₹ 115.49 lakh had not been received even after one year of the agreement.

The matter was reported (June 2015) to the Government; reply has not been received so far (February 2016).