Chapter III

Economic Sector
(Public Sector Undertakings)

CHAPTER III

ECONOMIC SECTOR
(PUBLIC SECTOR UNDERTAKINGS)

3.1 Functioning of Public Sector Undertakings

3.1.1 Introduction

As of 31 March 2019, The State of Manipur had 13 PSUs (all Government Companies) as detailed in the table given below.

Table No. 3.1.1 Total number of PSUs as on 31 March 2019

Type of PSUs	Working PSUs	Non-working PSUs	Total
Government Companies[26]	10	3	13
Statutory Corporations	Nil	Nil	Nil
Total	**10**	**3**	**13**

None of these companies were listed on the Stock Exchange, which means that the shares of the PSUs cannot be traded in the stock exchange. During the year 2018-19, no new PSU was incorporated and no existing PSU was closed down.

3.1.2 Investment in PSUs

The State's investment in its PSUs was by way of share capital/loans and special financial support by way of revenue grants.

As on 31 March 2019, investment of the State Government (capital and long-term loans) in 12 PSUs[27] was ₹ 66.07 crore[28] as per details given in the table given below.

Table No. 3.1.2 Details of State's investment in PSUs

(₹in crore)

Year	Equity Capital	Long term Loans	Total
2018-19	65.39	0.68	66.07
2014-15	63.29	0.17	63.46

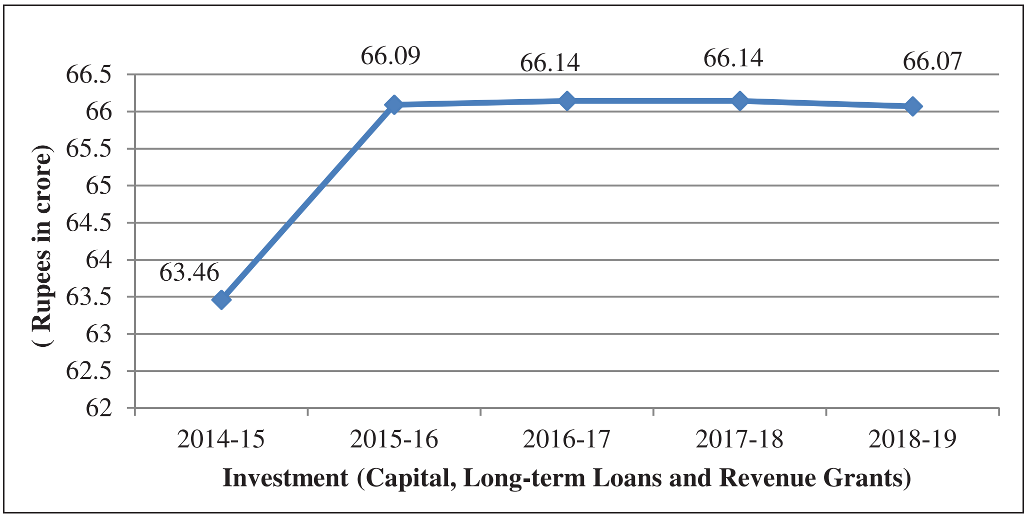
The State Government's investment as on 31 March 2019 consisted of ₹ 65.39 crore (98.97 *per cent*) towards capital and ₹ 0.68 crore (1.03 *per cent*) in long-term loans as against 99.73 *per cent* (capital) and 0.27 *per cent* (long-term loans) as on 31 March 2015. A graphical presentation of State Government's investment in PSUs during the last five years (2014-15 to 2018-19) has been given in **Chart No. 3.1.1**.

[26] Government Companies include other companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013.

[27] Excluding one PSU (Manipur Pulp & Allied Products Limited, subsidiary of Manipur Industrial Development Corporation Limited), which has no direct investment from the State Government as on 31 March 2019.

[28] Investment figures are provisional and as per the information provided by the PSUs as none of the 13 PSUs has finalised accounts for 2018-19 as of September 2019.

Chart 3.1.1: Total investment in PSUs



Source: Departmental Records.

As can be noticed from the **Chart** above, the State Government's investment in PSUs during last five years increased in 2015-16 and thereafter remained steady during the period 2015-16 to 2018-19. The State's investment marginally increased by 4.11 *per cent* from ₹ 63.46 crore in 2014-15 to ₹ 66.07 crore in 2018-19.

During 2018-19, out of 10 working PSUs, seven PSUs incurred loss (₹ 41.68 crore) and only 1 PSU earned profit (₹ 0.29 crore) as per the latest finalised accounts. Remaining two PSUs[29] had not finalised their first accounts as of September 2019. The profit-making PSU had not declared any dividend. There was no recorded information about existence of any specific policy of the State government regarding payment of minimum dividend by the PSUs.

The State Government's investment (historical value) in PSUs had eroded by 3.63 *per cent* in 2018-19, and the losses of five working PSUs[30] (accumulated losses of ₹ 158.74 crore) had completely eroded the State's investment in their paid-up capital (₹ 42.23 crore), as per their latest finalised accounts.

3.1.2.1 Total Sector-wise investment in PSUs

Total investment (equity capital and long term loans) of State Government and Other Stakeholders (Central Government, Holding companies, Banks, Financial Institutions, *etc.*) in PSUs under various important sectors at the end of 31 March 2015 and 31 March 2019 has been given in the table below.

[29] Serial no. A9 and A10 of ***Appendix 3.2***
[30] Serial no. A1, A5, A6, A7 and A8 of ***Appendix 3.2***

Table No. 3.1.3 Sector-wise details of total investments (equity capital and long term loans) in PSUs

(₹ in crore)

Name of Sector	Government Companies	
	2014-15	**2018-19**
Power	20.10	458.18
Manufacturing	8.15	10.15
Finance	14.21	16.47
Agriculture & Allied	15.24	15.17
Miscellaneous	15.53	16.59
Total	**73.23**	**516.56**

It can be noticed from the table above that as compared to 2014-15, the combined investment of State Government and other stakeholders increased significantly during 2018-19 in Power sector (₹ 438.08 crore) and marginally in Manufacturing sector (₹ 2.00 crore) and Finance sector (₹ 2.26 crore). The increase in investment under power sector was on account of the long terms borrowings (₹ 438.08 crore) of two power sector companies, availed during 2015-18.

3.1.3 Reconciliation with Finance Accounts

The figures in respect of equity and loans provided by the State Government as per the records of PSUs should agree with the figures appearing in the Finance Accounts of the State for that year. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as of 31 March 2019 is shown in the table below.

Table No. 3.1.4 Equity, long term loans, guarantees outstanding as per the State Finance Accounts *vis-à-vis* the records of PSUs

(₹in crore)

Outstanding in respect of	Amount as *per* Finance Accounts	Amount as *per* records of SPSUs	Difference
Equity	58.78	45.39[31]	13.39
Loans	-	0.68	0.68
Guarantee	383.77[32]	440.44	56.67

Source: As per the Finance Accounts and information furnished by the Companies.

From the table above, it can be noticed that there were unreconciled differences in the figures of equity (₹ 13.39 crore), loans (₹ 0.68 crore) and guarantees (₹ 56.67 crore). The difference in equity occurred in respect of 12 PSUs[33] and some of the differences were pending reconciliation over a period of more than 21 years.

---

[31] Excluding equity worth ₹ 20.00 Crore not made in cash but as assets transferred from the erstwhile State Electricity Department to the two power sector companies (MSPCL and MSPDCL).

[32] This represents the Guarantee outstanding against the borrowings of Manipur State Power Distribution Company Limited (₹ 334.64 crore) and Manipur State Power Company Limited (₹ 49.13 crore) availed from Power Finance Corporation Limited and Rural Electrification Corporation Limited respectively.

[33] Except one PSU (Manipur Police Housing Corporation Limited), for which the figures were matching.

As regards Loan figures, the Finance Department disburses the loans to various Departments of the State Government for different sectoral activities and booked the amount sector-wise in the Finance Accounts. In turn, the Departments disburse these loans to respective PSUs functioning under their administrative control. Hence, PSU-wise figures of State Government loans provided to various PSUs are not available in the State Finance Accounts.

Though the Principal Secretary, Finance Department, Government of Manipur as well as the Management of the PSUs concerned were appraised regularly about the differences impressing upon the need for early reconciliation, no significant progress was noticed in this regard.

Recommendation: *The State Government and the PSUs concerned may take concrete steps to reconcile the differences in a time-bound manner. The Government should ensure that the system of financing the PSUs gets reflected in their Finance Accounts.*

3.1.4 Accountability framework

The 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 (Act) and audit of the financial statements in respect of financial years that commenced earlier than 1 April 2014 continued to be governed by the Companies Act, 1956.The new Act has brought about increased Regulatory Framework, wider Management responsibility and higher Professional Accountability.

Statutory Audit/Supplementary Audit

Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) audit the financial statements of a Government Company. In addition, CAG conducts the supplementary audit of these financial statements under the provisions of Section 143(6) of the Act.

Role of Government and Legislature

The State Government exercises control over the affairs of PSUs through its administrative departments. The Chief Executives and Directors on the Board of these PSUs are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in PSUs. For this purpose, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government companies are 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. These reports are further discussed by the Committee on Public Undertakings (CoPU) of the State Legislature. The CoPU sends its recommendations to the State Government for taking appropriate action.

3.1.5 Arrears in finalisation of accounts

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.

Timely finalisation of accounts is important for the State Government to assess the financial health of the PSUs and to avoid financial misappropriation and mismanagement. Persistent delay in finalisation of accounts is fraught with the risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 2013.

Table No. 3.1.5 below provides details of progress made by working PSUs in finalisation of their annual accounts as of 30 September 2019.

Table No. 3.1.5 Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Number of Working PSUs	9	9	10	10	10
2.	Number of accounts finalised during the year	16	4	3	1	10
3.	Number of accounts in arrears	73	78	85	94	94
4.	Number of Working PSUs with arrears in accounts	8	9	10	10	10
5.	Extent of arrears (numbers in years)	2 to 27 years	1 to 28 years	1 to 29 years	2 to 30 years	1 to 31 years

Source: Departmental Records.

As can be seen from the above table, the arrears of accounts had shown an increasing trend during 2014-15 to 2018-19. It can further be observed that as against total 39 Accounts, which became due for finalisation during last four years (2015-16 to 2018-19), the PSUs finalised only 18 Accounts during this period leaving a shortfall of 21 Accounts. Consequently, the number of PSU accounts in arrears had increased from 73 (2014-15) to 94 (2018-19). Further, out of 94 accounts pending finalisation by 10 PSUs as of 2018-19, 52 Accounts (55 *per cent*) pertained to two PSUs namely, Manipur Tribal Development Corporation Limited (31 Accounts) and Manipur Police Housing Corporation Limited (21 Accounts).

The Administrative Departments concerned have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by the PSUs within the stipulated period.

The Reports of the CAG have repeatedly highlighted the issue of arrears in preparation of accounts. In response, the Chief Secretary, Government of Manipur had scheduled meetings on two occasions during the calendar year 2019 to discuss this issue, which were, however, cancelled subsequently by the State Government without any recorded reasons. Keeping in view the seriousness of the matter, the Principal Accountant General (Audit) Manipur (PAG) held (23 December 2019) a meeting with the heads of PSUs concerned and Finance Department to discuss and ascertain the reasons for non-finalisation of their annual accounts and also to explore the possible remedial measures. Based on the discussions, the PAG advised (January 2020) the Chief Secretary about several measures that could be taken to expedite the finalization of annual accounts and their audit by the statutory auditors. The suggestions given to State Government included engaging experts/professionals to guide and help the PSUs in finalisation of the pending accounts wherever the PSUs lacked skilled manpower in this area. However, the State Government and the PSUs concerned have not addressed the issue of clearing the arrears of PSU accounts in a time bound manner.

Recommendations

a. *The State Government may make special arrangements to oversee the clearance of arrears and set the targets for individual PSUs, which may be monitored strictly by them;*

b. *The State Government may ensure that existing vacancies in the accounts department of PSUs are filled up with knowledgeable persons having experience; and*

c. *The PSUs may get the figures of equity and loans reconciled with the State Government Departments to reflect correct position in the State Finance Accounts.*

3.1.6 Investment by State Government in PSUs whose accounts were in arrears

The State Government had invested ₹ 1,586.03 crore in seven PSUs (equity: ₹ 2.10 crore and grants: ₹ 1,583.93 crore) during the years for which these PSUs had not finalised their accounts as detailed in ***Appendix 3.1***. Two power sector PSUs were the major recipients of State Government funding amounting to ₹ 1,560.31 crore (Grants) during the period when their accounts were in arrears as detailed in the table given below.

Table No. 3.1.6 Major recipients of State Government funding during the period of arrear of accounts

(₹in crore)

Sl. No.	Name of PSU	Accounts finalised upto	No. of Accounts pending finalisation	Investment by State Government during the period of arrears Grants
1	Manipur State Power Company Limited	2015-16	03	675.10
2	Manipur State Power Distribution Company Limited	2015-16	03	885.21
	Total			**1,560.31**

In the absence of accounts and their subsequent audit, it could not be verified if the investments made and the expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not.

Recommendation: *The Government may consider setting up a special cell under the Finance Department to oversee the expeditious clearance of arrears of accounts of PSUs. Where there is lack of staff expertise, Government may consider outsourcing the work relating to preparation of accounts and take punitive action against Company Management responsible for arrears of accounts. Until the accounts are made as current as possible, Government may consider not giving further financial assistance to such companies.*

3.1.7 Special support and returns during the year

The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of the State PSUs for the last three years ended 2018-19 are shown in **Table No. 3.1.7**.

Table No. 3.1.7 Details of budgetary support to PSUs

(₹in crore)

Sl. No.	Particulars	2016-17		201718		2018-19	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity Capital outgo from budget	-	-	-	-	-	-
2	Loans given from budget	-	-	-	-	-	-
3	Grants/ subsidy from budget	2	250.65	3	286.89	3	299.36
4	**Total outgo (1+2+3)**	**2**	**250.65**	**3**	**286.89**	**3**	**299.36**
5	Guarantee issued	1	390.55	0	0	0	0
6	Guarantee commitment	1	318.94	1	390.55	2	440.44[34]

Source: As furnished by PSUs.

As can be noticed from table above, the budgetary support provided by State Government to PSUs has shown an increasing trend during last three years (2016-19). The budgetary support provided to PSUs during last three years mainly comprised grants/subsidy of ₹ 682.66 crore provided to one PSU (Manipur State Power Distribution Company Limited) during 2016-17 (₹ 249.49 crore), 2017-18 (₹ 213.06 crore) and 2018-19 (₹ 220.11 crore).

3.1.8 Performance of PSUs as per their latest finalised accounts

The financial position and working results of working Government Companies and Statutory Corporations are detailed in ***Appendix 3.2***. **Table No. 3.1.8** below provides the comparative details of working PSUs turnover and State GDP for a period of five years ending 2018-19.

[34] Pertained to Manipur State Power Company Limited & Manipur State Power Distribution Company Limited.

Table No. 3.1.8 Details of working PSUs turnover *vis-à-vis* State GDP

(₹in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover[35]	35.22	34.70	161.02	161.02[36]	232.60
GSDP[37]	18,129	19,531	21,294	23,968 (Q)	26,979 (A)
Percentage of Turnover to GSDP	0.19	0.18	0.76	0.67	0.86

As could be noticed from the table above, the GSDP had shown an increasing trend during the last five years and increased from ₹ 18,129 crore (2014-15) to ₹ 26,979 crore (2018-19). On the other hand, the turnover of PSUs depicted an irregular trend. The PSU turnover had increased sharply from ₹ 34.70 crore in 2015-16 to ₹ 161.02 crore in 2016-17. The PSU turnover remained constant during 2017-18 but again increased to ₹ 232.60 crore in 2018-19. The increase in the turnover of PSUs was mainly attributable to increase in turnover of two power sector PSUs from ₹ 33.26 crore (2015-16) to ₹ 159.58 crore (2016-17) and further, to ₹ 231.00 crore (2018-19).

It could be seen that despite an overall increase of more than six folds in the PSU turnover from ₹ 35.22 crore (2014-15) to ₹ 232.60 crore (2018-19) during last five years, the contribution of PSU turnover to the GSDP remained meagre at 0.86 *per cent* during 2018-19.

Erosion of capital due to losses

The paid-up capital and accumulated losses of 10 working PSUs as per their latest finalised accounts as on 30 September 2019 were ₹ 53.14 crore and ₹ 159.09 crore respectively ***(Appendix 3.2)***.

The Return on Equity (RoE) in respect of three[38] out of 10 working PSUs was 3.04 *per cent* as per their latest finalised accounts while two[39] PSUs had not finalised their first annual accounts. The accumulated losses (₹ 158.74 crore) of remaining five[40] working PSUs had completely eroded their paid-up capital (₹ 47.19 crore) as per their latest finalised accounts. RoE of these five PSUs was not workable due to complete erosion of their equity capital.

Primary erosion of equity capital by the accumulated losses occurred in respect of three working PSUs as detailed in the table given below.

---

[35] Turnover of working PSUs as per their latest finalised accounts as on September 2019.

[36] During 2017-18, only one working PSU (Serial No. A4 of ***Appendix 3.2***) finalised one year accounts and did not have any turnover during that year. Hence, 'turnover' of working PSUs during 2017-18 remained unchanged.

[37] Source: Department of Economics and Statistics, GoM (at current price, (Q)=Quick Estimate, (A)=Advance estimates).

[38] Serial number A2, A3 & A4 of ***Appendix 3.2***

[39] Serial number A9 and A10 of ***Appendix 3.2***

[40] Serial number A1, A5, A6, A7 and A8 of ***Appendix 3.2***

Table No. 3.1.9 PSUs with primary erosion of paid up capital

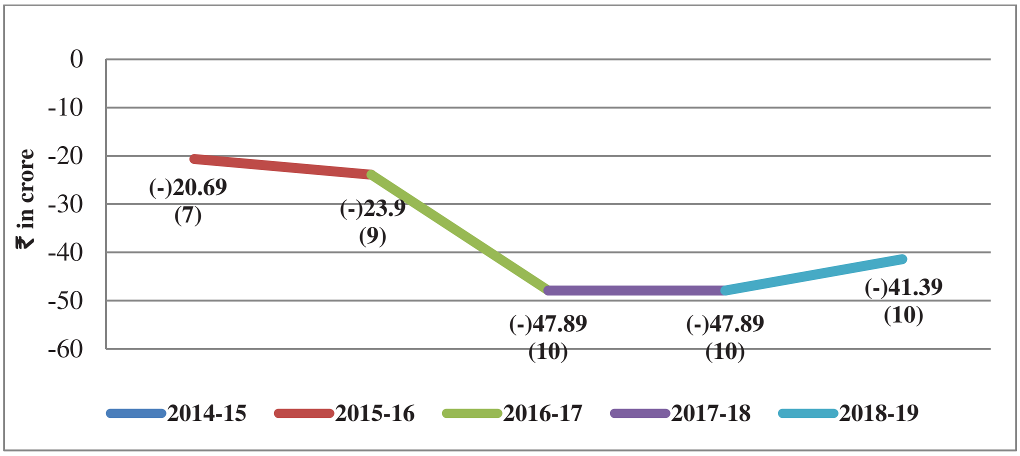
(₹in crore)

Name of PSU	Latest finalised accounts	Paid up capital	Accumulated losses
Manipur State Power Distribution Company Limited	2015-16	10.05	62.04
Manipur State Power Company Limited	2015-16	10.05	41.63
Manipur Industrial Development Corporation Limited	2009-10	12.14	31.78
Total		**32.24**	**135.45**

Accumulation of huge losses by these PSUs had eroded public wealth, which is a cause of serious concern and the State Government needs to review the working of these PSUs to either improve their profitability or close their operations.

The overall position of losses incurred by the working PSUs during 2014-15 to 2018-19 as per their latest finalised accounts as on 30 September of the respective year has been depicted in **Chart 3.1.2**.

Chart 3.1.2 Overall losses of working PSUs



Figures in bracket show the number of working PSUs in the respective years

It can be noticed from the **Chart** above, the working PSUs had incurred overall losses during all the five years under reference, which ranged between ₹ 20.69 crore (2014-15) and ₹ 47.89 crore (2016-17 and 2017-18[41]). During 2016-17, the losses of working PSUs had doubled as compared to 2015-16 mainly due to losses (₹ 44.04 crore[42]) incurred by power sector PSUs. During the year 2018-19[43], out of ten working PSUs, only one PSU[44] earned profit of ₹ 0.29 crore while two PSUs had not finalised their first annual Accounts. Rest of the seven PSUs incurred losses aggregating ₹ 41.68 crore. The major

[41] During 2017-18, only one working PSU (serial no. A4 of ***Appendix 3.2***) finalised one year accounts and did not have any turnover or profit/loss during that year. Hence, 'overall losses' of working PSUs during 2017-18 remained unchanged.

[42] Losses of two power sector PSUs as per their latest finalised accounts (2014-15) as of September 2017.

[43] As per the latest finalised accounts of working PSUs as on 30 September 2019.

[44] Manipur Police Housing Corporation Limited.

contributors to PSU-losses were two power sector PSUs as detailed in the table given below.

Table No. 3.1.10 Major contributors to the losses of working PSUs

(₹in crore)

Name of PSU	Latest finalised accounts	Losses
Manipur State Power Company Limited	2015-16	20.08
Manipur State Power Distribution Company Limited	2015-16	19.50
Total		**39.58**

There was no recorded information about the existence of any specific policy of the State Government regarding payment of minimum dividend by the PSUs. As per the latest finalised accounts as on 30 September 2019, only one working PSU (Manipur Police Housing Corporation Limited) earned profit of ₹ 0.29 crore but did not declare any dividend during the year 2018-19.

3.1.9 Key parameters

Some other key parameters of PSUs performance as per their latest finalised accounts as on 30 September of the respective year are given in the table given below.

Table No. 3.1.11 Key parameters of PSUs

(₹in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Debt	3.05	27.31	79.23	83.59	151.71
Turnover[45]	35.22	34.70	161.02	161.02[46]	232.60
Debt/Turnover Ratio	0.09:1	0.79:1	0.49:1	0.52:1	0.65:1
Interest Expenses	Nil	0.32	0.35	0.61	0.89
Accumulated losses	74.74	77.20	121.24	124.53	166.35

Debt-Turnover Ratio

A low debt-to-turnover ratio (DTR) demonstrates a good balance between debt and income. Conversely, a high DTR can signal of having too much of debt against the income of PSUs from core activities. Thus, the PSUs having lower DTR are more likely to comfortably manage their debt servicing and repayments.

As can be seen from **Table No. 3.1.11**, during the last five years (2014-15 to 2018-19), the PSU debts and PSU turnover had registered an overall increase of ₹ 148.66 crore (around 50 times) and ₹ 197.38 crore (more than six times) respectively. The DTR had also correspondingly increased from 0.09:1 (2014-15) to 0.65:1 (2018-19) but remained below one and hence, indicated manageable position of the PSUs to service their long term debts. Increase of ₹ 68.12 crore in PSU debts during 2018-19 was attributable to increase in the

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

[46] During 2017-18, only one working PSU (serial no. A4 of ***Appendix 3.2***) finalised one year accounts and did not have any turnover during that year. Hence, 'turnover' of working PSUs during 2017-18 remained unchanged.

long term loans of two[47] power sector companies. Further, the accumulated losses of PSUs during last four years (2015-16 to 2018-19) increased by ₹ 89.15 crore mainly due to increase of ₹ 83.62 crore in the accumulated losses of two power sector PSUs from ₹ 20.05 crore (2015-16) to ₹ 103.67 crore (2018-19).

3.1.10 Return on Investment on the basis of Present Value of Investment

The Rate of Real Return (RORR) measures the profitability and efficiency with which equity and similar non-interest bearing capital have been employed, after adjusting them for their time value. To determine the Rate of Real Return on Government Investment (RORR), the investment of State Government[48]in the form of equity, interest free loans and grants/subsidies given by the State Government for operational and management expenses less the disinvestments (if any), should be considered, and indexed to their Present Value (PV) and summated. The RORR is then to be calculated by dividing the 'profit after tax' (PAT) by the sum of the PV of the investments.

During 2018-19, overall losses of 13 PSUs (10 working and 3 non-working) stood at ₹ 42.26 crore[49] (***Appendix 3.2***). On the basis of return on historical value of investment, the State Government investment eroded by 3.63 *per cent* during 2018-19. Further, as per the Rate of Real Return worked out based on the present value of investment, the State Government investment eroded by 3.09 *per cent* as shown in ***Appendix 3.3***. This difference in the percentage of investment erosion was on account of adjustments made in the investment amount for the time value of money.

3.1.11 Impact of Audit Comments on Annual Accounts of PSUs

During October 2018 to September 2019, four working companies had forwarded 10 audited accounts to the Principal Accountant General (Audit), Manipur (PAG). Of these, five accounts of four Companies were selected for supplementary audit while remaining five accounts were issued 'non-review certificates'. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needed to be improved.

During the year, the Statutory Auditors had given unqualified certificates on the Accounts of two PSUs (Manipur Handloom & Handicrafts Development Corporation Limited and Manipur Electronics Development Corporation Limited) and qualified certificates on the Accounts of other two PSUs (Manipur State Power Company Limited and Manipur State Power Distribution Company Limited). There was, however, no significant money value of comments of Statutory Auditors during the last three years. The audit comments of Statutory Auditors on the Accounts of these PSUs were based mainly on the non-

[47] During 2018-19, long term loans of two power sector companies increased from ₹ 51.92 crore (2017-18) to ₹ 135.00 crore (2018-19) as per their latest finalised accounts.

[48] State Government investment in PSUs as per the records of respective PSUs.

[49] As per latest finalised accounts of PSUs as on 30 September 2019 and after considering the profit (₹ 0.29 crore) earned by the lone PSU (Manipur Police Housing Corporation Limited).

compliance with the accounting concept of conservatism and the revenue recognition principle of the accrual accounting.

3.1.11.1 Gist of some of the important comments of the statutory auditors and CAG in respect of the accounts of the PSUs are as under.

Manipur State Power Company Limited (2015-16)

Incorrect classification of capital advance as 'Short Term Loans & Advances'

Incorrect classification of 'Capital Advance' as 'Short Term Loans & Advances' contrary to provisions of Schedule-III of the Companies Act, 2013 resulted in overstatement of 'Short Term Loans & Advances' and understatement of 'Long Term Loans & Advances' by ₹ 83.97 crore each.

Incorrect accounting of transmission charge

The Company has not accounted for the 'revenue against transmission charges' to be billed to Manipur State Power Distribution Company Limited. The revenue on such transmission charge is recognised by the Company to the extent of GIA received from the Government of Manipur without application of any rate to actual quantum of power transmitted.

Manipur State Power Distribution Company Limited (2015-16)

Non-accounting of material cost against capital works

Non-accounting of billed amount (₹ 2.55 crore) against supply of materials for capital works resulted in understatement of 'Capital Works-in-Progress' by ₹ 2.55 crore with corresponding understatement of 'Current Liabilities' by the same amount.

Non-accounting of power purchase bills

The Company has not accounted for the 'power purchase bills' of ₹ 0.14 crore raised by NHPCL for the current year, which led to understatement of 'Current Liabilities' and 'Loss for the year' to the same extent.

Non-provisioning of Interest on security deposit of consumers

The Company has not provided for the interest liability payable on 'security deposit received from consumers' as per the Regulations of Joint Electricity Regulatory Commission. As such, liability and net loss of the year are understated to the extent of accrued amount of interest.

3.1.12 Winding up of non-working PSUs

As on 31 March 2019, there were three non-working PSUs (***Appendix 3.2***), which had been non-functional for last 15 to 19 years. The said PSUs were in the process of liquidation under Section 560 of the Companies Act, 1956. Since the non-working PSUs were neither contributing to the State economy nor meeting the intended objectives of their formation, the liquidation process to wind up these PSUs needs to be expedited.

3.1.13 Follow up action on Audit Reports

Replies/Explanatory notes outstanding

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 authorities. As per the recommendation of the Shakdher Committee[50], all Administrative Departments are required to submit replies/explanatory notes to paragraphs/performance audits included in the Audit Reports of the CAG within a period of three months[51] of their presentation to the State Legislature, in the prescribed format without waiting for any questionnaires from the Committee on Public Undertakings (CoPU).

The position of explanatory notes to paragraphs/performance audits pending to be received from the State Government/Administrative Departments concerned has been shown in given table below.

Table No. 3.1.12 Status of explanatory notes not received (as on 31 May 2020)

Year of the Audit Report (Commercial/ PSU)	Date of placement of Audit Report in the State Legislature	Total number of Performance Audits (PAs) and Paragraphs included in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2013-14	29 June 2015	-	3	-	3
2014-15	2 September 2016	2	1	1	-
2015-16	21 July 2017	-	2	-	-
2016-17	23 July 2018	-	1	-	-
2017-18	17 February 2020	-	1	-	-
Total		**2**	**8**	**1**	**3**

Source: Records of the Principal Accountant General (Audit), Manipur.

From **Table No. 3.1.12**, it could be seen that explanatory notes to three paragraphs and one performance audit relating to two PSUs[52], included in the Audit Reports 2013-14 and 2014-15 respectively were not submitted by the State Government (May 2020).

3.1.14 Discussion of Audit Reports by CoPU

The status as on 31 May 2020 of performance audits (PAs) and compliance audit paragraphs relating to PSUs that appeared in the Audit Reports of CAG for last five years (2013-14 to 2017-18) and discussed by the Committee on Public Undertakings (CoPU) is shown in the following **Table No. 3.1.13**.

---

50 Shakdher Committee under the Chairmanship of Shri. S.L Shakdher, formerly Chief Election Commissioner of India was formed (01 August 1992) with a view (i) to study the response of the State Government (and their public enterprises) to the Audit Reports of CAG and the response of the State Governments to the recommendations of the respective PAC/CoPU in the context of the Audit Reports; and (ii) to examine how far the Audit Reports of CAG are effective in enhancing the Executive's financial accountability to the Legislature in the States.

51 As per the prescribed time schedule, *suo moto* replies to be furnished within three months in case Audit Paragraphs are not selected by the PAC/CoPU during this period.

52 Manipur Tribal Development Corporation Limited and Manipur Police Housing Corporation Limited.

Table No. 3.1.13 Position on discussion of Audit Reports by CoPU

Period of Audit Report[53]	Number of performance audits/ paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2013-14	Nil	3	Nil	Nil
2014-15	2	1	Nil	1
2015-16	Nil	2	Nil	2
2016-17	Nil	1	Nil	1
2017-18	Nil	1	Nil	Nil
Total	**2**	**8**	**-**	**4**

Source: Records of the Principal Accountant General (Audit), Manipur.

From the above table, it may be seen that two PAs and four compliance audit paragraphs had been pending discussion by the CoPU.

Compliance to Reports of the CoPU

Action Taken Notes (ATNs) relating to 114 recommendations pertaining to five Reports of the CoPU presented to the State Legislature between March 1986 and March 2019 had not been received from the Government (September 2020) as indicated in the table below.

Table No. 3.1.14 Compliance to CoPU Reports

Year of 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
14th Report (2018-19)	1	4	4
Total	**5**	**114**	**114**

Source: Records of Principal Accountant General (Audit), Manipur.

The above Reports of CoPU contained recommendations in respect of paragraphs pertaining to the five departments of the State Government, which appeared in the Reports of the CAG of India for the years 1983-84 to 2016-17.

Recommendations: *State Government may review and revamp the mechanism of responding to audit observations. They may ensure that responses and explanatory notes to draft paragraphs/performance audits and ATNs on the recommendations of CoPU are provided as per the prescribed time schedule and the loss/outstanding advances/overpayments flagged in audit are recovered within the prescribed period.*

[53] For periods prior to 2013-14, 37 audit paragraphs (6 performance audit paragraphs and 31 compliance audit paragraphs) pertaining to Audit Reports for the years from 1995-96 to 2006-07, 2009-10 and 2012-13 are yet to be discussed by CoPU.

PERFORMANCE AUDIT

MANIPUR STATE POWER DISTRIBUTION COMPANY LIMITED

3.2 Performance Audit on Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) erstwhile RGGVY

Highlights

Government of India launched (December 2014) the Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) subsuming the targets laid down under the erstwhile Rajeev Gandhi Grameen Vidyutikaran Yojana (RGGVY) under XII Five Year Plan (XII FYP) as a separate rural electrification sub-component by carrying forward the approved outlay for erstwhile RGGVY to DDUGJY. Two additional objectives were framed, *viz.* (i) separating agriculture and non-agriculture feeders to facilitate judicious rostering of power supply to the agricultural and non-agricultural consumers in rural areas and (ii) strengthening and augmenting the sub transmission and distribution infrastructure in the rural areas, including metering of distribution transformers/ feeders/ consumers. The Manipur State Power Distribution Company was the Scheme Implementing Agency in the State. Important findings of the Performance Audit (PA) on implementation of Scheme in Manipur conducted for the period 2014-15 to 2018-19 are as follows.

- *REC sanctioned total six DPRs for implementation of the Scheme in six districts under the XII Five Year Plan (2012-17) at a cost of ₹204.73 crore with targeted coverage of 470 villages/habitations by August 2016. Against this, the Company completed Scheme works in 448 villages (95 per cent) covering 98.42 per cent (22,370 beneficiaries) of the targeted beneficiaries (22,730 beneficiaries) as on 30 November 2019.*

  (Paragraph 3.2.12)

- *The Financial Management of the Scheme showed that against the total funds of ₹ 144.56 crore (subsidy grant: ₹ 132.36 crore and REC loan: ₹ 12.20 crore) available to the Company during the period 2014-15 to 2019-20, the Company incurred expenditure of ₹ 133.16 crore towards Scheme works as on 30 November 2019. The Company short recovered interest of ₹ 2.55 crore on mobilisation advances given to contractors. There was no assurance that Labour Cess was deducted on all works executed by the Company.*

  (Paragraph 3.2.14, 3.2.16 & 3.2.17)

- *The Project Management of the Company was deficient in view of several irregularities noticed such as, non-recovery of interest (₹2.55 crore) from contractors on mobilisation advance; procurement of material at higher rates than market prices (₹16.39 crore); extra expenditure (₹36.52 crore) due to approving differential rates for similar work items; extra* *expenditure due to allowing higher rate to Contractor than the prescribed norms (₹0.78 crore) and installation of Steel Tubular Poles in excess of the requirement (₹0.55 crore), etc.*

(Paragraphs 3.2.23, 3.2.24, 3.2.26 & 3.2.27)

- *The work completion certificates issued by the Company were not found reliable and authentic. Joint Physical Verification of project works and survey of Scheme beneficiaries revealed serious irregularities such as, excess claims against the beneficiaries covered, non-installation of meters and earthing connections, false certification of works, incorrect completion reports, short execution against completed works, etc.*

(Paragraphs 3.2.31.1 to 3.2.31.5 & 3.2.32)

- *The Company failed to commission the much needed substation, which was augmented at a cost of ₹1.35 crore.*

(Paragraph 3.2.36)

- *The Company did not maintain proper records on measurement of project works and movement of project material. No records/Fixed Asset Register maintained to record the details of project assets created.*

(Paragraphs 3.2.33 & 3.2.43)

- *The role of the State Level Monitoring Committees to ensure quality and timeliness in Scheme implementation was not effective due to their failure to hold regular meetings for constant monitoring of Scheme works.*

(Paragraphs 3.2.42)

3.2.1 Introduction to the Scheme

The Ministry of Power (MoP), GoI launched (March 2005) the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) under the Tenth Five Year Plan (X FYP 2002-07) with an objective of electrifying all villages[54] and all rural households (RHHs) with access to the electricity and electricity connections to the below poverty line (BPL) families free of cost.

The GoI launched (December 2014) the Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) subsuming the targets laid down under XII Five Year Plan (XII FYP 2012-17) for the erstwhile RGGVY as a separate rural electrification sub-component by carrying forward the approved outlay for the RGGVY to the DDUGJY with two additional objectives, *viz*. (i) separation of agriculture and non-agriculture feeders, and (ii) strengthening and augmenting the sub-transmission and distribution infrastructure in rural areas, including metering at distribution transformers, and at feeders and consumers' end. As far as implementation of Schemes/projects sanctioned prior to launch of DDUGJY are

[54] A village is considered electrified if basic infrastructure such as transformers and lines are provided in the inhabited locality, electricity is provided in public places like schools, panchayat offices, community/Government health centers /dispensaries *etc*. As per the XII FYP, un-electrified villages with population above 100 were considered.

concerned; the operational guidelines/standard documents/procedures of RGGVY shall continue to prevail.

In the State of Manipur, the scheme did not include segregation of agricultural and non-agricultural feeders as there was no large scale dependence on electricity for agricultural irrigation, rather, most of the irrigation was carried out through natural downhill streams, rainwater and minor irrigation canals.

3.2.2 Implementing Agency

In Manipur, the erstwhile RGGVY and now DDUGJY was implemented by Manipur State Power Distribution Company Limited (Company), a State owned power distribution utility. For implementing, monitoring and quality control activities, the Company was entitled for the agency charges at the rate of 5 *per cent* of project cost sanctioned under the Scheme. As against a total six districts[55] covered under erstwhile RGGVY during XII FYP (Scheme) in the State of Manipur during 2014-15 to 2018-19, the present Performance Audit covers formulation, approval and implementation of the Scheme in respect of four sampled districts (namely, Bishnupur, Churachandpur, Senapati and Chandel). However, all the projects covered in the present audit had been approved (September 2013) under the erstwhile RGGVY XII FYP as the new projects sanctioned under DDUGJY were either at initial stage or were yet to commence during the audit period.

3.2.3 Scheme Outcomes

As per 2011 Census data, 1,46,180 rural households (75.46 *per cent*) out of the total 1,93,730 rural households in the six districts of Manipur had access to electricity. As an outcome of the Scheme implementation in the State, the access to electricity had increased to 1,62,139 (83.69 *per cent*) rural households (March 2019). The beneficiaries also responded positively towards the Scheme outcome as now they had regular power supply.

3.2.4 Funding pattern

Government of India and GoM were to finance the Scheme in the proportion of 90:10. While GoI was to provide 90 *per cent* of the Scheme funding by way of capital subsidy, GoM was required to contribute the balance 10 *per cent* of the Scheme cost out of its own resources and/or by availing loan from the Rural Electrification Corporation Limited (REC)/banks/financial institutions. In Manipur, the Company availed loans from REC to finance this balance 10 *per cent* at interest ranging from 10 to 13 *per cent*. The GoI capital subsidy (90 *per cent* of Scheme cost) included the subsidy of ₹ 3,000 per household towards release of free connections to 22,730 Below Poverty Line (BPL) households targeted for electrification under the Scheme.

[55] DPRs were prepared for nine districts, however, REC subsequently approved DPRs for six districts only *i.e.*Bishnupur, Senapati, Ukhrul, Churachandpur, Chandel and Tamenglong.

3.2.5 Role of various authorities

The role of various authorities in formulation, approval and implementation of the Scheme are shown in the table below.

Table No. 3.2.1

Authorities	Roles
Ministry of Power (MoP), GoI	• Formulation and approval of Scheme. • Formulation of Scheme guidelines. • Appointment of REC (February 2013) as Nodal Agency for implementation of the Scheme.
Rural Electrification Corporation (REC)	• Responsible for overall implementation of Scheme. • Scrutinising the Detailed Project Reports (DPRs) received from the Project Implementing Agency (Company) as recommended by the State Level Standing Committee for final approval of the Monitoring Committee of MoP, GoI. • Monitoring of Scheme implementation. • Release of funds on behalf of GoI.
Government of Manipur (GoM)	• Appointment of the Company as Scheme Implementing Agency. • To provide the land required for Scheme works (*e.g.* construction of sub-stations, *etc.*) and facilitate obtaining statutory clearances (right of way issues, forest clearances, *etc.*). • Setting up of State Level Committee to examine DPRs prepared by the implementing agency. • Setting up of Higher Tender Committee to oversee the tendering process for Scheme works.
Manipur State Power Distribution Corporation Limited (Company)	• Preparing DPRs based on detailed survey. • Submission of DPRs for the approval of GoM and also to GoI through REC for final approval. • To execute works of electrification as per the approved DPRs and guidelines.

3.2.6 Organisational set up of the Company

The Management of the Company had been vested with the Board of Directors (BoDs) comprising the Chairman, one Managing Director (MD) and five Government appointed Directors. The MD, who was the Chief Executive was responsible to oversee the day-to-day operations of the Company with the assistance of the Executive Directors, General Managers and Deputy General Managers posted at the Company Headquarters and in the field.

The Chief Engineer/Superintending Engineers (CE/SE, RGGVY XII FYP wing) of the Company were responsible for the overall implementation of Scheme. The Superintending Engineers (SEs), Distribution Circles of the Company were designated as the General Managers (GMs) and were responsible for execution of Scheme works in the areas within their jurisdiction in accordance with the provisions of the agreement.

3.2.7 Scheme implementation

The Scheme aimed at the development of rural electricity distribution backbone (REDB), which involved installation of new 33/11 kV sub-stations as well as augmentation of the existing sub-stations. Likewise, Scheme envisaged establishment of the village electrification infrastructure (VEI) with a distribution transformer of appropriate capacity in each of the 470 villages and habitations falling under the six districts of the State.

REC (on behalf of GoI), GoM and the Company entered (December 2014) into a tripartite agreement for the implementation of the Scheme. Three tiers (levels) of control were defined to ensure the quality of work. The Company was to engage a third party inspection agency (TPIA) for undertaking quality control checks and ensure Tier I of quality control (QC) covering 50 *per cent* of projects with the help of the TPIA. For Tier II quality checks, REC was to engage independent agencies designated as REC Quality Monitors (RQM) and carry out quality control checks through these RQMs (20 *per cent* of completed villages/habitations). Similarly, the MoP, GoI was to enforce quality assurance mechanism at Tier III (one *per cent* of completed villages/habitations) by engaging independent agencies designated as National Quality Monitors (NQM).

The Company awarded works for supply of the materials and execution of works to the Contractors selected (turnkey basis) through open tendering process.

3.2.8 Audit Objectives

The Performance Audit on the Scheme was conducted to assess whether:

- Financial management was efficient and effective and Scheme funds were utilised in adherence to the Scheme guidelines;
- The Detailed Project Reports (DPRs) were prepared and got sanctioned in accordance with the Scheme guidelines;
- Project Management was effective, efficient and transparent;
- Targets as envisaged in the Scheme were achieved in timely manner; and
- Monitoring and evaluation of projects was effective and ensured timely corrective measures.

3.2.9 Audit Criteria

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

- Scheme guidelines and OMs issued by GoI;
- Guidelines issued by GoI for preparation of DPRs under XII Plan of RGGVY (DPR Guidelines);
- REC Guidelines;

- General Financial Rules 2005/Financial Hand Book and CVC guidelines;
- Instructions issued by GoI/REC/GoM;
- Tripartite agreement executed among REC, GoM and the Company;
- General Information and Scope of Works (Technical specifications for Rural electrification works) issued by REC for the Scheme;
- Agenda notes and minutes of the meetings of BoDs of the Company; and
- Records of Co-ordination Committee meetings with respect to the rural electrification works.

3.2.10 Audit Sample and Audit Methodology

GoI approved total six DPRs for implementation of the Scheme in six districts[56] (sanctioned cost: ₹ 204.73 crore) of Manipur. Audit selected four districts[57] out of these six districts as sample (66.66 *per cent*) for detailed examination. The sampled four districts had projects with sanctioned cost of ₹ 151.50 crore (74 *per cent* of the total sanctioned cost for six districts). For the physical verification of Scheme works and beneficiary survey, Audit selected ten villages from each sampled district and five BPL households from each sampled village.

The present audit was conducted during May 2019 to October 2019. Audit methodologies included issuing questionnaires, queries, collection of data and analysis thereof, examination of records maintained by the Company and issue of audit memo. Audit held an Entry Conference (May 2019) with the Commissioner (Power), Government of Manipur and the Officers of the Company where the audit objectives were explained.

The draft Report was issued to the Company and GoM (November 2019) and the audit findings were also discussed with the Managing Director of the Company in the Exit Conference[58] (November 2019). While finalising the Report, Audit has appropriately incorporated the formal replies (December 2017) as well as the views of the Company expressed in the Exit Conference. The GoM, however, had not submitted the formal replies to the draft report till finalisation of the Report (June 2020).

3.2.11 Acknowledgement

The Audit acknowledges the co-operation and assistance extended by the officials of the Company at the Corporate HQ as well as at their field offices during the conduct of the Performance Audit.

---

[56] Separate DPR for each of the six districts *viz*. Bishnupur, Senapati, Ukhrul, Churachandpur, Chandel and Tamenglong.

[57] For district level, stratified sampling based on PPSWOR was used. For village and beneficiary house hold level, Random Sampling was used. Four sampled districts were Bishnupur, Churachandpur, Senapati and Chandel.

[58] Only the Executives from the Company attended the exit conference. No representatives from Government attended the exit conference for reasons not intimated to Audit.

Audit Findings

The Audit findings are discussed in the succeeding paragraphs.

3.2.12 Physical progress of Scheme works

REC approved and sanctioned total six DPRs (separate DPR for each district) for implementation of the Scheme in six districts[59] under the XII FYP[60] at a cost of ₹ 204.73 crore. The Company was required to complete all works within two years (August 2016) after issuing (August 2014) the work orders. DPR-wise progress of physical works taken up under the Scheme in six districts as on 30 November 2019 is depicted in the table below.

Table No. 3.2.2 Status of physical progress of Scheme works as on 30 November 2019

DPR for the District	No. of villages/ habitations approved as per final DPR	No. of villages/ habitation completed	Completed villages (*per cent*)	Beneficiaries provided electricity connection
Bishnupur	26	26	100	723
Churachandpur	142	142	100	7,846
Senapati	87	76	87	4,732
Chandel	78	75	96	3,056
Ukhrul	95	92	97	4,102
Tamenglong	42	37	88	1,911
Total	**470**	**448**	**95**	**22,370**

Source: As per information furnished by the Company.

It can be noticed from the table that as on 30 November 2019, against the envisaged target of 470 villages/habitations, the Company completed works in 448 villages (95 *per cent*) covering 98.42 *per cent* (22,370 beneficiaries) of the targeted beneficiaries (22,730 beneficiaries). The Company could not fully complete the works in four out of six districts (November 2019) even after more than three years of scheduled date (August 2016).

Financial Management

3.2.13 As per the tripartite agreement, GoI and GoM were to finance the Scheme in the proportion of 90:10. For financing the balance 10 *per cent* of project costs, the Company availed loan from REC. REC was to release the GoI subsidy grant component of project funding to the Company in five installments (*viz.* 30 *per cent*, 20 *per cent*, 20 *per cent*, 20 *per cent*, & 10 *per cent*). Further, in the event of not availing REC loan, GoI subsidy grant component as admissible, shall be released only after the confirmation from GoM/Company regarding depositing of the proportionate State share in the Scheme account.

---

[59] The Company prepared DPRs for total nine districts, of which, REC approved six DPRs for six districts only (*i.e.* Bishnupur, Senapati, Ukhrul, Churachandpur, Chandel and Tamenglong).

[60] XII Five Year Plan 2012-17.

3.2.14 The table below depicts the year-wise position of receipt and utilisation of Scheme funding (REC loans and GoI subsidy grant) during the years from 2014-15 to 2019-20 (upto 30 November 2019).

Table No. 3.2.3 Receipt and utilisation of Scheme funding as on 30 November 2019

(*₹in crore*)

Year	Opening balance	Receipts		Total Funds available	Actual payments made	Closing balance
		Subsidy grant	Loans			
2014-15	-	49.82	5.54	55.36	26.35	29.01
2015-16	29.01	-	-	29.01	28.86	0.15
2016-17	0.15	36.05	4.14	40.34	18.37	21.97
2017-18	21.97	13.57	0.20	35.74	23.74	12.00
2018-19	12.00	24.63	1.52	38.15	27.21	10.94
2019-20*	10.94	8.29	0.80	20.03	8.63	11.40
Total		**132.36**	**12.20**		**133.16**	

Source: Records of the Company. **1 April 2019 to 30 November 2019.*

As on 30 November 2019, the Company had incurred total expenditure of ₹ 173.05 crore[61] on Scheme works. It can be noticed from the table that as on 30 November 2019, the Company received ₹ 132.36 crore as GoI subsidy grant and availed loan of ₹ 12.20 crore from REC. As against the total funds of ₹ 144.56 crore (subsidy grant and loan) received from REC as on 30 November 2019, the Company spent ₹ 133.16 crore towards making payment against Scheme works. As on 30 November 2019, the Company had unspent Scheme funds of ₹ 11.40 crore.

The audit findings on financial management are discussed in succeeding text.

Non-maintenance of separate accounts for loans and subsidy grant

3.2.15 As per the prudent practices of financial management and also to ensure proper use and effective control over utilisation of Scheme funds, it is desirable that receipt and utilisation of loans and GoI subsidy grant are recorded separately. On the contrary, however, the Company parked the entire Scheme Funds (subsidy grant and loans) in a single Program Account and made all the payments against Scheme works from this account. Thus, the Company did not have separate details on utilisation of loans and subsidy grant components of Scheme funding. Therefore, the utilisation of the two components could not be separately ascertained.

3.2.16 ***Short recovery of interest on mobilisation advance***

As per the Letter of Award (LOA) terms, the turnkey contractors (Contractors) were entitled for an initial advance of 15 *per cent* of the price of equipment/materials at an interest of nine *per cent* per annum against submission of an unconditional bank guarantee (BG) for equivalent amount. Audit observed that the Higher Tender Committee (HTC) of GoM, while

[61] As per the bills submitted by the Contractors.

deliberating on completion of the Scheme projects within the scheduled period, revised (January 2015) the rate of mobilisation advance (MA) to 20 *per cent* and the Company paid MA of ₹ 33.18 crore to the Contractors against six work orders.

It was seen that though the Company had fully recovered (2016-17) the principal amount of MA from the running bills of the Contractors, it recovered only ₹ 0.78 crore towards interest component during 2018-19, as against the recoverable dues of ₹ 3.33 crore at nine *per cent* rate of interest.

Thus, Company extended undue benefit to the Contractors by short recovering the interest amount of ₹ 2.55 crore (77 *per cent*) on mobilisation advance.

The Company accepted (November 2019) the facts and assured to recover the balance amount from subsequent bills of the Contractors.

3.2.17 *Short recovery of Labour Cess*

As per the Building and Other Construction Workers' Welfare Cess Act, 1996 (Cess Act), the Company was required to deduct Labour Cess[62] at the rate of one *per cent* of the total projects cost from the bills of the Contractors and deposit the same with the Cess Authority within 30 days of its recovery.

Audit observed that the Company had released ₹ 8.30 crore against Scheme works to various Contractors in six districts and deducted (till September 2018) only ₹ 0.83 lakh towards Labour Cess instead of ₹ 8.30 lakh leading to short recovery of Labour Cess amounting to ₹ 7.47 lakh. The Company also failed to remit the Cess amount recovered to the Cess Authority concerned till date (November 2019) in contravention to the provisions of the Cess Act.

There was no assurance that the Company had deducted Labour Cess as applicable relating to all works in all districts.

The Company acknowledged (December 2019) the audit observation and assured to take necessary action.

Project Management

3.2.18 For Scheme implementation, the Company awarded (November 2013) the work for preparation of Detailed Project Reports (DPRs) to M/s. Rural Electrification Corporation Power Distribution Company Limited[63] (Consultants) at a cost of 0.49 *per cent* of the approved project cost of each district with a ceiling of ₹ 17 lakh for each district. The Company had selected the Consultants on 'nomination basis' without following the competitive

[62] Applicable on the 'erection' component of the project cost only.
[63] A subsidiary of Rural Electrification Corporation Limited (REC), a Central PSU and the Nodal Agency for implementation of the Scheme.

bidding process, as approved by the Higher Tender Committee[64] (HTC) of the GoM.

3.2.19 As mentioned earlier, REC approved separate DPRs for implementation of the Scheme in each of the six districts. As per the approved schedule, the Scheme works were to be completed within two years (August 2016) after issuing the LOA (August 2014). As on 30 November 2019, the Company could achieve 100 *per cent* completion in two districts (Bishnupur and Churachandpur) whereas three to 12 *per cent* Scheme works in remaining four districts[65] were ongoing. Audit examined the execution of projects in four districts (sanctioned cost: ₹ 151.50 crore) out of said six districts (sanctioned cost: ₹ 204.73 crore). The observations relating to the project management have been discussed in succeeding paragraphs.

Changes made in approved DPRs

3.2.20 During the course of audit, Audit observed instances of changes made by the Company in approved DPRs impacting on the Scheme coverage as discussed in the succeeding text.

Revision after approval of DPRs

3.2.21 As per the approved DPRs, the Company selected 377 villages/ habitations in six districts for creation of electricity infrastructure. In addition, Company identified total 1,730 villages/habitations already having the required infrastructure, for release of electricity connections to BPL households (hhs). Audit observed that at implementation stage, the Company excluded 146 villages/habitations selected under the approved DPRs and added fresh 239 villages/habitations for electrification in place of 146 left out villages. Thus, the Scheme coverage in six districts was revised to 470 villages/habitations as detailed in the table below.

Table No. 3.2.4 Villages left out from original DPR

Sl. No.	District	Total number of habitations/ villages proposed as per original DPRs	Village selected for electrification as per original DPRs	Villages selected for BPL hh connection only	No. of electrified villages from the original DPRs	Additional New villages selected in revised DPRs	Total Villages electrified as per Revised DPRs	No. of Villages left out from the original DPRs
1	Churachand-pur	518	113	405	39	103	142	74
2	Bishnupur	110	21	89	20	6	26	1
3	Senapati	595	75	520	43	44	87	32
4	Chandel	401	52	349	44	34	78	8
5	Ukhrul	272	74	198	53	42	95	21
6	Tamenglong	211	42	169	32	10	42	10
	Total	**2107**	**377**	**1730**	**231**	**239**	**470**	**146**

Source: Records of the Company.

64 HTC comprised the Additional Chief Secretary (Finance) as Chairman and three Members: Commissioner (Power), Additional Secretary (Finance) and Chief Engineer (Power), Government of Manipur.

65 As on 30 November 2019, the Scheme works in four districts were completed to the extent of 97 *per cent* (Ukhrul district), 96 *per cent* (Chandel district), 88 *per cent* (Tamenglong district) and 87 *per cent* (Senapati district).

As can be noticed from the table above, around 73 *per cent* (106 villages) of left out villages pertained to two districts (*viz.* Churachandpur and Senapati). Audit noticed that exclusion of villages from Scheme coverage was mainly attributable to their remote locations and inaccessibility. The Company, however, should have planned for electrification of such villages separately under Decentralised Distributed Generation (DDG) or Ministry of Non-Renewable Energy Scheme (MNRE Scheme) as stipulated under DPR guidelines, which was not done.

Changes made in the approved DPRs at implementation stage deprived 146 villages/habitations from electrification in six districts of the State.

The Company stated (November 2019) that the villages were left out due to cost constraints and inaccessibility, and claimed that the left out villages were now electrified departmentally or through the off-grid schemes.

Audit has not been able to verify the correctness of their claim regarding electrification of left out villages. Further, changing the Scheme coverage after approval of DPRs was not proper.

3.2.22 *Electricity connections not provided to BPL households*

DPR Guidelines (Clause 3.1(f)) provided for electrification of the left out BPL hhs in those villages and habitations, which were already electrified under previous schemes. For such villages and habitations, capital subsidy shall not be provided for creation of infrastructure.

Audit noticed that the Company excluded 15,943 un-electrified BPL hhs from electrification in 1,730 villages/ habitations under six districts where the required infrastructure was already existing. Instead, the Company provided free electricity connection to all households of other villages *by diverting the Scheme funds approved for electrification of above mentioned 15,943 BPL hhs*. Thus, the changes made in the Scheme coverage at implementation stage deprived 15,943 BPL hhs from electricity connection, which was around 71 *per cent* of the total BPL hhs (22,370 hhs) covered under the Scheme so far (November 2019).

The Company stated (December 2019) that priority was given for electrification of villages not covered earlier under any scheme and thus, 15,943 beneficiaries existed under already electrified villages had to be left out due to cost constraints. It was further stated that the left out BPL beneficiaries would be electrified through Saubhagya scheme.

The reply is not acceptable because the guidelines had provided covering BPL households and REC had approved the cost in the DPRs for these villages. The Company had not prioritised more deserving villages/habitations at planning stage and had instead made changes at implementation stage.

Fixation of price without market survey

3.2.23 *Higher pricing of Scheme works material*

For preparation of the cost estimates for the Scheme works, the Company relied on the Cost Data prepared by the Electricity Department for 2013-14. During scrutiny of item-wise price estimation and bids, Audit noticed that the unit rates of several items considered under the work orders for Scheme works were exorbitantly higher than the rates at which, the Company procured (2014-17) the similar items for its routine Operation and Maintenance works.

Audit carried out a comparative analysis of the rates of seven items supplied by the Contractors[66] under the Scheme in two districts[67] with the Manufacturer's invoice price of these items procured by the Company. It was seen that the rates accepted by the Company for supply of several items of Scheme works as compared to the rates it paid to the Manufacturers for procurement of similar items during routine procurement differed.

Summarised details for supply of three major items have been presented in table below.

Table No. 3.2.5 Summary of extra expenditure incurred on three major supply items

Item	Unit price (in Rupees)			Difference (Rupees)	Quantity (units)	Additional expenditure (₹ in crore)
	Company Estimates	Contractor	Manufac-turer			
Contractor: M/s Techno Power; period: February-April 2016 (Senapati District)						
STP 410: SP-14: 8m	12425	12000	4303.38	7696.62	2012	1.55
STP SP-31	18860	15000	5823	9177	1336	1.23
ASCR Rabbit Conductor	66060	60000	25250	34750	488.19	1.70
Contractor: M/s T&T Projects; period: May 2016 to October 2018 (Chandel District)						
STP 410: SP-14: 8m	12425	21800	5398	16402	1197	1.96
STP SP- 31 9 M	18860	24500	6211.63	18288.37	2317	4.24
ASCR Rabbit Conductor	66060	71500	28052	43448	632	2.75
Total						**13.43**

As can be noticed from the table above, the rates allowed to the Contractors under the LOA for three major supply items were significantly higher than the corresponding price paid to the manufacturers during routine procurement. Even the cost estimates of the Company were significantly higher than the prevailing market rates, based on which Contractors quoted higher rates.

The total extra cost on Scheme works due to unreasonable high price of various supply items worked out to ₹ 16.39 crore as detailed in ***Appendix 3.4***.

66 M/s Techno Power Enterprise (Senapati District) and M/s T&T Projects Limited (Chandel District).

67 Senapati and Chandel districts.

Thus, absence of proper estimation of cost and tender/ purchase strategy when the Company was aware of the market prices of same items procured for other maintenance works, led to avoidable expenditure of ₹ 16.39 crore towards procurement cost of material under the Scheme.

The Company stated (December 2019) that the cost for projects was priced higher due to the transportation challenges in hill districts and inaccessible roads *etc*. It was also stated that the contractors were responsible for wear and tear, theft, local hindrances, *etc*. till handing over of the completed infrastructure.

The reply is not acceptable since work contract had separately provided for freight & insurance component to cushion the challenges of unfavourable terrain. Thus, higher rates allowed for these supply items were not justified.

3.2.24 *Unreasonable price difference for supply and erection of similar work items in districts*

As per Rule 137 of GFR 2005, a public sector organisation (Company) must incorporate appropriate clauses in the bid documents to protect its financial interests and ensure prudent utilisation of public money.

The Company awarded the turnkey contracts for Scheme works under three separate components (*viz.* Supply, Freight & Insurance and Erection for each package). Audit noticed that the price quoted for different packages across the districts varied during the same period (2014-2017). While differential rates for Freight & Insurance were admissible considering the varied geographical location and local conditions, the adoption of differential rates for 'Supply' and 'Erection' of same item/work was unreasonable and not justified.

Audit observed that the Company incurred extra expenditure of ₹ 36.52 crore (***Appendix 3.5***) due to allowing differential rates for 'Supply' and 'Erection' of similar items of works in five districts[68]. An excerpt of price comparison of major items in five selected districts has been given in the table below.

Table No. 3.2.6 Excerpts of price comparison of major items in five selected districts

Item	Lowest ex-works unit price (in ₹) (District)	Ex-works unit price range in other four districts (in ₹)	Quantum of work executed in four districts at higher price (in units)	Higher cost incurred in four districts due to rate difference (₹ in crore)
SUPPLY				
11 KV Lines (34.71 Km)				
9.0 m S.T.P.(410:SP-31)	15,000 (Senapati)	24,500 -17,010	11,203 (no.)	5.95
11 KV Disc. Insulator (Complete set i/c Tension clamps, Hardware).	754.50 (Senapati)	24,000-1,590	33,654 (set)	3.69

[68] Bishnupur, Chandel, Churachandpur, Senapati and Tamenglong.

Item	Lowest ex-works unit price (in ₹) (District)	Ex-works unit price range in other four districts (in ₹)	Quantum of work executed in four districts at higher price (in units)	Higher cost incurred in four districts due to rate difference (₹ in crore)
Distribution transformer 25 KVA.	1,03,500 (Senapati)	2,49,640-1,45,931	230 (no.)	1.49
LT ABC Single Phase				
8.0 m S.T.P.(410:SP-14)	12,000 (Senapati)	21,800-14,140	3,080 (no.)	2.02
LT ABC three Phase				
8.0 m S.T.P.(410:SP-14)	12,000 (Senapati)	21,800-14,140	4,007 (no.)	2.57
Total (A)				**15.72**
ERECTION				
11 KV Lines				
Jungle clearance	600 (Tamenglong)	65,056-1,500	896.99 (km)	1.09
Erection of Double Pole	2,800 (Chandel)	7,156-3,500	4560 (no.)	1.15
Pipe Earthing including fixing of GI pipe.	400 (Chandel)	7,807-580	9119 (Loc)	1.62
Stringing of line (3 wires).	4,500 (Chandel)	19,517-15,905	911.87 (CKT km)	1.19
Total (B)				**5.05**
Grand Total (A & B)				**20.77**

As can be noticed from the table, the price quoted for supply and erection of similar work items was significantly higher in four districts in comparison with the remaining fifth district.

As the Freight & Insurance costs were compensated separately under the Contract, allowing differential rates for Supply and Erection of same item of work was unfair tantamount to undue benefit to the contractors and higher cost to the Company.

The Company stated (November 2019) that the cost of the project was based on the cost-data of the Electricity Department. It was further added that the Higher Tender Committee (HTC) allowed (August 2014) award of work at rates not exceeding five *per cent* and six *per cent* above the estimated cost for Valley and Hill Districts respectively.

The reply is not acceptable as it did not take cognisance of the fact that HTC in same meeting (August 2014) had observed that wide variation of cost for similar work items as unacceptable. Further, HTC had allowed the higher rates (within five and six *per cent* of estimates) after considering the hilly locations of the project areas and the fact that the cost estimates for these works were based on the cost data for 2013-14. Since the work contracts separately provided for 'Freight & Insurance' to take care of difficult project locations, allowing different rates for 'Supply' and 'Erection' of similar items was not justified.

Other findings

3.2.25 *Non-provisioning of Capacitor Banks for augmentation work*

One of the factors having direct bearing on energy losses in the distribution system is Power Factor[69] (PF) efficiency. Capacitor Banks improve power factor by regulating the current flow and voltage regulation. In the event of voltage falling below normal, the situation can be set right by providing sufficient capacity of Capacitor Banks to the system as it improves the voltage profile and reduces dissipation of energy to a great extent thereby saving energy loss.

The Company awarded (August 2014) the work of augmentation of four substations[70] and construction of one new substation in Churachandpur under the Scheme. As per the conditions[71] attached to the bidding document, the work of augmentation or construction of new 33/11 kV substations required installation of Capacitor Banks (capacity: 600 kVA) for 3.15 mVA transformers. Audit noticed that contrary to the above requirements, the Company did not provide for installation of the Capacitor Banks in the above work order for reasons not on record. Consequently, all the substations (augmented and new) were commissioned without provision of Capacitor Banks in the substation system.

Thus, in absence of the Capacitor Banks of prescribed capacity in the substation system, the Scheme objective to minimise the distribution losses was defeated.

The Company stated (November 2019) that Capacitor Banks was not needed as inductive load such as electric motors for industrial purposes were absent.

The reply is not tenable as the Scheme DPRs were prepared based on the projections of future growth and these equipment are standard part of any substation apparatus across the Country. Further, there are number of commercial small cottage industries in the State operating with induction motors, which necessitate installation of Capacitor Bank in the substations.

3.2.26 *Failure to limit the works cost within the MoP norms*

As per MoP's OM (September 2013) for preparation of Scheme DPRs (DPR Guidelines), the GoI capital subsidy for providing electricity connection along with LED bulbs was to be limited to ₹ 3,000 per connection.

Audit observed that while issuing work order for Senapati district, the Company allowed per connection cost of ₹ 4,615.29[72] to the Contractor (M/s. Techno

---

69 Power factor (PF) is an expression of energy efficiency. PF represents the ratio of true power used in a circuit to the apparent power delivered to the circuit and is usually expressed as a percentage. The lower the percentage, the less efficient power usage is.

70 Two in Bishnupur and One each in Chandel and Tamenglong.

71 General Information & Scope of works (Vol.-I, Section VIII) forms part of bidding document.

72 Supply: ₹ 3,750 (₹ 1.81 crore ÷ 4,826 BPL hhs), Freight & Insurance: ₹ 220.29, Erection: ₹ 645.

Power Limited) for providing free connections to 4,826 BPL households, which was higher than the threshold limit (₹ 3,000) fixed by MoP.

Thus, the Company incurred excess expenditure of ₹ 77.95 lakh[73] against 4,826 BPL households due to allowing higher rate to Contractor than prescribed norms.

The Company stated (November 2019) that though the cost for this item was above the prescribed limits, the overall cost was within the sanctioned cost. The reply is not tenable as allowing subsidy beyond the prescribed norms was irregular being in violation of Scheme guidelines.

3.2.27 *Extra expenditure due to excess provision of Steel Tubular Poles*

REC guidelines stipulated preparation of DPRs based on the actual field surveys and updated cost schedules to avoid subsequent revisions in the project costs. As per LOA and Cost Data, there was a requirement of 12 Steel Tubular poles (STP) of nine meter length for each kilometer of 11 kV line in hill areas. As per work completion report of ten villages under Chandel district, however, the number of poles installed was much higher than the prescribed norms (12 poles per kilometer) as shown at table below.

Table No. 3.2.7 Poles installed in excess of norms

Sl. No.	Name of Village	Habitation Name	11kV line Km	No. of poles		Excess poles erected
				Installed	Required	
1	S. M. Lhangjol.	S. M. Lhangjol.	7.2	103	86	17
2	Sehao	Sehao	6.6	104	79	25
3	AibolJoupi	AibolJoupi	7.6	107	91	16
4	Maojang	Maojang	15.9	212	191	21
5	Semol	Semol	4.1	80	49	31
6	Berumullambung	Berumullambung	3	53	36	17
7	Ravalon	Ravalon	1	19	12	7
8	Beleijang	Beleijang	6.2	93	74	19
9	T. Khonomjang	T. Khonomjang	16.9	242	202	40
10	5 Km kV line (from molpibung to Tuidam)		5	93	60	33
Total			**73.5**	**1106**	**880**	**226**

Source: Records of the Company.

From the table above it can be noticed that the Contractor had installed total 226 poles in excess of the norms. Installation of excess numbers of poles was a compromise with the economy measures to be observed in implementation of the Scheme works involving an extra expenditure of ₹ 55.42 lakh[74].

The Company stated (November 2019) that the standard 12 poles per km could not be followed due to varied terrains.

73 ₹ 4,615.29- ₹ 3,000= ₹ 1,615.29 x 4,826 BPL beneficiaries.

74 Total cost of STPs (₹ 5.24 crore) as per work order ÷ Total no. of STPs (2,137) x excess STPs installed (226).

The reply is not acceptable as the prescribed norms of 12 poles per kilometre pertained to 'hilly areas' and the Company should have obtained prior approval of the competent authority before deviating to these norms.

3.2.28 Downward revision of CPG after issue of work orders

As per the General Conditions of Contract[75], the Contractor was required to submit Contract Performance Guarantee (CPG) equivalent to 15 *per cent* of the Contract Price with 90 days validity beyond the Defect Liability Period. The Contractor was also required to renew the CPG from time to time till 90 days beyond the actual Defect Liability Period as may be required under the Contract.

The Company issued (14 August 2014) work orders for Scheme works in six districts in favour of five contractors with stipulations (clause 9.1 of the work order) to submit the Bank Guarantee as per the standard terms prescribed by REC. Audit observed that the Higher Tender Committee (HTC) during its meeting (January 2015), while deliberating on timely completion of the projects and release of REC funding (first instalment) pending for want of execution of works contracts, decided to revise the CPG from 15 *per cent* to 7.5 *per cent* of the contract price. The HTC's decision (January 2015) to alter the contract terms in favour of the Contractors after award of work (August 2014) was irregular and unjustified.

The downward revision of CPG rates resulted in the Contractors submitting CPGs valuing ₹ 13.97 crore against the stipulated amount of ₹ 27.94 crore leaving a shortfall of ₹ 13.97 crore. Thus, due to downward revision in CPG amount, the Company was exposed against the risk of possible losses on account of under performance of the Contractors.

The Company stated (December 2019) that the CPG rates were fixed on the recommendation of the HTC, which consisted of representatives from GoM.

The reply is not acceptable as downward revision of CPG by HTC after issue of the work orders was not only irregular being against the financial interests of the Company but also an avoidable risk for timely completion of works by the Contractors.

3.2.29 Non adherence to MoP directions regarding energy conservation

In a move to encourage energy efficient practices, the Ministry of Power (MoP) issued (September 2013) a Memorandum with stipulation to provide LED bulbs to each BPL beneficiary while providing free electricity connection under the Scheme. GoI also launched (January 2015) Domestic Efficient Lighting Program (DELP) to replace all the incandescent bulbs with LED bulbs in India to reduce the load requirements and greenhouse gases.

[75] Issued by REC (volume-1, Section-IV, Clause 9.3.3).

As per the conditions[76] attached to the bidding document, each BPL household was to be provided with free LED bulbs of upto 9 watts. Audit observed while issuing the work orders, the Head Office of the Company replaced this specification with 60 watt incandescent bulbs. Accordingly, 22,370 BPL hhs covered under the Scheme so far (November 2019) were provided with 60 watt incandescent bulbs instead of 9 watt LED bulbs.

Thus, changing the specification of work for reasons not recorded not only defeated DELP initiative towards energy conservation but also caused additional power consumption of 3.23[77] Mega Watts per year.

The Company accepted (December 2019) the observation and stated that REC approved the DPR without the provisions of LED. It was further added that after introduction (May 2015) of UJALA Scheme, incandescent bulbs were replaced by LED bulbs and 2.75 lakh LED bulb had been issued to consumers so far.

The fact, however, remained that deviation in the specification of bulbs at work order stage was against the GoI policy to encourage energy efficient practices.

3.2.30 Project Execution

After award of works, execution of Scheme projects in an efficient and timely manner is of utmost importance to achieve the intended objectives of the Scheme. The observations relating to project execution have been discussed in the succeeding text.

3.2.31 Payments released without verification of works executed

The Company released payments to contractors as per village list prepared at the time of processing their claims against the works executed. Bills are not prepared for individual villages rather several cluster of villages are grouped while processing and approving the bills of the Contractors. The Company, being the project implementing agency was supposed to apply due diligence while releasing payments to the Contractors against execution of Scheme works. Accordingly, before releasing payment, the Company was required to satisfy itself about the quality and quantum of works executed from the primary records on project works maintained at division level (*viz.* Measurement Book, Stock Register, Indent Register, *etc.*) and also by conducting field visit of each village where the Scheme works had been executed. As discussed under previous paragraph, the Divisions of the Company had not been maintaining proper records to verify the project works executed by the Contractors. Further, there was no system in place to conduct field visit of villages for verification of works executed by Contractors before releasing the payment.

As mentioned earlier, Audit selected ten villages from each of the four sampled districts (total 40 villages) for joint physical verification (JPV) of Scheme works and five beneficiaries from each selected village (total 50 beneficiaries from

---

[76] General Information and Scope of works (clause 11.16 of Volume-I, Section VII) issued by REC for Scheme works, which form part of the Biding Document.

[77] (0.06 - 0.009) x 8 hours x 30 days x 22,000 new BPL consumers = 0.28 MW x 12 months.

each district) for beneficiary survey. The results of JPV and beneficiary survey carried out by Audit (July to October 2019) with the representatives of the Company/GoM had brought out instances of short execution of works as discussed in the succeeding paragraphs.

Joint Physical Verification and Beneficiary Survey

3.2.31.1 Excess claims of beneficiary households and uninstalled meters

During joint physical verification (JPV) and beneficiary survey (24 October 2019) of two villages (Maite and Tuiliphai) in Churachandpur District following was noticed.

- Total 7 and 3 BPL hhs were found in existence in Maite and Tuiliphai villages as against the claimed electrification of 20 and 35 BPL hhs in two villages as per the work completion reports respectively;
- Though the Contractor had brought (February 2017) meters for installation in Tuiliphai village, all the meters were found lying in a house uninstalled (October 2019). As such, the division concerned could not raise bills/collect revenue after providing these connections (February 2017); and
- None of the BPL households in two villages was provided with the earthing apparatus compromising with their safety and security.

Despite above shortcomings, the Company released payments to Contractors in both the cases.

The Company stated (November 2019) that the household numbers were reduced as the practice of migration was common in hill districts. As regards non-provisioning of earthing apparatus, Company stated that instructions had been issued to the Contractor to complete the rectification work.

The reply is not acceptable as during JPV of two villages, neither any villager mentioned about any such migration nor any traces of empty/abandoned houses were noticed.

3.2.31.2 False certification of work

For Chandel, Senapati and Kangpokpi Electrical Divisions, Company paid ₹ 1.45 crore[78] to the Contractors towards supply of four sub-items of Scheme works namely, 'earthing set complete with G.I. wire for HT & LT line and hot dip galvanised anti climbing device complete'.

During JPV of sampled villages[79], Audit noticed that none of the poles (11 KV and LT line) erected in the sampled villages were provided with 'earthing and anti-climbing' devices, which pointed towards a larger picture of deficient execution of Scheme works under various districts. Audit further observed that

[78] Chandel - ₹ 92.42 lakh and Kangpokpi and Senapati - ₹ 52.16 lakh.
[79] 10 villages each from Chandel and Senapati districts.

DGM of respective Divisions[80] had certified the work completion without recording the measurements of the actual work in Measurement Books, thereby compromising on the safety of the electrical apparatus/systems.

The Company accepted the audit observation and stated (November 2019) that instruction had been issued to the Contractors to install the missing items.

Recommendation: *The Company should fix responsibility for incorrect certification of Scheme work and recover the payments made towards unexecuted portion of work from the Contractors concerned.*

3.2.31.3 Incorrect completion reports

Audit noticed several deficiencies in the work completion reports submitted by the Company to REC as discussed below.

i. In Chandel district, the Company certified electrification of three villages (*i.e.* Sejang Theoset, Tuipi Mate and Yangoulen) under the present Scheme. Audit however, noticed that while the Company had not taken up the electrification of one village (Sejang Theoset), another village (Tuipi Mate) was shown already electrified under earlier schemes. In case of third village (Yangoulen), the Company had created only the infrastructure without charging the lines (June 2019). Thus, the claim of the Company under work completion reports regarding electrification of these villages under the Scheme was incorrect.

ii. In Senapati district, Company certified (June 2019) completion of electrification work in Mongjang village. During JPV (July 2019), the work of electrification in Mongjang village was found to be incomplete.

iii. In Churchandpur district, the Company declared (January 2018) the Rovakot village[81] to be electrified, which included electrification of total 120 BPL hhs under the village. During JPV (August 2019), however, only 72 BPL hhs were found existent in the entire village. Moreover, no BPL hh connections or other infrastructures were seen to have been created in the village as evident from the following photographs.

---

[80] Prior to its bifurcation (2016) under Senapati and Kangpokpi districts, Kangpokpi Electric Division was under the jurisdiction of Senapati district.

[81] As per original DPR, the village was electrified under earlier scheme (RGGVY) and was again included in the present Scheme (DDUGJY).

Photograph No. 3.2.1 Photographs showing incomplete certified as completed


Incomplete works certified as completed at Rovakot Village, Churachandpur District.

The deficiencies in completion of scheme works as brought out above raised doubt on reliability and authenticity of the 'work completion reports' submitted by the Company for various districts. The Company should ensure that the incomplete works pointed out above are actually completed on priority and not abandoned midway. Further, as the final bills of the Contractor were pending to be settled (September 2019), the Company should ensure release of further payments based on actual completion of Scheme works in each village.

The Company accepted (November 2019) that two villages under Chandel district (Sejang Theoset and Tuipi Mate) were dropped from the present Scheme due to inaccessibility or coverage under earlier schemes while the third village (Yangoulen) was still pending to be energised. The Company further stated that remaining two villages in Senapati and Churachandpur districts had been electrified (November 2019) after the JPV conducted by Audit.

3.2.31.4 Non-execution of earthing connection works (Chandel district)

The Company awarded the work for electrification of 4,250 BPL households in 73 un-electrified villages under Chandel district to the Contractor (M/s T & T Projects Limited). The work was stated to be completed in 70 out of 73 villages (August 2019). The BPL household connection apparatus included three sub-components. The Contractor had claimed to have supplied the required material at a cost of ₹ 39.82 lakh as shown in table below.

Table No. 3.2.8 Material claimed to have been supplied

(₹in lakh)

Sl. No	Particulars	Quantity	Cost		
			Supply	F & I	Total
1	Earthing pipe 25 mm diameter, one end flattened with hole with nut & bolt – one No.	4,469 (Nos)	17.88	0.67	18.55
2	G.I. wire 8 SWG-3kg	13,407 (kg)	14.08	0.27	14.35
3	Screw, Salt (3.5 kg), Charcoal (5kg), *etc*.	4,469 (Nos)	6.70	0.22	6.92
Total			**38.66**	**1.16**	**39.82**

Source: Records of the Company.

During the JPV and beneficiary survey of 50 BPL households[82], Audit noticed that earthing connection was not installed in any of the households surveyed. Huge quantities of earthing pipe (serial no. 1 above) were found lying at Division's store. Further, the materials stated to have been supplied for sub-items 2 & 3 above were not even found in the Division's store. The excise invoice, transporter invoice and packaging lists duly stamped by the State Taxation Check Post to confirm the purchase and supply of material were also not found on record. Stock Register with complete entries on movement of materials to confirm receipt and issue of material was also not available. Similarly, the Indent Register and Measurement Book were not maintained by the Division. As such, the actual quantities of BPL kits supplied and utilised for execution of the above works was doubtful.

Thus, non-installation of earthing connection in the 50 sampled BPL households and absence of vital records to support the claims regarding supply and installation of materials raised doubts on actual execution of above works in the entire district involving financial implications of ₹ 39.82 lakh.

The Company accepted the audit observation and stated (December 2019) that instructions have been issued to the Contractor to take up rectification work for all BPL households.

The Company needs to fix responsibility for false certification of work completion to discourage similar lapses in future.

3.2.31.5 Deficiencies observed regarding installation of meters

During the course of beneficiary survey (July to October 2019), following further discrepancies in the execution of Scheme were noticed.

- In **Bishnupur district**, all the 50 beneficiaries surveyed were found already electrified under earlier schemes and also installed with pre-paid meters departmentally and not under the present Scheme. Further, 784 meters (valuing ₹ 8.98 lakh) out of total 796 meters supplied for installation under the Scheme, were lying intact in the stores at Company's DGM Office premises. The work completion report submitted by the Division concerned had no mention about these uninstalled meters. The Third Party Inspection Agency (TPIA) Stage-II reports also failed to point out this aspect, which raised doubt on actual inspection of the villages/habitations.

[82] 5 BPL households from each of the 10 sampled villages in the District.

- In **Chandel district**, Audit noticed that in one village, Company had installed more than one meter in all 14 connected households, which raised doubt regarding execution of electrification works earlier in the district under previous schemes. The presence of such practice in other villages could not be ruled out.

Photograph No. 3.2.2 Two meters installed at one house in Chandel

In reply (November 2019), Company placed blame on the linemen for not removing the defective meter after its replacement by new meter. The reply is not acceptable as during field verification, Audit found both the installed meters functional and connected to the main line.

- As per the Letter of Award (LOA), several accessories[83] were part of the complete set for domestic electrical connection apparatus for providing connections to the BPL hhs. During beneficiary survey, however, Audit found that in all the 50 surveyed hhs in **Bishnupur district**, accessories, which were part of BPL kits (such as PVC cable, Tumbler switch, Pendent holder, bulbs and Ceiling rose) costing ₹ 4.49 lakh were not installed. The Division concerned failed to point out such deficiencies and allowed the Contractor to claim erection cost for these items by incorrectly certifying these works as completed.
  The Company accepted (November 2019) the observation and assured that rectification would be carried out.

- During the beneficiary survey of one village (D. Phaipijang) under Kangpokpi Electrical Division (earlier under **Senapati District**) it was revealed that the Contractor had collected ₹ 500 from each of the 63 BPL hhs in the village contrary to the Scheme stipulations regarding providing electricity connection to BPL hhs free of cost.

The Company during the exit conference (November 2019) assured that show-cause notice would be issued to the Contractor concerned.

The reply was indicative of ineffective monitoring at Division level, on the activities of the Contractor.

3.2.32 Short execution in completed works

During the cross examination of the projects claimed to have been executed with the 'work completion reports', Audit noticed cases of short execution of scheme works as discussed below.

[83] PVC Cables, Tumbler switch, Pendant holder, bulbs and ceiling rose.

Short coverage of BPL hhs than envisaged

Chandel District

As per the original DPR for Chandel District, total 401 villages and 4,250 number of BPL households were to be covered under the Scheme. The scope of work awarded for the district included providing connection to 4,250 BPL households (including supply of material) at a cost of ₹ 1.20 crore[84].

The Contractor (M/s T&T Projects Limited) claimed to have supplied all the required materials and equipment and the Company released full payment[85] to the Contractor against the said works. Audit observed that as per the work completion report (August 2019), the Company provided free electricity connections to total 1,574 number of BPL households in 72 villages and thus short provided connections to 2,676 BPL households than envisaged in original DPR (4,250 BPL beneficiaries in 401 villages). The Company made excess payments to the extent of ₹ 0.76 crore against short executed works in respect of 2,676 BPL households resulting in undue benefit to the Contractor.

The results of JPV under Chandel Electrical Division also substantiated the above facts. During the JPV, Audit noticed that 1,150 Nos. of energy meters and other BPL kits (except G.I. wire and Screw, Salt, Charcoal) were lying in the store of the Division, as also evident from the following photographs.

Photograph No. 3.2.3 Energy metres and BPL Kits in store

Material at store, Chandel Division

The Company stated (November 2019) that although the Scheme was executed in 72, the number of BPL hh covered under the Scheme equalled with that as per original DPR in 401 villages. The Company also assured that the liabilities against installed BPL meters and other items would only be considered.

The reply is not acceptable as it is not supported with the recorded facts as per the work completion report, which shows electrification of only 1,574 BPL beneficiaries in 72 villages.

Churchandpur District

As per the original DPR for Churchandpur district, the Company was required to electrify total 8,176 number of BPL households in 518 villages, which was later revised to 142 villages with the same number of BPL households. The

---

[84] Supply- ₹ 1.13 crore + F&I- ₹ 0.05 crore + Erection- ₹ 0.02 crore.

[85] Excepting ₹ 0.16 crore, which was pending due to non-submission of bill by the Contractor.

Company carried out the revisions in the approved DPRs without the prior approval of the competent authority. The Contractor had stated to have supplied (August 2019) the entire material and equipment for providing electricity connection to 8,176 BPL households in 142 villages as per the revised DPR.

Audit observed that as per the work completion reports, the Company electrified only 5,832 number of BPL households against the 8,176 BPL households envisaged under revised DPR thereby registering short coverage of 2,344 BPL hhs (29 *per cent*) involving financial implications of ₹ 61.53 lakh[86]. Neither any reasons for this shortfall nor any approval of higher authorities for reduction in the coverage was found on record.

The Company assured (November 2019) that commensurate value of shortfall in coverage of BPL hhs would be recovered from Contractor's bills.

3.2.33 Non-maintenance of records

Non maintenance of proper records on movement of project materials

The terms of the Letter of Award – Supply (LOA) (para 20.0 and 21.0) stipulated that, all material and equipment supplied by the turnkey contractor (Contractor) shall be stored with the DGM office complex of respective district or any other suitable place as directed by the Company. The equipment/material (if any) stored in Company's godown shall be issued on a written requisition from the engineer-in-charge of the Contractor.

Rule 208 (1) of GFR 2017 states that while receiving goods and materials from a supplier, the officer–in-charge of the Stores should refer to the relevant contract terms and follow the prescribed procedure for receiving the materials. All materials shall be counted, measured or weighed and subjected to visual inspection at the time of receipt to ensure that the quantities are correct, quality is as per the specifications and there is no damage or deficiency in the materials.

Audit found that contrary to the LOA conditions and the Rules *ibid,* none of the Divisions of the Company implementing the Scheme had maintained stock registers to record movement of stores/materials. Further, the Measurement Books (MBs) maintained to record the details of material procured and supplied, had no mention regarding measurement of the quantity of items received as per transport consignment progressively. Similarly, the Divisions had not maintained the MBs progressively for erection work carried out in each village/habitation. Instead, the Divisions certified cumulative cost abstracts for the works executed with the sole purpose of preparation of bills.

As on June 2019, stock valuing ₹ 149.78 crore was stated to have been supplied by various turnkey contractors against which, the Company had released payments of ₹ 117.40 crore. However, due to non-maintenance of stock registers and MBs in proper format, Audit could not vouchsafe the actual

[86] Cost of electrification of 2,344 BPL households at the rate of ₹ 2,625 per household.

quantity of material supplied and the quantum of work executed in each village/habitation

The Company stated (December 2019) that the projects were taken up on turnkey basis and, as such, the pilferage of damage to material at the storage site was at the risk of the Contractor till the project was completed and handed over to the Company.

The reply is not tenable since the LOA terms clearly mentioned that the material should be stored at a place approved by the Company and the same should be issued only based on written request/indent by the engineer concerned of the respective Contractor. The Company had failed to vouchsafe materials received and had thus jeopardised its own interests.

3.2.34 Other Findings

Undue financial advantage to contractor on account of doubtful transportation of material

Examination of records relating to execution of Scheme works in Tamenglong district revealed that based on the instructions of then Managing Director[87], the Company paid (2016) an additional amount of ₹ 19 lakh to the Turnkey Contractor towards transportation of material and equipment to the work site. Since transportation of material and equipment was covered under the scope of the turnkey contract (contract value: ₹ 29.36 crore[88]), extra amount paid to the Contractor on this account was irregular and unjustified. The same was recovered from the Contractor after almost three years (October 2019).

Examination of records further revealed that registration number of seven vehicles claimed to have been used by the Contractor for transporting the material and equipment were not found in the all India vehicle registration database. On the contrary, one vehicle registered as Tata Truck was stated as Shaktiman Truck while registration number of one Bolero Car was purportedly claimed as a Tata Truck used for transportation of equipment. The vehicles stated above were claimed to have been used for transportation of goods on 38 occasions involving a cost of ₹ 10 lakh. The claim for expenditure using fictitious vehicle record raised doubt about the genuineness of actual execution of work.

As regards mismatch in the registration number of vehicles, Company stated (October 2019) that it was due to interior location of the project sites where motorable roads were non-existent, and further, genuineness of registration number of the vehicle hired for transportation was beyond the knowledge of the Contractor.

The reply is not tenable since the Contractor and the Company have to ensure that transportation vehicles are used for carrying the material to the site.

---

[87] Shri R. Sudhan.

[88] Supply - ₹ 26.83 crore and Erection - ₹ 2.53 crore.

3.2.35 Scheme Performance

The Scheme was implemented in six districts of Manipur for which, REC approved separate DPR for each district. Against total 470 villages/habitations and 22,730 beneficiaries targeted to be covered under the Scheme (sanctioned cost: ₹ 204.73 crore), the Company completed the Scheme works in 448 villages/habitations (95 *per cent*) covering 22,370 beneficiaries (98.42 *per cent*) as on 30 November 2019.

As per the terms of the work orders, the Contractors were required to complete the Scheme works within two years (August 2016) after award of work (August 2014). The Managing Director of the Company was responsible for setting up an appropriate control mechanism to ensure achievement of the targets set under the Scheme. Deficiencies observed in the control mechanism of the Company and achievement of envisaged objectives of the Scheme, are discussed in the succeeding paragraphs.

3.2.36 Non-commissioning of 33/11 kV substation augmented under the Scheme

Load of 1x1 MVA transformer installed at existing 33/11 substation at Tengnoupal was much stressed. Further, taking into account the anticipated increase in the load demand due to addition of new villages under the Scheme and also to cater to the demand for up-gradation of 250 kVA transformer of Assam Rifles outpost to 500 kVA, the urgency to augment the existing substation (capacity: 1x1 MVA) with additional 1x3.15 MVA transformer was necessitated.

The Company awarded (January 2017) the work order for augmentation of substation at Tengnoupal to the Contractor (M/s T&T Projects Limited) at a cost of ₹ 1.35[89] crore. The Contractor completed and handed over (October 2018) the augmented substation to the Company after test charging the transformers. However, despite the urgency involved to augment the substation, the newly installed transformers were kept idle till the date of audit (October 2019).

Thus, even after incurring an expenditure of ₹ 1.35 crore, the Company failed to commission the much needed augmented substation rendering the entire expenditure unfruitful.

The Company stated (28 November 2019) that the transmission utility of the State (*viz.* Manipur State Power Company Limited-MSPCL) monitored the substation and MSPCL did not respond on Company's requests for evacuation of power from the substation. During the exit conference (30 November 2019), the Company also claimed that the substation was handed over to MSPCL.

The reply is not acceptable in view of the claims (16 December 2019) made by MSPCL (transmission utility) that the Company had not officially handed over the substation to them for operations. MSPCL in its response had further stated

[89] Supply- ₹ 1.29 crore, Freight - ₹ 0.02 crore and Erection - ₹ 0.04 crore.

that the new transformer could not be made operational in absence of 'transformer protection terminal equipment' (such as, 33 kV control panel along with control cable and 33 kV current transformer), which were not installed by the Company. No further response was received from the Company on the issue.

3.2.37 Non-monitoring of feeder-wise performance of DTRs

The Scheme guidelines (Clause 2 (iv)) envisaged for installation of meters on all Distribution Transformers (DTRs) in the electrified villages/hamlets to collect DTR-wise consumption data and utilise the same to ascertain load usage and monitoring of distribution loss for each feeder.

The Company installed total 397 three phase Trivector energy meters on both 63 and 25 kVA DTRs across the six districts[90] under the Scheme. Audit however, observed that the Circle/Distribution Divisions of the Company had not carried out transformer-wise energy accounting, auditing and checking of energy losses thereby defeating the primary aim of installing these meters. In absence of transformer-wise energy accounting and meter readings, the Company could not monitor feeder-wise performance of DTRs to plug the Aggregate Technical & Commercial losses (AT&C losses). This rendered the expenditure (₹ 1.65 crore) incurred on the installation of 397 DT meters to be unfruitful.

The Company stated (November 2019) that the issues pointed out could not be resolved due to insufficient manpower.

The reply is not acceptable as the Company while implementing the Scheme, should have appropriately addressed the issue of manpower shortage to avail the intended benefits of the Scheme.

3.2.38 Billing of new consumers without actual reading

The Scheme stipulated to provide free electricity connections (with meters) to BPL rural hhs to ensure their billing based on actual meter readings. Audit examined the position (September 2019) in four sampled districts[91] out of six districts covered under the Scheme and following observations are made.

In **Senapati** and **Chandel** Districts, the respective Divisions of the Company provided electricity connections to 6,379 BPL hhs without recording the connection details of these households in consumer ledgers. The Divisions concerned neither had collected the meter readings nor raised electricity bills on these consumers since installation of their connections. Thus, the Company could not realise minimum monthly revenue of ₹ 8.67 lakh[92] from these 6,379 consumers.

90 Excluding Tamenglong district where Scheme works were ongoing (September 2019) with scheduled completion by March 2020.

91 Senapati, Chandel, Churachandpur and Bishnupur.

92 0.25 kwh x 8 hours x 30 days= 60units x ₹ 1.85/unit= ₹ 111 per household. Now, ₹ 111 x 6379 consumers = ₹ 7.08 lakh + Fixed charge of ₹ 1.59 lakh (₹ 25 x 6379 consumers).

In **Churachandpur** district, in eight out of ten sampled villages, the Divisions concerned had billed the consumers on a collective average basis for the whole village defeating the purpose of installation of consumer meters. In case of one sampled village (Tuiliphai), the division concerned could not raise bills due to non-installation of meters by the Contractor. In case of remaining village (Maite Village), the division concerned neither raised bills nor collected revenue despite installation of the community meters by the Contractor.

In **Bishnupur** district, all the households in the entire district were installed with pre-paid meters.

Thus, due to the non-collection of meter readings against newly connected consumers, the purpose of installation of meters remained unachieved.

The Company stated (November 2019) that monthly billing of BPL households as per actual meter reading was not feasible due to acute shortage of manpower.

The reply is not acceptable as the issue of manpower shortage should have been addressed to minimise the AT&C losses, which was one of the main objectives of the Scheme.

3.2.39 Non release of connections to Non BPL households

The main objective of the Scheme was to provide access to electricity to all categories of rural hhs including Above Poverty Line households (APL hhs). The Company had assessed the required capacities of transformers in the DPRs based on the combined load requirement of BPL and APL households in each village/ habitation.

Audit observed that contrary to the Scheme provisions, the Company had not developed an effective mechanism to ensure actual release of connections to the hhs other than BPL hhs. As per the approved DPRs, the Company was required to electrify total 11,404 APL hhs in four sampled districts. However, during the conduct of audit, the Company could not provide any records to confirm actual coverage of these APL households under the Scheme although such connections were to be provided on payment basis.

The Company accepted (November 2019) the audit observation and assured to provide electricity connections to left out APL hhs under Saubhagaya scheme.

Monitoring

3.2.40 Quality Control Mechanism

As mentioned earlier, projects under the Scheme are subject to a three-tier Quality Monitoring Mechanism to ensure that all materials are utilised and workmanship conforms to the prescribed specifications. The Company was responsible to carry out the first tier of quality control (50 *per cent* of completed villages/habitations) by engaging third party inspection agency (TPIA). Similarly, REC was responsible to ensure the second tier of quality checks (20 *per cent* of completed villages/habitations) through independent agencies designated as REC Quality Monitors (RQMs). Further, the MoP, GoI was required to carry out the third tier quality control checks (one *per cent* of completed villages/habitations) by outsourcing the work to the National Quality Monitors (NQM) engaged by MoP for the purpose.

3.2.41 Payment of Inspection charges not linked with actual inspections

As mentioned earlier, the Scheme envisaged electrification of total 470 villages in six districts. As on 30 November 2019, the Company completed electrification of 448 villages. As per the Scheme guidelines, Third Party Inspection Agency (TPIA) was supposed to inspect 50 *per cent* of villages (235 villages) targeted under the Scheme (470 villages). As per the latest information available, TPIA had completed inspection of only 172 villages[93] till the date of audit (October 2019). Audit observed that the Company had already released payments to the TPIA to the extent of 90 *per cent* of their contracted value instead of making proportionate payment based on actual completion of inspection work.

The Company should ensure that the TPIA complete the inspection of prescribed number of electrified villages before release of further payments so that the deficiencies, if any, noticed in the Scheme works could be rectified timely.

3.2.42 Monitoring Committees not holding regular meetings

GoM formed (October 2013) a State Level Standing Committee (SLSC) for implementation of the Scheme with the Chief Secretary, Manipur as Chairman. The Committee shall recommend the project proposal formulated by the implementing agency and also monitor progress, quality control and resolve issues relating to the implementation of sanctioned projects *viz.* allocation of land for substations, right of way, forest clearance, railway clearance, safety clearance, *etc*.

During the course of Scheme implementation, the Committee held only two meetings (November 2016 and January 2018) under which, only the revised scope of the Scheme Plan was discussed.

GoM further constituted (July 2015) two District Electricity Committees (DECs). Member of Parliament/Lok Sabha (Inner) and the Member of Parliament/Lok Sabha (Outer) were to chair one of the two Committees each. The two DECs were to review and monitor the implementation of all Central Schemes in power Sector. The DECs were to be consulted in preparation of DPRs for the Scheme works. The DECs were also supposed to review the quality of power supply and consumer satisfaction and promote energy efficiency and energy conservation. The DECs were required to meet at least once in three months at their respective District Headquarters.

Audit observed that as against the minimum prescribed one meeting in every quarter, two DECs had convened only three meetings so far (September 2019)

[93] Status as of September 2019 as available.

since their formation (July 2015); one combined meeting in September 2015 and two separate meetings in October 2016. The two meetings were held to appraise about preparation of the revised DPRs under the Scheme. The DECs did not have any meeting at the respective District Headquarters.

Thus, failure to hold regular meetings by the Committees constituted by the GoM had adverse impact on effectiveness of monitoring and constant review of Scheme implementation, which was a compromise with the quality and timeline prescribed for the Scheme works.

3.2.43 Non-maintenance of Assets Registers

As per the Tripartite Agreement entered into between GoM, REC and the Company, GoM was the custodian of the assets created under the Scheme. The GoM authorised the Company to operate and maintain these assets to effect power supply in project areas and derive consequential benefits out of the Scheme assets so created. Deputy General Managers of the respective Divisions of the Company were required to maintain separate Fixed Assets Registers for accounting the Scheme assets.

Audit observed that during the course of Scheme implementation, the Company created total assets worth ₹ 161.20 crore (as of July 2019). The Company, however, had not maintained separate Fixed Asset Registers providing complete details of project assets created under the Scheme along with the cost of these assets. On the contrary, the Divisions concerned of the Company forwarded the completion and handing/taking over documents of these assets as received from the Turnkey Contractors, to the PMU Cell of the Corporate Office of the Company for archiving without mentioning the actual cost of the project assets.

3.2.44 Vigilance Wing

The Company did not have a dedicated vigilance wing to carry out independent checks upon the various functions including RGGVY works.

Conclusion

As per 2011 Census data, 75.46 *per cent* (1,46,180 households) of total rural households (1,93,730 households) of the State had access to electricity. After implementation of RGGVY (XII Five Year Plan) DDUGJY Scheme, the percentage of electrified rural households in Manipur had increased to 83.69 *per cent* (1,62,139 households), which was significant. The beneficiaries also responded positively towards the Scheme outcome as now they had regular power supply leading to positive socio and economic impact.

The Scheme was implemented in six districts of the State completing scheme work in 448 villages/habitations (95 *per cent* of target) covering 22,370 beneficiaries (98.42 *per cent* of target) as on 30 November, 2019.

The processes and control mechanism of the Company for management and execution of Scheme works was deficient and could be improved. Audit noticed instances of changes made in the approved DPRs resulting in coverage of households not included in Scheme DPRs on one hand and exclusion of villages originally selected for electrification under the Scheme on the other.

The Company did not have an effective system for monitoring of works leading to non-adherence to Scheme guidelines in project execution. Audit noticed cases of extending undue advantages to the Contactors by way of accepting higher pricing of scheme works materials, admitting claims against exaggerated bills and releasing payments without verification of the works executed. The work completion certificates issued by the Company were not found reliable and authentic. Joint Physical Verification of project works and beneficiary survey revealed serious irregularities such as, excess claims against the beneficiaries covered, non-installation of meters and earthing connections, false certification of works, incorrect completion reports, short execution against completed works, *etc*.

The Company did not maintain proper records on measurement of project works and movement of project material. No records maintained to record the details of project assets created.

The Role of the State Level Monitoring Committees to ensure quality and timeliness in Scheme implementation was not effective due to their failure to hold regular meetings for monitoring of Scheme works.

Recommendations

Government/Company may ensure:

- *Coverage of deserving villages/habitations under the Scheme through robust planning based on actual field survey;*
- *Strict adherence to the approved DPRs and Scheme guidelines in project execution so as to extend benefits to project covered beneficiaries;*
- *Execution of works strictly as per the prescribed specification through close monitoring of Contractors activities and adhering to cost norms;*
- *Strengthening the monitoring mechanism at top level to ensure timely execution of quality works;*
- *Fixing responsibility in all cases of diversion of BPL connections, suspected misappropriation and short execution/false certification of scheme works, etc. and recovery of undue payments made against unexecuted works from the contractors concerned; and*
- *Conducting physical verification of Scheme works through an independent agency and reporting the anomalies, if any, directly to the top Management for appropriate corrective action.*

COMPLIANCE AUDIT PARAGRAPHS

MANIPUR STATE POWER DISTRIBUTION COMPANY LIMITED

3.3 Embezzlement of Company Receipts

Revenue of ₹ 17.39 lakh collected from consumers by the Chandel Division of Manipur State Power Distribution Company Limited was not deposited to Company Account.

The Manipur State Power Distribution Company Limited (Company), though a State Government PSU, does not have its own Manual/Rules/Framework for day to day functioning of the Company.

Further, as per the requirements of an effective and generally accepted cash control mechanism, a company should record the cash collections made from consumers in the Revenue Collection/Deposit Register and Cash Book on a daily basis. Similarly, the cash collected from consumers should be deposited into the Bank Account maintained for the purpose on a daily basis. The details of pay-in-slips and the amount deposited into the Bank should be properly recorded in the Remittance Register and Cash payment column of Cash Book. The pay-in-slips number should be updated in the voucher reference column in Cash Book. Further, the counterfoils of the cash receipts issued to the consumers and the pay-in-slips for cash deposited into the Bank should also be kept under safe custody of the Company.

Audit scrutiny of records (February 2019) like counterfoils of Receipt Book, Deposit Register, Bank Statements, *etc*. maintained by the office of the Deputy General Manager (DGM), Manipur State Power Distribution Company Limited (MSPDCL), Chandel Division[94] (Division) revealed that the Division had collected (June 2014 to January 2017) receipts aggregating to ₹ 17.39 lakh from the consumers towards current energy charges, arrear surcharge, security deposit, *etc*. The details of revenue collected are shown in ***Appendix 3.6***. However we noticed that the Division had neither recorded the collections (₹ 17.39 lakh) in the revenue collection/deposit register nor deposited the same in the Bank account for a period ranging from 25 to 32 months after receipt (February 2019[95]). Further, the Division had no documentary evidence on record[96] to show the details of the individual officials authorised to collect revenue on behalf of MSPDCL or Receipt Books issued by the Division to such individuals.

---

[94] Audit conducted test check of two Divisions (Churachandpur and Chandel) out of 14 Revenue Divisions of MSPDCL.

[95] As on the date of Audit.

[96] Except in two cases (serial no. 15 and 16 of Annexure), which showed Receipt Books were issued to Shri Kanhai.

On a test check of the randomly selected receipts issued for billed charges collected, audit noticed that on a single day, different individuals had signed several such Receipts in the name of the Manager.

The Division's officials did not ensure maintenance of proper records regarding issue of Receipt Books to authorised persons and neither had they put in place an effective monitoring system to ensure deposit of all receipts into the Bank account of the Division on daily basis.

The Statutory Auditors of MSPDCL while giving opinion on the accounts for the year 2015-16 had also flagged the issue of unreconciled discrepancy between the figures of operational revenue as compiled at the Head Office[97] of MSPDCL and as shown in the divisional level billing records. The Company Management of MSPDCL, however, had not taken cognisance of the issues flagged by the Statutory Auditors for appropriate remedial action.

Absence of controls and checks in MSPDCL led to embezzlement of Company revenue to the tune of ₹ 17.39 lakh over a period of two years. The findings of Audit are based on the test check of two[98] out of 14 Revenue Divisions of MSPDCL, and hence, possibility of similar cases in other Divisions of MSPDCL could not be ruled out.

On this being pointed out in Audit, the Division stated (August 2019) that the amount pointed out by Audit (₹ 17.39 lakh[99]) has been paid by the defaulters/staff concerned and also deposited into the Bank account.

Our verification of the documents (Bank Deposit Slips, Deposit Register and List of Cash Receipt) submitted by MSPDCL in support of their action taken claim and due to 'bank reconciliation statements' not in place covering the periods of above deposits for verification, Audit could not derive an assurance that the charges collected were indeed deposited to Company's Account.

The matter was reported (July 2019) to the Government; their replies had not been received (November 2019).

Recommendation: *MSPDCL may carry out a special audit of their collections in all their Divisions and ensure deposit of all revenue actually collected in this case and others, to their Company's Bank Account. They may also take action to fix responsibility for the embezzlement done for persons found guilty of committing fraud on the Company.*

---

[97] Figures compiled based on the Consumer Monthly Tariff Report (CMTR) Summary Statements submitted by the Billing Divisions.

[98] Chandel and Churachandpur Divisions.

[99] ₹ 4.16 lakh prior to audit and ₹ 13.23 lakh, after audit.

3.4 Outsourcing of Collection of Receipts without valid contracts

Churachandpur Division of Manipur State Power Distribution Company Limited gave business to Revenue Collecting Agencies without legally subsisting contracts and in violation of the orders of Government of Manipur to devolve the collection functions to Autonomous District Councils (ADCs). The commission paid to the Agencies was also irregular.

As per Rule 22 of the General Financial Rules 2005 and 2017, no authority may incur any expenditure or enter into any liability involving expenditure or transfer of moneys for investment or deposit from Government account unless the same has been sanctioned by a competent authority. Such prudent financial norms need to be observed *mutatis-mutandis* by Public Sector Undertakings.

Manipur State Power Distribution Company Limited (MSPDCL) entered into Agreements (March 2003 to April 2008) with Collecting Agencies[100] for collection of revenue from consumers against electricity bills raised by MSPDCL. These Agreements were valid for a period of six months only and had already expired and MSPDCL had not renewed these Agreements. Despite expiry of previous agreements, MSPDCL continued with the business of revenue collection through these Collecting Agencies.

Government of Manipur (GoM) devolved (November 2013[101]) the responsibility of collection of revenue against the electricity bills raised by MSPDCL to the Autonomous District Councils (ADCs) in respect of the consumers falling under their jurisdictions. The ADCs were also entitled to claim incentive of 5 *per cent* on the revenue so collected, from MSPDCL. Accordingly, MSPDCL was required to approach the ADCs in the matter and issue necessary directions to its Divisions for compliance to the orders (November 2013) of GoM.

We noticed in audit of MSPDCL (February-March 2019) that the Company Management (Board of Directors) had not taken up the matter with the ADCs for collection of revenue against electricity bills on its behalf. They neither issued necessary directions to its Divisions for discontinuation of revenue collection through the Collecting Agencies and formalise the arrangements with the ADCs on commission basis, for implementing GoM's decision (November 2013).

Audit scrutiny of records (February – March 2019) further revealed that Churachandpur Division of MSPDCL had paid a commission of five *per cent* (₹ 31.48 lakh) to the above mentioned Collecting Agencies[102] on the revenue of ₹ 6.35 crore against the electricity bills raised for the period from March 2014 to February 2019 without any legal and subsisting contracts in existence.

---

[100] Collecting Agencies mostly included local clubs, village authorities, welfare associations *etc.*

[101] Vide Order No. 14/7/2011-Power dated 16 April 2011.

[102] Out of total 11 Collecting Agencies, major portion of the commission (₹ 17.33 lakh) was paid to five Collecting Agencies namely Chairman, Development Committee Gouchinkhupveng, New Lamba (₹ 6.77 lakh); Hmar Youth Association Rangkai Branch (₹ 2.95 lakh); Molnom Electric Consumer Welfare Association (₹ 2.90 lakh); Bungmual Youth Club (₹ 2.42 lakh) and KristanThalai Pawl, LamkaChhim (₹ 2.30 lakh).

Further, the findings of Audit are based on the test check of two[103] out of 14 Revenue Divisions of MSPDCL, and hence, possibility of similar irregularity in other Divisions of MSPDCL could not be ruled out. *Hence, MSPDCL needs to carry out an internal audit of the revenue collection arrangements in all the Divisions and take appropriate corrective action in the matter*.

Thus, continuing with the arrangements of revenue collection with the Collecting Agencies without any valid contracts and payment of commission there against was irregular and in violation of orders issued by the Government of Manipur.

MSPDCL stated (January 2020) that five *per cent* commission from the revenue collected was paid to the collecting agencies as per GoM order (January 2003)[104]. During a meeting[105] held (July 2020) with Principal Accountant General (Audit), Manipur, MSPDCL had further stated that collection of revenue through ADCs were not done since ADCs had limited manpower.

The reply was silent regarding continuing business on expired agreements. Further, MSPDCL failed to produce any documentary evidence in support of its claim regarding inability of the ADCs to perform revenue collection due to manpower shortage.
The matter was referred to the Government (August 2019); their reply had not been received (August 2020).

Recommendation: *Government may review the directions given to the Company and decide whether the ADCs should be involved in collection of the electricity charges revenue of the Company and accordingly ensure that legal contracts are made by the Company with the collecting Agencies.*

[103] Chandel and Churachandpur Divisions.
[104] No. 11/1/95-Power dated 31 January 2003.
[105] From the side of MSPDCL, the meeting was attended by the Managing Director, General Manager (F&A), Deputy General Manager (Commercial) and Manager (Commercial).