

CHAPTER - II

CHAPTER-II

2. Performance Audit relating to Government Companies

2.1 Performance Audit on Madhya Pradesh Power Transmission Company Limited

Executive Summary

Introduction

The transmission of electricity and grid operation in Madhya Pradesh are managed and controlled by the Madhya Pradesh Power Transmission Company Limited (Company), which is mandated to provide an efficient, adequate and properly coordinated grid management and transmission of energy. The Company was incorporated in November 2001 under the Companies Act, 1956.

During 2007-08, 33,710 Million Units (MUs) of energy was transmitted by the Company which increased to 40,692 MUs in 2011-12. As on 31 March 2012, the Company had transmission network of 27,060.67 Circuit kilometres (Ckm) and 247 Extra High Tension sub stations (EHT SSs) with installed capacity of 35,544 Mega Volt Ampere (MVA) capable of transmitting 40,692 MUs annually. It employed 5,365 employees as on 31 March 2012.

Planning and Development

The Central and State Transmission utilities have the key responsibility of network planning and development based on the National Electricity Plan in coordination with all concerned agencies.

Against the targeted construction of 68 EHT SSs, addition/augmentation of 11,036 MVA of transformation capacity and erection of 6,914.88 Ckm of EHT lines, the Company added 49 EHT SSs, installed 10,693.50 MVA of transformation capacity and erected 6,172.54 Ckm of transmission lines.

Construction of Sub Stations and Lines

The Company undertook erection and commissioning of EHT SSs and related transmission lines. A test check of such works completed during the five year period 2007-12 revealed that there were several instances of delay in completion of work

ranging from 4 months to 40 months which had a significant impact on the physical and financial objectives of the Company.

Due to inadequate demand the EHT SS at Pawai along with 132 kV lines constructed at a cost of ₹ 15.29 crore remained underutilised. The delay in completion of Satna-Chhattarpur line resulted in idling of EHT SS at Chhattarpur constructed at a cost of ₹ 12.37 crore for more than 11 months.

The completion of associated lines works in advance of construction of EHT SS at Sagar resulted in idling of lines constructed at a cost of ₹ 6.57 crore for a period ranging from 11 months to 17 months.

Contract Management

The Company applied force majeure clause in procurement of 315 MVA power transformer with accessories to the advantage of the supplier which resulted in short recovery of liquidated damages to the extent of ₹24.13 lakh.

The Company failed to operate the risk and cost clause of the purchase order in procurement of 70 KN and 90 KN disc insulators, which resulted in non-recovery of extra cost in replacement of failed/rejected insulators to the extent of ₹36.46 lakh.

Performance of transmission system

The Company had excess transformation capacity (220 kV) over peak demand which ranged from 318 MVA to 2,985 MVA during the period 2007-08 to 2011-12. Further, while the eight 220 kV EHT SSs had excess installed capacity over the permissible limit valued at ₹ 48.75 crore, 51 EHT SSs had only one power transformer as against the norm of minimum two.

The Company is yet to provide Bus Bar Protection Panels in 38 EHT SSs out of 55

EHT SSs of 220 kV. The Company has evolved an innovative concept for reducing transmission losses without any financial commitment.

Grid Management

Remote Terminal Units (RTUs) were installed in only 46 out of 242 EHT SSs of 220 kV and below. The Company issued Backing Down Instructions (BDI) on 211 occasions, all of which were complied with by the generators.

Financial Management

Loss before tax of the Company decreased by 92.24 per cent, from ₹39.94 crore in 2007-08 to ₹3.10 crore in 2011-12. The Company delayed claiming supply affording charges from DISCOMs resulting in unrealised dues of ₹8.17 crore. Delay in repayment of instalment of loan raised from Power Finance Corporation Limited (PFC) resulted in additional expenditure of ₹1.91 crore towards penal interest and interest on interest.

Material Management

The value of closing stock exhibited in the Accounts did not agree with that shown by the Stores records. In spite of disposal of the obsolete/unserviceable stock on a regular

basis the same remained more than 25 per cent of the closing stock.

Conclusion and Recommendations

The Company could not achieve the planned addition of construction of new EHT SSs and lines and addition/augmentation of transformation capacity. There were several instances of delay in completion of works ranging from 4 to 40 months. The Company short recovered liquidated damages from the contractor by ₹24.13 lakh. The Company has evolved an innovative concept for reducing transmission losses without any financial commitment. RTUs were installed in only 46 out of 242 EHT SSs of 220 kV and below. The Company was not able to repay the loan along with interest within the scheduled time to PFC. The value of closing stock exhibited in the Accounts did not agree with that shown by the stores records.

We recommend that the Company analyse the reasons for delay in construction of EHT SSs and find alternative ways so that the works are completed within the time schedule, recover liquidated damages as per the provisions of the contract, install RTUs in all the EHT SSs, minimise the number of occasions of violation of Grid Discipline and list out obsolete and non-moving stores and circulate the same among the DISCOMs for possible utilisation by them.

Introduction

2.1.1 With a view to supply reliable and quality power to all by 2012, the Government of India (GoI) prepared the National Electricity Policy (NEP) in February 2005. The NEP laid emphasis on the requirement of adequate and timely investment besides efficient and coordinated action to develop a robust and integrated power system for the country. It also, recognised the need for development of National and State Grids with the coordination of Central/State Transmission Utilities (CTU/STU).

Transmission of electricity and Grid operations in Madhya Pradesh are managed and controlled by the Madhya Pradesh Power Transmission Company Limited (Company), which is mandated to provide an efficient, adequate and properly coordinated Grid management and transmission of energy.

The Company was incorporated in November, 2001 under the Companies Act 1956, under the administrative control of the Energy Department, Government of Madhya Pradesh (GoMP). It formally commenced its operations from 1 July 2002, undertaking all activities relating to intra-state transmission of electricity for

and on behalf of Madhya Pradesh Electricity Board (Board). Further, GoMP has nominated the Company as the STU from 1 June 2004 and provided functional autonomy from 1 June 2005. Thus, the Company had assumed the functions of intra state transmission of electricity, STU and State Load Dispatch Centre (SLDC) as its own business and not as an Agent of Board.

Organisational Setup

2.1.2 The Management of the Company is vested in a Board of Directors comprising of seven Directors¹. The day-to-day operations are carried out by the Managing Director, who is the Chief Executive of the Company with the assistance of one Director (Technical) and 12 Heads of Departments viz., Executive Director (Human Resource Development) (HRD), Chief Engineer (C.E.) (Testing & Communication), C.E. (Commercial & Consultancy Management), C.E. (State Load Dispatch Centre), C.E. (EHT Construction), C.E. (EHT Maintenance), C.E. (Civil-Transmission), C.E. (Transmission & Procurement), C.E. (Planning & Power System), Chief Financial Officer and Company Secretary. The organisation chart is indicated in ***Annexure 7***.

Transmission Network

2.1.3 During 2007-08, 33,710 Million Units (MUs) of energy was transmitted by the Company, which increased to 40,692 MUs in 2011-12, i.e. an increase of 20.71 *per cent* during 2007-12. As on 31 March 2012, the Company had transmission network of 27,060.67 Circuits kilometres (Ckm) and 247 Extra High Tension sub stations (EHT SSs) with installed capacity of 35,544 Mega Volt Ampere (MVA), capable of annually transmitting 40,692 MUs.

Financial Position and Manpower

2.1.4 The turnover of the Company was ₹ 1,717.28 crore in 2011-12, which was equal to 0.54 *per cent* of the State Gross Domestic Product² (GDP). It employed 5,365 employees as on 31 March 2012.

Scope and Methodology of Audit

2.1.5 The Performance Audit conducted during April 2012 to July 2012 covers performance of the Company during the period 2007-08 to 2011-12. Audit examination involved scrutiny of records of different wings at the Head Office³ and at SLDC.

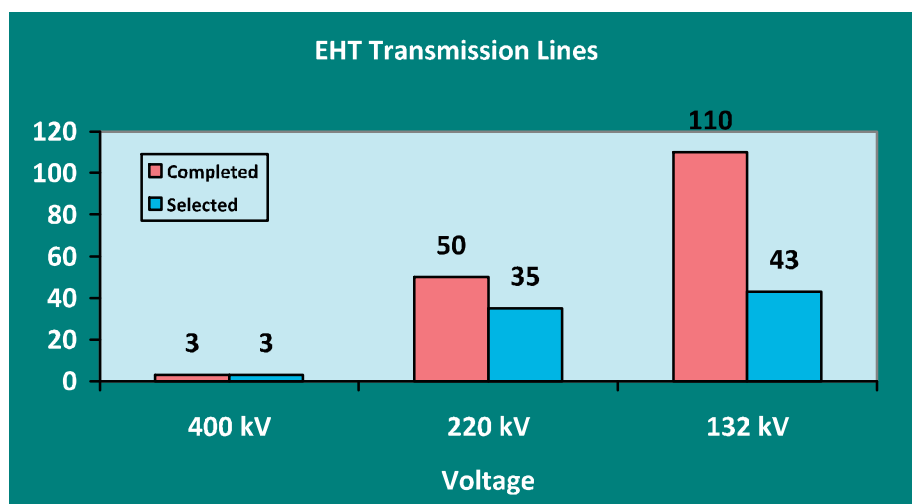
The Company constructed 163 transmission lines (6,172.54 Ckm) and 49 EHT SSs (of 132/220/400 kV total capacity 10,693.50 MVA) during the period covered by the Performance audit. Out of these, 81 transmission lines and 37 EHT SSs, based on the amount of expenditure incurred, were selected for audit scrutiny as detailed in the following graphs:-

¹ One Chairman (Nominee Director), two nominee Directors, two Independent Directors, one Managing Director and one Director (Technical)

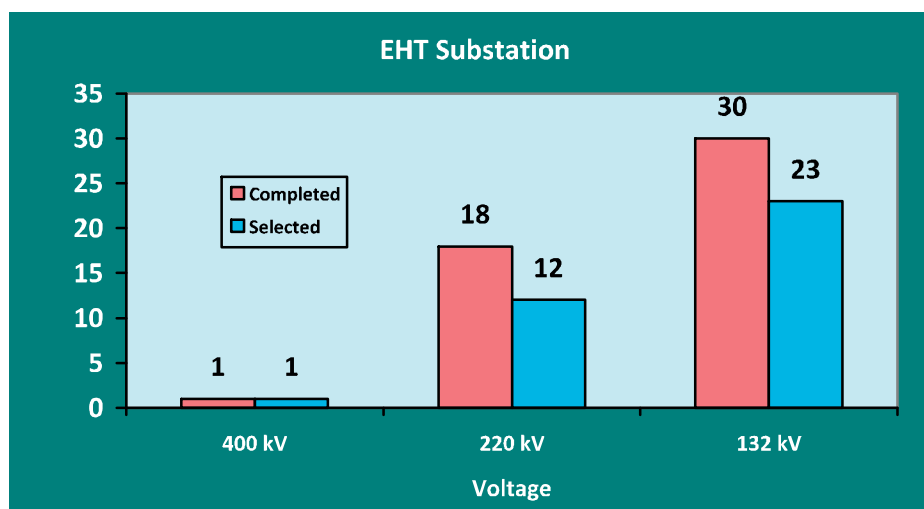
² GDP ₹ 315386.66 crore for the financial year 2011-12

³ Head Office situated at Jabalpur

Selection of EHT Lines



Selection of EHT Substation



The audit methodology consisted of explaining the audit objectives to the top management, scrutiny of records at Head Office and at SLDC, interaction with personnel of the audited entity, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of the Draft Performance Audit Report to the Management/Government for comments.

2.1.6 We explained the audit objectives to the Company during an Entry Conference held on 15 May 2012. The audit findings were reported to the Company and the State Government in August 2012 and discussed in an Exit Conference held on 23 October 2012 with the Secretary (Energy) of the GoMP. The Exit Conference was also attended by the Managing Director and Heads of Departments and other senior officers of the Company.

The Management replied to the audit findings in October 2012. A reply was, however, not received from the Government (January 2013). The replies, views expressed during the Exit Conference and the latest developments in respect of various issues raised by audit as furnished by the Company during the Exit Conference have been considered while finalising the Performance Audit.

Audit Objectives

2.1.7 The objectives of the performance audit were to assess whether:

- the transmission system was developed and commissioned in an economical, efficient and effective manner;
- operation and maintenance of the transmission system was carried out in an economical, efficient and effective manner;
- a Disaster Management System was set up to safeguard its operations against unforeseen disruptions;
- an effective and efficient financial management system existed; and
- an economic, efficient and effective system of procurement of material and inventory control mechanism existed.

Audit Criteria

2.1.8 The audit criteria adopted for assessing the achievement of the audit objectives were derived from the following sources:

- Provisions of the National Electricity Policy / Plan;
- Perspective Plan and Project Reports of the Company;
- Standard procedures for award of contracts with reference to principles of economy, efficiency, effectiveness, equity and ethics;
- Circulars, Manuals and MIS reports;
- Manual of Transmission Planning Criteria (MTPC) issued by the Ministry of Power (MoP) in June 1994;
- Grid Code issued by the Central Electricity Regulatory Commission (CERC) consisting of planning, voltage management and operation;
- Directions from State Government / Ministry of Power (MoP);
- Norms/guidelines issued by Madhya Pradesh Electricity Regulatory Commission (MPERC)/Central Electricity Authority (CEA); and
- Reports of Regional Power Committee (RPC)/ Regional Load Dispatch Centre (RLDC).

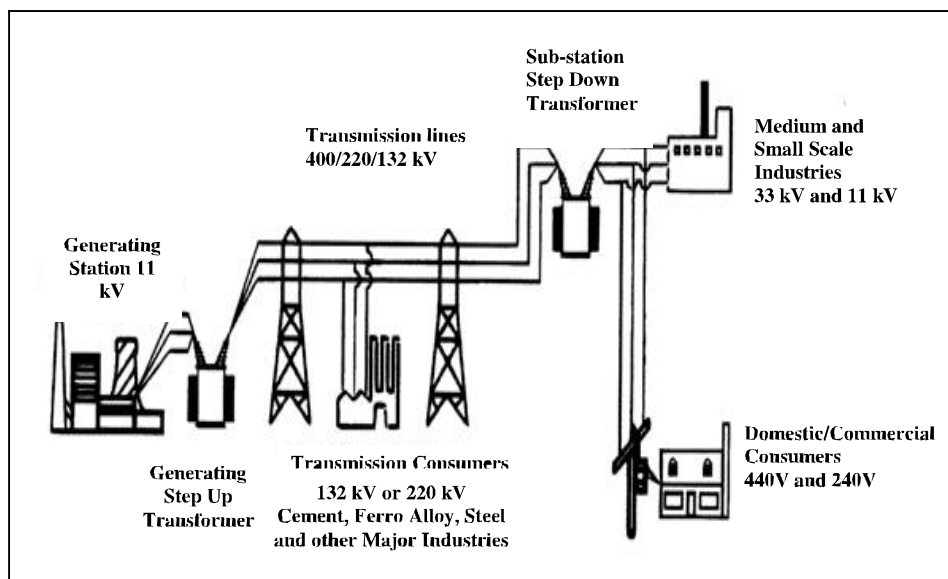
Brief description of transmission process

2.1.9 Transmission of electricity is defined as the bulk transfer of power over long distances at high voltages, generally at 132 kV and above. Electric power generated at relatively low voltages in power plants is stepped up to high voltage power before it is transmitted, to reduce the loss in transmission and to increase efficiency in the Grid. EHT SSs are facilities within the high voltage electric system used for stepping up/stepping down voltages from one level to another, connecting electric systems and switching equipment in and out of the system.

The step up transmission EHT SSs at the generating stations use transformers to increase the voltages for transmission over long distances.

Transmission lines carry high voltage electric power. The step down transmission EHT SSs thereafter decreases voltages to sub transmission voltage levels for distribution to consumers. The distribution system includes lines, poles, transformers and other equipment needed to deliver electricity at specific voltages.

Electrical energy cannot be stored; hence generation must be matched to need. Therefore, every transmission system requires a sophisticated system of control called Grid management to ensure balancing of power generation closely with demand. A pictorial representation of the transmission process is given in the following diagram:



Audit Findings

Planning and Development

National Electricity Plan

2.1.10 The Central Transmission Utilities (CTUs) and STUs have the key responsibility of network planning and development based on the NEP in coordination with all concerned agencies. At the end of the Tenth Plan (March 2007), the transmission system in the country at 765/HVDC/400/230/220 kV stood at 1.98 lakh Ckm of transmission lines which was planned to be increased to 2.93 lakh Ckm by end of the Eleventh Plan i.e. March 2012. The NEP assessed the total inter-regional transmission capacity at the end of 2006-07 as 14,100 MW and further planned to add 23,600 MW in the Eleventh Plan bringing the total inter-regional capacity to 37,700 MW.

Transmission Network and its growth

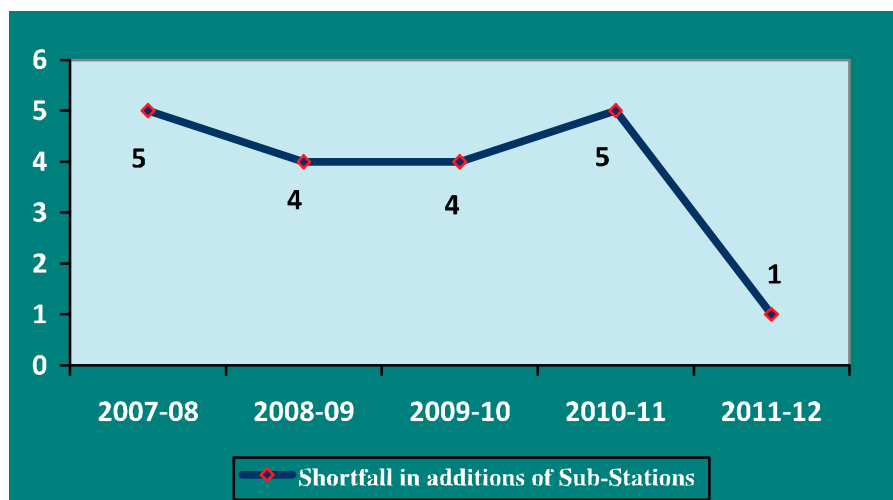
2.1.11 The Company's transmission system at the beginning of 2007-08 stood at 20,888.13 Ckm of transmission lines with a transformation capacity of 24,850.50 MVA. The transmission system as on 31 March 2012 consisted of 27,060.67 Ckm of transmission lines with a transformation capacity of 35,544 MVA.

The transmission capacity of the Company at EHT level during 2007-08 to 2011-12 is given in the following table:

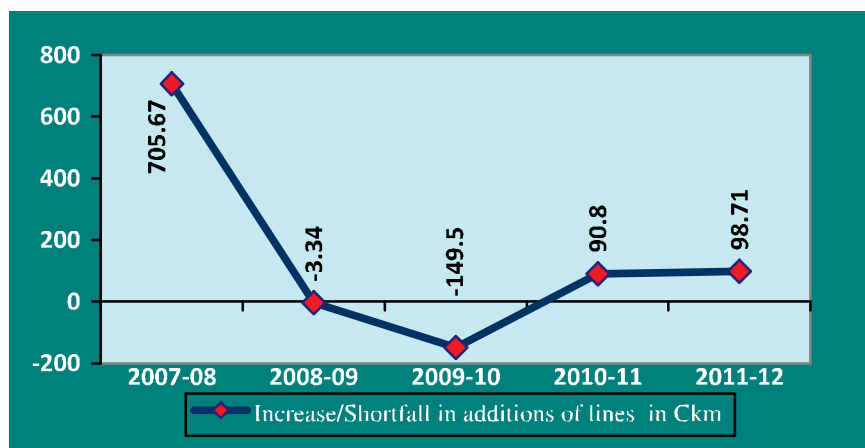
Sl. No	Description	2007-08	2008-09	2009-10	2010-11	2011-12	Total
A. Number of EHT SSs (Numbers)							
1	At the beginning of the year	198	204	216	227	239	
2	Additions planned for the year	11	16	15	17	9	68
3	Added during the year	6	12	11	12	8	49
4	Total EHT SSs at the end of the year (1+3)	204	216	227	239	247	
5	Shortfall in additions (2-3)	5	4	4	5	1	19
B. Transformers capacity (MVA)							
1	Capacity at the beginning of the year	24850.50	25994.50	29057.50	32019.50	34212.00	
2	Additions/ augmentation planned for the year	1640.00	2953.00	2964.00	2033.00	1446.00	11036.00
3	Capacity added during the year	1144.00	3063.00	2962.00	2192.50	1332.00	10693.50
4	Capacity at the end of the year (1+3)	25994.50	29057.50	32019.50	34212.00	35544.00	
5	Shortfall/ excess(-) in additions/ augmentation (2-3)	496.00	(-)110.00	2.00	(-)159.50	114.00	342.50
C Transmission lines (CKM)							
1	At the beginning of the year	20888.13	21606.35	22902.69	24564.19	26410.92	
2	Additions planned for the year	1423.89	1293.00	1512.00	1937.53	748.46	6914.88
3	Added during the year	718.22	1296.34	1661.50	1846.73	649.75	6172.54
4	Total lines at the end of the year (1+3)	21606.35	22902.69	24564.19	26410.92	27060.67	
5	Shortfall/ surplus (-) in additions (2-3)	705.67	(-)3.34	(-)149.50	90.80	98.71	742.34

(Source: information supplied by the Company)

Line Graph: Shortfall in addition of EHT SSs in numbers



Line Graph: Increase/Shortfall in additions of lines in Circuit Kilometres



Against the targeted construction of 68 EHT SSs and laying of 6,914.88 Ckm of EHT lines, the Company constructed 49 EHT SSs and 6,172.54 Ckm EHT lines during the five year period from 2007-08 to 2011-12 (achievement of 72.06 per cent and 89.26 per cent respectively). Against the targeted addition of 11036 MVA, the transformation capacity added was 10,693.50 MVA (achievement of 96.90 per cent), during the five years ending 2011-12.

The particulars of voltage-wise capacity additions planned, actual additions, shortfall in capacity, etc., during the Performance Audit period are given in **Annexure 8**.

Project Management of Transmission System

2.1.12 A transmission project involves various activities from concept to commissioning. Major activities in a transmission project are (i) Project formulation, appraisal and approval phase and (ii) Project execution phase.

2.1.13 A test check of various works undertaken by the Company during the five year period (2007-12) revealed several instances of delay in completion of the projects due to delay in supply of material by the Company to the contractors, deployment of inadequate manpower by the contractors, etc. which had a significant impact on the physical and financial objectives as detailed in the following table:

Name of the Project/ Work	Date of award of work (awarded value of contract) and Date of handing over of site	Scheduled date of completion (Actual date of completion)	Actual expenditure incurred (Booked up to March 2012)	Delay (in Months)	Reasons for delay	Impact of Delay
132 kV SS at Pawai	June 2008 (₹ 9.83 crore)/ August 2008	February 2009 (August 2010)	₹ 4.05 crore	18	Delays in completion of civil foundation work, non supply of material by the Company in time, availability of material in time and non availability of adequate power supply at the construction site. Delay in shifting of the 11kV and LT lines by the Company.	In spite of the delay, because of inadequate demand in the area, the SS along with the 132kV line created at a cost of ₹ 15.29 crore remained under-utilised.
The Management stated (July 2012) that though there were some delays in shifting of the 11kV and LT lines, this did not affect the major construction activities at the site and penalty was recovered from the contractor for the delay. Further it was replied (October 2012) that the maximum load recorded at the SS further increased to 65.56 <i>per cent</i> during the year 2012-13. The fact remains that in spite of delay in completion of SS by 18 months, the demand during 2010-11 and 2011-12 remained on the lower side.						
220 kV SS at Betul	June 2007 (₹ 25.02 crore)/ August 2009	February 2010 (December 2010)	₹ 11.37 crore	10	Delay in handing over of site, non supply of material in time by the Company and non-deployment of adequate manpower by the contractor.	Idling of the LILO ⁴ arrangement which was constructed at a cost of ₹ 44.53 crore and completed seven months before the completion of the SS.

⁴ Line in Line Out

The Management, while accepting that there was delay in construction of the SS, stated (June 2012) that allotment order for the land was issued in March 2007 and the land was transferred in favour of the Company in June 2007. It was further stated that part of the land was encroached and the issue was resolved only in July 2008. After completion of sufficient number of civil works the site was handed over to the erection contractor in August 2009. They further stated that the delay was because of the court case necessitated by the encroachment.

The reply is not acceptable because the Company was aware that the site was encroached and could have sought an alternative site. Further, even considering the actual date of handing over the site, the SS should have been completed by February 2010.

220 kV Birsingpur-Rewa line	December 2005 (₹ 20.89 crore)/ April 2006	November 2006 (October 2008)	₹ 21.31 crore	23	Delay due to limited resources, infrastructure, and supervisory staff of the contractor.	There was no impact of the delay, as the 500 MW Birsingpur TPH was also delayed. However, issue of materials without assessing the requirement and progress resulted in issue of materials valued ₹ 55.29 lakh in excess of requirement.
-----------------------------	---	------------------------------	---------------	----	--	--

The Management stated (October 2012) the contractor left the site in April 2008 without any intimation and handing over the site and material for which arbitration is underway for recovery.

The fact remains that lack of adequate supervision and issue of materials without assessing the progress of work resulted in non recovery of ₹ 55.29 lakh from the contractor.

220 kV line between Satna and Chhattarpur to energise 220 kV SS at Chhattarpur	March 2006 (₹ 42.88 crore revised in 2009 ₹ 52.05 crore) / December 2006	October 2007 (February 2011)	₹ 42.27 crore	40	Non deployment of adequate manpower by the contractor, delay in completion of civil works and non supply of material in time by the Company.	Idling of 220 kV SS at Chhattarpur (₹ 12.37 crore) for more than 11 months.
--	--	------------------------------	---------------	----	--	---

The Company accepted (October 2012) the delay in construction of the SS and the line.

220 kV SS at Sagar	June 2007 (₹ 35.07 crore) / October 2007	March 2008 (May 2010)	₹ 21.38 crore	26	Delay in availability of 100 MVA transformer, SS structures, equipment and associated materials.	160 MVA transformer costing ₹ 4.33 crore was lying idle for two years. Completion of connected lines ahead of the completion of the SS resulted in idling of these lines costing ₹ 6.57 crore for periods ranging from 11 months to 17 months.
--------------------	--	-----------------------	---------------	----	--	---

The Company accepted (June 2012) that the lines were completed ahead of the completion of the SS.

LILO arrangement of 220 kV Barwaha-Nepanagar line	September 2009 (₹ 13.08 crore)/ November 2009	April 2010 (January 2011)	₹ 8.01 crore	9	Diversion of line to avoid forest area, non deployment of sufficient manpower by the contractor, non obtaining right of way etc.,	Idling of not only the Chhegaon SS valued at ₹ 37.15 crore for a period of 5 months but also the 220 kV Chhegaon-Nimrani line valued at ₹ 48.99 crore for more than 9 months.
---	---	---------------------------	--------------	---	---	---

In the Exit Conference (October 2012) the Company and the Government accepted that the completion time to be granted to contractors is required to be computed more realistically.

220 kV line between Maheshwar - Nimrani and Maheshwar-Pithampur	April 2009 (₹ 15.51 crore)	November 2009 and March 2010 (April 2010 and January 2012)	₹ 25.48 crore	4 and 23	Right of way problems, delay in approval for cutting of trees.	The Company was aware that the generation from Shri Maheshwar Hydro Power Company Ltd. (SMHPL) would not commence before 2013 due to problems relating to rehabilitation and resettlement. The Company could have postponed the construction of these lines to avoid their idling.
---	----------------------------	--	---------------	----------	--	--

The Company stated (July 2012 and October 2012) that the construction of the two lines was taken up in commensuration with the progress as informed by SMHPCL. It was also stated that these lines are utilised as interconnector lines between Nimrani and Pithampur and that had the construction been postponed the right of way problems would have been more serious.

The reply is not acceptable in view of the fact that the Company was aware before award of the contracts in April 2009, that the project would be completed only by the end of the Eleventh Plan period. The Company could have postponed the construction of the lines, which would have avoided idling of investment in them. Further, in a transmission system, lines constructed could find some utilisation. As the Company was aware of the developments of the hydro electric project, the lines could have been postponed to avoid idling of investment.

400 kV SS at Katni	March 2008 (₹ 39.17 crore)	October 2008 (30 April 2010)	₹ 39.17 crore	18	Insufficient deployment of labour by the contractor and non-supply of material & equipment and transformer oil by the Company.	The transformer valued at ₹ 9.87 crore was kept without effective use for more than six months for want of transformer oil. Provision of additional feeder bay, which is required for system reliability, however, is yet to be completed (July 2012), resulting in non achievement of system reliability.
--------------------	----------------------------	------------------------------	---------------	----	--	---

While accepting the observation, the Management stated (July 2012) that despatch instructions for transformer oil were issued as per the requirements of the field office and as the progress of the contractor was slow, he was requested to expedite the progress but no action was taken by the contractor. Penalty was deducted for the delay on the part of the contractor. It was also added that the SS is a charged SS and the construction of additional bay is to be taken up with all precautions and shutdown was required for various erection activities. Therefore the work was taken up slowly observing all safety precautions.

Operational problems in evacuation of power from Omkareshwar Hydel Power Station

2.1.14 The erstwhile Board, in their 26th meeting held in August 2004, approved the scheme for power evacuation from 8 x 65 MW Omkareshwar Hydel Power Station (OHPS) to be constructed by Narmada Hydro Power Development Corporation (NHDC) Ltd, Bhopal. In order to evacuate power from this Hydel power station it was thought necessary to lay three 220 kV double circuit lines (six circuit) between Omkareshwar and Barwaha-Nepanagar. Initially CEA had sanctioned five 220 kV Circuits for evacuation of power from this power station. However, NHDC had made a provision of five number of feeder bays in their switchyard. Therefore it was thought necessary to construct one feeder bay in OHPS switchyard by Board.

In February 2007, the Company reviewed the proposal for the sixth feeder bay at OHPS and decided that five feeders would be adequate for power evacuation from OHPS. The proposal for the sixth feeder was dropped by the Company. The Company was aware of the fact that the OHPS had selected CT ratio⁵ of 500/1 Ampere (Amp) for the feeders.

In November 2007, NHDC intimated that one of the two evacuation lines was approaching overload condition and the distribution on the two lines was not equal. The Management stated (March 2008) that the CT ratio of 500/1 Amp was not proper and requested NHDC to replace the CT Ratio of all the emanating lines with 800/1 Amp. In response, NHDC stated (April 2008) that by the time the Company's views were received, the CTs were already installed and it was not possible to replace the same due to heavy financial implication.

Because of the incorrect CT ratio, tripping of two lines was observed on a number of occasions. Non availability of the sixth bay at OHPS compelled the Company to bunch one circuit with another one, which was creating overloading of one circuit and the CTs at OHPS. In November 2008, all the three 315 MVA transformers at 400/220 kV SS at Indore tripped on overload due to inadequate CT ratio.

The Company also informed (October 2009) CEA about the problems being faced by them because of CT ratio of 500/1 Amps, and requested them to advise NHDC to create the sixth bay to avoid further complications in future. The Company reiterated (March 2010) that creation of the sixth bay was necessary to connect the sixth circuit of 220 kV line.

We observed that:

- The Company had constructed three 220 kV Double Circuit lines (cost ₹ 41.14 crore), whereas the CEA had sanctioned five circuits and NHDC had constructed only five feeder bays in their switchyard. Thus,

⁵ The ratio of primary (input) amps divided by secondary (output) amps. A Current Transformer with a ratio of 500/1 would provide 1Amp output current when the primary current was 500 Amp

not only was one circuit constructed in excess of sanction but also this was not utilised for the purpose for which it was constructed.

- The Board had approved (August 2004) creation of the sixth bay at the OHPS switchyard, but the Company on review had dropped (February 2007) the proposal even when they were aware that the CT Ratio adopted by OHPS was incorrect. The Company did not take up the matter with the OHPS/CEA in the initial stages itself. This not only resulted in recurring operational problems, frequent tripping of the lines, but also in operating the lines in critical loading conditions with a chance of tripping in the event of full generation of OHPS, ever since they were created in 2008.

In the Exit Conference the Management stated (October 2012) that the problem had been resolved with replacement of two CTs by the OHPC with a CT Ratio of 800/1 amp and remaining CTs would also be replaced. It was also stated that NHDC have also agreed to construct one additional feeder bay at their switchyard.

The fact remains that the Company took more than four years to resolve the problem.

Contract Management

2.1.15 During the period 2007-08 to 2011-12 the contracts awarded or executed by the Company were examined in audit and the following points on non compliance to the tender conditions, Central Vigilance Commission (CVC) guidelines, etc, were noticed:

Short recovery of liquidated damages

2.1.16 With a view to reduce the burden on the transformer at the 400 kV SS at Indore, the Company placed (February 2009) a purchase order for supply of one 315 MVA Power Transformer including transformer oil and fittings and accessories for ₹ 9.87 crore.

The terms and conditions of the purchase order envisaged, *inter alia*, that the transformer, including transformer oil, fittings and accessories, should be supplied within 15 months (12 May 2010) from the date of the purchase order. The terms also specified rates for levy of liquidated damages for delay in supply. The terms further specified that even when there were delays in supply of accessories, liquidated damages would be levied on the full contract price. It was also stipulated that in case of unreasonable delay of more than 28 days between the date of despatch and the date of receipt of equipment at site, the date of receipt would be reckoned as the date of delivery for the purpose of levy of liquidated damages.

After inspecting the transformer and approval of the test results, the Company issued despatch instructions on 28 April 2010. We observed that the transformer was despatched (31 July 2010) by the supplier and was received (29 August 2010). The fittings and accessories were received on 27 September 2010. Though

there was a delay of four months 17 days, the Company levied ₹ 20.29 lakh towards liquidated damages reckoning a delay of only two months.

Short recovery of liquidated damages of ₹ 24.13 lakh.

The Company stated (October 2012) that keeping in view the circumstances which were beyond control of the supplier in arranging a trailer of suitable capacity, despite all efforts made by them, condonation of delay in delivery of the unit in line with clause 11 of contract was considered with due approval of the CMD of the Company.

The reply is not acceptable as even after considering clause 11 (iii) wherein the delay up to 50 days in supply of the main tank of the transformer which was beyond the control of the supplier could be condoned, there was a delay of 58 days and liquidated damages leviable would be ₹ 44.42 lakh.

Thus, the Company has passed on undue advantage amounting to ₹ 24.13 lakh to the contractor.

Non-recovery of amount due

2.1.17 For procurement of 70 KN and 90 KN disc insulators, the Company had placed (September 2007) orders on M/s. V.K. Udyog, Kolkata, (VKU) with a condition to supply the material within 17 months. VKU, however, could not supply the ordered quantities and some of the quantities supplied were rejected. The details of quantity ordered, accepted, rejected and quantity yet to be offered are given in the following table:

Particulars	70 KN (in Nos.)	90 KN (in Nos.)
Qty. ordered	4,15,200	2,22,600
Qty. accepted	19,702	11,520
Qty. rejected	1,46,848	53,400
Qty. yet to be offered	2,84,650	1,57,680

(Source: information supplied by the Company)

We observed that by the end of February 2009, VKU supplied and the Company accepted supply only 19,702 and 11,520 of 70 KN and 90 KN disc insulators, respectively. According to clause 35 of the purchase order, if the firm did not supply the ordered quantity within the scheduled time, the Company had a right to terminate the contract and procure the material from other suppliers at the risk and cost of the firm.

As VKU could not supply the ordered quantity within the scheduled date of supply, it offered (February 2009) to supply the balance quantity by procuring from the Company's approved Indian manufacturers, subject to pre-inspection by the Company at the manufacturer's factory. The request of VKU was considered and an amended Purchase Order was placed (April 2009) for supply of the balance quantity with the same prices and similar terms but with revised delivery schedule and some minor changes in the terms. VKU supplied the balance quantity by the end of February 2012.

For the rejected quantity, the Company placed purchase orders on M/s. W.S. Industries (India) Ltd., Chennai (WSI) and M/s. Allied Ceramics Private Limited, Kolkata (ACPL) in August and September 2008 at the risk and cost of VKU. The

Failure of the Company to recover the amount from the bills of the firm resulted in irrecoverable amount of ₹ 36.46 lakh.

ordered quantity was supplied by the two firms by the end of June 2009, at the ordered value of ₹ 7.23 crore.

We observed (July 2012) that the Company incurred extra cost on procurement through the two firms of ₹ 2.06 crore. Though the Company encashed the two bank guarantees amounting to ₹ 1.70 crore given by VKU, an amount of ₹ 36.46 lakh remained to be recovered. Failure of the Company to recover the amount from their bills resulted in an amount of ₹ 36.46 lakh becoming irrecoverable.

While accepting the observation, the Management stated (October 2012) that VKU has been persuaded vigorously for remittance of the sum of ₹ 36.46 lakh. However, no affirmative reply has been received so far (October 2012). For recovery of the same, suitable legal recourse would be taken.

Performance of transmission system

2.1.18 The performance of the Company mainly depends on efficient maintenance of its EHT transmission network for supply of quality power with minimum interruptions. In the course of operation of EHT SSs and lines, the supply-demand profile within the constituent sub-systems is identified and system improvement schemes are undertaken to reduce line losses and ensure reliability of power by improving voltage profile. These schemes are for augmentation of the existing transformer capacity, installation of additional transformers, laying of additional lines and installation of capacitor banks. The performance of the Company with regard to Operation and Maintenance (O&M) of the system is discussed in the succeeding paragraphs.

Transformation Capacity

2.2.19 The Company, in order to evacuate the power from the generating stations and to meet the load growth in different areas of the State, constructs lines and EHT SSs at different EHT voltages. An EHT SS houses transformers which converts AC voltage and current to a different voltage and current at a very high efficiency. The voltage levels can be stepped up or down to obtain an increase or decrease of AC voltage with minimum loss in the process. The evacuation is normally done at 220kV EHT SSs. The transformation capacity (220kV) created vis-à-vis the transformation capacity (peak demand met) at the end of each year by the Company during the five years ending March 2012 are as follows:

Transformation capacity (in MVA)					
Year	Installed	After leaving 30 per cent ⁶ towards margin	Unrestricted ⁷ demand	Peak demand met	Excess
	2	3 = (70 per cent of 2)	4	5	6 =(3-5)
2007-08	10230	7161	6843	6843	318
2008-09	11970	8379	7599	7388	991
2009-10	13610	9527	7314	6542	2985
2010-11	14350	10045	9219	8769	1276
2011-12	15110	10577	9417	8996	1581

(Source: Information supplied by the Company)

⁶ Recommendation of the Working Group on Power-Eleventh Plan.

⁷ Actual demand for power to be met

From the above table it could be observed that the overall transformation capacity was in excess of the requirement with reference to the peak demand met for all the years.

The capacity installed in excess of requirement as at the end of 2011-12 worked out to 1581 MVA, which was valued at ₹61.66⁸ crore. This represented the value of unwarranted burden passed on to the consumer.

The Management stated (March 2013) that as per planning criteria, a five years time horizon is considered for system planning and suitable margins for future requirement of long term access are provided for. The system could meet only the restricted demand because of shortage of power. It further stated that the system was designed considering the unrestricted demand and the capacity built was justified.

The reply is not acceptable as the capacity, even after considering 30 per cent towards margin, was in excess of the unrestricted demand for all the years.

Sub stations

Adequacy of Sub stations

2.1.20 The Manual of Transmission Planning Criteria (MTPC) issued by the Ministry of Power in June 1994 stipulates the permissible maximum capacity for different EHT SSs. Such permissible maximum capacity was 320 MVA for 220 kV EHT SSs and 150 MVA for 132 kV EHT SSs.

A scrutiny of the existing capacity levels of EHT SSs at the above voltage levels in the Company revealed that none of the 132 kV EHT SSs exceeded the permissible maximum capacity, whereas eight⁹ 220 kV EHT SSs exceeded the permissible maximum capacity.

The capacity installed in excess of the permissible limits in the above eight EHT SSs worked out to 1,250 MVA which was valued at ₹ 48.75 crore¹⁰. The extra burden on creation of capacity in excess of those prescribed in the MTPC was passed on to the consumers through tariff.

The Management stated (October 2012) that only a few EHT SSs are operating above the permissible limit. It was also stated that the criteria prescribed was a general criteria and was not mandatory for substation planning.

The fact remains that the capacity exceeded the norms, which were also specified in the Grid Code.

⁸ @ average cost of ₹ 3.90 lakh per MVA of power transformer

⁹ Jabalpur, Indore, Bhopal, Shujalpur, Damoh, Nagda, Badanagar and Ashta

¹⁰ average cost per MVA Power transformer (₹ 3.90 lakh) x capacity installed in excess of permissible limit

Non provision of transformers as per norms prescribed under the Indian Electricity Grid Code

2.1.21 The Indian Electricity Grid Code issued by the Central Electricity Regulatory Commission in December 2005 (Grid Code) stipulates that in every SS of capacity 132 kV and above, at least two transformers shall be provided.

A scrutiny of the number of transformers installed in the EHT SSs of capacity 132 kV and above in the Company revealed that 34 EHT SSs of 132 kV, 16 EHT SSs of 220 kV and one EHT SS of 400 kV (Katni) had only one transformer as against the norm of at least two.

The Management stated (October 2012) that a new SS is constructed initially with a single transformer and in case of outage of this transformer, the load is managed with interconnection from the adjacent SS and there is no interruption of power supply.

The reply is not acceptable because construction of SS with a single transformer was not in accordance with the stipulation of the Grid Code.

Voltage management

2.1.22 The licensees using intra-state transmission system should make all possible efforts to ensure that grid voltage always remain within limits. As per Grid Code, STUs should maintain voltage ranges between 380-420 kV, 198-245 kV and 122-145 kV in 400kV, 220 kV and 132 kV line respectively.

Our review of the performance of the 400kV bus voltages of the 400kV EHT SSs for the period April 2007 to March 2012 revealed that during the period 2007-08 to 2011-12, the minimum and maximum voltage of 400kV EHT SSs ranged between 370 and 430, which was beyond the range prescribed. During the year 2007-08 four transformers recorded voltages higher than the limit prescribed while one recorded lower voltage. The position improved marginally during 2011-12, but during that year also two transformers recorded maximum voltage of 424 and 426 kV, which was above the norms fixed as per Grid Code.

The Management stated (November 2012) that high voltage was controlled by management of reactive loading through installation of reactors and the Company has planned to install more number of capacitor banks.

Bus Bar Protection Panel

2.1.23 The bus bar is an application for interconnection of the incoming and outgoing transmission lines at an electrical SS. Bus Bar Protection Panel (BBPP) limits the impact of the bus bar faults on the entire power network by preventing unnecessary tripping. The BBPP are designed to trip only those breakers necessary to clear the bus bar fault. According to the Grid norms and Best Practices in Transmission System, BBPP is to be kept in service in all the EHT SSs of 220 kV and above to maintain system stability during Grid disturbances and to provide faster clearance of faults on 220 kV buses.

We observed (May 2012) that the Company had provided the BBPP only in 38 out of its 55 EHT SSs of 220 kV. In the remaining 17 EHT SSs, even the order for supply of BBPP has not been placed so far (October 2012).

38 out of 55 SSs of 220 kV were not having BBPP.

The Management stated (October 2012) that efforts are being made to provide bus bar protection in the existing 400 kV & 220 kV EHT SSs in a phased manner based on availability of funds and the procurement activities for the balance quantity of 17 panels for BBPP shall be taken up after availability of funds.

Maintenance

Performance of Power Transformers

2.1.24 Power Transformers (PTs) at EHT SSs are one of the most important and cost-intensive components of the electrical energy supply network. Thus it is imperative to prolong their life duration while reducing their maintenance expenditure. The following table indicates the status of failure of PTs during the years 2007-08 to 2011-12:

Year	No. of PTs at the beginning of the year	No. of PTs failed	No. of PTs which failed within the guarantee period	No. of PTs which failed within the normal working life	Percentage of failure
2007-08	491	3	3	-	0.61
2008-09	523	10	3	7	0.19
2009-10	560	4	2	2	0.71
2010-11	589	8	-	8	1.36
2011-12	607	4	-	4	0.66

(Source: Information supplied by the Company)

From the above it could be seen that out of total 607 PTs installed at the beginning of the year 2011-12, only 21 PTs (3.46 per cent) failed within their normal working life during the last five years upto 2011-12 which indicated that maintenance of PTs was carried out properly by the Company.

Working of hot lines division/sub divisions

2.1.25 Regular and periodic maintenance of transmission system is of utmost importance for its un-interrupted operation. Apart from scheduled patrolling of lines, the following techniques are prescribed in the Report of the Committee for updating the Best practices of Transmission in the country (January 2002) for maintenance of lines:

- Hot Line Maintenance.
- Hot Line Washing.
- Hot line Puncture Detection of Insulators.
- Preventive Maintenance by using portable earthing hot line tools.
- Vibration Measurement of the line.
- Thermo-scanning.
- Pollution Measurement of the equipment.

The hot line technique (HLT) envisages attending to maintenance works like hot spots, tightening of nuts and bolts, damages to conductor, replacement of

insulators etc. of EHT SSs and lines without switching off. This includes thermo scanning of all the lines and sub stations for preventive maintenance. HLT was introduced in India in 1958.

Because of reduction in trained staff, most of the works of EHT line maintenance were being carried out after availing shut downs instead of applying the hot line technique.

As on April 2007 the Company had five Maintenance Circles, 12 hotline divisions and 20 sub divisions with manpower strength of 78 which decreased to one, six, 20 and 58 respectively as on 31 March 2012. The hot line operations are carried out as per the guidelines/directives of Hot Line Maintenance Centre, Bengaluru.

Works like replacement of disc insulators on suspension locations, detection of puncture disc insulator, repairing of damaged conductors and replacement of suspension clamps, vibration dampers and arcing horns are undertaken by the hot line division of the Company.

We observed (July 2012) that though the transmission network of the Company was expanding year after year; the staff strength engaged in hot line maintenance had reduced. As a result of reduction in trained staff, most of the works of EHT line maintenance were being carried out after availing shut downs instead of applying the hot line technique.

The Management accepted (August 2012) that most of the works of EHT line maintenance were being carried out after taking shutdowns instead of applying the hot line technique. This was because of non availability of trained staff as a result of a ban on recruitment and also the age limit of 40 years for training.

Transmission losses

2.1.26 When energy is carried from the generating station to the consumers through the Transmission & Distribution (T&D) network, some energy is lost which is termed as T&D loss. Transmission loss is the difference between energy received by the transmission licensee from the generating station/Grid and energy sent to the distribution licensees.

The details of transmission losses from 2007-08 to 2011-12 are given in the following table:

Sl. No.	Particulars	Unit	Year				
			2007-08	2008-09	2009-10	2010-11	2011-12
1	Power received for transmission	MUs	35148	34280	34346	37680	42175
2	Net power transmitted	MUs	33710	32878	32907	36271	40692
3	Actual transmission loss (1-2)	MUs	1438	1402	1439	1409	1483
		Percentage	4.09	4.09	4.19	3.74	3.51
4	Target transmission loss as per MPERC norms	Percentage	4.9	4.9	4.7	4.7	Not fixed
5	Target transmission loss as per CEA norms	Percentage	4.0	4.0	4.0	4.0	4.0

(Source: Information supplied by the Company)

It could be seen from the above that during the period 2007-08 to 2010-11 the transmission losses were lower than the norms fixed by the Madhya Pradesh Electricity Regulatory Commission (MPERC). Though the losses were constant during 2007-08 and 2008-09, it increased during 2009-10. The performance of the Company during 2010-11 and 2011-12 was satisfactory, as transmission losses during that year were only 3.74 and 3.51 *per cent* respectively.

The Company has evolved an innovative concept for reducing transmission losses without any financial commitment.

The Company has evolved an innovative concept for reducing transmission losses through management of reactive energy¹¹, without any financial commitment. The transmission losses are reduced by reducing the reactive energy in the transmission system through adjustment of taps on the transformers. For this the Company was awarded the “India Power Award 2011” by the Council of Power Utilities, New Delhi.

Grid Management

Maintenance of Grid and performance of SLDC

2.1.27 Transmission and Grid Management are essential functions for smooth evacuation of power from generating stations to the Distribution Companies (DISCOMs)/consumers. Grid Management ensures moment-to-moment power balance in the interconnected power system to take care of reliability, security, economy and efficiency of the power system. Grid management in India is carried out in accordance with the standards/directions given in the Grid Code issued by CEA. The National Grid consists of five regions viz., Northern, Eastern, Western, North Eastern and Southern Grids, each of these having a Regional Load Despatch Centre (RLDC), an apex body to ensure integrated operation of the power system in the concerned region. The Madhya Pradesh Load Despatch Centre (SLDC), a constituent of the Western Regional Load Despatch Centre (WRLDC), Mumbai, is situated in Jabalpur. The SLDC ensures integrated operation of power system in the State of Madhya Pradesh. The State Government notified (May 2004) that the SLDC shall be operated by the Company. The SLDC Jabalpur is assisted by two Area Load Despatch Centres (ALDC), one at Bhopal and the other at Indore, for data acquisition and transfer to SLDC and supervisory control of 400/220/132 kV equipment. The SLDC levies and collects fees and charges from distribution licensees/open access clients.

Infrastructure for load monitoring

2.1.28 Remote Terminal Units (RTUs) constitute an important element of the Supervisory Control and Data Acquisition (SCADA) system for transfer of real time data and status indications continuously from various sources to the SLDC. RTUs are essential for monitoring the efficiency of the transmission system and the loads during emergency in load dispatch centres according to the Grid norms. It is, therefore, essential that all the generating stations and EHT SSs are connected to the SLDC through RTUs and the RTUs installed are monitored and

¹¹The power that continually bounces back and forth between the source and the load and represents the energy that is first stored and then released in the magnetic field of an inductor, or in the electric field of a capacitor

maintained in a proper manner to ensure continuity of data. Failure of any RTU may cause stoppage of data and thereby may lead to operational problems.

The number of generating stations and EHT SSs under the jurisdiction of the SLDC and the number provided with RTUs are given in the following table:

Particulars	As on March 2012	Number provided with RTUs	Number of RTUs in working condition	Shortfall (per cent)
Thermal Generating Stations	4	4	4	Nil
Hydel Generating Stations	9	9	9	Nil
400 kV EHT SSs	5	5	5	Nil
220 kV EHT SSs	55	35	34	36.36
132 kV RHT SSs	187	11	10	94.12

(Source: Information supplied by the Company)

RTUs were installed in only 46 out of 242 SSs of 220 kV and below.

It was seen that though all the generating stations were provided with RTUs, out of 247 EHT SSs of 400/220/132 kV capacity only 51 (20.65 per cent) were provided with RTUs for recording real time data for efficient Energy Management System. The shortfall in provision of RTUs was 36.36 per cent in case of 220 kV EHT SSs and 94.12 per cent in case of 132 kV EHT SSs.

Further, the RTU at 220 kV SS Tikamgarh was non-functional since 2008 because of non availability of Power Line Carrier Communication (PLCC) channel for data communication. Data link via the newly constructed 220 kV SS at Chhatarpur was being established. The RTU at 132 kV SS Morwa was also not in operation since February 2012 because of a problem in the data communication link. Establishment of an alternative data communication route was in progress (November 2012).

Thus, the Company's SLDC is connected with RTUs only to the extent of 20.65 per cent of its EHT SSs, restricting its capacity to monitor efficiency of the transmission system and load monitoring on a real time basis.

In the Exit Conference (October 2012) the Secretary (Energy), GoMP directed the Company to install necessary infrastructure to monitor all the 132 kV EHT SSs and below through SCADA and assured to take immediate steps in this regard.

Grid discipline

Frequency management and violation of Grid discipline

2.1.29 As per the Grid Code, the transmission utilities are required to maintain Grid discipline for efficient functioning of the Grid. All the constituent members of the Grid are expected to maintain a system frequency between 49.0 and 50.5 Hertz (Hz) (49.2 and 50.3 Hz with effect from April 2009). However, due to various reasons such as shortages in generating capacities, high demand, Grid indiscipline in maintaining load generation balance and inadequate load monitoring and management, Grid frequency goes below or above the permitted frequency levels. To enforce Grid discipline, the WRLDC issues (w.e.f. April 2010) three types of violation messages (A, B and C). Message A is issued when the frequency is less than 49.2 Hz and over-drawal is more than 50 MW or 10 per

cent of schedule, whichever is less. Violation B message is issued when the frequency is less than 49.2 Hz and over-drawal is between 50 and 200 MWs for more than ten minutes or 200 MWs for more than five minutes. Message C (serious nature) is issued 15 minutes after the issue of message B when frequency continues to be less than 49.2 Hz and over-drawal is more than 100 MWs or 10 per cent of the schedule, whichever is less.

The details of violation and penalty levied during the period between 2009-10 and 2011-12¹² are as follows:

Sl. No.	Year of violation	Number of occasions of violation	Penalty levied (₹ in lakh)
1	2009-10	12	Nil
2	2010-11	169	Nil
3	2011-12	258	Nil

(Source: Information supplied by the Company)

The SLDC, Jabalpur is a constituent of WRLDC, Mumbai. We noticed that though the number of occasions of violation of grid discipline has been increasing, no penalties were levied on the SLDC by WRLDC.

Backing Down Instructions (BDI)

2.1.30 When the frequency exceeds the ideal limits i.e. a situation where generation is more and drawal is less (at a frequency above 50 Hz) SLDC takes action by issuing Backing Down Instructions (BDI) to the generators to reduce the generation for ensuring integrated Grid operations and for achieving maximum economy and efficiency in the operation of the power system in the State. Failure of the generators to follow the SLDC instructions would constitute violation of the Grid code and would entail penalties. The Company issued BDI on 211 occasions for compliance, all of which were complied with by the generators during the period covered by the Performance Audit.

Disaster Management

2.1.31 Disaster Management (DM) aims at mitigating the impact of a major break down on the system and restoring it in the shortest possible time. According to the Best Practices in the Transmission System in the Country (January 2012), DM should be set up by all power utilities for immediate restoration of transmission system in the event of a major failure. It is carried out by deploying Emergency Restoration System, DG sets, vehicles, fire fighting equipments and skilled and specialised manpower.

Disaster Management Centre, National Load Dispatch Centre, New Delhi acts as the Central Control Room in case of disasters. As a part of the DM programme, mock drills for starting up generating stations during black start¹³ operation were to be carried out by the Company at periodic intervals.

Though the number of occasions of violation of grid discipline increased, no penalties were levied.

The Company issued BDI on 211 occasions, all of which were complied with by the generators.

¹² Data for the period 2007-08 and 2008-09 and break up of messages (A, B and C) was not available with the SLDC

¹³ The procedure necessary to recover from a partial or total black out.

Inadequate facilities for DM

2.1.32 Diesel generating (DG) sets and synchronoscope¹⁴ form part of DM facilities at EHT SSs connecting major generating stations. The transmission network operated by the Company consists of 60 EHT SSs of 220 kV and above (55 of 220 kV and five of 400 kV).

It was seen that out of 60 EHT SSs:

- No synchronoscope was available at any of the 55 EHT SSs of 220 kV
- DG sets were available in only three¹⁵ 220 kV EHT SSs
- DG sets and synchronoscope were available only in four¹⁶ 400 kV EHT SSs.
- In Katni 400 kV EHT SS neither DG set nor synchronoscope was installed.

Further, it was also observed that two¹⁷ out of the seven DG sets installed were not in working condition since the last one year with the result that alternative power supply was not available.

Thus, the DM facilities created by the Company were deficient and not adequately capable of restoring the transmission system in the event of a major incident.

The SLDC has identified nine¹⁸ out of 12 hydel generating stations in the State for black start. These units can be run under system blackouts for extending start up power to thermal generating units as well as restoration of supply to critically essential loads. The SLDC has initiated black start mock drill exercises at the identified hydel generating stations. The black start mock drill was successfully conducted (May 2011) at Indira Sagar HPS and at Bargi HPS (February 2012). Mock drill for the remaining hydel stations identified for black start have been planned during December 2012 to January 2013.

Financial Management

2.1.33 One of the major objectives of the National Electricity Policy, 2005 was ensuring financial turnaround and commercial viability of the power sector.

Financial position

2.1.34 The financial position of the Company for the five years ended 2011-12 is given in *Annexure 9*.

We observed that the loss before tax of the Company decreased by 92.24 per cent, from ₹ 39.94 crore in 2007-08 to ₹ 3.10 crore in 2011-12.

The loss before tax of the Company decreased by 92.24 per cent, from ₹ 39.94 crore in 2007-08 to ₹ 3.10 crore in 2011-12.

¹⁴ In an AC electrical power system it is a device that indicates the degree to which two systems generators or power networks are synchronised with each other.

¹⁵ SSs at Itarsi, Barwaha and Bhopal.

¹⁶ SSs at Bina, Bhopal, Indore and Nagda

¹⁷ At SSs at Barwaha and Itarsi

¹⁸ Indirasagar HPS, Bargi HPS, Gandhisagar HPS, Pench HPS, Tons HPS, Madhikhera HPS, Rajghat HPS, Birsingpur HPS and Omkareshwar HPS

Though the borrowings during 2007-08 to 2011-12 increased from ₹ 2016.95 crore to ₹ 2713.31 crore, the debt equity ratio decreased from 1.76:1 (2007-08) to 1.24:1 (2011-12) due to increase in share capital from ₹ 1149.13 crore (2007-08) to ₹ 2184.44 crore (2011-12) during the above period.

Percentage of Return on Capital employed¹⁹ decreased from 5.04 (2007-08) to 2.86 (2011-12) due to increase in Capital employed but without corresponding increase in PBIT²⁰ in the same proportion.

Working results

2.1.35 The details of working results like revenue realisation, net surplus/loss and earnings and cost per unit of transmission are given in ***Annexure 10***.

It may be seen that though the realisation per unit increased from ₹ 0.2351 to ₹ 0.4220 during 2007-08 to 2011-12 (79.50 *per cent*), the variable cost (including extra-ordinary items) per unit increased from ₹ 0.0047 to ₹ 0.0111 (136.17 *per cent*) during the corresponding period. Further, the contribution per unit had increased by ₹ 0.2304 to ₹ 0.4109 (78.34 *per cent*) during the above period.

Though the realisation per unit and also contribution per unit was increasing, the Company incurred loss per unit because of increase in terminal benefit cost, administrative and general expenses and employees cost.

Non-recovery of Supply Affording Charges from DISCOMs

2.1.36 Efficient financial management serves as a tool for optimum utilisation of available resources and borrowings at favourable terms at the appropriate time. This includes timely claiming of amounts due, prompt follow up/collection/recovery of such amounts and efficient utilisation of borrowings, and prompt recovery/payment of interest and other related transactions.

The Company is required to work in association with Power Distribution Companies (DISCOMs) for development of infrastructure for making available power to the Extra High Tension/High Tension (EHT/HT) consumers, which involves the work of construction of new bays in the SS and new lines from the SS to the metering point of the consumers. For the infrastructure to be developed and for activities to be performed by the Company, the EHT/HT consumer has to pay “Supply Affording Charges” to the DISCOMs.

The Madhya Pradesh Electricity Regulatory Commission (MPERC), in their second amendment to the MPERC (Recovery of expenses and other charges for providing Electric Line or Plant used for the purpose of giving supply) (Revision-I) Regulations, 2009, notified (7 September 2009) that “Supply Affording Charges” at the rate of ₹ 750 per KVA or part thereof of Contracted Demand shall be payable by all categories of EHT/HT Consumers and out of the amount

¹⁹ Capital Employed= Net Fixed Assets *plus* Capital Work-in-Progress *plus* Current Assets *minus* Current Liabilities and *percentage* Return on Capital Employed= Total Return / Capital Employed x 100

²⁰ Profit Before Interest and Tax

collected from the consumer, an amount of ₹ 650 per KVA or part thereof of Contracted Demand shall be remitted by the DISCOM to the Company to part-finance the Company's expenditure for system infrastructure development. These charges were also applicable in case of consumers who apply for enhancement of load. The above regulation came into effect from 7 September 2009.

On scrutiny (April 2012) of the relevant records, we noticed that though the DISCOMs have been collecting the Supply Affording Charges from EHT/HT consumers in full, the Transmission Licensee portion was not regularly remitted to the Company. The matter was discussed by the Board of Directors of the Company in their 46th meeting held on 20 September 2011 wherein it was resolved that the matter would be taken up with the CMDs of all the three DISCOMs. Accordingly, the Managing Director of the Company requested (29 September 2011) remittance of the Supply Affording Charges collected by the DISCOMs. The dues outstanding (September 2011) from the three DISCOMs amounted to ₹ 8.17 crore (MP Madhya Kshetra Vidyut Vitaran Company Limited, Bhopal - ₹ 2.70 crore, MP Poorv Kshetra Vidyut Vitaran Company Limited, Jabalpur - ₹ 2.27 crore and MP Paschim Kshetra Vidyut Vitaran Company Limited, Indore - ₹ 3.20 crore.)

We observed that:-

- The Company did not maintain the details of total amount due from each DISCOM and preferred its claims based on the self declaration by the DISCOMs of the amount payable by them.
- No claims were preferred by the Company till September 2011. Thereafter, the Company took up the issue only once with the DISCOMs in April 2012. Due to non-pursuance, the dues on account of Supply Affording Charges had increased to ₹ 8.17 crore as at 30 September 2011.

Due to non-pursuance, the dues on account of Supply Affording Charges had increased to ₹ 8.17 crore.

Thus, delay in claiming its dues resulted in Supply Affording Charges amounting to ₹ 8.17 crore remaining unrealised (July 2012) from the DISCOMs. Timely receipt of funds would have helped the Company in reducing the burden of interest on working capital loans.

The Management stated (October 2012) that the consumers primarily approach DISCOMs for getting connectivity and deposit the amount towards supply affording charges to the concerned DISCOMs. The details of contracted demand of the consumers were required for calculating Supply Affording Charges and these details were to be provided by the DISCOMs. Therefore, the Company could not calculate the same. The matter of remittance of Supply Affording Charges is being resolved.

The reply of the Company is not acceptable as the DISCOMs provide a copy of the approval accorded to the High Tension Consumers for getting connectivity to the Company for developing required infrastructure, based on which the Company should have taken up the issue immediately for the timely realisation of Supply Affording Charges.

Operation of Cash Flow Mechanism

2.1.37 Under Schedule 3 of the Electricity Reform Transfer Rules, 2006 dealing with the transfer of functions of the Board relating to bulk purchase and bulk supply of electricity along with related agreements and arrangements in the name of the newly formed M.P. Power Trading Company Limited, Jabalpur, a Cash Flow Mechanism 2006 (CFM) under the new sector structure was notified in June 2006.

The main objective of the CFM was the centralisation of the cash management function across the six Companies²¹ formed on unbundling (May 2002) of the Board and would continue till the cash problem was resolved or till further orders of the State Government. The main features of the arrangement were that:-

- All the cash collected by the DISCOMs shall be transferred to the Board account; and
- The Board would allocate cash amongst the Companies based on a predetermined priority for payment of expenses.

With effect from April 2012, the CFM was modified excluding the Company from CFM.

Additional expenditure due to delay in repayment of instalment

2.1.38 The Company entered (March 2006, July 2007 and December 2007) into three Memoranda of Agreements with the Power Finance Corporation Limited (PFC) for financial assistance for construction of lines and EHT SSs during 2005-06 and 2007-08. The Company has been drawing the loan amount from time to time.

According to Clause 2.0 of the terms and conditions of the loan sanction order, the borrower (Company) shall pay interest at the rate prevailing on the date of each disbursement along with interest tax at the rate applicable from time to time. The Company was entitled to a rebate of 0.25 *per cent* for the timely payment of instalment. Further, according to clause 6.10 a penal rate of interest of two *per cent* over and above the rate of interest as mentioned in Clause 2.0 was payable to PFC in the event of non-payment of interest/interest tax or principal.

Delay in repayment of instalment resulted in additional expenditure of ₹ 1.91 crore towards penal interest and interest on interest.

We observed that during 2009-10 to 2011-12 the Company could not pay the principal and interest thereon in time. Therefore PFC, by invoking Clause 6.10, charged penal interest and interest on interest amounting to ₹ 1.91 crore.

The Management stated (October 2012) that as per CFM, the debt servicing was done by the Board. The payment to PFC was made by the Board depending on availability of funds and exigencies of the situation and the Company had no role

²¹ 1. Madhya Pradesh Power Generating Company Limited 2. Madhya Pradesh Power Transmission Company Limited 3. Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited 4. Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited 5. Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited and 6. Madhya Pradesh Power Trading Company Limited

in the matter. It was further stated that the avoidable expenditure of ₹ 1.91 crore included ₹ 1.34 crore towards interest on interest which may not be considered as avoidable expenses as the funds were otherwise utilised during the period in which the dues of PFC were not paid.

The facts remain that the rationale for the introduction of CFM, which was efficient management of funds was defeated. Had the Company paid the dues in time to PFC, penal interest and interest on interest of ₹ 1.91 crore could have been avoided.

Material Management

2.1.39 The key functions in material management are laying down an inventory control policy, procurement of materials disposal of obsolete inventory etc.

The Company is at present following the material procurement policy prescribed by the erstwhile Board. The holding and consumption of inventory is being monitored through XYZ²² and ABC²³ analysis.

2.1.40 Issues relating to holding and consumption of materials and disposal of obsolete inventory are discussed hereunder:-

Closing stock

2.1.41 The Company operates three Transmission stores namely Jabalpur, Indore and Itarsi and one Workshop Division (Store) at Sehore. The consumption during the year, closing stock according to Stores records and that according to the Accounts figures for the period 2007-08 to 2011-12 is given in the following table:

Year	Consumption (per annum)				Average monthly consumption			Net Closing Stock	
	Capital	O&M	Other issues	Total consumption (including inter-store issues)	Capital	O&M	Total consumption (including inter-store issues)	As per Stores records	As per Accounts
2007-08	267.08	9.10	6.64	282.82	22.26	0.76	23.57	55.95	35.03
2008-09	554.33	14.22	35.66	604.21	46.20	1.19	50.36	100.61	84.28
2009-10	436.73	10.90	17.70	465.33	36.39	0.90	38.76	81.52	70.95
2010-11	186.61	13.50	14.72	214.83	15.55	1.13	17.90	68.28	48.21
2011-12	367.37	28.03	11.17	406.57	30.61	2.33	33.87	83.51	63.58

(Source: Information supplied by the Company)

From the above, it could be seen that the value of closing stock of materials was on a decreasing trend up to 2010-11, but it increased in 2011-12.

²² An analysis of monitoring the inventory of stores held by watching those items which constitute 90 per cent of the value of stock.

²³ An analysis of monitoring the consumption of stores by classifying them as A, B or C based on their value.

The value of closing stock exhibited in the Accounts did not agree with that shown by the Stores records.

The value of closing stock exhibited in the Accounts did not tally with that shown in the Stores records. The Statutory Auditors had also raised the issue of non reconciliation with Stores records in their reports on the accounts for the years from 2007-08 to 2011-12.

The Management stated (October 2012) that in order to reduce the inventory of stores, XYZ and ABC analysis of stores was being conducted and procurement of material was made keeping in view the requirement and available stock. The physical verification of these stores and the workshop is being conducted annually. It was further stated (October 2012) that reconciliation of stores records with accounts records was under progress and was likely to be completed soon.

Obsolete/unserviceable/scrap and Non-moving stores

2.1.42 The value of obsolete/unserviceable and scrap material held in stores at the end of each of the last five years is given in the following table:

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Obsolete/unserviceable/scrap	3.45	2.89	3.41	3.13	5.01
Non moving	10.71	16.54	17.55	16.54	16.70
Total	14.16	19.43	20.96	19.67	21.71
Total as per cent of Net closing stock	25.31	19.31	25.71	28.81	26.00

(Source: Information supplied by the Company)

From the above, it could be seen that in spite of disposal of obsolete/unserviceable/scrap on a regular basis, the value of the obsolete/unserviceable/scrap and non moving stock was generally more than 25 per cent of the closing stock during 2007-12.

The Management stated (October and November 2012) that non-moving material available in the store was being identified for utilisation. In case of obsolete/unserviceable material, action was being taken for disposing of the same.

Monitoring and Control

Internal Controls and Internal Audit

2.1.43 The Company commenced functioning independently from July 2002. Internal audit in the Company was not carried out till February 2007 as no employees were allocated by the erstwhile Board, for the same. The Company decided (May 2005) to outsource this function to Chartered Accountant firms with effect from March 2007.

The scope of work assigned to the firms of internal auditors was mainly audit of capital and revenue expenditure. However, we observed that the internal audit observations focused on issues relating to establishment, maintenance of registers, preparation of bank reconciliation statements, hiring/running of vehicles, O&M contracts of minor value, delay in reconciliation of costs incurred and charged on works etc. The internal audit did not cover the core activities of the Company such as operation and maintenance of transmission lines, EHT SSs etc.

The Statutory Auditors also, in their Audit Reports on the Annual Accounts of the Company from the year 2007-08 to 2011-12, repeatedly commented that “the internal audit function suffers from inadequacies such as scope, coverage, extent and regular reporting”. The weakness in the internal control system pointed out by the Statutory Auditors were in the areas of reconciliation of supplier payments between Head Office and Regional Accounts Offices and return of unserviceable material against which new items were issued. They had opined that “the internal control system needs to be strengthened to be commensurate with the size and nature of the business” and “the internal control system needs to be strengthened in certain areas”.

Despite the persistent comments by the Statutory Auditors on the scope of work of internal audit, the scope and function of internal audit was neither enhanced nor revised to strengthen the existing internal control system. Thus, internal audit continues to be inadequate in many areas because of non enhancement/non-revision of the scope.

The Company stated (October 2012) that they were making best efforts to strengthen the internal control and internal audit system and that two firms of Chartered Accountants are being appointed to conduct internal audit. It was further stated that in accordance with recommendations of the lead auditors, the offices have been classified, depending upon the level of financial activity and accounting transactions, for the purpose of deciding the periodicity of audit.

Audit Committee

2.1.44 The Audit Committee has a critical role to play in ensuring the integrity of financial management of a Company. In June 2006, the Company constituted an Audit Committee (Committee) as required under Section 292A of the Companies Act, 1956. The Committee was reconstituted in 2007.

Scrutiny of the agenda and minutes of the meetings of the Committee, held between September 2007 and September 2011, indicated that:

- Section 292A (5) envisages that the Statutory Auditors and the Internal Auditors should also attend the meetings of the Committee. It was observed that the Internal Auditors did not attend any of the meetings. The Management however stated (July 2012) that the Internal Auditors were regularly invited to the meetings.
- Section 292A (6) envisages that the Committee should have discussions with the Statutory Auditors periodically on matters regarding, *inter alia*, the internal control system. Because of non attendance of the meetings of the Committee by the Statutory Auditors also, this could not be done.

Thus, due to non attendance by Statutory Auditors and Internal Auditors in the meetings, discussions on the matters of internal control system could not be held. Resultantly, the envisaged benefits of formation of the Audit Committee were apparently forgone.

Conclusion

The Company could not achieve the planned addition of construction of new EHT SSs and lines and addition/augmentation of transformation capacity. There were several instances of delay in completion of works which led to significant impact on the physical and financial objectives and led to idling of EHT SSs and lines. Incorrect application of clause in delay in supply of transformer resulted in short recovery of liquidated damages. The Company has evolved an innovative concept for reducing transmission losses without any financial commitment. BBPPs were not in place to maintain system stability and the EHT SSs continued to be vulnerable to bus bar faults. RTUs were installed in only 46 out of 242 EHT SSs of 220 kV and below. There were delays in repayment of instalment which resulted in additional expenditure towards penal interest and interest on interest. The value of closing stock exhibited in the Accounts did not agree with that shown by the stores records.

Recommendations

The Company should

- **analyse the reasons for delay in construction of EHT SSs and find alternative ways so that the works are completed within the time schedule;**
- **ensure recovery of liquidated damages as per the provisions of the Contract;**
- **ensure installation of bus bar protection systems to protect the EHT SSs;**
- **ensure that the RTUs are installed in all EHT SSs;**
- **ensure that the number of occasions of violation of Grid Discipline are minimised; and**
- **list out the obsolete and non-moving stores and circulate the same among the DISCOMs for possible utilisation by them.**

2.2 Performance Audit on working of Madhya Pradesh State Tourism Development Corporation Limited

Executive Summary

Introduction

The Madhya Pradesh State Tourism Development Corporation Limited (Company) was incorporated (May 1978) as a wholly owned Company of the Government of Madhya Pradesh (GoMP) for development of tourism in the State. The present Performance Audit was conducted to assess the economy, efficiency and effectiveness in meeting the stated objectives of the State Tourism Policies and Memorandum of Understanding (MoU) with GoMP.

State Tourism Policies & MoU with GoMP

The GoMP framed (October 2010) a new Tourism Policy to promote balanced and sustainable tourism and to fulfill the objectives of the Tourism Policy, 1995. The Company had not prepared any plan for development of tourism in the State and also failed to attract any joint venture company to facilitate private sector investment for development of tourism in State. The growth in the tourist inflow which increased from 141.28 lakh in 2007-08 to 443.89 lakh in 2011-12 (214.19 per cent), was mainly because of addition of new centres for counting of tourists arrival. Further, the Company routinely reported provisional profit to GoMP through the MoU entered into with State Government due to non finalisation of Annual Accounts.

Operational Performance of the units

The Company had a mechanism in place for redressal of customers complaint and a system for maintaining hygiene in its hotels/restaurant. The performance of commercial buses on Bhopal-Indore route was satisfactory. The units could not achieve the operating ratio fixed by the Company and the actual operating ratio ranged between 66 and 73 per cent against the targeted operating ratio of 56 to 65.75 per cent during 2008-09 to 2011-12. The average occupancy of the Company's hotel ranged between 44 and 48 per cent during the period 2007-08 to 2011-12 as against the All India average occupancy range of 59.9 to 69.4 per cent. The Company

increased the tariff of nine hotels by 27 to 102 per cent, without considering the low occupancy (ranged between 15 and 44 per cent) of these hotels during 2007-08 to 2011-12, which resulted in further decrease of occupancy in five hotels and nominal increase in the occupancy of remaining four hotels during the period 2008-09 to 2011-12. The 32 units of the Company could not maintain both operating ratio as well as food cost limit and resulted in extra expenditure of ₹ 2.81 crore on food cost. The Company identified 13 units for leasing/privatisation as per the object of tourism policy during 2007-08 to 2011-12 and could lease out only four units so far (December 2012). The Company suffered a loss of ₹ 4.56 crore due to under valuation of land.

Marketing

The Company received ₹ 76.95 crore from GoMP and Finance Commission during the period between 2007-08 and 2011-12 for publicity and promotion of tourism and spent ₹ 78.07 crore during this period. The Company paid higher rates for advertisement through electronic media as compared to the rates fixed by the Directorate of Audio Visual Publicity (DAVP) and also failed to negotiate with the agency to bring rate on par with DAVP rates.

Financial Management

The Company earned profit of ₹ 1.67 crore against the turnover of ₹ 58.54 crore which reduced to ₹ 0.65 crore against turnover of ₹ 87.41 crore in 2010-11. The Company treated the income from interest of ₹ 18.80 crore on unspent amount of grant as their own income during the period 2007-08 to 2010-11. The progress made by the Company in collection of dues from sundry debtors was not encouraging. During the period between 2007-08 and 2011-12 the Company received an amount of ₹ 248.94 crore as grant from Government of India (GoI), Finance Commission and GoMP. The utilisation of grants ranged from 42.52 to 56.32 per cent of the available grants during 2007-08 to 2011-12. The Company submitted utilisation certificate without

spending the grant of ₹ 3.12 crore in ten projects of the Twelfth Finance Commission, ₹ 4.90 crore in seven projects of GoI and ₹ 0.93 crore in four projects of GoMP. It had diverted grant of ₹ 1.53 crore in five projects of the Twelfth Finance Commission and ₹ 0.72 crore in three projects of GoI.

The Company violated the terms of sanction of grant by non surrendering the unutilised grant amounting to ₹ 21.36 crore in 13 projects of GoI.

Implementation of Information Technology System

The Company incurred an expenditure of ₹ 24.59 lakh in piece meal on development of software for project management, transport management, hotel management and financial & pay roll management during the period 2007-08 to 2011-12 but could not implement the same successfully so far (December 2012).

Manpower Management

As against the requirement of 2287 employees, the Company had only 1909 employees (662 regular and 1247 outsourced employees) leaving a short fall of 378 employees.

Monitoring, Internal Control and Internal Audit

The Company had not placed annual operating plan, revenue budget, capital budget, MoU with the State Government, quarterly operational results etc. before the

Board of Directors. Further, it did not have an efficient internal control system as there was no system for conducting periodical physical verification of fixed assets, inventory, cash, stores etc. The Company also did not have effective internal audit system commensurate with the size and nature of business of the Company.

Conclusion and recommendations

The Company had not prepared any Plan to fulfill the objectives of Tourism Policies and failed in leasing out newly created, existing and loss making assets/units to private parties. The occupancy rate was much less than the All India average occupancy. It had not prepared any marketing policy for effective publicity and promotion of tourism, it also failed in exercising financial prudence in timely finalisation of accounts and prudential management of sundry debtors. The Company had not adhered to terms of sanction of grant received from GoI/GoMP. The Corporate Governance was deficient and internal audit was inadequate.

We recommend that the Company should prepare a Corporate plan defining its activities in line with the Tourism Policy, fix the occupancy norms scientifically, improve its financial management by ensuring timely finalisation of accounts, adhere to the terms of sanction of grant and proper utilisation of the same, and strengthen the Corporate Governance by strengthening the internal control and internal auditing system.

Introduction

2.2.1 The Madhya Pradesh State Tourism Development Corporation Limited (Company) was incorporated (May 1978) as a wholly owned Company of the Government of Madhya Pradesh (GoMP) for development of tourism in the State by providing accommodation and transport facilities to tourists, developing places of tourist interest and adopting methods and devices necessary to attract tourists in large numbers.

The Company is engaged in the construction, maintenance and operation of hotels and motels, cafeterias, restaurants, wayside amenities, water sports complexes, sound and light shows and providing transport facilities to tourists. The Company

has six¹ Regional Offices, 66 operational units² and nine³ Marketing Offices (MOs).

The Company, being the nodal agency for development of tourism in the State, receives funds from the Ministry of Tourism (MoT), Government of India (GoI) and the Finance Commission through the GoMP as well as from the State Budget, for the development of tourism infrastructure and executes the works accordingly. The Company also receives grants for publicity and promotion from the GoMP for promotion of tourism in the State and takes up advertisement campaigns through TV channels, newspapers and magazines, printing of publicity material, and organising fairs and festivals, road shows etc.

The Management of the Company is vested in a Board of Directors (BoD) consisting of 11 Directors including a Managing Director (MD) and a Chairman appointed by the GoMP. The Managing Director is the Chief Executive Officer, assisted by an Executive Director, two Chief General Managers (one for Planning and one for Marketing & Operation), a Chief Engineer for construction works and four General Managers (Finance, Transport, Water sports and Head Office). The paid-up capital of the Company was ₹ 24.97 crore as on March 2012. The Company finalised its accounts up to 2010-11 and earned profit of ₹ 0.65 crore (against turnover of ₹ 87.41 crore).

Scope and Methodology of Audit

2.2.2 The performance of the Company was last reviewed in the Audit Report of the Comptroller and Auditor General of India (Commercial) for the year 2006-07, Government of Madhya Pradesh. The Committee on Public Undertakings (COPU) discussed the report in August 2010 and its recommendations are awaited. We reviewed the action taken on the assurances given by the Management before COPU and our findings have been incorporated under the relevant paragraphs in the present Performance Audit. The present Performance Audit, conducted during March to July 2012, assessed the performance of the Company during the period 2007-12 covering 38 of the 66 operational units (57.58 *per cent* of the total units), all six Regional offices and two Marketing offices⁴ out of nine for detailed field study. The units were selected through Simple Random Sampling.

The audit methodology adopted for attaining the audit objectives with reference to the audit criteria consisted of explaining the audit objectives to the top management, scrutiny of records at the Head Office⁵ and the selected units, interaction with the audited entity's personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft Performance Audit Report to the Management/Government for comments.

¹ Bhopal, Gwalior, Indore, Jabalpur, Pachmarhi and Khajuraho.

² 52 hotels, 10 restaurants, three Sound and Light Shows and one Water sports Complex.

³ Ahmedabad, Hyderabad, Kolkata, Lucknow, Mumbai, Nagpur, New Delhi, Pune and Raipur.

⁴ Marketing Office- New Delhi and Nagpur.

⁵ At Bhopal.

2.2.3 We explained the audit objectives to the Company during the Entry Conference held on 14 March 2012, which was attended by the Managing Director of the Company. Audit findings emerging from the Performance Audit were reported (August 2012) to the Company and the State Government and discussed (November 2012) in the Exit Conference, attended by the Principal Secretary, Department of Tourism, GoMP and Managing Director of the Company. The views expressed by the Management/Government in the Exit Conference and through their replies (December 2012), have been taken into consideration while finalising the report.

Audit objectives

2.2.4 The objectives of the Performance Audit were to ascertain whether:

- the Company's performance was in accordance with the State Tourism policy and the Memorandum of Understanding (MoU) signed with GoMP;
- the operation of hotels/restaurants was carried out economically, efficiently and effectively;
- there was a well-defined marketing policy to tap prospective tourists;
- the Company has an effective financial management system and the grants received from the GOI/GoMP were utilised efficiently and effectively in accordance with the terms of sanction of the grant;
- the Company has sufficient human resources for effective management and operation of its business; and
- the Company has an adequate and effective monitoring system and internal control mechanism.

Audit criteria

2.2.5 The audit criteria adopted for assessing the achievement of the audit objectives were drawn from:

- Policies framed by the GoMP for the promotion of tourism;
- Instructions of Ministry of Tourism (MoT), GOI/GoMP and other rules and regulations issued from time to time by GOI/GoMP;
- Memorandum of Understanding (MoU) entered into between the Company and GoMP; and
- The periodical targets/norms fixed by the Company.

Audit findings

State Tourism Policies & MoU with the Government of Madhya Pradesh

Tourism Policy initiative

2.2.6 The Government of Madhya Pradesh (GoMP) framed a Tourism Policy (January 1995) for development of tourism in the State which was effective up to

19 October 2010. Thereafter, the GoMP framed (October 2010) a new Tourism Policy to promote balanced and sustainable tourism and to fulfill the objectives of the Tourism Policy, 1995. The GoMP also framed a separate Eco and Adventure Tourism Policy in the year 2001 for promotion of Eco and Adventure Tourism as envisaged in the Tourism Policy, 1995.

The role of the Company, as determined by the above Tourism Policies, *inter alia* is as below:

- To set up infrastructure facilities in untapped areas of tourist interest and privatise the same after their development and to set up similar facilities in other undeveloped areas;
- To attract more tourists to the places of tourism in the State by promotional activities through national and international marketing;
- To facilitate private sector investment, formation of joint venture companies and preparation of master plan for selected areas;
- To disinvest such of its properties which have not become satisfactory profit centres and give them out on management or short term lease to the private sector;
- To invest the profit earned by the Company through its commercial activities in development of tourist infrastructure in new areas; and
- To continue its pivotal role in obtaining financial assistance from the MoT, GoI and loans from other financial institutions.

We reviewed the implementation of the above Tourism policies by the Company and found the following deficiencies:-

- The Company had not identified critical areas of the Policy to effect micro-level planning and had also not fixed milestones to be achieved in the long term as well as in the short term.
- The Company had not prepared any plan for identifying the untapped areas of tourist importance and creation of tourist infrastructure in developing such areas.
- The Company had not entered into any agreement for formation of Joint Venture Companies to facilitate private sector investment for development of tourism in the state.
- The Company failed in disinvesting those properties which had not become satisfactory profit centres and could so far (December 2012) lease only one closed unit (Hotel Rahil, Khajuraho) in November 2009. One loss making unit (Tourist Motel, Khalghat) was given on management lease to the private sector in January 2011.
- The Company could start, through its own resources, two activities i.e. camping and water sports at nine places, out of the 13 activities at 28 places till March 2012 as identified in the Eco & Adventure Tourism Policy, 2001. The Company has so far (December 2012) not attracted private investments in this field as envisaged in the Policy.

The Company had not prepared a plan to effect micro level planning, identify and develop the untapped areas of tourism importance, facilitate private sector investments for development of tourism and disinvest the loss making properties as envisaged in the Tourism Policy of GoMP.

The Government stated (December 2012) that the Company was in the process of developing a tourism master plan and was making active efforts in inviting private sector investments for development of untapped areas. It had disinvested nine land/properties to the private sector. The fact remains that the Company had not prepared any tourism master plan since its inception and had failed in attracting any joint venture for development of untapped areas of tourism importance. Further, as regards disinvestment of the nine land/properties stated by the Government, eight cases relate to land available with the Company on behalf of GoMP for leasing out under the Land Bank Policy of the GoMP as discussed in Paragraph number 2.2.18.

Growth of tourism in the State

2.2.7 As per the State Tourism Policy, one of the major roles of the Company was to concentrate more on promotional activities through national and international marketing to attract more tourists to the places of tourist importance in the State. The Company compiles data of tourist arrival in the State from inputs obtained from the Archaeological Survey of India, Forest Department of the State, Cantonment Board and Local Administration etc. to measure the growth of tourism in the State and sends the same to the MoT, GoI. The number of tourists who visited India and the State of Madhya Pradesh during the last five years as of 31 March 2012 is given in the following table:

<i>(Number in lakh)</i>						
Sl. No.	Particulars	2007	2008	2009	2010	2011
1.	Number of domestic tourists	5265.64	5629.15	6688.00	7402.14	8510.00
2.	Number of foreign tourists who visited India	132.67	141.12	143.72	178.53	195.00
3.	Total (Sl. No.1+ Sl.No.2)	5398.31	5770.27	6831.72	7580.67	8705.00
Tourists who visited Madhya Pradesh						
4.	Domestic	138.94	220.89	231.06	380.79	441.20
5.	Foreign	2.34	2.52	2.01	2.50	2.69
6.	Total (Sl.No.4+Sl.No.5)	141.28	223.41	233.07	383.29	443.89
7.	Percentage of domestic tourists visiting the State to total tourists (Sl.No.4X100/Sl.No.1)	2.64	3.92	3.45	5.14	5.18
8.	Percentage of foreign tourists visiting the State to total foreign tourists (Sl.No.5X100/Sl.No.2)	1.76	1.79	1.40	1.40	1.38
Number of tourists who availed accommodation in the Companys hotels						
9.	Domestic	1.32	1.52	1.70	1.84	1.93
10.	Foreign	0.10	0.10	0.08	0.09	0.09
11.	Total (Sl.No.9+Sl.No.10)	1.42	1.62	1.78	1.93	2.02
Percentage of tourists who have stayed in the Companys hotels						
12.	Domestic (Sl.No.9X100/Sl.No.4)	0.95	0.69	0.74	0.48	0.44
13.	Foreign (Sl.No.10X100/Sl.No.5)	4.27	3.97	3.98	3.60	3.35

(Source:- Data downloaded from the website of Ministry of Tourism, GoI and data received from the Company)

From the above table, it would be seen that the tourists visiting the State have grown from 141.28 lakh in 2007 to 443.89 lakh in 2011 (214.19 per cent), whereas the percentage of foreign tourists visiting the State had decreased from

1.76 in the year 2007 to 1.38 in the year 2011. Further, the percentage of tourists availing the Company's hotel facility had also decreased from 0.95 to 0.44 *per cent* in case of domestic tourists and from 4.27 to 3.35 *per cent* in case of foreign tourists during 2007-11. The growth of tourist inflow, as shown by the Company during 2007-11, was mainly because of addition of new centres for counting of tourist inflow, counting of local population as tourists and multiple counting of the same tourist as discussed in the succeeding paragraphs:

The data of tourist arrival, prepared by the Company, was not reliable due to lack of a scientific basis for calculation of tourist arrival.

- The Company did not evolve any procedure for determination of tourism centres for the purpose of counting tourist arrivals. The Company added seven⁶ new locations to the existing tourist centres in 2010 for counting tourist arrivals in the State and the tourist inflow to these newly added tourist places was 1.54 crore and 1.83 crore in the year 2010 and 2011 respectively, whereas the increase in total tourist inflow in the State was 1.50 crore and 0.61 crore in the year 2010 and 2011 respectively. If the tourist data of these new places is excluded, the growth of tourism in the State would be negative in the year 2010.

The Government stated (December 2012) that the tourist centres were taken into account as per the footfall of tourists at all tourist destinations in Madhya Pradesh. The reply is not acceptable as the growth in tourist arrivals shown by the Company was because of addition of existing places as new centres. The Government also agreed in the exit conference for depiction of tourist arrival data of the newly added centres separately.

- Out of the seven centres added in January 2010, four centres⁷ were renowned religious places in Madhya Pradesh and were primarily visited by the local population and inhabitants of nearby localities on occasions of religious significance like *Navratri*, *Purnima*, *Amavasya*, *Narmada Jayanti* etc. For instance, out of total tourist arrivals of 118.70 lakh in Maihar in 2011, inflow was shown as 20 lakh (April 2011) and 25 lakh (October 2011) on the occasion of *Navratri* alone and therefore, cannot be considered as tourist arrival.

The Government stated (December 2012) that in general terms any person going away from his place of usual residence was accounted for as a tourist and even a traveller visiting one district from another district shall be considered as a tourist. The reply is not acceptable because as per the definition of tourist, a person whose stay is not less than 24 hours and no longer than 12 months and who also makes use of a tourist facility for accommodation shall be treated as a tourist. The number of tourists shown by the Company at these newly added four places included local people who visited the places during religious occasions, without an intention of staying there. Further, these newly added places did not have sufficient facilities to accommodate the number of tourists shown by the Company. Hence the people visiting these places on religious occasions cannot be treated as tourists.

⁶ Three major cities-Bhopal, Indore, Jabalpur and four pilgrimage places- Maihar, Datia, Salkanpur and Hoshangabad.

⁷ Maihar, Datia, Salkanpur and Hoshangabad.

- The tourist data collected through various sources⁸ indicated that there was more than one site of tourist interest in several tourist places. The Company, however, collected the data from all such sites and aggregated the same for computing tourist inflow. As a result, the tourist data appears to be inflated. The Government/Company has not devised a mechanism to realistically assess the tourist arrival. Similarly, two newly added centres in 2010 i.e. Indore and Jabalpur were Rail and Air heads and tourists arrive here for visiting neighbouring places i.e. Bhedaghat, Bandhavgarh, Kanha etc. (Jabalpur) and Mandu, Omkareshwar, Maheshwar etc. (Indore). Accounting of the same tourist at each of these places separately could distort data on actual tourist inflow.

The Company stated (November 2012) in the exit conference that a separate agency had already been appointed by GoI for realistically assessing the tourist inflow.

In the absence of a scientific system for counting tourist arrivals and addition of new centres for counting of tourist arrivals in the State, the tourist data so collected and submitted by the Company to the Central Government to report the growth of tourism in the State, cannot be relied upon.

Memorandum of Understanding with the State Government

2.2.8 The Company enters into a Memorandum of Understanding (MoU) every year with the GoMP to meet the targets during the year and to achieve the objectives of the Tourism Policy of the GoMP. The MoU contains various targets viz. target of income, profit, dividend to GoMP, timely completion of projects etc. to be achieved during the respective year as well as targets achieved during the previous year. A detailed examination of the MoUs executed during the period 2007-08 to 2011-12 indicated that the actual profit after tax as per the audited annual accounts was lower than those reported (based on provisional accounts) by the Company in the MoU as detailed below-

<i>(₹ in crore)</i>				
Sr. No.	Year	Target for profit after tax set for the year as per MoU	Profit after tax reported to the GoMP as per provisional accounts	Actual profit after tax as per audited annual accounts
1	2007-08	5.37	6.00	1.67
2	2008-09	7.00	9.00	1.51
3	2009-10	10.00	3.70	0.23
4	2010-11	8.00	6.00	0.65
5	2011-12	9.00	3.61	A/cs not finalised

(Source: Annual Accounts of the Company and MoU entered into with GoMP)

As evident from the above table, there was a huge difference between the achievement of targeted profit as reported in the MoU and the actual profit according to the finalised accounts during the years 2007-08 to 2010-11. The Company routinely reported higher provisional profits to the Government due to

The Company failed in achieving the targets set in the MoU and reported higher provisional profit to the GoMP due to delay in finalisation of annual accounts.

⁸ Cantonment Board, Archaeological Survey of India (ASI), National Parks of the State, Local administrations, Police department, Forest department, *Mandir Samitees*, Managers and Regional Managers of the Company.

non-finalisation of annual accounts. The Company, thus, did not achieve the targets fixed in the MoU between 2007-08 and 2010-11. Due to delay in finalisation of accounts, the performance of the Company for the year 2011-12 could not be assessed in audit.

Operational performance of the units

2.2.9 The operational performance of the units for the period 2007-08 to 2011-12 indicating targets for income, expenditure and actuals thereagainst are given below:

(₹ in lakh)

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12 (Provisional)
1.	Number of units	58	62	62	66	66
2.	Targeted income	5100.00	4695.00	5300.00	6800.00	7084.06
3.	Actual income	3247.38	3715.88	4673.72	5463.51	6600.75
4.	Percentage of actual income to targeted income	63.67	79.15	88.18	80.35	93.18
5.	Expenditure target (operating ratio) in per cent	- ⁹	65.75	60	58.25	56
6.	Targeted Expenditure	--	2443.19	2804.23	3182.49	3696.42
7.	Actual Expenditure	2468.64	2525.35	3226.84	3988.50	4358.69
8.	Excess Expenditure (7-6)	---	82.16	422.61	806.01	662.27
9.	Actual Operating Profit/Loss (3-7)	778.74	1190.53	1446.88	1475.01	2242.06
10.	Percentage of actual expenditure to actual income	76	68	69	73	66
11.	Number of profit making units	43	55	51	48	58
12.	Number of loss making units	15	7	11	18	8

(Source: - Data obtained from the Company)

It may be seen from the above table that the operating profit earned by the operational units increased from ₹ 7.79 crore to ₹ 22.42 crore during the period 2007-08 to 2011-12, but the profit of the Company decreased from ₹ 1.67 crore (2007-08) to ₹ 0.65 crore (2010-11) as discussed in Paragraph number 2.2.8. The actual expenditure of the Company also increased from ₹ 24.69 crore (2007-08) to ₹ 43.59 crore (2011-12).

On further analysis, we noticed the following:

- The Company had a mechanism in place for redressal of customers complaints and obtaining feedback. The suggestion books and complaint registers were being provided at the reception counter of each hotel/restaurant. Feedback forms were also provided in each room of the hotels. The corrective action taken by the respective units was also being monitored by the Head Office of the Company regularly.

⁹ Operating ratio was not fixed for the year 2007-08.

- The loss making units decreased (2008-09) to seven units from 15 units (2007-08) but again increased (2010-11) to 18 units and further decreased to 8 units (2011-12). Due to poor performance of these units, the Company suffered a loss of ₹ 2.29 crore during 2007-08 to 2011-12. The Company attributed (May 2012) the losses to competition with private players, dependence on tourists from nearby vicinity etc. We further observed that low occupancy and higher food cost also contributed to the losses (discussed in Paragraphs numbers 2.2.10 and 2.2.12 respectively).
- The Company, while assessing the financial performance of its units, had not considered various factors affecting the profitability of the units such as depreciation on the assets of units, apportioning expenditure of Regional and Head office into the respective units accounts and interest on working capital etc. In the absence of apportioned cost of Head Office/Regional Office, we could not quantify the actual number of units making profit/loss.
- The units could not achieve the operating ratio fixed by the Company and the actual operating ratio ranged between 66 and 73 *per cent* against the targeted operating ratio of 56 to 65.75 *per cent* during 2008-09 to 2011-12, mainly due to earning less income than targeted on account of low occupancy as discussed in paragraph number 2.2.10 and expenditure in excess of targets on account of increase in food cost, poor performance of sound and light shows and avoidable payment towards ghazal programmes in Hotel Palash as discussed in paragraphs numbers 2.2.12, 2.2.14 and 2.2.15.

The Government stated (December 2012) that the actual expenditure occurred as per the variances in the market index. The reply is not acceptable as the Company had not analysed the causes of excess expenditure, in the absence of which, corrective steps were not taken by the Company.

Occupancy level

2.2.10 The performance details indicating the number of units operated and occupancy percentage achieved by these units during 2007-08 to 2011-12 is given below:

Year	No. of units (Hotels and Motels)	No. of rooms	No. of beds	Occupancy					
				Number of units					
				Below 20 <i>per cent</i>	Between 20 and 39 <i>per cent</i>	Between 40 and 59 <i>per cent</i>	Between 60 and 79 <i>per cent</i>	80 <i>per cent</i> and above	Average occupancy of the Company
2007-08	39	703	1579	1	13	19	6	0	44
2008-09	43	767	1693	0	12	24	6	1	48
2009-10	51	767	1661	2	13	23	12	1	48
2010-11	52	830	1787	2	15	22	13	0	47
2011-12	51 ¹⁰	847	1815	3	12	21	15	0	46

(Source: Data obtained from the Company)

¹⁰ The Company has 52 lodging units throughout the State during the year 2011-12, but it considered 51 lodging units as two of the Companys lodging units at Pachmarhi i.e. Hotel Amaltas and Hilltop Bungalow were counted as a single unit for the purpose of occupancy.

It may be seen from the above table that:

- The average occupancy in the Company's hotels ranged between 44 and 48 *per cent* as against the All India average occupancy rates which ranged between 59.9 and 69.4 *per cent* during the corresponding period¹¹.
- The Managing Director, in January 2008, directed all units to achieve 80 *per cent* occupancy. During the period covered under the Performance Audit, we observed that none of the units (except Holiday Homes-Amarkantak in 2008-09 and Tourist Village-Shivpuri in 2009-10) achieved the targeted occupancy of 80 *per cent*.
- From 2011-12, the Company fixed unit-wise targets of occupancy based on the occupancy of the units during the previous year. Only four units¹² out of 51 lodging units could achieve the targets fixed during 2011-12.

The Company could not achieve the All India average occupancy during the period 2007-08 to 2011-12.

We noticed that while fixing targets, the Company did not consider factors such as break-even occupancy, fixed and variable cost of operation, prevailing market conditions such as competition with private players, availability of other accommodation at the location etc.

Though the occupancy percentage of the Company's hotel increased marginally over the years, the Company could not achieve the All India average occupancy in any of the years covered in the Performance Audit. The reasons for low occupancy as stated (May 2012) by the Company were competition with private players, dependence on Government business, poor infrastructure i.e. approach road and less booking from marketing offices. We observed that non-provision of budget hotels as envisaged in the Tourism Policy and delay in up-gradation and renovation of rooms also contributed to the low occupancy of the hotels.

The Government stated (December 2012) that FHRAI members were from metros and major tourist destinations, while in the State, the tourist season was limited and most of the units were located in the interior areas. The reply is not acceptable because some FHRAI members are located at small places also and further, 15 hotels of the Company are already members of FHRAI.

Tariff fixation

2.2.11 The Company had not evolved a policy for fixation/revision of hotel tariff. During 2007-08 to 2011-12, the tariff of the hotels was revised from 10 to 255 *per cent* either on the basis of the proposal submitted by the concerned unit Manager/Regional manager or by Head office of the Company at its own discretion. The lodging income of the Company increased from ₹ 14.09 crore (2007-08) to ₹ 24.49 crore (2011-12) mainly due to increase in tariff and without any significant increase in the occupancy. We noticed the following deficiencies in fixation of tariff:

The Company failed in fixing the tariff scientifically in the absence of a tariff policy.

¹¹ As All-India average occupancy for the year 2011-12 of Federation of Hotels & Restaurant Association of India (FHRAI) was not available, the previous years occupancy percentage was considered for comparison.

¹² Halali Retreat- Halali, Tourist Motel- Katni, Surbahar- Maihar and Rock N Manor- Pachmarhi.

- The Company did not have any policy regarding fixation of tariff and revision of tariff with respect to prevailing market conditions and competition with private operators. Further, the Company, while revising the tariff of the hotels, did not also conduct any systematic study such as break even analysis, margin of profit etc.
- The Company did not evaluate the effect of quantum of increase in tariff to determine the extent of ideal increase as the occupancy of nine¹³ hotels remained above 60 per cent even after constant increase in tariff.
- The Company increased the tariff of nine¹⁴ hotels by 27 to 102 per cent, without considering the low occupancy (ranged between 15 and 44 per cent) of these hotels during 2007-08 to 2011-12, which resulted in further decrease of occupancy in five hotels and nominal increase in the occupancy of the remaining four hotels. Further, the Company made nominal increase in tariff of two hotels¹⁵ even after constant increase in their occupancy.
- The Company failed in fixing appropriate tariff for hotel Tourist Motel-Mandla. It decreased the tariff of the hotel by 20 per cent each on two occasions (January 2009 and October 2010) and increased it twice (September 2009 and April 2011) by 25 and 22 per cent, without any significant change in occupancy, which remained between 27 and 37 per cent.

The Government accepted (November 2012) the facts in the exit conference and stated that the Company would consider the demand and supply and prevailing market conditions for fixing the tariff in future.

Catering

2.2.12 The Company had been maintaining catering facilities at 62 units as on 31 March 2012. We noticed that a system was in place for conducting periodical health checkups of the cooks, waiters and other employees deployed in its hotels/restaurant. The rates of food items offered at these units had been revised from time to time by the Head office/RMs on the recommendations of unit managers. The overall cost of food items was being controlled by fixing the limit of cost of raw materials (food cost) for each hotel with reference to its menu rates without carrying out any detailed cost analysis.

The Company fixed (June 2007) the limit of food cost at the rate of 33 per cent of the catering income for all the units, which was revised to 25 per cent in March 2008. If the food cost exceeded the above limit, the unit in charge was to be held responsible. Further, the Company (April 2008) introduced the concept of Operating Ratio (Percentage of total expenditure to total income)

¹³ Baghira Log Huts-Kisli, Hotel Palash-Bhopal, Hotel Tansen-Gwalior, Tourist Village-Shivpuri, Hotel Shipra-Ujjain, Amaltas- Pachmarhi, Hotel Kalchuri-Jabalpur, Hotel Highland Pachmarhi and Hotel Panchvati-Pachmarhi.

¹⁴ Gateway Retreat- Sanchi, Hotel Payal, & Jhankar- Khajuraho, Mukki, White Tiger Forest Lodge-Bandhavgarh, Kipling Court-Pench, Tawa Resort-Tawa, Tourist Bungalow- Chanderi and Jungle Camp-Delawadi.

¹⁵ Highway Treat-Bhimbetka, Rock N Manor-Pachmarhi.

and took a lenient view and relaxed the condition of recoveries from units who were not maintaining the food cost limit at 25 *per cent* but were able to maintain the operating ratio.

The Company could not exercise control over food cost due to introduction of operating ratio and failed in recovery of excess food cost amounting to ₹ 2.81 crore.

We observed that during the period 2008-09 to 2011-12, the actual food cost in 32 units out of 62 units, ranged between 26 and 49 *per cent*, exceeded the fixed limit of 25 *per cent* and the Company also failed in maintaining the prescribed operating ratio, which resulted in extra expenditure of ₹ 2.81 crore¹⁶ on food cost. Further, even after specific instructions to control food cost within the prescribed limit of 25 *per cent*, the Shan-E-Bhopal Restaurant, which had been incurring continuous losses since its inception (March 2007), had not maintained the prescribed limit and the actual food cost ranged between 28 and 45 *per cent* during 2009-10 to 2011-12.

The Government stated (December 2012) that the menu rates were fixed keeping in view the standard of hotels, standard of clients, cost of raw material etc. It was further stated that the operating ratio depended on many factors such as tourist season, market index and quantum of business. The reply is not acceptable because food cost is a major factor for maintaining operating ratio and the Company failed in initiating action against the units who failed in maintaining both food cost as well as operating ratio.

Transportation

2.2.13 The Company has a Transport Section at Bhopal to look after the operation and maintenance of commercial vehicles, staff vehicles and commercial buses on the Bhopal-Indore route and to provide transport services to the tourists. The Company had a fleet of 121 vehicles¹⁷ as on 31 March 2012. Out of these vehicles, two vehicles were less than one year old, 41 vehicles were more than one year and less than three years old, 34 vehicles were more than three years and less than five years old and 44 vehicles were more than five years old. The income and expenditure of the commercial vehicles (including buses) of Transport Section for the period 2007-08 to 2011-12 is given as below:

(₹ in crore)

Year	Income	Expenditure	Percentage of expenditure to income
2007-08	NA	NA	NA
2008-09	4.66	4.04	87
2009-10	4.75	3.66	77
2010-11	5.35	3.63	68
2011-12	6.05	4.00	66

(Source: Data obtained from the Company)

A review of the performance of the commercial vehicles indicated that the performance of commercial buses on Bhopal-Indore route was satisfactory. The Company earned revenue of ₹ 16.45 crore against the total operating expenditure of ₹ 11.28 crore during the period 2008-09 to 2011-12, whereas the percentage of

¹⁶ Excess Expenditure=Catering income of the respective unit X (percentage of actual food cost of the unit- 25 *per cent*)/100.

¹⁷ Nine Buses, 3 Caravan vehicles, 45 Commercial vehicles and 64 staff vehicles.

expenditure to income of all the commercial vehicles ranged between 66 and 87 *per cent* during the corresponding period. The expenditure was determined without considering the apportioned cost of Head office and RM offices and depreciation on these vehicles. Further, the Company has not fixed any vehicle wise norms for the optimum utilisation of vehicles. In absence of the same, the capacity utilisation could not be measured.

The Government stated (December 2012) that the inflated cost of equipments and completely depreciated vehicles were the reasons for higher expenditure. The reply is not acceptable as the profit shown by the Company during 2009-10 to 2011-12 was arrived at without considering the apportioned cost of Head office and RM office expenditure and depreciation on these vehicles.

Poor performance of Sound and Light Shows

2.2.14 The Company was operating three Sound and Light (SEL) shows at Khajuraho, Orchha and Gwalior. The income of the SEL shows increased marginally from ₹ 62.70 lakh (2007-08) to ₹ 70.21 lakh (2011-12). The profit however, decreased to ₹ 25.92 lakh (2011-12) from ₹ 31.96 lakh (2007-08). The tourists who visited the SEL show decreased to 0.22 lakh (2011-12) from 0.31 lakh (2007-08) in Khajuraho and 0.18 lakh (2011-12) from 0.20 lakh (2010-11) in Gwalior. The Company attributed (May 2012), the reason for poor performance of SEL to competition with other cultural shows conducted by private operators. We noticed that the main reason for decrease in business of SEL shows was location of all the three SELs only in one circuit i.e. Gwalior-Orchha-Khajuraho circuit and not in the other tourist circuits.

The Government stated (December 2012) that the SELs were being operated for providing additional attractions to the tourists and had to be considered not only in financial terms but in socio-economic terms also. The Government further stated that due to better control, these SEL shows turned into profit making centres. The reply is not acceptable as the number of tourists viewing the SELs at Gwalior and Khajuraho has decreased year after year and the increase in revenue was because of increase in the price of tickets.

Avoidable payment towards Ghazal programme in Hotel Palash

2.2.15 The Company appointed (May 2007) a troupe, M/s DD Music Academy, Bhopal for performing Ghazal programmes in Hotel Palash in the evening hours at a remuneration of ₹ 1400 per day for a period of one year i.e. till May 2008 without entering into any agreement. This was continued up to May 2011 when the Company increased the remuneration to ₹ 2000 per day. The Company paid ₹ 27.46 lakh towards remuneration for the period from 2007-08 to 2011-12.

The Company had not invited any quotations for getting competitive rates and continued with the same party for a period of five years without inviting further quotations. The Managing Director directed (March 2008) to negotiate with the party for reduction in rates, as the rates for the services of another party performing at the Shan-E-Bhopal Restaurant of the Company were lower. No action was however taken by the Hotel in-charge/RM in this regard. Instead, the remuneration of the Music Academy was increased (May 2011) by 43 *per cent*

without recording any justification and assessment of impact on turnover of the restaurant in the evening hours. Since the business of Hotel Palash was mainly dependent on Government business, the continuation of the Ghazal programme through the Music Academy, without assessing the impact on turnover, was not in order.

The Government stated (December 2012) that the Ghazal programmes were being performed by reputed singers for which the remuneration was fixed as per the need of the hour and the live music was added an attraction to the tourists resulting in increase of business. It was further stated that the price of an artist could not be measured and fixed. The reply is not acceptable as the Managing Director of the Company himself directed (March 2008) to negotiate with the party for reduction in rates, as the rates for the services of the other party performing at the Shan-E-Bhopal Restaurant of the Company were lower.

Leasing of Assets

The Company could lease out only four units out of 13 units identified for leasing in the absence of any laid down leasing policy.

2.2.16 According to the Tourism Policy (1995) of the GoMP, the main role of the Company was to develop the infrastructural facilities in the untapped areas of tourism importance and privatise the same after their development. Further, the Tourism Policy 2010 also emphasised disinvesting such of its properties, which were not satisfactory profit centres, by giving them either on management or on term-lease to the private sector. The Company, in the absence of any laid down leasing policy, selected the units for leasing on a case to case basis.

The Company identified 13 units¹⁸ for leasing/privatisation during 2007-08 to 2011-12, and could lease out only four units¹⁹ till December 2012. The Company had not received any bid for four units and no tenders were invited for five units²⁰ so far (December 2012)

We noticed the following deficiencies in leasing out of assets:

Non- inviting of tenders

As stated above, the Company had not invited tenders for five units till December 2012, which were identified for leasing. Two units out of these five units viz. Halali Retreat, Halali and Tourist Motel, Nowgaon were incurring losses and had accumulated loss of ₹ 7.04 lakh and ₹ 10.41 lakh respectively, whereas the other three units had recently turned into profit making units.

¹⁸ Highway Treat-Nowgaon, Tourist Motel-Katni, Hotel Avantika-Ujjain, Tourist Motel-Khalghat, Highway Treat-Rukhad, Way Side Amenities-Bansagar, Halali Retreat-Halali, Way Side Amenities-Deori, Way Side Amenities-Tendukheda, Way Side Amenities-Dhar, Way Side Amenities-Sagar, Way Side Amenities-Babai and Hotel Rahil- Khajuraho.

¹⁹ Tourist Motel-Khalghat, Way Side Amenities-Babai, Way Side Amenities-Bansagar and Hotel Rahil-Khajuraho.

²⁰ Halali Retreat-Halali, Highway Treat-Nowgaon, Tourist Motel-Katni, Highway Treat-Rukhad and Hotel Avantika-Ujjain.

Idling of assets due to non receipt of bids

The Company invited tenders (between August 2010 and April 2011) for leasing out three²¹ newly constructed units completed in 2010, but did not receive any bid. The Company had also not been operating these units and assets worth ₹ 1.19 crore (excluding land cost) created on these units were lying idle, resulting in non-fulfilment of the basic objective of construction of these units.

Non identification of loss making units for leasing

The Company made an assurance (August 2010) to COPU that action for speedy leasing out of loss making units would be taken. We noticed that (March 2012) 11 units were incurring continuous losses during 2007-08 to 2011-12. The Company however identified only four units for leasing and the remaining seven units i.e. Shan-E-Bhopal Restaurant- Bhopal, Tourist Motel-Pipariya, Tourist Motel-Datia, Winds & Waves-Tighra, Highway Treat-Bhimbetka, Tourist Village-Khajuraho and Picnic @ Kerwa-Kerwa had not yet been identified for leasing by the Company.

The Government stated (December 2012) that many of the loss making units had turned into profit making centres, hence tenders were not invited for them. The Government further stated that the Company invited tenders for loss making units but the same could not materialise due to various reasons and the Company was again in the process of tendering for such units. The fact remains that the Government's contention that many of the loss making units have turned into profit making centres, has to be viewed against the fact that profitability of these loss making units was arrived at without considering depreciation on the assets of these units, apportioning expenditure of Regional and Head office into the respective units' accounts and interest on working capital etc. as detailed in paragraph number 2.2.9.

Non realisation of lease rent

The Company leased out (January 2011) two units i.e. Way Side Amenities (WSA)-Babai and Khalghat at the annual licence fees of ₹ 3.43 lakh and ₹ 24.55 lakh respectively per annum subject to increase of five *per cent* every year. It could not however realise licence fee and penal interest amounting to ₹ 41.33 lakh for the period July 2011 to June 2012 from DK Motels & Resorts (lessee) and no action had been taken against the defaulter firm.

The Government stated (December 2012) that the lessee had not paid lease rent due to disagreement regarding land area. The fact remains that the Company has neither initiated any action to resolve the issue of discrepancy in land area nor taken any action for realisation of lease rent.

²¹ Way Side Amenities-Tendukheda, Dhar and Sagar.

Reduction of upset price of leased assets

The Company suffered a loss of ₹ 4.56 crore by reducing the upset price of land.

2.2.17 The Project Clearance and Implementation Board (PCIB), GoMP accorded its approval (December 2008) for long term leasing out one of the Company's inoperative units; namely Hotel Rahil-Khajuraho to private agencies. The upset price²² of the said property was determined at ₹ 5.76 crore²³ based on the commercial rate of land (₹ 2200 per sq. meter) applicable in the same locality according to the value fixed as per the guidelines issued by the District Collector. The price so determined was also approved by PCIB. The upset price of land was however reduced (January 2009) to ₹ 0.49 crore by applying the agricultural land rate (₹ 15 lakh per hectare) applicable in the nearby vicinity and the total upset price was determined as ₹ 1.58 crore²⁴. The Company leased out (June 2009) the property to Yash Logistics Private Limited (H-1) on the bid price of ₹ 2.61 crore (₹ 0.80 crore for land and ₹ 1.81 crore for building) as against the revised upset price of ₹ 1.58 crore. We observed that the Company received ₹ 0.80 crore for cost of prime land (3.252 hectare), on which the building was constructed, as against the original upset price of ₹ 5.36 crore fixed by PCIB by considering the agriculture land rate in place of commercial rate. The Company, thus suffered a loss of ₹ 4.56 crore due to under valuation of land.

The Government stated (December 2012) that the upset price was reduced by the PCIB (a Government body headed by the Chief Secretary of GoMP) by applying the agricultural rate of land. The reply is not acceptable as the agricultural rate cannot be applied for the commercial land situated at a prime location and the reduction in upset price was unjustified.

Poor performance in leasing out of land under Land Bank Policy for Tourism Development

2.2.18 The GoMP introduced (February 2008) the Land Bank Policy (Policy) for disposal of government land for the development of tourism in the State. The role of the Company, being the process manager according to the policy for disposal of land, was identification of the activities for tourism development, selection of consultant, preparation of Detailed Project Report (DPR) and auction of land in a transparent manner.

We noticed that during the period covered under the Performance Audit the GoMP gave possession of 513.14 hectares of land at 36 places under the Policy to the Company, but it could lease out only 58.10 hectares of land at eight²⁵ places. While feasibility study was completed in two²⁶ cases (8.415 hectares) and preparation of feasibility report was under process in five²⁷ cases (32.815 hectares), no action had been taken in case of the remaining 413.81 hectares of land.

²² The lowest price at which an item of property may be auctioned or sold at public sale.

²³ ₹ 5.36 crore for land+ ₹ 0.40 crore for building.

²⁴ ₹ 0.49 crore for land+ ₹ 1.09 crore for building.

²⁵ Panna, Hoshangabad, Seoni, Ujjain, Tikamharh, Bhopal, Umaria and Rewa.

²⁶ Khandwa and Datia

²⁷ Jabalpur, Gwalior, Dhar, Mandsaur and Raisen

The Government while accepting the fact stated (December 2012) the Company was trying its best for speedy disposal of land.

Marketing

2.2.19 The Company receives grant/assistance from the GoMP and Finance Commission for publicity and promotion of tourism in the State. The mode of publicity and promotion were advertisements through Television (TV) channels/radio/newspapers, publication of journals/magazines and printing of publicity material. The Company received ₹ 76.95 crore (₹ 61 crore from the GoMP and ₹ 15.95 crore from the Central Government on the recommendation of the Twelfth Finance Commission) for publicity and promotion of tourism in the State during the period 2007-08 to 2011-12. During this period, the Company spent ₹ 78.07 crore. The details of grants received and utilised during the period 2007-08 to 2011-12 is given below:

(₹ in crore)				
Year	Grant received from GoMP	Grant received from 12 th Finance Commission	Total	Expenditure as per UC
2007-08	10.00	4.50	14.50	14.52
2008-09	10.00	4.75	14.75	14.77
2009-10	8.00	6.70	14.70	15.75
2010-11	16.50	-	16.50	16.53
2011-12	16.50	-	16.50	16.50
Total	61.00	15.95	76.95	78.07

(Source: Data obtained from the Company)

We observed that:

- The Company did not have any advertisement policy for effective publicity and promotion of tourism. The Company did not also have a media plan designed taking into account the Television Rating Point (TRP) of TV channels and the circulation of newspapers and magazines.
- The Company spent an amount of ₹ 4 crore for advertisements on newspapers and magazine on an *ad-hoc* basis without assessing the popularity and circulation of magazines/newspapers.
- The Company did not have its own budget for advertisement and publicity of its hotels. It was fully dependent on the grants received from the Government.
- The Company appointed (June 2006) an advertising agency for a period of three years for creation, preparation and placement of advertising material on an all-India basis on TV, Radio and print media and the same was extended till March 2012 on yearly basis without inviting fresh tenders. The Company selected the agency on the basis of presentation of concept, media plan and the rate of commission to be charged without considering the rates of different TV Channels and discount offered by the agencies on rates. Further, the agency was appointed for both activities i.e. creation and placement of advertisements instead of getting the work done through two

different agencies in order to get the maximum benefit of qualitative advertisements and competitive rates to avail maximum discount on rates.

We further noticed that the Company spent ₹ 30.16 crore (including Agency Commission at the rate of 15 *per cent*) on publicity campaigns through an advertising agency during the period 2007-08 to 2011-12. The rates charged by the advertising agency were higher than the rates fixed by the Directorate of Audio Visual Publicity (DAVP) as test checked for the years 2009-10 and 2010-11. The agency also charged a single rate for both prime time as well as non-prime time as given below:

The Company had not adhered to the rates prescribed by DAVP and also extended the period of advertising agency without inviting fresh tenders.

S. N.	Name of channel	Rate paid by Company(per 10 sec)/ ₹	Rate fixed by DAVP (per 10 sec.)/ ₹
1	Discovery Travel/Living	800	7-12 AM 100 12PM-11 PM 495
2	NDTV 24*7	2700	7 AM-7PM 743 7PM-8 PM 1239 8PM-11PM 1735
3	NDTV Good times	600	7AM-9AM 100 9AM -11PM 495
4	CNN IBN	2200	7 AM-7PM 743 7PM-8PM 1487 8PM-11 PM 1735
5	Times Now	3500	7AM-9AM 495 9AM-12Noon 743 12PM-7 PM 991 7PM-8 PM 1239 8PM-11 PM 1983

(Source: - Data obtained from the Company)

As a result of uncompetitive rates charged by the agency and wrong procedure of selection of agency, the Company had to incur higher cost on publicity and promotion without an assurance for increase in tourist traffic.

The Government stated (December 2012) that the DAVP rates were only valid for Government organisations and not for the Company, hence the rates differed. The reply is not acceptable because as per the Advertisement Rules framed (May 2007) by the GoMP the rate prescribed by DAVP has to be considered before finalising the rates for electronic media and the Company failed in negotiation with the media agency as the rate charged by the agency were abnormally higher than the rates prescribed by DAVP. However, the Government during the exit conference (November 2012), directed the Company to examine this issue further.

Performance of Marketing Offices

2.2.20. The Company has nine Marketing Offices (MOs), established at Ahmedabad, Hyderabad, Kolkata, Mumbai, Nagpur, Lucknow, Pune, Raipur and New Delhi for publicity and business promotion of the Company's hotels and to promote the business of the Company. The table below indicates the performance of these offices during the period 2007-08 to 2011-12.

Year	Target of Business (₹ in crore)	Actual Business (₹ in crore)	Percentage of actual business to targets	Total Expenditure of MOs (₹ in crore)	Percentage of Expenditure to actual business
2007-08	9.50	7.61	80.11	3.12	41
2008-09	10.85	8.73	80.46	3.47	40
2009-10	13.50	9.89	73.26	4.39	44
2010-11	18.75	12.17	64.91	4.52	37
2011-12	18.25	15.15	83.01	5.17	34

(Source: - Data obtained from the Company)

We observed that:

- All the Marketing offices except MO, Pune for the year 2011-12, failed to achieve the turnover targets fixed for them during the period 2007-08 to 2011-12.

All the Marketing Offices, except Pune, failed in achieving the turn over targets during the period 2007-08 to 2011-12. The percentage of cancellation ranged between 10.54 and 50.75. The expenditure on establishment including publicity and promotion of MO-Lucknow and Hyderabad was abnormally high.

- The main reason for non-achievement of targets, as analysed by us, was cancellation of block bookings by various travel agents on online reservation system as the Company had provided rights of block booking to its agents without any advance. The percentage of cancellation ranged between 10.54 and 50.75 during the period 2010-11 and 2011-12. The Company did not enter into any agreements with the travel agents for specific targets of business. In the absence of any agreement, the Company did not take any action against the travel agents for large cancellation of block bookings etc. The cancellation was abnormally high at MO, Lucknow, Delhi and Hyderabad i.e. 30.16 to 50.76 *per cent* of total bookings during 2010-11 and 2011-12
- The Company did not fix any norms for expenditure on establishment, including publicity and promotion, of these offices. The actual expenditure by the MOs ranged between 34 and 44 *per cent* of their business, which was abnormally high. The expenditure of MO, Lucknow ranged from 89 and 175 *per cent* and MO- Hyderabad ranged from 30 to 60 *per cent* during 2008-09 to 2011-12. The Company did not take any action for improving the performance of these two MOs with reference to the quantum of business contributed and the establishment cost incurred by them as these offices could contribute total business of ₹ 3.71 crore (target ₹ 6.20 crore) against the total establishment cost of ₹ 2.33 crore during the period 2008-09 to 2011-12.
- The MOs, apart from doing their own business, got business through travel agents by paying commission to them at the rate of 15 *per cent* of the business contributed by them. In two test checked cases²⁸, we observed that the MOs got business ranged between 28 and 35 *per cent* of their total business through Travel Agents (TA). Their total expenditure excluding the commission of TA, ranged between 40 and 106 *per cent* of the MOs own business as detailed in *Annexure 11*. It was evident from the Annexure that even after incurring huge expenditure on establishment, including publicity and promotion, the share of business done by the MOs

²⁸ MO-Delhi and Mumbai.

on their own was low as compared to the business received through TAs by paying only 15 *per cent* commission to them. Thus, the continuance of the MOs needs to be reviewed with reference to the business contributed by them and establishment cost there-against.

The Government stated (December 2012) that the rights of block booking on online reservation had not been provided to TAs but the same was being done by the marketing offices on behalf of TAs as per standard industry practices and the MOs had been incurring expenditure on publicity from publicity budget which did not have any relation with revenue. Further, the continuance of MOs was necessary for tourist information, liaison work and goodwill about the various destinations in the state. The reply is not acceptable as the basic purpose of establishing the MOs outside the State, was to promote the business of the Company as well as tourism promotion in the State and the performance of MOs can only be measured by their business contribution in the ratio of their expenditure. The expenditure on publicity, whether it is done from publicity budget or from somewhere else, incurred by the MOs should have direct relation with their business contribution to measure their performance.

Financial Management and utilisation of Government grants

Capital Structure

2.2.21 The Company's paid up capital was ₹ 24.97 crore as on 31 March 2012. The Company finalised its accounts up to 2010-11. The financial position and working results of the Company for 2007-08 to 2010-11 as per audited accounts are given in *Annexure 12 and 13*.

Comments on financial position

- The rate of return on Capital employed decreased from 0.93 *per cent* in 2007-08 to 0.64 *per cent* in 2008-09 and 0.11 *per cent* in 2009-10 and increased slightly to 0.23 *per cent* in 2010-11. The reasons for abnormal variations were the constant decrease in net profit and inclusion of assets created from the Grants received from GoI, GoMP and Finance Commission under work-in-progress despite completion of works.
- The constant increase in capital reserve was because of account of Grants received from GoI/ GoMP/ Finance Commission under the head Capital Reserve.
- Similarly, the increase in Current Assets, Loans and Advances was because of increase in cash and bank balances due to parking of unutilised amount of grant in the bank accounts in the form of fixed deposit.

Comments on working results

2.2.22 The Company earned profit of ₹ 1.67 crore (against turnover of ₹ 58.54 crore) during 2007-08 and same decreased to ₹ 1.51 crore (against turnover ₹ 66.53 crore) and ₹ 0.23 crore (turnover ₹ 76.32 crore) during 2008-09 and 2009-10 respectively which further increased to ₹ 0.65 crore against turnover of ₹ 87.41

crore in 2010-11. Thus, while the turnover of the Company showed an increasing trend, the profitability showed a decreasing trend. The percentage of net profit to the turnover of the Company decreased sharply from 3.96 to 0.78 per cent during the period 2007-08 to 2010-11. The reasons for decrease in profit and decrease in percentage of profit to total turnover of the Company were increase in establishment expenditure (from ₹ 11.23 crore in 2007-08 to ₹ 20.97 crore in 2010-11) and administrative expenditure (from ₹ 9.21 crore in 2007-08 to ₹ 17.21 crore in 2010-11).

The net profit of the Company has decreased from ₹ 1.67 crore to ₹ 0.65 crore during 2007-08 to 2010-11 and the Company treated the income from interest earned during the same period of ₹ 18.80 crore on unspent amount of grant as their own income.

The Company earned income from interest to the extent of ₹ 18.80 crore during the period 2007-08 to 2010-11 on the deposits of unspent amount of grant received for development of tourism in the State from the Government and treated the same as their own income in the accounts. The profit of the Company as per the audited accounts during the years 2007-08 to 2010-11 was overstated by ₹ 4.27 crore, ₹ 4.79 crore, ₹ 4.61 crore and ₹ 5.13 crore respectively, due to accountal of interest earned on the fixed deposit made out of the unutilised grants.

Thus the Company suffered losses of ₹ 2.60 crore, ₹ 3.28 crore, ₹ 4.38 crore and ₹ 4.48 crore during the years 2007-08 to 2010-11 respectively after exclusion of interest income.

The Government stated (December 2012) that the total revenue increased constantly but the net profit had not increased in the same proportion due to increase in establishment expenditure, depreciation and advance planning of gratuity provisions through gratuity trust.

Receivables Management

2.2.23 The Company did not have any age wise and party wise records of sundry debtors and system for timely reconciliation of the same. The sundry debtors of the Company stood at ₹ 6.34 crore, ₹ 5.50 crore, ₹ 6.40 crore and ₹ 4.90 crore during 2007-08, 2008-09, 2009-10 and 2010-11 respectively. Further scrutiny of sundry debtors indicated that:

- The Company wrote off ₹ 0.35 crore in the year 2008-09 due to non-availability of details of debtors. The party wise, age wise and bill wise details of sundry debtors of eight²⁹ hotels of ₹ 1.09 crore and transport unit ₹ 1.16 crore were not available with the Company due to absence of age-wise and party-wise records of sundry debtors.
- The sundry debtors as per records of Hotel Palash were ₹ 2.18 crore as on 31 March 2012, while it was ₹ 1.33 crore as per the records of Head Office. The difference indicates that there was no system for timely reconciliation of balances.

The Company did not have a proper system for timely reconciliation of sundry debtors shown at units and Head Office. The Company wrote off ₹ 0.35 crore due to non availability of details of debtors.

²⁹ Hotel Palash Residency- Bhopal, Hotel Shipra Residency- Ujjain, Hotel Tansen Residency- Gwalior, Hotel Sheesh Mahal-Orchha, Hotel Betwa Retreat-Orchha, Hotel Amaltas-Pachmarhi, Hotel Highland- Pachmarhi Hotel Kalchuri Residency- Jabalpur.

The Government stated (December 2012) that the reconciliation of hotel ledgers and Head Office took time and would be reconciled. The fact remains that there was no system for timely reconciliation of balances of debtors.

Receipt and utilisation of Government grants

2.2.24 The Company, being a nodal agency, receives funds from Ministry of Tourism, GoI, on the recommendation of the Finance Commission and the GoMP for the development of tourist infrastructure in the State. The GoI sanctioned (November 2004) ₹ 67 crore as a state specific grant under the Twelfth Finance Commission for development of tourism infrastructure in Madhya Pradesh. The GoMP constituted a committee namely State Level Empowered Committee (SLEC) according to the guidelines to ensure the proper utilisation of these grants. The Company also implemented tourism projects from the capital grants received from the GoI/GoMP.

The details of funds received and amount spent during 2007-08 to 2011-12 is given in the following table: -

(₹ in crore)

Year	Opening balance ³⁰	Receipts ³¹			Total grant available	Utilisation of grant	Closing balance	Percentage of utilisation
		GoI	Finance Commission	GoMP				
2007-08	31.41	29.15	10.16	0.49	71.21	30.28	40.93	42.52
2008-09	40.93	30.80	14.85	7.80	94.38	42.95	51.43	45.50
2009-10	51.43	36.95	10.05	4.42	102.85	57.92	44.93	56.32
2010-11	44.93	30.72	--	4.44	80.09	44.94	35.15	56.11
2011-12	35.15	24.05	28.02	17.04	104.26	50.84	53.42	48.76

(Source: Data compiled from the Annual Accounts of the Company and Information by the Company for the year 2011-12)

It may be seen from above table that grant amounting to ₹ 53.42 crore remained unutilised as on 31 March 2012. The utilisation of grants ranged from 42.52 to 56.32 per cent of the available grants during the period 2007-08 to 2011-12.

The Company violated the terms of grant by submitting the UC without spending the grant.

Submission of utilisation certificate without spending the amount of grant

2.2.24.1 The Company availed grant of ₹ 67 crore from the Twelfth Finance Commission during 2006-07 to 2009-10 and submitted (March 2010) utilisation certificate (UC) for the entire amount. We observed that an amount of ₹ 3.12 crore

³⁰ The opening balance of grant during the year 2007-08 was calculated on the basis of receipt and utilisation of grant during the year 2006-07.

³¹ Total grants received during the period from 2007-08 to 2011-12 from GoI, Finance Commissions and GoMP = ₹ 248.94 crore

in respect of ten projects³² was, however lying unutilised (December 2012) with the Company, which had not been surrendered to the Government. Thus, submission of UC without actual utilisation of grant and non-surrendering of unutilised grant was irregular and violated the terms of sanction of grant.

The Government stated (December 2012) that the concerned works were executed and their utilisation certificates (UC) were submitted as per procedure. The reply is not acceptable as the work on ten projects worth ₹ 3.12 crore were not completed till December 2012.

2.2.24.2 We test checked 21 projects out of 45 projects undertaken by the Company from GoI grants during the period 2007-08 to 2011-12. We noticed that the Company had submitted (August 2010, December 2011 and January 2012) UC valued at ₹ 27.34 crore in seven³³ of the test checked cases, whereas the actual expenditure till date of submission of UC was ₹ 22.44 crore. Thus, submission of UC without spending the entire amount shown in the UC was not in order.

The Government stated (December 2012) that the UC for the works were submitted as per procedure and actual expenditure. The reply is not acceptable since the Company submitted the UC for ₹ 27.34 crore in seven cases, whereas the actual expenditure incurred was ₹ 22.44 crore.

2.2.24.3 In respect of grants received from GoMP, we noticed that the Company had submitted UCs valued at ₹ 2.71 crore in four test checked cases³⁴, whereas the actual expenditure till submission of UC was ₹ 1.78 crore. Thus submission of UC without spending the entire amount shown in the UC was not in order.

The Government stated (December 2012) that all the above works were taken up in time and UCs were submitted accordingly. The reply is not acceptable as the Company submitted UCs worth ₹ 0.93 crore without actually spending the same on these projects. However, the Company in the exit conference informed that a systematic mechanism would be worked out to control such instances.

Diversion of grant

The Company diverted the grant allocated for specific projects without approval of SLEC and GoI.

2.2.24.4 In terms of the sanction accorded by SLEC for the Twelfth Finance Commission grant, and same was to be utilised only for the works for it was sanctioned. The Company spent ₹ 1.53 crore during 2006-07 to 2009-10 for renovation of its hotels and purchase of electronic items, kitchen items, furniture & fixtures and other store items for its hotels without obtaining due approval from SLEC. We noticed that these amounts were allocated by SLEC for five³⁵ projects.

³² Way Side Amenities- Guna, Way Side Amenities- Lakhnadon, Tourist Reception Centre-Kanha, Interpretation Centre- Mukki, Water Sports Complex- Bansagar, Development of Iqbal Maidan-Bhopal, Deepening, Distilling and Beautification of Pond-Mandu, Water Sports-Bargi, Water rafting-Omkareshwar and Wantchu point- Indore.

³³ Mega Destination-Chitrakoot, Destination Development of Mandu-II, Nalkheda, Dewas, Vidisha, Burhanpur-II and Caravan Tourism.

³⁴ Construction of rest house at Dharji-Dewas, Tourist Reception Centre Dhar, Mandla and Youth & Adventurous Tourism.

³⁵ Development of Ghat at Maheshwar, Interpretation centre at Mukki, Water Sports Complex at Bansagar, water sports complex at Halali, Deepening of Sagar Taal, Mandu.

Diversion of grants allocated for specific projects without approval from SLEC violated the terms of sanction of grant. Further as mentioned in Paragraph 2.2.24.1 UC for these five projects were also issued in March 2010.

2.2.24.5 We noticed that the Company had diverted ₹ 71.90 lakh out of grants received from GoI in three of the test checked cases/projects³⁶ for renovation, upgradation and repair and maintenance of its own hotels and violated the terms of sanction of grant.

The Government stated (December 2012) that no funds were diverted for upgradation of hotels. The reply is not acceptable as the Company spent a huge amount for renovation, upgradation and repair and maintenance of its own hotels.

Deviation from original proposal

2.2.24.6 The SLEC accorded sanction of ₹ 3 crore and ₹ 2 crore out of the Twelfth Finance Commission for construction of Tourist Reception Centres at Kanha (January 2007) and Burhanpur (November 2006) respectively to provide basic facilities to the tourists i.e. banking, telephone, handicrafts centre, cafeteria, public amenities etc. The Company deviated from the original proposal approved by SLEC and at Kanha started constructing four tourist cottages containing 12 rooms, the work of which is under progress (July 2012), while in Burhanpur it constructed a hotel containing 11 rooms for commercial use. This not only resulted in diversion of grant but also deprived the tourists of the basic facilities planned to be provided by the Government.

The Government stated (December 2012) that some guest rooms were constructed in the Tourist Reception Centre (TRC) to provide basic good stay facilities along with the other facilities like banking, telephone, handicraft centre and cafeteria/amenities etc. The reply is not acceptable as the Company concentrated more on construction of its own hotels and deviated from the original proposal of construction of TRC. Further, the facilities like banking, telephone, handicraft centre and cafeteria/amenities etc. are required to be constructed in the public places to provide such facilities to the tourists.

Non taking up of projects

2.2.24.7 The Company could not take up (March 2012) work of two projects i.e. Way Side Amenities (WSA) Guna and Lakhnadoan amounting to ₹ 80 lakh (₹ 40 lakh each) approved by SLEC from the Twelfth Finance Commission Grants due to non availability of land, whereas the work was shown as completed in the UC.

The Government stated (December 2012) that the work of WSA-Guna was to be constructed through Municipal Corporation (MC)-Guna and the UC was submitted after transferring the amount of grant to MC-Guna. The work of WSA-

³⁶ Destination Development Mandu- Beautification of Sagar Lake, construction of *haat bazaar* and facilitation center etc; Caravan Tourism-Construction of tourist facilitation centre, development of approach road, path way and parking area etc; and Destination Development Mandu-II- Restoration of heritage Reva Kund, Neel Kanth, beautification of Roopmati pavilion etc.

Lakhnadon could not be taken up due to dispute of land and the status of land allotment was awaited. The reply is not acceptable as the UC cannot be submitted till the completion of the project, whereas these works are still (December 2012) incomplete.

2.2.24.8 The Company received ₹ 65 lakh³⁷ from GoMP for construction of a rest house at Dharji, Dewas. The Company decided to get the work done through Dewas Development Authority (DDA) and released an amount of ₹35 lakh (₹25 lakh in 2008-09 and ₹ 10 lakh in 2009-10) and submitted (June 2009 and March 2010) UC for the entire grant of ₹ 65 lakh. The work of construction of the rest house had not been taken up till March 2012 due to non availability of land for the project and ₹ 35 lakh was still lying with DDA.

The Government stated (December 2012) that the Company deposited ₹ 35 lakh with Dewas Development Authority (DDA) for construction works and the work could not be started due to dispute of land. The reply is not acceptable as the construction work had not been taken up by DDA till submission of UC and handing over of money to DDA cannot be treated as completion of the project for the purpose of submission of UC without obtaining time extension for the same.

Non- surrendering of unutilised amount of grant

2.2.24.9 According to the conditions of sanction of grant, the Company should surrender the grant, if it was not utilised within a period of six months from the date of receipt. We noticed that the Company had not surrendered unutilised grant amounting to ₹ 21.36 crore received from GoI in 13 test checked cases³⁸.

The Government stated (December 2012) that GoI considered 12 months for completion of any project and extended the same for genuine reasons. It was also stated that non-surrendering of unutilised amount of grant was valid, if the work had been started or was in progress. The reply is not acceptable as the Company failed in obtaining extension of time for these projects and kept the unutilised amount with it instead of surrendering the same to the Government.

Non fulfilment of basic objective of the project

2.2.24.10 The SLEC accorded sanction of ₹ 1.70 crore each for two projects i.e. Water Sports Complex at Bansagar and Halali, out of the Twelfth Finance Commission grants. The basic objective of constructing the Water Sports Complex was to provide water sports activities in these places. The Company spent (March 2012) ₹ 81 lakh on construction of cafeteria, staff quarters, boat shed and other civil works at Bansagar. No action to provide the water sports equipments for water sports activities has so far (December 2012) been taken by the Company. Similarly, the Company spent ₹1.48 crore on construction of

³⁷ ₹ 25 lakh in 2008-09 and ₹ 40 lakh in 2009-10.

³⁸ Destination Development of Betul, Burhanpur-II, Salkanpur-II, Convention Center-Bhopal, Mega Destination-Chitrakoot (2009-10), Indrasagar, Handia, Mhow, Food craft institute-Jabalpur, Ratlam-Mandsaur, Neemuch circuit, Capacity building for service provider, Computerisation and IT and Bhagoria festival.

rooms, cafeteria, and landscaping, jetty etc. at Halali. It has however provided only the paddle boat facility in the name of water sports complex. Thus, the Company could not fulfil the basic objective of the projects even after incurring ₹2.29 crore through Twelfth Finance Commission.

The Government accepted (December 2012) the fact and stated that the procurement of boats and other water sports activities would be done from the grant of the Thirteenth Finance Commission. The reply is not acceptable as the Company could spend only ₹ 0.97 crore out of ₹ 1.70 crore sanctioned for the project and still had an unspent amount of ₹ 0.73 crore.

2.2.24.11 The GoI sanctioned (December 2009) assistance of ₹ 2.52 crore and released ₹ 2.01 crore for Caravan Tourism in the State. The purpose of Caravan Tourism was to promote family oriented tours in circuits/destinations, which were not having adequate hotel accommodation. This involved visiting and staying in remote areas, forests, deserts and riversides.

The Company constructed (December 2011) two camping sites, out of the three proposed sites, in the campus of its own hotels i.e Wood land Club, Pachmarhi and Tawa Resort, Tawa at a cost of ₹ 98.23 lakh as an extension of its own hotels instead of constructing the same at different places. Further, the Company started developing the third site i.e. Baaz Kaliasot at Bhopal and spent ₹ 7.21 lakh, which was dropped subsequently due to administrative reasons. The Company, by constructing camping sites in its existing hotels, defeated the objective of promotion of Caravan Tourism involving visiting and staying in remote areas, forests, deserts and riversides.

The Government stated (December 2012) that the Caravan bays were constructed in the premises of the Companys existing hotels to make the amenities available to the guests without occupying the rooms. The reply is not acceptable as the basic purpose of Caravan tourism was to provide amenities to tourists in places where hotel accommodation was not available in remote areas.

Appropriation of Supervision Charges without authority

2.2.24.12 The Company reckoned 7 to 25 *per cent* of project cost in execution of 28 projects undertaken through grants of the Twelfth Finance Commission during the years 2006-07 and 2007-08 as supervision charges and appropriated ₹ 1.36 crore as the Companys income in violation of the conditions of the sanction of grant. The Company, however stopped levying supervision charges from the year 2008-09 onwards. As most of the projects undertaken through the grants were for creation of capital assets of the Company, appropriation of supervision charges without specific approval of SLEC was not in order.

The Government stated (December 2012) that the supervision charges was levied to meet the expenditures of engineers and officers engaged in execution of these projects. The reply is not acceptable as there was no specific order any clause in the sanction order for deducting supervision charges and the Company spent maximum amount of grant on construction/renovation/modification of properties which were ultimately run by the Company.

Inefficient Contract Management

Short levy of penalty

2.2.25.1 The Company placed work order (April 2010) for purchase of a Cruise Boat for Upper Lake, Bhopal from the grant of Twelfth Finance Commission to M/s. Hyderabad Boat Builder. According to the agreement, the cruise boat was to be supplied and commissioned within four months from the date of work order (August 2010) and in case of delay in supply, penalty of two *per cent* of the contract amount per month was leviable. The supplier delivered and commissioned the boat (September 2011) after a delay of 13 months. The Company made full payment (June 2012) to the supplier after deducting ₹10.75 lakh as penalty for delayed supply of seven months, whereas the actual delay in supply was to be reckoned as 13 months and the penalty thereon worked out to ₹ 19.96 lakh. This, has thus, resulted in short levy of penalty of ₹ 9.21 lakh and resulted in extending undue benefit to the supplier.

Non-levy of penalty due to defective agreement

The Company failed in imposing penalty of ₹ 17.08 lakh on the contractor for delay in construction due to absence of a penalty clause in the agreement.

2.2.25.2 The Company awarded (October 2008) a contract for construction of suspension bridge to M/s Ramdin Ultratec at a lump sum rate of ₹ 2.93 crore at Upper Lake, Bhopal from the grant received from GoI amounting to ₹ 4.99 crore for development of Bhopal as a tourist destination. According to the work order, the work was to be completed within eight months (June 2009). The work was, however completed in September 2011 with a delay of 27 ½ months due to changes in drawings & design of the suspension bridge by the consultant and the delay in construction by the contractor. The Company held the contractor responsible for a delay of only 3 ½ months out of the total delay of 27 ½ months and imposed nominal penalty of ₹ 50,000. In the absence of a penalty clause in the contract agreement, the Company could not realise the penalty of ₹ 17.08 lakh³⁹ for the delay of 3 ½ months (14 weeks).

The Government in its reply (December 2012) stated that the delay was caused due to changes in drawing & designs by the consultant and the penalty was imposed considering all these facts. The reply is not acceptable as the Company itself held the contractor responsible for delay of 3 ½ months (14 weeks) and could impose a nominal penalty of ₹ 0.50 lakh in the absence of any penalty clause in the contract agreement.

Unfruitful expenditure due to improper planning

2.2.26 The GoI sanctioned grant of ₹ 5 crore for construction of a Convention Centre at Bhopal and released ₹ 4 crore (September 2009) with the condition that the project would be completed within 18 months from the date of sanction. The work of construction could not be taken up due to changes in drawing & design, increase in built up area at basement, main building and addition of acoustical partition area etc. The estimated cost of the project was revised in March 2011 to

³⁹ leviable as per the general terms of contract i.e. 1/16 *per cent* of the total value of work per week subject to maximum of six *per cent minus* the penalty of ₹ 0.50 lakh recovered from the contractor.

The Company incurred unfruitful expenditure of ₹ 37.47 lakh on construction of convention centre.

₹ 42.96 crore from ₹ 10.55 crore. The Company invited tenders on three occasions between June 2011 and January 2012 for awarding construction contract. No offers were received against the first tender invited in June 2011. The Company decided not to place orders against the last two tenders on the basis of higher rates quoted by the parties and non availability of required fund for the project. The work of construction could not be started till March 2012 even after incurring total expenditure of ₹ 37.47 lakh⁴⁰ for architecture fees as against the total architecture fees of ₹ 80 lakh⁴¹ as the site for construction of the Convention Centre could not be finalised (April 2012). As a result of this, the expenditure of ₹ 37.47 lakh was unfruitful.

The Government accepted the fact and stated (November 2012) in the exit conference that the location would be finalised after considering the capacity of the Convention Centre else, the grant would be surrendered to the GoI.

Implementation of Information Technology System

2.2.27 The Company has been operating 66 hotels and restaurants throughout the State and one transport unit for commercial transportation. Apart from its own business, the Company, being a nodal agency of the State and Central Governments for tourism development in the State, has been executing various projects for tourism development from the grants/funds received from Governments. Information technology plays an important role for better coordination among various activities of the Company, providing qualitative services to its customers and financial control over various activities.

The Company has its own website for providing information regarding places of tourism along with their importance in the State and their connectivity to the major cities. Further, the Company has an online hotel and bus reservation system. Apart from the above system, the Company also incurred an expenditure of ₹ 24.59 lakh in piecemeal on development of software for project management, transport management, hotel management and financial pay roll management during the period 2007-08 to 2011-12 as shown in *Annexure 14*.

While reviewing the information technology system of the Company, we observed that:

- The Company did not have any IT Policy for implementation of an effective IT system in the Company.
- The Company has implemented the system of online booking of hotels, online booking of commercial buses and an integrated accounting package till March 2012.

⁴⁰ ₹ 15.76 lakh on advertisement and tendering process + ₹ 18.46 lakh.

⁴¹ Two per cent of total cost of project.

- The Company installed computerised billing system in five⁴² of its 66 commercial units. The billing system in these five hotels was, however not linked with the Central Server at the Head Office.
- The hotel management software at Hotel Palash- Bhopal, Hotel Gateway Retreat- Sanchi and Restaurant-Dodi was installed by Extranet Technologies Pvt. Limited whereas the same software at Hotel Tansen Residency- Gwalior, Hotel Kalchuri- Jabalpur and Hotel Shipra- Ujjain was installed by IDS Software Pvt. Limited. The software designs developed by both the companies were different and could not be interlinked with each other.
- The Company developed Online Project Management System through Madhya Pradesh State Electronics Development Corporation Limited at a cost of ₹ 7.20 lakh in May 2008. The software was envisaged to manage and create information, control budgeting, control project execution time and cost overruns and monitoring of financial and physical progress of the projects. The Company has not so far (July 2012) put the software in use covering all aspects as envisaged in the software.

The Company thus, failed in implementing the IT system, using the existing software and interlinking the units as well as the Head Office of the Company.

The Government stated (December 2012) that the Company was trying to upgrade to link with the central server and was also planning to install enterprise resource planning at all levels including the units, to provide seamless interlinking.

Manpower Management

2.2.28 The performance in tourism and hospitality sector is dependent upon the quality of professional services being offered. The Company assessed (October 2006) its manpower requirement at 2153. As per the survey of manpower requirement conducted (March 2009) by Market Research Division, MoT, GoI, the Staff Room Ratio for Hotels was determined as 2.70 employees per room. Therefore, a total of 2287 employees were required for the Company considering the total number of 847 rooms available with the Company as on March 2012. As against this, the Company had only 1909 employees (662 regular and 1247 outsourced employees) and the shortfall was 378 employees.

We observed that out of 66 hotels/restaurants of the Company, 33 hotels/restaurants were being managed by personnel below the rank of Manager and these hotels/restaurants included units having substantial domestic and foreign tourist inflow such as Gwalior, Khajuraho, Bandhavgarh, Kanha-Kisli, Mandu etc. having annual turnover between ₹ 30 lakh and ₹ 3 crore. Services rendered by staff/officers below the prescribed rank could adversely affect the quality of services.

⁴² Hotel Kalchuri residency- Jabalpur, Hotel Shipra residency - Ujjain, Gateway Retreat- Sanchi, Hotel Palash residency- Bhopal, and Hotel Tansen residency Gwalior.

The Government stated (December 2012) that the recruitment of staff as well as officers of prescribed rank was in process.

Monitoring, Internal control and Internal audit

Lack of monitoring by management

2.2.29 The Company had a Management Information System (MIS) and periodical performance reports were prepared by the units/field offices and submitted to Managing Director timely. However, the following important information had not been placed before the BoD:

- Annual operating plan and budget (Revenue budget) for the years 2007-08, 2008-09 and 2009-10.
- Capital budget and updates.
- Memorandum of Understanding (MoU) with GoMP for the year 2007-08 to 2011-12.
- Quarterly results of the Company and its operating divisions or business segment.
- Progress of capital works executed from the grants made by the Government of India/ GoMP.

This implies that BoD was not informed about the vital areas of functioning of the Company. The Company conducted 17 meetings of the Board of Directors (BoD) during the period 2007-08 to 2011-12 as against 20 meetings required to be held in terms of the Companies Act, 1956.

The Government stated (December 2012) that most of the executive powers were vested with the Managing Director and all information was passed on to the Chairman and hence it became unwarranted to communicate every information to the Board. The reply is not acceptable as BoD is the apex decision making body of the Company and needs to be aware of all the critical information regarding the operation of the Company.

Internal Control

2.2.30 Internal control system is an essential part of the Management activity. An efficient and effective system helps the Management to achieve its laid down objectives. The Government informed (December 2012) that the authority for periodical physical verification had been re-delegated to the Companies officers at different levels which was being complied. We, however, observed the following deficiencies in the internal control system-

- The Company did not have any system for conducting physical verification of the Companies properties and assets in its hotels, restaurants, wayside amenities, water sports units, etc.
- There was no system for independent physical verification and periodical review of inventory i.e. provisions and other items in the Companies own hotels.

- There was no structured mechanism for analysing the reasons for unit wise variance between actuals and budget which would make it difficult for the Company to take effective measures for overcoming inadequacies.

Internal Audit

2.2.31 The Company has 66 units throughout the State, a separate transport wing, a separate civil construction wing and a wide marketing network throughout the country. To keep proper watch on the various activities performed by various wings, an adequate internal audit system commensurate with the size and nature of business of the Company is essential.

It was noticed that the Company did not have a separate Internal Audit Wing and the officers/staff of the Finance Department of the Company were entrusted with Internal Audit under the control of General Manager (Finance). No Internal Audit of various activities had been conducted during the period 2007-08 to 2011-12 except checking of cash book and reconciliation of accounts. The Company had also not framed any Internal Audit Manual.

The Statutory Auditors, in their reports on the annual accounts for the years 2007-08 to 2010-11 of the Company, had also commented on inadequacy of the internal audit system in comparison with the size and nature of the business of the Company.

The Government stated (December 2012) that Senior Accounts Officers had already been assigned the duties for checking and reconciliation of accounts of the offices and units. The reply is not acceptable as the work of checking and reconciliation of accounts is different from the work of internal audit. No internal audit has been conducted by the Company during the period from 2007-08 to 2011-12.

Audit Committee

2.2.32 The Company has not formed an Audit Committee, required to be formed as per section 292A of the Companies Act, 1956, though the paid up capital was more than ₹ 5 crore.

Conclusion

The Company had not prepared any plan to effect micro level planning and to identify/develop the untapped areas of tourism importance. The data of tourist arrival, prepared by the Company, was not reliable due to lack of scientific basis for calculation of tourist arrival. It failed in achieving the targets set in the MoU and reported higher provisional profit to the GoMP due to delay in finalisation of annual accounts. The Company had a mechanism in place, for redressal of customers complaints and obtaining feedback. It had a system for conducting periodical health checkups of the cooks, waiters and other employees deployed in its hotels/restaurant. The average occupancy of the Companys hotels during 2007-08 to 2011-12 ranged between 44 and 48 per cent. The performance of commercial buses on Bhopal-Indore route was satisfactory. It could not lease out newly created, existing and loss making assets/units to private parties. It had leased out only

four units out of 13 units identified for leasing out. There was no marketing policy for effective publicity and promotion of tourism. The Company failed in exercising financial prudence in respect of timely finalisation of accounts and prudential management of sundry debtors. The unutilised grant, received from Government of India/Finance Commission for development of tourism infrastructure, was invested in fixed deposits and the Company treated the same as own income. The Company had not adhered to terms of sanction of grant viz. submission of utilisation certificate without utilising the grant, completion of projects within the time frame mentioned in sanction order. The Corporate Governance was deficient as internal control mechanism and monitoring by the Management in certain areas was absent and internal audit was inadequate.

Recommendations

- The Company should prepare a Strategic/Corporate Plan defining its long term/short term activities in line with the Tourism Policy of the State, identifying the nodal areas for implementation and fixing clear milestones for developing tourism potential in the State;
- The Company should fix the hotel occupancy norms scientifically duly considering tourist inflow, break even study, margin of profit etc. and adherence to the limit of expenditure (operating ratio) fixed by it;
- There is a need to improve the financial management by ensuring timely finalisation of accounts and prudential management of sundry debtors;
- The Company should monitor utilisation of grants received from GoI/Finance Commission/ State Government for the stated purpose within the stipulated time and submission of correct utilisation certificate as well as surrender of unutilised grant; and
- The Company should strengthen Corporate Governance by strengthening the internal control mechanism, internal audit and monitoring by management.