CHAPTER IV

STATE PUBLIC SECTOR UNDERTAKINGS

CHAPTER – IV

STATE PUBLIC SECTOR UNDERTAKINGS

4. GENERAL

4.1 Overview of State Public Sector Undertakings

Introduction

4.1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Mizoram, the State PSUs occupy insignificant place in the State economy. The State PSUs registered a turnover of Rs.2.41 crore for 2008-09 as their latest finalised accounts as of September 2009. This turnover was equal to 0.07 *per cent* of State Gross Domestic Product (GDP) for 2008-09. The State PSUs incurred a loss of Rs.4.56 crore in the aggregate for 2008-09 as per their latest finalised accounts. They had employed 263[1] employees as of 31 March 2009. The State PSUs do not include two prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government Departments.

4.1.2 As on 31 March 2009, there were *five* PSUs as *per* the details given below. None of companies was listed on the stock exchange(s).

Table : 4.1

Type of PSUs	Working PSUs	Non-working PSUs	Total
Government Companies	5	NIL	5
Statutory Corporations	NIL	NIL	NIL
Total	**5**	**NIL**	**5**

Audit Mandate

4.1.3 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as *per* Section 619-B of the Companies Act.

---

[1] As per the details provided by five PSUs

4.1.4 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as *per* the provisions of Section 619 of the Companies Act, 1956.

Investment in State PSUs

4.1.5 As on 31 March 2009, the investment (capital and long-term loans) in *five* PSUs was Rs.94.98 crore as *per* details given below:

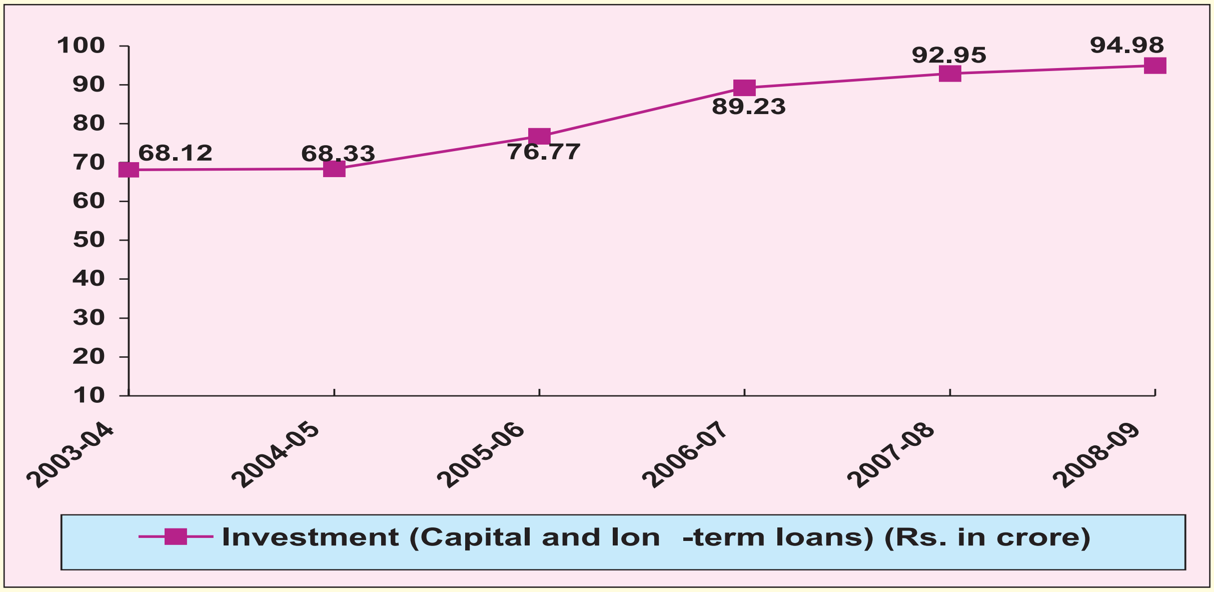
Table : 4.2

(Rs. in crore)

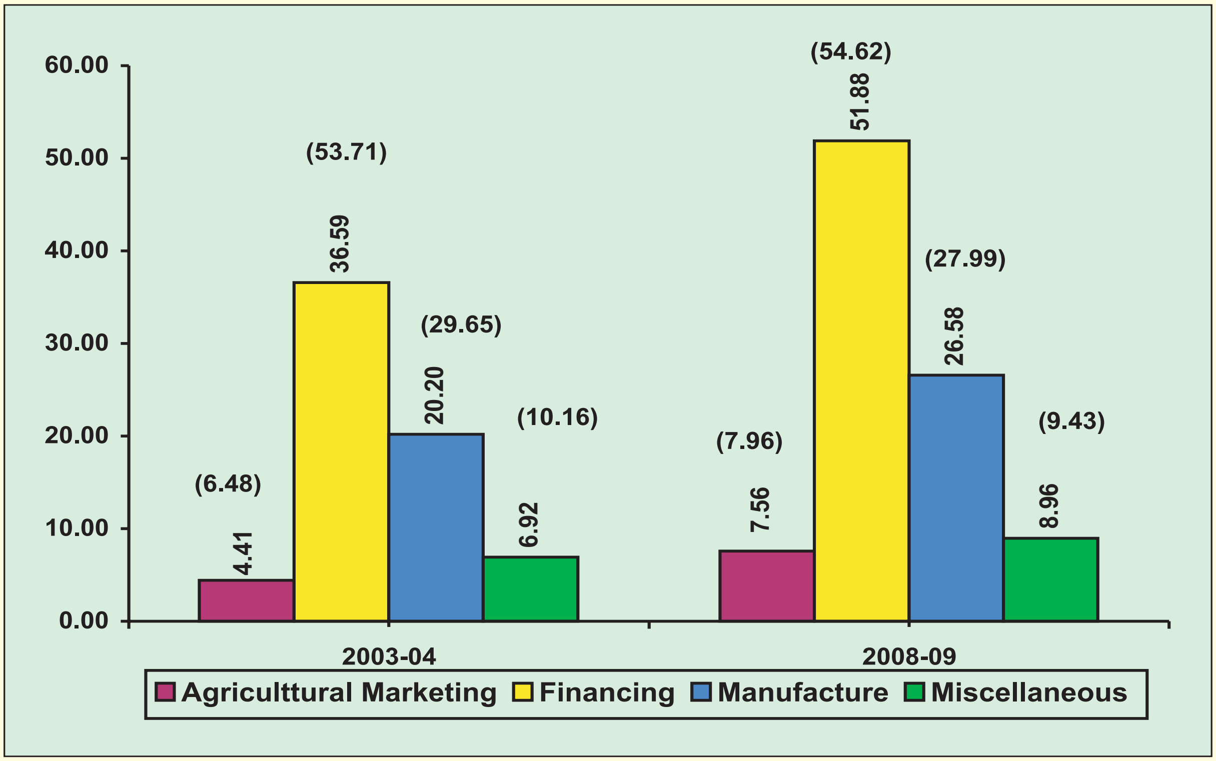
Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	61.33	33.65	94.98	NIL	NIL	NIL	94.98
Non-working PSUs	NIL	NIL	NIL	NIL	NIL	NIL	NIL
Total	**61.33**	**33.65**	**94.98**	**NIL**	**NIL**	**NIL**	**94.98**

A summarised position of Government investment in State PSUs is detailed in Appendix - 4.1.

4.1.6 As on 31 March 2009, the total investment in five working PSUs was Rs. 94.98 crore. This total investment consisted of 64.57 *per cent* towards capital and 35.43 *per cent* in long-term loans. The investment has grown by 39.43 *per cent* from Rs.68.12 crore in 2003-04 to Rs.94.98 crore in 2008-09 as shown in the graph below:



4.1.7 The total investment in various sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart.



(Figures in brackets show the percentage of total investment)

4.1.8 The increase in total investment was mainly due to increase in equity in Financing (Rs.4.55 crore); Handloom (Rs.2.04 crore); Food processing (Rs.4.20 crore); Electronics (Rs.2.17 crore) and Agriculture Marketing (Rs.1.05 crore) and increase in loan (Rs.10.74 crore) in Industrial Development & Financing Sector.

Budgetary outgo, grants/subsidies, guarantees and loans

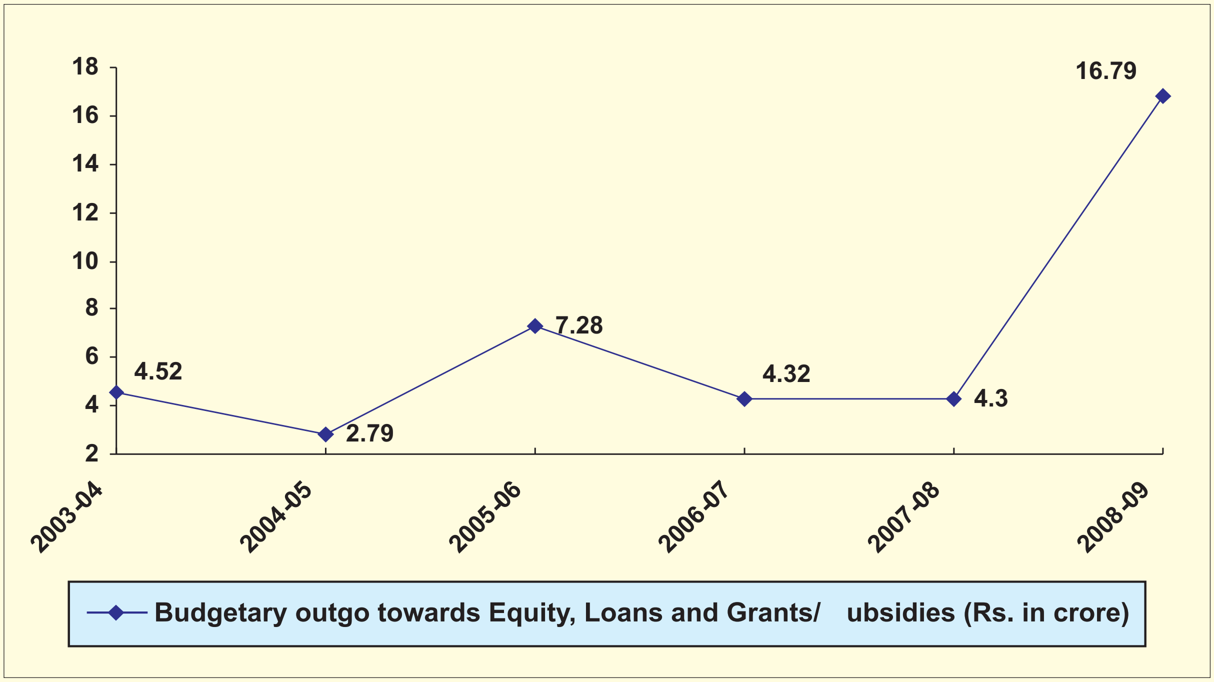
4.1.9 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in Appendix - 4.2. The summarised details are given below for three years ended 31 March 2009.

Table : 4.3

(Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	3	2.10	4	2.80	4	2.88
2.	Loans given from budget	-	-	-	-	1	8.72
3.	Grants/Subsidy received	5	2.22	2	1.50	3	5.19
4.	**Total Outgo**	**5**[2]	**4.32**	**4**[2]	**4.30**	**4**[2]	**16.79**
5.	Loans converted into equity	-	-	-	-	-	-
6.	Loans written off	-	-	-	-	-	-
7.	Interest/Penal interest written off	-	-	-	-	-	-
8.	Total Waiver (6+7)	-	-	-	-	-	-
9.	Guarantees issued	1	0.36	1	32.43	-	-
10.	Guarantee Commitment	1	0.36	2	32.79	2	20.56

4.1.10 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in the graph below.



[2] *These are the actual number of companies which have received budgetary support in form of equity, loans and grants from the State Government during the respective years*

4.1.11 As on 31 March 2009, guarantees amounting to Rs.20.21 crore and Rs.0.35 crore were outstanding against Zoram Industrial Development Corporation Limited and Mizoram Food and Allied Industries Corporation Limited respectively. No guarantee commission was payable to the State Government by the Government Companies. There was no case of conversion of Government loan into equity, moratorium in repayment of loan and waiver of interest.

Reconciliation with Finance Accounts

4.1.12 The figures in respect of equity, loans and guarantees outstanding as *per* records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

Table : 4.4

(Rs. in crore)

Outstanding in respect of	Amount as *per* Finance Accounts (2007-08)	Amount as *per* records of PSUs	Difference
Equity	1.72	55.69	53.97
Loans	-	8.72	8.72
Guarantees	-	20.56	20.56

4.1.13 Audit observed that the differences occurred in respect of all PSUs and the differences were pending reconciliation over the period of more than ten years. The matter has been taken up with the Chief Secretary, Government of Mizoram, Administrative Department of respective PSUs and the Managing Directors of PSUs periodically to reconcile figures. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

4.1.14 The financial results of PSUs are detailed in Appendix - 4.3. A ratio of PSUs turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSUs turnover and State GDP for the period 2003-04 to 2008-09.

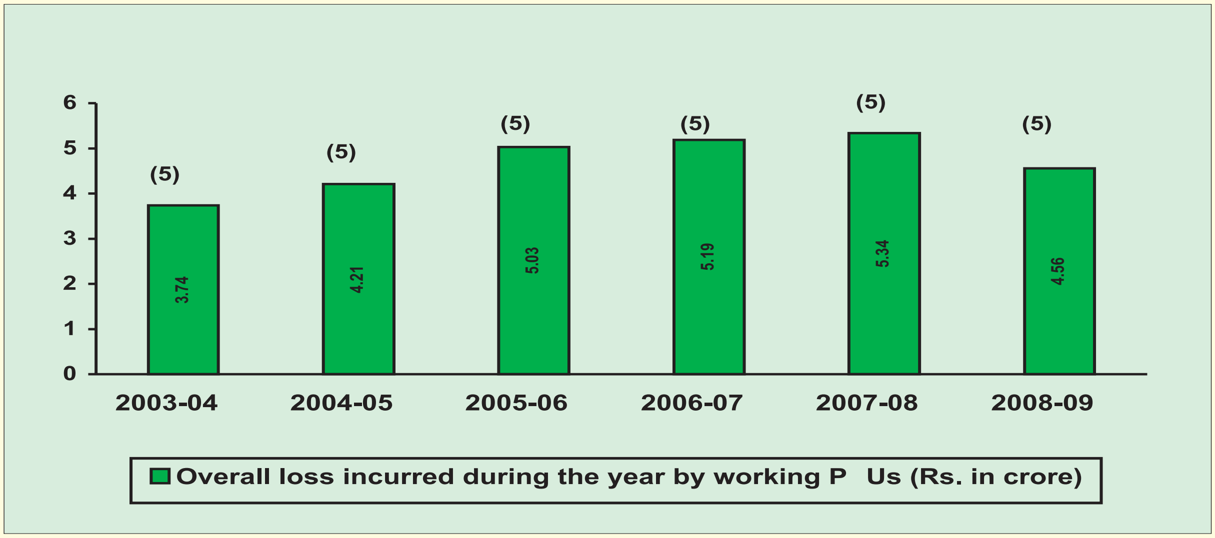
Table: 4.5

(Rs. in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover[3]	1.47	1.51	0.97	0.99	1.79	2.41
State GDP	2091.32	2441.47	2693.96	2984.99	3305.09	3662.63
Percentage of Turnover to State GDP	0.07	0.06	0.04	0.03	0.05	0.07

4.1.15 The percentage of turnover to State GDP declined from 0.07 in 2003-04 to 0.03 in 2006-07 and again increased to 0.07 in 2008-09 due to increase in turnover by Rs.0.63 crore in 2006-07 to Rs.1.79 crore in 2008-09 in respect of Zoram Industrial Development Corporation Limited.

4.1.16 Losses incurred by State working PSUs during 2003-04 to 2008-09 are given below in the bar chart.



(Figures in brackets show the number of working PSUs in respective years)

[3] *Turnover as per the latest finalised accounts as of 30 September 2009*

All *five* State PSUs were incurring losses continuously during the period between 2003-04 and 2008-09. Zoram Industrial Development Corporation Limited incurred heavy loss in all the years ranging between Rs.1.62 crore in 2003-04 and Rs.2.05 core in 2008-09.

4.1.17 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of three latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of Rs.11.77 crore and infructuous investment of Rs.3.78 crore which were controllable. Year wise details from Audit Reports are stated below.

Table : 4.6

(Rs. in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net loss of working PSUs	5.19	5.34	4.56	15.09
Controllable losses as per CAG's Audit Report	2.05	9.72	-	11.77
Infructuous Investment	1.00	2.78	-	3.78

4.1.18 The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimized. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

4.1.19 Some other key parameters pertaining to State PSUs are given below:

Table : 4.7

(Rs. in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (*per cent*)	NIL	NIL	NIL	NIL	NIL	NIL
Debt	20.83	20.82	22.86	33.47	34.53	33.65
Turnover[4]	1.47	1.51	0.97	0.99	1.79	2.41
Debt/ Turnover Ratio	14.17:1	13.79:1	23.57:1	33.81:1	19.29:1	13.96:1
Interest Payments	1.32	1.35	1.34	1.34	2.14	2.18
Accumulated losses	21.10	24.88	28.38	31.14	33.30	40.23

(Above figures pertain to all working PSUs).

[4] *Turnover of working PSUs as per the latest finalised accounts as of 30 September 2009*

4.1.20 As per the latest finalised accounts of *five* working companies, the capital employed worked out to Rs.69.17 crore and total return thereon amounted to (-) Rs.2.41 crore in 2008-09 as compared to capital employed of Rs.49.73 crore and total return on capital employed of (-) Rs.2.42 crore in 2003-04. Despite increase in capital employed, return on capital employed has not shown any improvement. All PSUs were incurring losses continuously over the period of six years which resulted in increase in accumulated losses from Rs.21.10 crore in 2003-04 to Rs.40.23 crore in 2008-09.

4.1.21 The State Government has not formulated (September 2009) any dividend policy.

Performance of major PSUs

4.1.22 The investment in working PSUs and their turnover together aggregated to Rs.97.39 crore during 2008-09. Out of *five* working PSUs, *two* PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These *two* PSUs together accounted for 75.74 *per cent* of aggregate investment *plus* turnover.

Table : 4.8

(Rs. in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover
(1)	(2)	(3)	(4)	(5)
Zoram Industrial Development Corporation Limited	51.88	1.79	53.67	55.11
Mizoram Food and Allied Industries Corporation Limited	19.78	0.31	20.09	20.63
Total	**71.66**	**2.10**	**73.76**	**75.74**

4.1.23 The *five* working companies had arrears of accounts ranging between one to 10 years as of September 2009. The reasons for delay in finalisation of accounts are attributable to (i) lack of required control over the companies by Government, (ii) abnormal delay in compilation/approval of the accounts and delayed submission of the same to the Statutory Auditors by the management and (iii) delay in adoption of accounts in Annual General Meeting.

4.1.24 The cumulative turnover of the five working companies rose from Rs.0.99 crore in 2003-04 to Rs.2.41 crore in 2008-09. During the same time, the companies incurred continuous losses which rose from Rs.3.74 crore in 2003-04 to Rs.4.56 crore in 2008-09. The return on capital employed continued to remain negative.

Some of the major audit findings of past five years for above PSUs are stated in succeeding paragraphs:

Zoram Industrial Development Corporation Limited

4.1.25 Deficiencies in planning

- Failure to ensure insurance cover for ginger crops before the sanction of loan as required, resulted in non-recovery of loan of Rs.2.82 crore;
- Irregular sanction and disbursement of loan of Rs.3.53 crore under BAFFACOS, without creation of charges against the security, led to remote chance of recovery of loans.

4.1.26 Deficiencies in implementation

- The company incurred loss of Rs.5.47 crore by waiving of interest without the approval of the Board of Directors and the State Government under the proposed special one time settlement scheme.

4.1.27 Deficiencies in monitoring

- Non-performing assets of the company increased from Rs.20.40 crore in 2003-04 to Rs.22.78 crore in 2007-08.
- Failure of internal control in respect of (a) the loan recovery and remittances with the bank and (b) physical verification of cash resulted in cash embezzlement which increased from Rs.0.65 lakh in 2003-04 to Rs.16.13 lakh in 2007-08.

4.1.28 Non-achievement of objectives

- The expenditure of Rs.7.43 crore remained unproductive as plots in Integrated Infrastructural Development Centres were not allotted to industrial units. Thus the objective of the scheme for development of industries in the backward area of the State was not achieved.

4.1.29 Deficiencies in financial management

- Funds of Rs.7.54 crore received from Financial Institutions for refinancing were diverted to meet administrative expenses.
- The company failed to claim defaulted ginger loan of Rs.2.78 crore affected by natural calamity from National Minority Development & Finance Corporation.

Mizoram Food and Allied Industries Corporation Limited

4.1.30 Deficiencies in implementation

- Due to under utilization of installed capacity, the company incurred cash loss of Rs.0.16 crore and total loss of Rs.1.64 crore during 2002-03 to 2006-07.
- Delayed commencement of commercial production in the four projects of the company from two to eight years resulting in loss of revenue of Rs.4.86 crore *per* annum.

4.1.31 Deficiencies in financial management

- Grants-in-aid of Rs.3.92 crore relating to ongoing projects were diverted and utilized for meeting the administrative and maintenance expenses of the company

Conclusion

4.1.32 The above details indicate that the State PSUs are not functioning efficiently and there is tremendous scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

Arrears in finalisation of accounts

4.1.33 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Table : 4.9

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of Working PSUs	5	5	5	5	5
2.	Number of accounts finalised during the year	1	4	3	1	6
3.	Number of accounts in arrears	23	24	26	30	29
4.	Average arrears *per* PSU (3/1)	4.60	4.80	5.20	6.00	5.80
5.	Number of Working PSUs with arrears in accounts	4	4	5	5	5
6.	Extent of arrears in years	4 to 7	5 to 7	1 to 8	1 to 9	1 to 10

4.1.34 The reasons for delay in finalization of accounts are attributable to (i) lack of required control over the companies by Government, (ii) abnormal delay in compilation/approval of the accounts and delayed submission of the same to the Statutory Auditors by the management and (iii) delay in adoption of accounts in Annual General Meeting.

4.1.35 The State Government had invested Rs.34.08 crore (Equity: Rs.10.54 crore, loans: Rs.10.72 crore, and grants: Rs.12.82 crore in *five* PSUs) during the years for which accounts have not been finalised as detailed in Appendix - 4.4. In the absence of accounts and their subsequent audit, it can not be ensured whether the income and expenditure have been properly accounted for and the purpose for which the amount was invested by the State Government has been achieved or not. Thus, the State Government investment in such PSUs remains outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

4.1.36 The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned Administrative Departments and officials of the Government were informed by Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up with the Chief Secretary/ Finance Secretary periodically to expedite the backlog of arrears in accounts in a time bound manner.

4.1.37 **In view of above state of arrears, it is recommended that:**

- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**
- **The Government may set up a cell in concerned Administrative Departments to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**

Accounts Comments and Internal Audit

4.1.38 *Two* working companies forwarded their audited accounts (two) to CAG during the year 2008-09. The accounts of these two companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

Table : 4.10

(Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	-	-	-	-	-	-
2.	Increase in loss	4	3.44	1	3.32	2	4.40
3.	Non-disclosure of material facts	1	34.78	1	35.12	1	49.87
4.	Errors of classification	2	5.08	1	7.88	1	0.56
Total		**4**	**43.30**	**1**	**46.32**	**2**	**54.83**

The money value of comments increased from Rs.43.30 crore in 2006-07 for four accounts to Rs.54.83 crore for the two accounts in 2008-09.

4.1.39 During the year, the statutory auditors had given qualified certificates for *two* accounts in respect of two working companies. The compliance of companies with the Accounting Standards remained poor as both the accounts in the year revealed non-compliance.

4.1.40 Some of the important comments in respect of accounts of companies are stated below.

Zoram Industrial Development Corporation Limited (2007-08)

- The company has defaulted in repayment of interest accrued and due to NMDFC & SIDBI amounting to Rs.3.32 crore.
- No provision in respect of gratuity, Pension, Leave Encashment etc payable to staff has been made for the year under audit and also for the earlier years.
- Although there was a cash embezzlement of Rs.4.81 lakh in the year of reporting and Rs.0.11 crore during the immediate preceding year and inspite of repeated reporting regarding excess cash holding, cash balance continued to be very high during the year.
- The company paid Rs.20 lakh towards initial contribution of group gratuity scheme as against the required amount of Rs.55.72 lakh for which no provision has been made. The fact was also not disclosed in the notes to accounts.
- The current liability was understated by Rs.24.62 lakh due to non provision of premium payable to LIC for Group Gratuity Scheme.
- Loans of Rs.2.29 crore including principal of Rs.69.14 lakh and interest of Rs.160.28 lakh were sub-judice but not disclosed in the Notes to Accounts.

Mizoram Food & Allied Industries Corporation Ltd (2002-03)

- Provident fund dues for the period upto 31 March 2003 aggregating to Rs.47.21 lakh has not been deposited with the appropriate authority till 31 March 2003 and no liability provided for in the accounts.
- Fixed Assets include Rs.51.89 lakh (Food processing Plant – I, Sairang) of assets handed over to the Director of Industries, Government of Mizoram during 2001.
- Revenue grant of Rs.4.24 lakh received from GOI for conducting Entrepreneurship Development Programme should have been accounted as Other Income in Profit & Loss Account instead of Capital Reserve.

4.1.41 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of one company[5] for the year 2007-08 and *two* companies[6] for the year 2008-09 are given below:

Table : 4.11

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as *per* Appendix - 4.2
1.	Absence of physical verification of cash despite repeated reporting that the average cash balance was on higher side and cash embezzlement	1	Sl. No. 2
2.	Absence of internal audit system commensurate with the nature and size of business of the company	2	Sl. No. 2 & 4
3.	Physical verification of stock is not reasonable and adequate in relation to the size of the company and nature of its business.	1	Sl. No. 4
4.	Non maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	2	Sl. No. 2 & 4

[5] Sl. No.2 in Appendix 4.2.

[6] Sl. No.2 & 4 in Appendix 4.2.

Reforms in Power Sector

4.1.42 The Governments of Manipur and Mizoram entered (September 2005) into a Memorandum of Agreement (MoA) with Ministry of Power authorizing it to constitute a Joint Electricity Regulatory Commission (JERC) for Manipur and Mizoram under the provisions of Section 83 of the Electricity Act 2003. Government of India has also committed in the MoA that it would be providing financial assistance to the JERC during the first five years from its initial operations subject to the condition that the States of Manipur and Mizoram would complete the process of restructuring and corporatisation of their Electricity Departments immediately. JERC for the States of Manipur and Mizoram was formed (February 2008) under Section 82(5) read with sub-Section of Section 89 of the Electricity Act 2003 with the objective of rationalization of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. The State Government was under process of appointing a Consultant for preparing Annual Revenue Return and Tariff petition for filing the same before JERC.

4.1.43 Memorandum of Agreement (MoA) was signed in (July 2002) between the Union Ministry of Power and the State Government with a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below:

Table : 4.12

Sl. No.	Milestone	Achievement as at March 2009
1.	State Government will corporatise the Electricity Department by 2006-07	Power & Electricity Department (P&E) is not yet corporatised. The recommendations (August 2006) of the Administrative Staff College of India (ASCI), Hyderabad, consultant for corporatising P&E Department, are under examination by the State Government.
2.	State Government will set up State Electricity Reforms Commission (SERC)/Joint Electricity Reforms Commission (JERC) by December 2003 and file tariff petition.	Joint Electricity Reforms Commission for the States of Manipur and Mizoram has been constituted in February 2008. The ARR for tariff to be determined by JERC is under preparation for filing.
3.	State Government will ensure timely payment of subsidies required in pursuance of orders on the tariff determined by JERC	Not applicable in view of position above against Sl.No. 2.

Sl. No.	Milestone	Achievement as at March 2009
4.	State Government will achieve 100 *per cent* electrification of villages by 2003	570 number of villages out of 707 villages have been electrified.
5.	Suitable policy provisions shall be formulated by the State Government by July 2004 for handing over parts of distribution system on management contract or on lease to local bodies.	Policy provision for handing over parts of distribution system on management contract or on lease to local bodies are yet to be formulated by the State Government.
6.	The process of setting up of computerised billing centres shall be done by July 2003.	Computerised billing centres have been set up in Aizawl city, covering the entire city along with its suburbs. Computerised billing centres in rural areas remained to be set up.

4.1.44 The operational performance of the Power and Electricity Department for the last three years upto 2008-09 is given in Appendix 4.5.

The total expenditure on power sold during three years from 2006-07 to 2008-09 was Rs. 108.50 crore, Rs.114.50 crore and Rs.136.32 crore as against the revenue of Rs. 44.60 crore, 81.22 crore and Rs.86.28 crore respectively.

The percentage of Transmission and Distribution (T&D) losses varied from 27.92 *per cent* in 2006-07 to 33.01 *per cent* in 2008-09 as against the norm of 15.5 *per cent* fixed by the Central Electricity Authority. During the year 2008-09, the excess T&D losses over the norms were 128.362 million units costing Rs.29.78 crore (worked out at average revenue of Rs.2.32 *per* unit).

Discussion of Audit Reports by COPU

4.1.45 The status as on 30 September 2009 of reviews and paragraphs that appeared in Commercial Chapter of Audit Report and discussed by the Committee on Public Undertakings (COPU)/ Public Accounts Committee (PAC) is as under.

Table : 4.13

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
1993-94	-	4	-	3
1995-96	1	4	1	2
1996-97	-	4	-	2
1997-98	1	3	1	2
1998-99	-	3	-	2
1999-2000	1	7	-	3
2000-01	-	2	-	2
2001-02	-	4	-	-
2002-03	1	5	-	1
2003-04	-	5	-	-
2004-05	1	2	-	-
2005-06	-	4	-	-
2006-07	2	1	-	-
2007-08	1	5		
Total	**8**	**53**	**2**	**17**

4.1.46 The matter relating to clearance of backlog of reviews/ paragraphs was also discussed with Chief Secretary/ Finance Secretary and Chairperson of PAC/COPU periodically.

PERFORMANCE REVIEW

TRANSPORT DEPARTMENT

4.2 Performance Audit on the functioning of Mizoram State Transport – Departmental Undertaking

4.2.1 Introduction

In Mizoram, the public road transport is primarily provided by Mizoram State Transport (MST), a Departmental Undertaking, which is mandated to provide an efficient, adequate, economical and properly co-ordinated road transport. The State also allows the private operators to provide transport. The State has reserved certain routes exclusively for the MST while allowed both the MST and private operators to operate on some other routes. In Aizawl city and other district headquarters only private operators provide the services. The fare structure is controlled by the State Government which approves it. The structure is same for both MST as well as private operators.

MST was set up in April 1972 to facilitate movement of passengers and goods within the State and to operate inter-state services in an economic and efficient manner. The Department is under the administrative control of Secretary, Transport, Government of Mizoram. The day-to-day operations are carried out by the Director, who is the Chief Executive of MST, with the assistance of Joint Director (Operations) in the Head Office, Works Managers in two workshops and Station Superintendents in four depots. MST has four depots and two central workshops. The bus body building and tyre retreading operations are carried out through external agencies.

MST had a fleet strength of 54 buses (27 seater) as on 31 March 2009. MST carried an average of 353 passengers *per* day by operating average fleet of 21 buses daily through four depots during 2004-05 to 2008-09. MST's share in the passenger transport operations in the State was five *per cent* and the remaining 95 *per cent* was accounted for by private operators. The turnover of the MST was Rs.2.07 crore in 2008-09, which was equal to 0.06 *per cent* of the State Gross Domestic Product (Rs.3662.63 crore). MST employed 582 employees as on 31 March 2009.

A review on the working of MST was included in the Report of the Comptroller and Auditor General of India for the year 2002 - Government of Mizoram. The report has not been discussed by PAC as of September 2009.

4.2.2 Scope of Audit and Audit Methodology

The present review conducted during April 2009 to May 2009 covers the working of MST during the period from 2004-05 to 2008-09. The review mainly deals with operational efficiency, financial management, fare policy, fulfillment of social obligations and monitoring by top management of MST. The audit examination involved scrutiny of records at the Head Office, Central Workshop at Hlimen, two depots[7] out of four depots selected on the basis of traffic revenue earned which constituted 92 *per cent* of the total traffic revenue.

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, scrutiny of records at Head Office and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft review to the Management for comments.

4.2.3 *Audit Objectives*

The objectives of the performance audit were to assess:

Operational Performance

- the extent to which MST was able to keep pace with the growing demand for public transport;
- whether MST succeeded in recovering the cost of operations;
- the extent to which MST was running its operations efficiently;
- whether adequate maintenance was undertaken to keep the vehicles roadworthy; and
- the extent to which economy was ensured in cost of operations.

Financial Management

- whether MST was able to raise claims and recover its dues efficiently; and
- the possibility of realigning the business model of MST to tap non-conventional sources of revenue and adopting innovative methods of accessing such funds.

Fare Policy and Fulfillment of Social Obligations

- the existence and adequacy of fare policy; and
- whether MST operated adequately on uneconomical routes.

---

7 Aizawl and Saiha depots

Monitoring by Top Management

- whether the monitoring by MST's top management was effective.

4.2.4 Audit Criteria

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

- hill area averages for performance parameters;
- performance standards and operational norms fixed by the Association of State Road Transport Undertakings (ASRTU);
- physical and financial targets/ norms fixed by the Management;
- manufacturers' specifications, norms for life of a bus, preventive maintenance schedule, fuel efficiency norms, etc.; and
- instructions of the Government of India (GOI) and procedures laid down by the State Government besides other relevant rules and regulations.

4.2.5 Financial Position and Working Results

Proforma accounts of MST have been finalised upto 2001-02. The financial position of MST for the five years upto 2008-09 on the basis of the provisional accounts is given below.

Table : 4.14

(Rs. in lakh)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
A. Liabilities					
Paid up Capital	1928.09	1779.81	1876.13	1908.34	2064.90
Reserve & Surplus (including Capital Grants but excluding Depreciation Reserve)	-	-	-	-	-
Borrowings (Loan Funds)	-	-	-	-	-
Current Liabilities & Provisions	164.44	171.43	121.59	139.66	157.18
Total	**2092.53**	**1951.24**	**1997.72**	**2048.00**	**2222.08**
B. Assets					
Gross Block	705.04	702.21	716.96	700.30	645.34
Less: Depreciation for the year	77.51	74.76	75.75	66.58	60.32
Net Fixed Assets	627.53	627.45	641.21	633.72	585.02
Capital works-in-progress (including cost of chassis)	-	-	-	-	-
Investments	-	-	-	-	-
Current Assets, Loans and Advances	146.92	170.13	122.71	153.16	182.12
Loss for the year	1318.08	1153.66	1233.80	1261.12	1454.94
Total	**2092.53**	**1951.24**	**1997.72**	**2048.00**	**2222.08**

Audit observed that in accordance with the instructions (January 1974) of Government of India, Ministry of Finance, Department of Economic Affairs, the drawals under the capital head and the revenue head are required to be exhibited separately under Government Capital Account and Government Current Account respectively. Contrary to instructions, MST was preparing Proforma accounts without bringing forward previous year's balances of Government current account along with current year drawals resulting in non-exhibition of accumulated loss and exhibition of loss for the year only. It was also noticed that instead of showing Gross block of the Fixed Assets with cumulative depreciation, MST was exhibiting book value of the depreciated assets plus addition made during the year and without exhibiting cumulative depreciation. As a result, the financial position of MST does not exhibit the affairs as per generally accepted accounting principles being a commercial departmental undertaking. Moreover, cumulative position as regard to losses and depreciations could not be ascertained in Audit.

The details of working results like operating revenue and expenditure, total revenue and expenditure, net loss and earnings and cost kilometre of operation are given below:

Table : 4.15

(Rs. in lakh)

Sl. No.	Description	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Revenue	136.81	155.27	151.00	164.66	207.23
2.	Operating Revenue[8]	120.31	125.26	150.47	143.27	190.25
3.	Total Expenditure	1528.94	1392.18	1475.02	1583.12	1832.46
4.	Operating Expenditure[9]	1359.85	1232.88	1310.16	1425.89	1662.17
5.	Operating Loss	1239.54	1107.62	1159.69	1282.62	1471.92
6.	Loss for the year	1392.13	1236.91	1324.02	1418.46	1625.23
7.	Fixed cost					
	(i) Personnel Costs	1033.92	886.17	889.15	1020.67	1239.67
	(ii) Depreciation	77.51	74.76	75.75	66.58	60.31
	(iii) Interest	91.58	84.54	89.11	90.92	109.98
	(iv) Other Fixed Costs	65.40	71.75	73.66	63.81	83.47
	Total Fixed Costs	**1268.41**	**1117.22**	**1127.67**	**1241.98**	**1493.43**

8 Operating revenue includes traffic earnings, passes and season tickets, re-imbursement against concessional passes, far realised from private operators under KM Scheme, etc.

9 Operating, welfare and remuneration, licences and taxes and general administration expenses

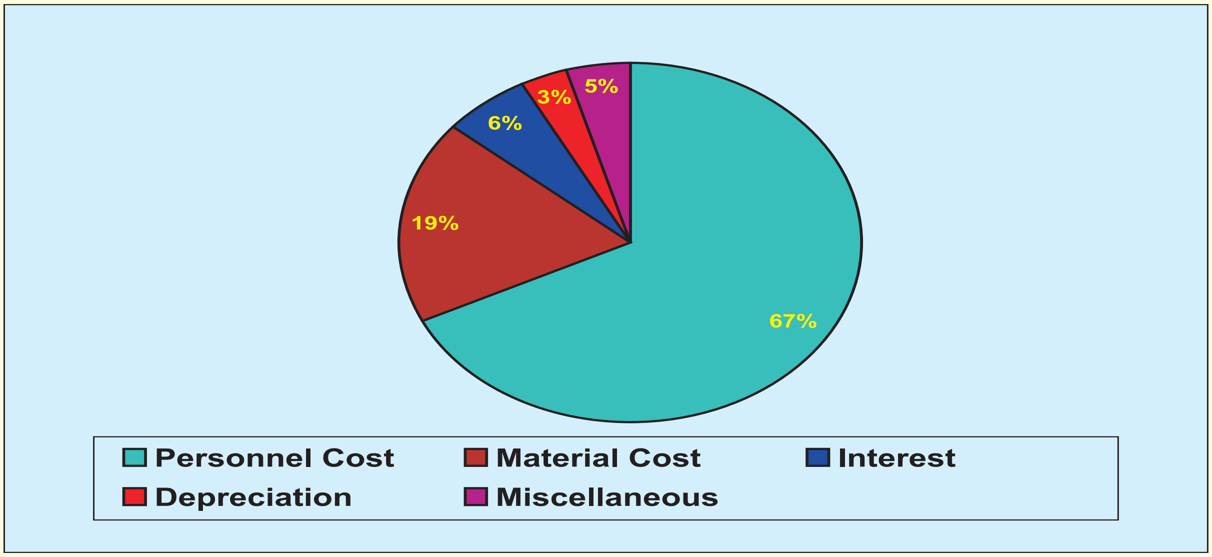
Sl. No.	Description	2004-05	2005-06	2006-07	2007-08	2008-09
8.	Variable cost					
	(i) Fuel & Lubricants	93.60	88.41	86.33	108.37	107.86
	(ii) Tyres & Tubes	55.21	45.60	59.63	11.58	21.38
	(iii) Other Items/ spares	92.44	88.03	121.87	150.73	173.29
	(iv) Taxes (MV Tax, Passenger Tax etc.)	-	-	-	-	-
	(v) Other Variable Costs	19.28	52.92	79.52	70.46	36.50
	Total Variable Costs	**260.53**	**274.96**	**347.35**	**341.14**	**339.03**
9.	Effective KMs operated (in lakh)	12.96	13.17	12.50	11.38	12.74
10.	Earnings *per* KM (Rs.) (1/9)	10.56	11.79	12.08	14.47	16.27
11.	Fixed Cost *per* KM (Rs.) (7/9)	97.87	84.83	90.21	109.14	117.22
12.	Variable Cost *per* KM (Rs.) (8/9)	20.10	20.88	27.79	29.98	26.61
13.	Cost *per* KM (Rs.) (3/9)	117.97	105.71	118.00	139.12	143.83
14.	Net Earnings/loss (+/-) *per* KM (Rs.) (10-13)	(-)107.41	(-)93.92	(-)105.92	(-)124.65	(-)127.56
15.	Traffic Revenue[10]	120.31	125.26	150.47	143.27	190.25
16.	Traffic Revenue *per* KM (Rs.) (15/9)	9.28	9.51	12.03	12.59	14.93
17.	Operating loss *per* KM(5/9)	(-)95.64	(-)84.10	(-)92.78	(-)112.71	(-)115.54

Element of cost

Personnel costs and material costs constitute the major elements of costs. The percentage break-up of costs for 2008-09 is given below in the pie-chart.

[10] *Traffic revenue represents sale of tickets, income from passes/luggage, advance booking reservation charges and contract services earnings*

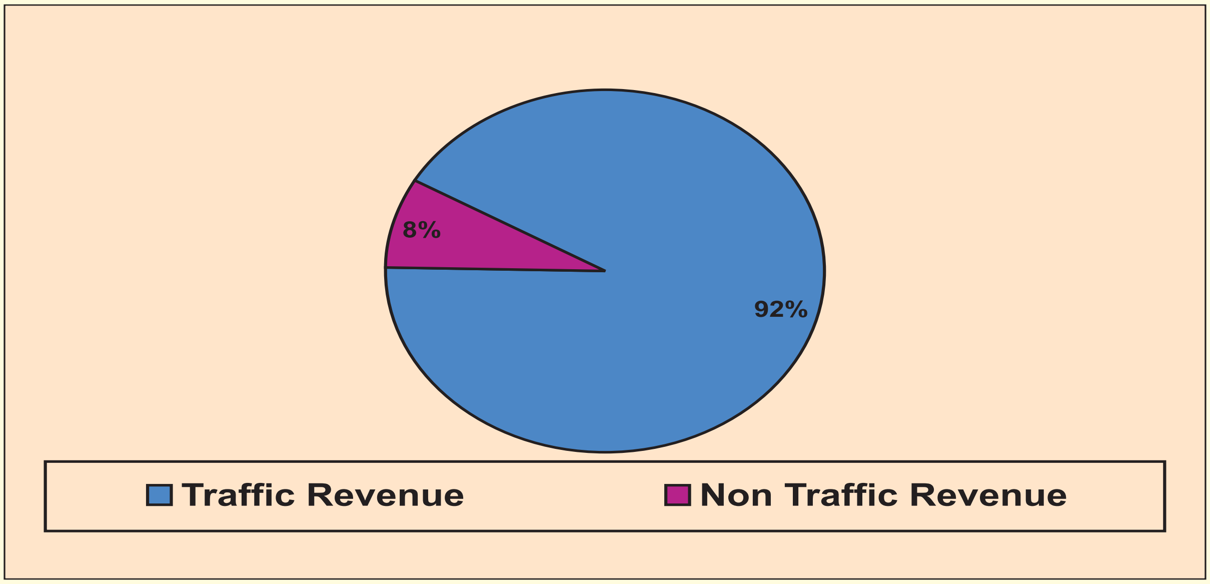
Components of various elements of cost



Element of revenue

Traffic revenue and non-traffic revenue constitute the major elements of revenue. The percentage break-up of revenue for 2008-09 is given below in the pie-chart.

Components of various elements of revenue



The working results show that MST was not able to recover the cost in any of the five years. The net loss *per* KM increased from Rs.107.41 in 2004-05 to Rs.127.56 in 2008-09. Subsequent audit findings show that the losses were controllable and there is scope for improvement in performance.

4.2.6 Audit Findings

Audit explained the audit objectives to MST during an 'entry conference' held on 6 April 2009. Subsequently, audit findings were reported to the Director, Transport Department and the Government in July 2009 and discussed in an 'exit conference' held on 3 August 2009 which was attended by Joint Secretary, Transport Department, Deputy Secretary, Finance Department and Director, Transport Department of the State Government. The views expressed by them have been considered while finalising this review. The audit findings are discussed below:

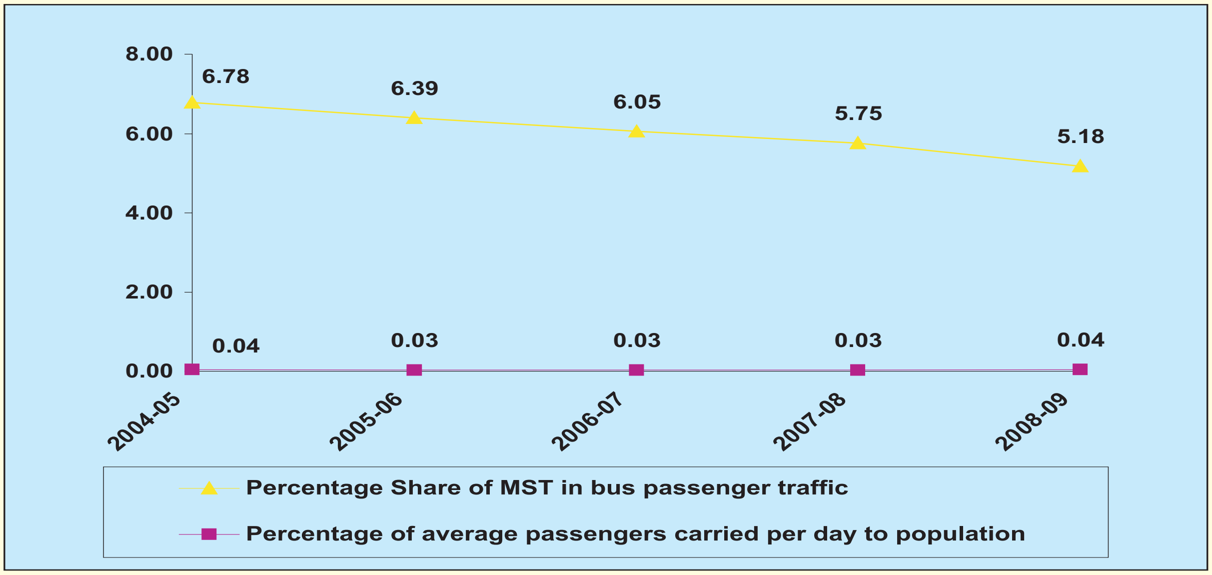
4.2.7 Operational Performance

The operational performance of MST for the five years ending 31 March 2009 is given in the Appendix 4.6. The operational performance of MST was evaluated on various operational parameters as described below. It was also seen whether MST able to maintain pace with the growing demand of public transport. Audit findings in this regard are discussed in the subsequent paragraphs.

4.2.8 Share of MST in public transport

The State Government has not framed any transport policy to achieve a balanced modal mix of public transport and to discourage personalized transport. However, the focus is on increasing mass transport options by providing adequate, accessible and affordable modes like buses, mini-buses etc.

Line-graphs depicting the percentage share of MST in the bus passenger traffic of the State and percentage of average passengers carried per day by MST to the population of the State during five years ending 2008-09 are given below:



The table below depicts the growth of public transport in the State.

Table : 4.16

Sl. No.	Particular	2004-05	2005-06	2006-07	2007-08	2008-09
1.	MST buses	61	59	58	56	51
2.	Private stage carriages[11]	839	864	901	918	934
3.	Total buses for public transport	900	923	959	974	985
4.	Percentage share of MST	6.78	6.39	6.05	5.75	5.18
5.	Percentage share of private operators	93.22	93.61	93.95	94.25	94.82
6.	Estimated Population (lakh)	9.60	9.86	10.12	10.39	10.68
7.	Vehicle density *per* one lakh population	93.75	93.61	97.76	93.74	92.23

MST has not been able to keep pace with the growing demand for public transport. The percentage share of MST decreased from 6.78 *per cent* in 2004-05 to 5.18 *per cent* in 2008-09. Share of MST in public transport was low due to increase in availability of privately operated Maxi cab and buses facilitated by issue of plying permits to the private operators on all routes by the State Transport Department and decline in number of the buses operated by MST from 61 in 2004-05 to 51 in 2008-09. MST could not increase the passenger traffic. The effective *per* capita KM operated *per* year is given below.

Table : 4.17

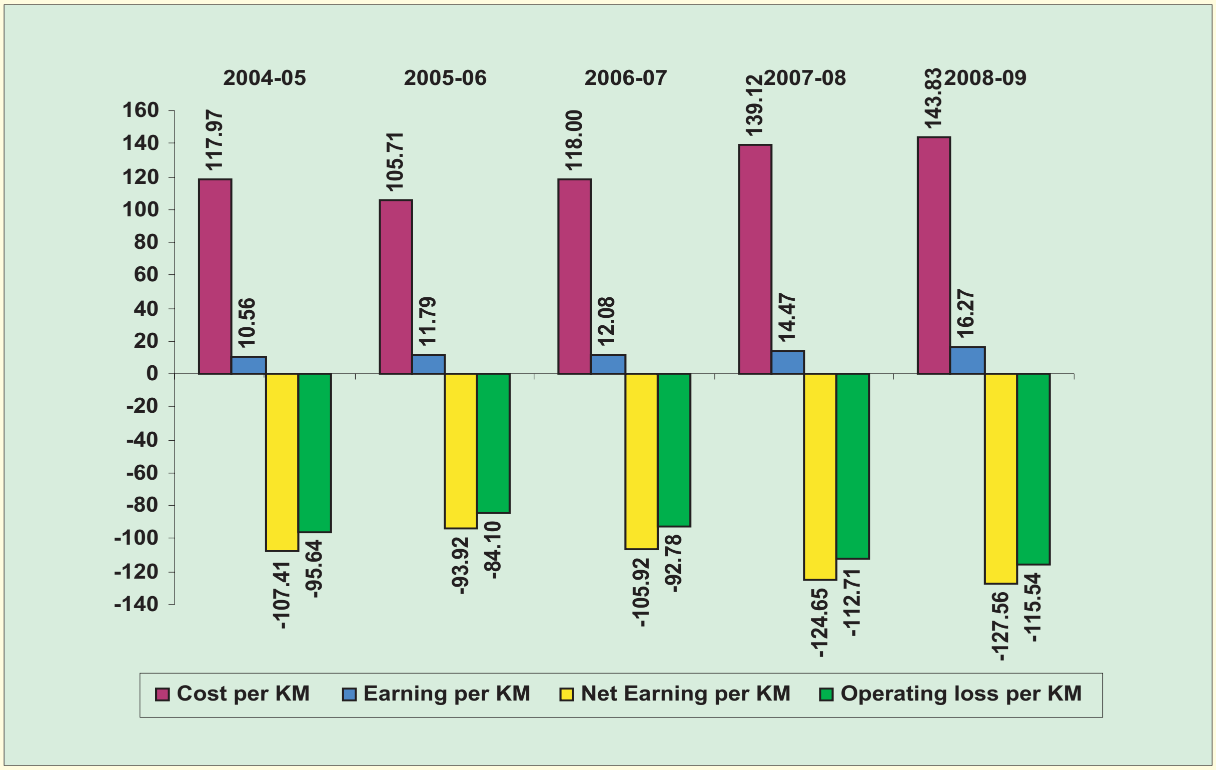
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Effective KM operated (lakh)	12.96	13.17	12.50	11.38	12.74
Estimated Population (lakh)	9.60	9.86	10.12	10.39	10.68
Per Capita KM *per* year	1.35	1.34	1.24	1.10	1.19

The above table shows the decline in service by MST. Public transport has definite benefits over personalised transport in terms of costs, congestion on roads and environmental impact. The public transport services have to be adequate to derive those benefits. In the instant case, MST was not able to maintain its share in transport mainly due to operational inefficiencies as described later.

[11] excludes Maxi cabs

4.2.9 Recovery of cost of operations

The MST was not able to recover its cost of operations. During the last five years ending 2008-09, the net earning showed a negative trend as given in the graph[12] below:



Above graph indicates the poor performance of MST over the period. The operating loss has been increasing at an alarming pace. The cost *per* KM was Rs.143.83 in 2008-09 which was 5.5 times higher than the hill areas average of Rs.24.55 *per* KM. On the other hand MST was able to achieve revenue of Rs.16.27 *per* KM in 2008-09 as against hill area average of Rs.20.34 *per* KM. Hence, net earnings of MST was (-) Rs.127.56 *per* KM in 2008-09. The cost *per* KM was too high because of low vehicle productivity, gross under utilization of vehicles, low load factor and excess staff. The deteriorating performance impacted the ability of MST to provide public transport services adequately as it was not able to replace its fleet on time or increase the fleet strength to meet growing demand.

In hill area, Himachal RTC incurred cost *per* KM at Rs. 24.09 and earned Rs.18.93 *per* KM during 2007-08*.

[12] Cost per KM represents total expenditure divided by effective KM operated
Revenue per KM is arrived at by dividing total revenue with effective KM operated
Net Revenue per KM is revenue per KM reduced by cost per KM
Operating loss per KM would be operating expenditure per KM reduced by operating income per KM

* STU profile and performance 2007-08 compiled by Government of India, Ministry of Shipping, Road Transport and Highways, Transport Research Wing, New Delhi

Efficiency and Economy in operations

Fleet strength and utilisation

4.2.10 Fleet Strength and its Age Profile

MST has its own fleet of buses and it has not hired any buses from contractors during the period under review.

The Association of State Road Transport Undertaking (ASRTU) had prescribed (September 1997) that the desirable age of a bus as eight years or five lakh kilometres, whichever was earlier. The table below shows the age-profile of the buses held by MST for the period of five years ending 2008-09.

Table : 4.18

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total No. of buses at the beginning of the year	61	59	58	56	51
2.	Additions during the year	3	4	9	2	7
3.	Buses scrapped during the year	5	5	11	7	4
4.	Buses held at the end of the year (1+2-3)	59	58	56	51	54
5.	Of (4), No. of buses more than 8 years old	42	37	26	30	26
6.	Percentage of overage buses to total buses (5/4x100)	71	64	46	59	48
7.	Average No. of buses on road	21	21	20	19	21
8.	Percentage of fleet utilization (7/4x100)	36	36	36	37	39

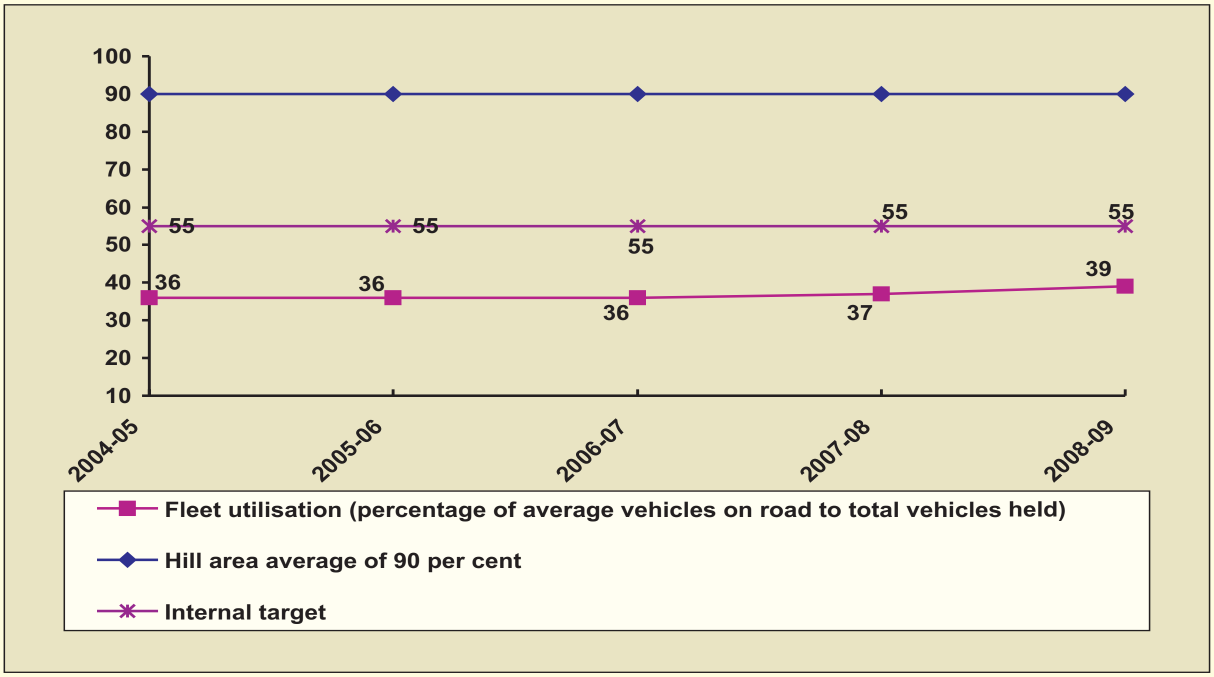
The above table shows that MST was not able to achieve the norm of right age buses. It was noticed in Audit that excepting 2004-05, all road worthy buses were not pressed into service. Number of road worthy buses which remained off road was 12 (38 *per cent)* and 7 (27 *per cent)* during 2006-07 and 2007-08 respectively. During 2004-09, MST added 25 new buses at a cost of Rs.1.98 crore. The expenditure was funded through budgetary support from the State Government. To achieve the norm of right age buses, the MST was required to buy 26 new buses additionally which would have cost it Rs.2.53 crore approximately, worked out at the rate finalized during 2008-09. However, MST did not generate adequate resources through its operations to finance the replacement of buses. It incurred losses continuously year after year and could not recover even variable cost during the years 2004-09. Thus, MST's ability to survive and grow depends on its effort to remove operational inefficiencies, cut costs and tap non-conventional revenue avenues so that it can fund its capital expenditure and be self-reliant.

The overage fleet requires high maintenance and results in extra cost and less availability of vehicles compared to underage fleet, other things being equal. This only goes on to increase operational inefficiency and causes losses which, in turn, affects the ability of MST to replace its fleet on a timely basis.

4.2.11 Fleet Utilisation

Fleet utilisation represents the ratio of buses on road to buses held by MST. The Public Accounts Committee (PAC) while discussing the review on MST appeared in Audit Report (1991-92) recommended (July 1999) the fleet utilization target as 55 *per cent*. Accordingly, the Department fixed the target. Against this, the fleet utilization varied from 36 *per cent* in 2004-05 to 39 *per cent* in 2008-09 as compared to the average of 90 *per cent* for hill area as indicated in the graph given below.

In hill areas, Himachal RTC registered best fleet utilisation at 97.68 *per cent* during 2007-08.



The main reasons for low fleet utilisation as analysed in Audit, were want of buses and passengers, road block, land slide etc., attributing cancellation of 6.02 lakh KM as discussed in para 4.2.15; shortfall in coverage of 1.20 crore KM due to low vehicle productivity as discussed in para 4.2.12; and no route survey by the Department to ascertain the reasons for low fleet utilisation and to initiate remedial action.

The Department stated (August 2009) that the routes are uneconomical as a result fleet utilisation was low. The Department should have explored the possibility of operating smaller vehicles such as Tata Sumo, Scorpio, etc wherever the load factor is low for meeting the social obligations and public interest.

From the above, it can be concluded that MST was not able to achieve an optimum utilisation of its fleet strength, which in turn impacted its operational performance adversely. Failure to put all road worthy buses on road reflects the need for the top level management to ensure optimum utilization of its fleet strength and thereby improve the performance of MST.

4.2.12 Vehicle productivity

Vehicle productivity refers to the average kilometres run by each bus *per* day in a year. The vehicle productivity of MST *vis-à-vis* the overage fleet for the five years ending 2008-09 is shown in the table below.

Table : 4.19

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Vehicle productivity (KMs run *per* day *per* bus)	56.81	59.43	57.53	53.56	61.93
2.	Overage fleet *(*percentage*)*	71	64	46	59	48
3.	Total No. of buses held at the end of the year	59	58	56	51	54
4.	Traffic revenue *per* KM (Rs.)	9.28	9.51	12.03	12.59	14.93
5.	Short fall in vehicle productivity as compared to hill areas norm of *196 KM per* day *per* bus	139.19	136.57	138.47	142.44	134.07
6.	Short fall in vehicle productivity in a year (in *lakh KM*) (3x5x313[13] days)	25.70	24.79	24.27	22.74	22.66

[13] In Mizoram State, Sunday has been declared as public holiday and hence MST buses as well as private operators' buses are off the road

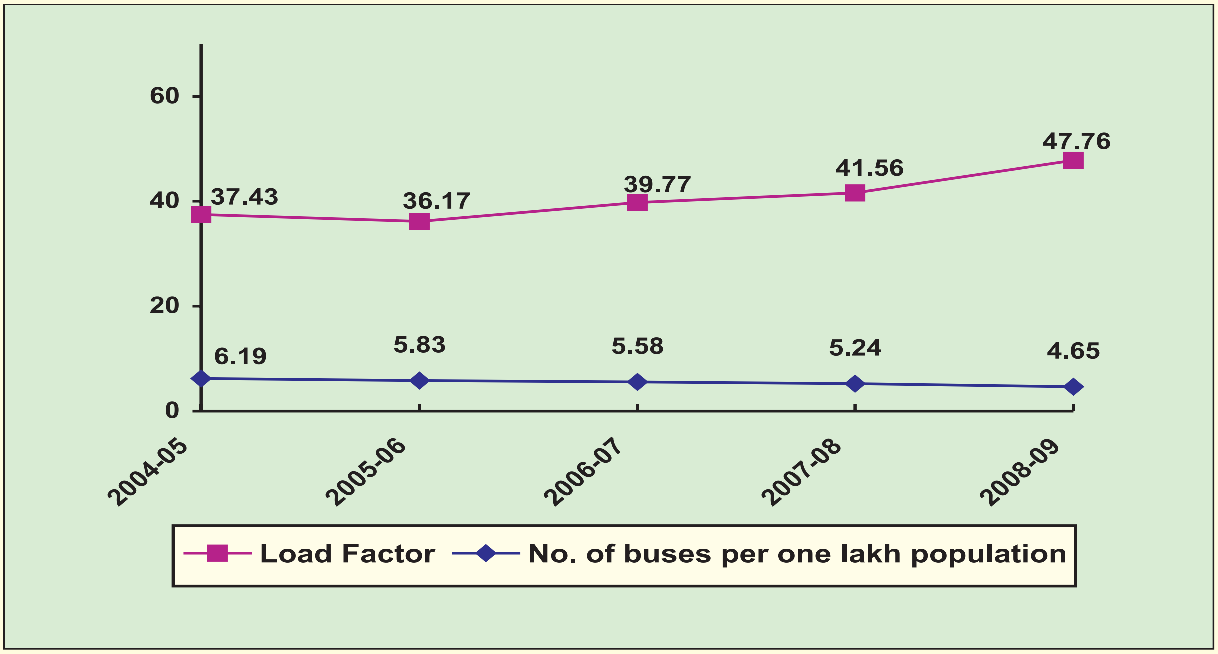
MST has not fixed targets for vehicle productivity (performance of minimum Passenger KMs *per* vehicle *per* day *vis-à-vis* revenue). In the absence of any internal target, the achievement could not be compared with reference to its internal targets. The productivity KMs (operated *per* bus *per* day on fleet strength) *per* bus *per* day was low and varied from 53.56 KM to 61.93 KM as against hill area average of 196 KM. Short coverage of 1.20 crore KM during the five years ending 2008-09. The reasons for poor performance were continuing with old buses without timely replacement, deficient route planning as reflected in non-operation of buses for want of passenger, non-operation of buses to newly evolved routes like Mizoram University etc.

Himachal RTC registered best vehicle productivity at 222 KMs *per* day during 2007-08.

Capacity Utilisation

4.2.13 Load Factor

Capacity utilisation of a transport undertaking is measured in terms of Load Factor, which represents the percentage of passengers carried to seating capacity. The schedules to be operated are to be decided after proper study of routes and periodical reviews are necessary to improve the load factor. The load factor of MST has improved from 37.43 *per cent* in 2004-05 to 47.76 *per cent* in 2008-09 but could not achieve hill areas average of 63 *per cent* in any of the years. A graph depicting the load factor *vis-à-vis* number of buses *per* one lakh population is given below.



The Transport Research Wing (TRW), Ministry of Road Transport and Highways, Government of India observed (September 2001) that the productivity measured in terms of passengers carried *per* bus was the lowest in Mizoram compared to other States. The management attributed the reason for poor load factor to plying Maxi cab/buses by private operators. The number of buses/Maxi cab operated by private operators increased from 839 buses and 1310 Maxi cab in 2004-05 to 934 buses and 1691 Maxi cab in 2008-09. On the other hand number of buses held by MST decreased from 61 buses in 2004-05 to 51 buses in 2008-09. However, the increase in demand by public operators for plying permits highlights the demand for public transport in the State but decline in number of buses and poor load factor of MST reflects the need on its part to change the composition of fleet by inducting smaller vehicles like Tata Sumo and Scorpio by which load factor would be improved.

The Department stated (August 2009) that the hill area average was too high. However, if the Department consider it desirable, matter may be taken up with the Government of India for working out relevant norms for Mizoram for effective control.

The table below provides the details for Break-Even Load Factor (BELF) for traffic revenue as well as total revenue. Audit worked out this BELF at the given level of vehicle productivity and total cost KM.

Table : 4.20

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Cost *per* KM (Rs.)	117.97	105.71	118.00	139.11	143.84
2.	Traffic revenue *per* KM at 100 *per cent* Load factor	24.79	26.29	30.25	30.29	31.26
3.	Break–even load factor considering only traffic revenue (1/2)	475.88	402.09	390.08	459.26	460.14

It is evident from the above table that break-even load factor is too high and not likely to be achieved in the present scenario since cost per KM is abnormally high. Thus, while the scope to improve upon the load factor remains limited, there is tremendous scope to cut down costs of operations as explained later.

4.2.14 Route Planning

Appropriate route planning to tap demand leads to higher load factor. Out of 42 routes, the State Government notified 12 routes exclusively for MST and 17 common routes for MST as well as to private operators, besides 13 routes to the private operators. The State Government, however, has issued plying permits to the private operators for running Maxi cab/Bazaar buses in all the routes and for operating city buses in Aizawl and in other district headquarters. All the routes operated by MST were not meeting even the variable cost. No route survey has been carried out by the Department to ascertain the reasons for low load factor and to initiate remedial action. The MST should decide an optimum level of services on different routes so as to optimize its revenue while serving the cause. However, no such exercise was carried out by MST.

For want of passengers and poor load factor, MST operated routes ranging between 26 in 2004-05 and 21 routes in 2008-09 as against 29 permissible routes.

4.2.15 Cancellation of Scheduled Kilometres

A review of the operations indicated that the scheduled kilometres were not fully operated mainly due to non-availability of passengers, and other factors like road blockage due to land sliding, etc.

The details of scheduled kilometres, effective kilometres, cancelled kilometres calculated as difference between the scheduled kilometres and effective kilometres are furnished in the table below.

Table : 4.21

(KMs in lakh)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Scheduled kilometres	14.75	14.54	13.97	13.03	13.55
2.	Effective Kilometres	12.96	13.17	12.50	11.38	12.74
3.	Kilometres cancelled	1.79	1.37	1.47	1.65	0.81
4.	Percentage of cancellation	12.14	9.42	10.52	12.66	5.98
Cause-wise analysis						
5.	Want of buses	0.62	1.07	0.80	0.53	0.20
6.	Want of passengers	0.77	0.30	0.51	0.74	0.48
7.	Road block	0.13	-	-	0.35	0.13
8.	Others	0.27	-	0.16	0.03	-
9.	Avoidable cancellation (want of buses and passengers) (KM in lakh)	1.39	1.37	1.31	1.27	0.68

Maintenance of vehicles

4.2.16 Preventive Maintenance

Preventive maintenance is essential to keep the buses in good running condition and to reduce breakdowns/ other mechanical failures. MST had Tata make buses, for which engine oil change and brake inspection have been prescribed by the Original Equipment Manufacturers (OEMs) at every 18,000 KM. Audit observed that the required preventive maintenance schedules were adhered to.

4.2.17 Repairs & Maintenance

A summarised position of fleet holding, over-aged buses, Repairs and Maintenance (R&M) expenditure for the last five years up to 2008-09 is given below.

Table : 4.22

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total buses (No.)	59	58	56	51	54
2.	Over-age buses (more than 8 years old)	42	37	26	30	26
3.	Percentage of over age buses	71	64	46	59	48
4.	R&M Expenses (Rs. in lakh)	101.72	140.94	201.39	221.45	209.79
5.	R&M Expenses per bus (Rs. in lakh) (4/1)	1.72	2.43	3.60	4.34	3.89

It could be seen from the above table that the percentage of old age buses has come down from 71 *per cent* in 2004-05 to 48 *per cent* in 2008-09. However, repairs and maintenance *per* bus increased from Rs.1.72 lakh in 2004-05 to Rs.4.34 lakh in 2007-08 but slightly decreased to Rs.3.89 lakh in 2008-09. MST has not analysed the reasons for increase in expenditure on repairs and maintenance year after year. The reasons for high cost of repairs and maintenance expenses, as analysed by Audit, were system of procuring spare parts, in the local market at different rates for different components and making payments to the suppliers on the basis of certificate of Works Manager/Assistant Director (Stores) on the bills that the spare parts so purchased were fitted in relevant buses. The receipt and issue of spares were not routed through Central Stores. Therefore, possibility of fictitious purchases could not be ruled out.

MST should have evolved a system of assessing the annual requirement of major spares parts, procure spare parts after obtaining competitive rates through tender, issue supply orders to suppliers with staggered quantity at the lowest rates obtained in the tender and making necessary entries in the Central Stock Account at the time of accepting the stock and issuing stock to various vehicles for repair works. In the absence of proper system, expenditure incurred on repairs and maintenance could not be vouchsafed by audit.

The Department stated (August 2009) that bulk purchases of spare parts were made at the rates approved by the Departmental purchased Advisory Board and all the items were entered in the central stock registers before issue. As such, the possibility of fictitious purchases was completely ruled out. The reply is not based on facts as majority of spare parts were purchased locally without finalising items wise rate for running contract. The spare parts were issued to works without making entries in Central Stores account.

4.2.18 Docking of vehicles for fitness Certificates

The buses are required to be repaired and made fit before sending the same to Regional Transport Office (RTO) for renewal of fitness certificate under Section 62 of the Central Motor Vehicle Rules 1989. As the date of expiry of the old fitness certificate is known in advance, Management should plan accordingly to get the buses repaired in time so that bus days are not lost due to delay in renewal. A test check of the records at Aizawl and Saiha revealed that there is no system of getting fitness certificates periodically from RTO in respect of Government buses.

The Department stated (August 2009) that there is no system of getting periodical fitness certificates. However, the system followed by the Department was in violation of Motor Vehicle Act compromising on the road worthiness of the vehicles and safety of the passengers and public at large.

4.2.19 Manpower Cost

The cost structure of the organisation shows that manpower and fuel constitute 73.54 *per cent* of total cost. Interest, depreciation and taxes-the cost which are not controllable in the short term account for 9.29 *per cent*. Thus, the major cost saving can come only from manpower and fuel.

Manpower is an important element of cost which constituted 67.65 *per cent* of operating expenditure of MST in 2008-09. Therefore, it is imperative that this cost is kept under control and the manpower is utilised optimally to achieve high productivity. The table below provides the details of manpower, its cost and productivity.

Table : 4.23

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Manpower (Nos.)	642	643	627	594	582
2.	No. of buses at the beginning of the year	61	59	58	56	51
3.	Manpower Cost (Rs. in crore)	10.34	8.86	8.89	10.21	12.40
4.	Effective Kilometres (in lakh)	12.96	13.17	12.50	11.38	12.74
5.	Cost *per* effective KM (Rs.) (3/4)	79.78	67.27	71.12	89.72	97.33
6.	Productivity *per* day *per* person (KMs)	6.45	6.54	6.37	6.12	6.99
7.	Manpower *per* bus (1/2)	10.52	10.90	10.81	10.61	11.41
8.	Norms for employee *per* bus	6.50	6.50	6.50	6.50	6.50
9.	Excess manpower *per* bus (7-8)	4.02	4.40	4.31	4.11	4.91
10.	Salary & wages on excess staff (Rs. in crore) (3/7x9)	3.95	3.58	3.55	3.95	5.33
11.	Total crew (Nos.)	392	398	383	354	337
12.	Crew per bus	6.43	6.75	6.60	6.32	6.61
13.	Norms for crew *per* bus	5	5	5	5	5
14.	Excess crew *per* bus	1.43	1.75	1.60	1.32	1.61
15.	Salary & wages to crew (Rs. in crore)	6.04	5.02	4.44	5.05	6.14
16.	Salary & wages on excess crew (Rs. in crore) (15/12x14)	1.34	1.30	1.08	1.06	1.50

The Department has not fixed norm of staff strength required *per* vehicle under different categories. The staff requirement *per* bus was worked out by the TRW to 6.5 (Traffic 5; maintenance 1.15; and administration 0.35) including leave/absenteeism. It could be seen from the above table that employee *per* vehicle varied from 10.88 (2004-05) to 11.64 (2007-08) against the norm of 6.5 employees *per* vehicle. The staff productivity *per* day per person was low and varied from 6.45 KM (2004-05) to 6.99 KM (2008-09) against hill area average of 38 KM. During the last five years ending 2008-09, compared to norm of 6.5 employees *per* bus, the MST had paid Rs.20.36 crore, towards salary, wages, etc., on excess staff held during the period under review, including Rs.6.28 crore towards salary, wages, etc. on excess crew. Despite observation (September 2001) made by TRW that MST had the lowest staff productivity of all the STUs, the Department has not taken effective measures to rationalise staff strength as per norms. Consequently, it affected the ability of the MST to provide transport services at sustainable level.

Himachal RTC registered Manpower *per* bus at 4.37 and Staff Productivity KM/staff/day at 50.78 during 2007-08.

While admitting the facts, the Department stated (August 2009) that it has already initiated action for restructuring of whole Department between MST section and Motor Vehicle section with a view to down sizing man power.

4.2.20 Fuel Cost

Fuel is a major cost element which constituted 5.89 *per cent* of total expenditure in 2008-09. Control of fuel costs by a road transport undertaking has a direct bearing on its productivity. The table below gives the targets fixed by the MST for fuel consumption, actual consumption, mileage obtained *per* litre (Kilometre *per* litre i.e. KMPL), norms for Hilly areas and estimated extra expenditure of Rs.1.15 crore.

Table : 4.24

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Gross Kilometres (in lakh)	13.27	13.45	12.81	11.68	13.12
2.	Target of KMPL fixed by MST	3.15	3.15	3.15	3.15	3.15
3.	Kilometre obtained per litre (KMPL)	2.94	2.87	3.10	3.10	3.28
4.	Average in the hill area(KMPL)	3.69	3.69	3.69	3.69	3.69
5.	Actual Consumption (in lakh litres)	4.52	4.68	4.13	4.00	4.00
6.	Consumption as per hill area average (in lakh litres) (1/4)	3.60	3.64	3.47	3.17	3.55
7.	Excess Consumption (in lakh litres) (5-6)	0.92	1.04	0.66	0.83	0.45
8.	Average cost per litre (in Rs.)	25.12	30.65	29.79	32.96	29.79
9.	Extra expenditure (Rs. in lakh) (7X8)	23.11	31.88	19.66	27.36	13.41

It can be seen from the above table that the mileage obtained *per* litre increased from 2.94 in 2004-05 to 3.28 in 2008-09 as against hill area average of 3.69. The MST consumed 3.90 lakh litres of fuel in excess as compared to hill area average during 2004-05 to 2008-09 resulting in extra expenditure of Rs.1.15 crore. The excess consumption was mainly due to operation of services with old age vehicle, excessive use of clutch and gears and poor road condition in the State. A test check in Audit of two months Petrol, Oil and Lubricants (POL) statements for each year under review, in two depots, showed that MST had no mechanism in place to monitor vehicle wise or driver wise data for consumption of fuel so as to exercise effective control on fuel consumption. Further, MST had not prescribed ideal driving speed/ norms so as to enhance fuel economy. The excess consumption of HSD can be reduced if driver wise analysis for each bus is done.

Nagaland ST-DU and Himachal RTC registered mileage of 3.74 and 3.70 KMPL respectively during 2007-08.

The Department agreed (August 2009) with the audit observation.

Fare policy and fulfillment of social obligations

4.2.21 Existence and fairness of fare policy

As per recommendation of the State Transport Authority (STA), the State Government revises the fare from time to time by issuing notification in the Gazette. The State Government issued notification in August 2001, July 2005 and September 2008 for revision of fares.

Table : 4.25

(Rate Rs. per KM)

Category	2004-05	2005-06	2006-07	2007-08	2008-09
Ordinary bus	0.56	0.65 (w.e.f. 12.7.05)	0.65	0.65	0.80 (w.e.f. 1.9.08)
Deluxe bus	0.71	0.85 (w.e.f. 12.7.05)	0.85	0.85	1.00 (w.e.f. 1.9.08)

The major element of cost of operation is diesel and whenever the rate of diesel increases, STA proposes to the State Government for increase of fare. It was noticed in audit that fare has been revised on two occasions, whereas increase in diesel prices was on 14 occasions and the rate increased from Rs.15.04 per litre to Rs.33.35 per litre during August 2001 to September 2008.

The fare policy of MST has no scientific basis as it does not take into account the normative cost. Thus, there is a risk of commuters paying for inefficiency of the MST. The table below shows how the MST could have curtailed cost and increased revenue with better operational efficiency.

Table : 4.26

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Cost *per* KM	117.97	105.71	118.00	139.11	143.84
2.	Traffic Revenue *per* KM	9.28	9.51	12.03	12.59	14.93
3.	Loss of revenue due to less vehicle productivity (*per* KM)	19.06	18.22	24.16	27.59	25.12
4.	Excess cost due to low manpower productivity (*per* KM)	30.48	27.18	28.40	34.71	41.84
5.	Excess cost due to excess consumption of fuel (*per* KM)	1.78	2.42	1.57	2.40	1.05
6.	Ideal revenue *per* KM (2+3)	28.34	27.73	36.19	40.18	40.05
7.	Ideal cost *per* KM [1-(4+5)]	85.71	76.11	88.03	102.00	100.95
8.	Net revenue *per* KM (2-1)	(-)108.69	(-)96.20	(-)105.97	(-)126.52	(-)128.91
9.	Net ideal revenue *per* KM (6-7)	(-)57.37	(-)48.38	(-)51.84	(-)61.82	(-)60.90
10.	Effective KMs (in lakh)	12.96	13.17	12.50	11.38	12.74
11.	Avoidable loss (Rs. in crore) [(8-9) X 10]	6.65	6.30	6.77	7.36	8.66

It is evident from the above table that despite taking adequate care in operational prameters, there would be still some loss. However, it would be considerably reduced and may not be eliminated completely. Moreover, above calculations do not take into account other inefficiencies such as low fleet utilisation, defective route planning, etc. Nonetheless, it shows that the net revenue loss could be lower, if the operations are properly planned and efficiently managed, than what they actually are. Thus, the case made by MST for increase in fare, includes its inefficiencies and in a way would make the commuters pay more than what they should be actually paying.

The above facts lead to conclude that it is necessary to regulate the fares on the basis of a normative cost and it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address the grievances of commuters.

Monitoring by top management

4.2.22 MIS data and monitoring of service parameters

For an organisation like MST to succeed in operating economically, efficiently and effectively, there has to be written norms of operations, service standards and targets. Further, there has to be a Management Information System (MIS) to report on achievement of targets and norms. The achievements need to be reviewed to address deficiencies and also to set targets for subsequent years. The targets should generally be such that the achievement of which would make an organisation self-reliant. In the light of this, Audit reviewed the system operating in MST. The MIS system of MST was not adequate and the monitoring by its top management of key operational parameters and service standards was largely ineffective.

The Director and Joint Director (Operation) discuss the MIS. However, minutes/notes of discussion were not on records. Though there were shortfalls in achievement of targets, no instructions were issued to depots. There is no mechanism to monitor vehicle productivity, fleet utilization and load factor. Moreover, there is no effective control over repairs and maintenance expenses.

The top management of MST is expected to demonstrate managerial capability to set realistic and progressive targets, address areas of weakness and take remedial action wherever the things are not moving on expected lines. However, no such activity was observed from records or performance of MST during period under review.

4.2.23 Conclusion

Operational performance

- MST did not conduct proper study of routes and periodical review for improving load factor and to improve its share in public transport.
- MST could not recover the cost of operations in any of the five years under review. This was mainly due to operational inefficiencies and ineffective monitoring by top management.
- MST was not running its operations efficiently as its performance on important operational parameters was below hill area averages.
- MST did not ensure the economy in operations as its manpower was higher than the hill area average.

Fare policy and fulfillment of social obligations

- The fare policy of MST is not based on scientific norms.

Monitoring by top management and future needs

- Monitoring by top management of key operational parameters was lacking.

On the whole, there is immense scope to improve the performance of the MST. However, the present set-up of MST does not seem to be equipped to handle the operations efficiently. Effective monitoring of key parameters, coupled with certain policy measures, can see improvement in performance.

4.2.24 Recommendations

Operational performance

- MST should reduce its staff cost by rationalizing manpower.
- Increase operational efficiency through route re-orientation, introduction of Tata Sumo, Scorpio, etc and outsourcing of repairs and maintenance activity.

Financial Management

- Exercise effective control over procurement and utilization of spare parts.

Fare policy and fulfillment of social obligations

- The Government may consider creating a regulator to regulate fares and also services on uneconomical routes.

Monitoring by top management

- Norms for operational parameters may be fixed and monitoring by top management.

AUDIT OF TRANSACTIONS

FOOD, CIVIL SUPPLIES & CONSUMERS AFFAIRS DEPARTMENT

4.3 Non- recovery of Hill State Transport Subsidy

Late submission of claims and non-fulfillment of prescribed criteria led to non-reimbursement of HSTS claims amounting to Rs.5.09 crore and Rs.22.46 crore.

Under the Central Government "Hill State Transport Subsidy" (HSTS) Scheme, the expenditure incurred by the State Government on transportation of foodgrains from the base depot of Food Corporation of India (FCI) to different Principal Distribution Centres (PDCs) in Mizoram is reimbursable from the Government of India, Ministry of Consumer Affairs, Department of Food and Public Distribution. As the claimant Department (FCS&CA) is not a cheque drawing Department, payments to transporters were made through Government Treasuries on the basis of fully vouched bills. The FCI granted (March 2000) relaxation towards acceptance of Treasury voucher numbers, in lieu of cheques numbers, as evidence of payment. However, fresh guidelines issued by the FCI (February 2005), required submission of full details of party wise payments made with cheques numbers and name of the bank along with copies of acknowledgement of receipt of stock from authorized officials of the recipient centres/PDCs with the reimbursement claim bills in order to ensure that there was no misuse of HSTS.

The State Government stated (December 2006) its difficulties in adopting the new guidelines and requested for exemption but the FCI on the recommendations of the Committee to look into the state request insisted (July 2008) that the copies of fully vouched contingent bills should be obtained from the Accountant General, Shillong in order to ensure the papers evidencing linkage of flow of payment from treasury to the bank on the one hand and from the bank to the parties on other hand, in respect of claims pertaining to the period upto July 2008. The future payment were to be made to the contractors through treasury by crediting the amount to their bank accounts and the claims should be preferred with authenticated bank statements only.

Audit observed (March 2009) that the transportation charges of Rs.5.09 crore, for carrying 69,388 MT of rice from FCI depot to various PDCs under 69 bills for the period August 2003 to January 2005 relating to relaxation period, could not be reimbursed from the Ministry due to submission of claims after expiry of relaxation period. The claim preferred (between September 2006 and August 2007) was returned (September 2006/ September 2007) by the

FCI due to non-fulfillment of prescribed criteria. Further, claim (between September 2006 and February 2008) of Rs.7.02 crore in respect of transportation of 88,265 MT of rice during the period February 2005 to February 2006 was also rejected (June 2008) by the FCI due to non-fulfillment of prescribed criteria. Besides, due to non-compliance of the Central/FCI guidelines, the Department failed (March 2009) to submit the reimbursement HSTS claim of Rs.15.43 crore relating to the period March 2006 to December 2008.

Thus, the Department failed to receive subsidy of Rs.5.09 crore pertaining to the relaxation period and could not receive claim of Rs.22.46 crore pertaining to the period February 2005 to December 2008 due to lack of proper initiative towards fulfillment of prescribed criteria for submitting the reimbursement HSTS claims.

While admitting the facts, the Department stated (March 2009) that action was initiated for fulfilling Central/FCI prescribed criteria for claiming HSTS from the Ministry from the next financial year 2009-10 onwards.

Audit suggests that the Department should once again take up its case of subsidy claims with the concerned Departments of Government of India and initiate early steps to fulfill the revised criteria for receipt of HSTS claims.

The matter was reported to the Government in June 2009; its reply was awaited (September 2009).

4.4 Undue benefit to the contractors

Extra payment of Rs.74.75 lakh due to enhancement of carrying contract rates by the Government in 10 out of 45 routes during the tenure of the contract contrary to the conditions of the tender resulted in undue benefit to the contractors.

The Director, Food, Civil Supply and Consumer Affairs floated (September 2006) a Notice Inviting Tender (NIT) for appointing foodstuff carrying contractors for 45 district routes under District Civil Supply Offices, Aizawl(East), Aizawl(West) and Champhai. While recommending (December 2006) the approval of the State Government (Food, Civil Supplies & Consumer Affairs Department) of their lowest quoted rates in 38 out of 45 routes, the Departmental Purchase Advisory Board (DPAB) recommended for negotiations in other seven routes as their quoted rates were found to be on higher side and suggested to bring down the rates within 15 *per cent* over the then existing rates. Negotiations were conducted (May/July 2007) for the rest of seven routes and rates were brought down as suggested by DPAB. The State Government accorded (March/July 2007) administrative approval for engagement of contractors as per their lowest quoted rates in 38 routes and at the negotiated rates in seven routes. Accordingly, the Director, FCS&CA appointed different contractors during the period between April 2007 and July 2007 for carrying foodstuff in 45 routes. The above approved rates in 45 routes were valid for one year from the date of appointment of the contractors or till such time fresh contractors were appointed.

Audit scrutiny (March 2009) revealed that during the tenure of contract, the State Government enhanced (May 2008) the existing approved rates in respect of 10 routes, with retrospective effect from April 2007, without assigning any specific reason for such enhancement as detailed in the Appendix 4.7. It may be seen from Appendix - 4.7 that the carrying contractors transported 18,121 MT of foodstuff during the period April 2007 to December 2008 in 10 routes for which financial implication involved as per approved rates was Rs.132.92 lakh. But, due to the irregular enhancement of rates, the Department incurred total expenditure of Rs.207.67 lakh resulting in extra expenditure of Rs.74.75 lakh which also meant undue benefits to the carrying contractors.

While admitting the facts, the Director, FCS&CA stated (March 2009) that enhancement of carrying rates of foodstuff in some routes was made as per orders of the State Government.

The matter was reported to the Government in June 2009; its reply was awaited (September 2009).

4.5 Avoidable extra expenditure

Avoidable extra expenditure of Rs.37.27 lakh due to enhancement of rates without considering corresponding increase in diesel price and without obtaining competitive rates through tender.

The existing carrying contractors, who were appointed (December 2005/July 2006) at the rates ranging between Rs.90 and Rs.140 *per* quintal in eight routes of Lunglei revenue district, demanded (July 2008) enhancement of rates ranging between Rs.105 and Rs.160 *per* quintal for different supply routes with increase ranging between 4 and 82 *per cent* over the then existing approved rates. As their quoted rates were found to be on higher side, the Director, FCS&CA conducted negotiations with the existing contractors and brought down the rates by Rs.5 *per* quintal in each route. In respect of six out of eight routes, while recommending (July 2008) approval of the State Government, the Departmental Purchase and Advisory Board (DPAB) justified the increase in rates ranging between 33 and 60 *per cent* over the existing rates as increase in diesel price was 66.78 *per cent* during the period between 2003 (Rs.20.20 *per* litre) and June 2008 (Rs.34.29 *per* litre). The State Government accorded administrative approval with effect from January 2008, as recommended by DPAB, without obtaining competitive rates through tender as detailed in the Appendix - 4.8.

Audit scrutiny revealed (March 2009) that instead of comparing diesel price prevalent during the period between July 2006 and June 2008 as the existing rates were finalized in July 2006 for six routes, DPAB compared diesel price prevalent during the period between 2003 (Rs.20.20 *per* litre) and June 2008 (Rs.34.29 *per* litre) and justified the increase in rates ranging between 33 and 60 *per cent* over then existing rates. When comparing diesel price prevalent during the period between July 2006 (Rs.32.26 *per* litre) and June 2008 (Rs.34.29 *per* litre), the increase in diesel price was only 6.29 *per cent*. Thus, there was no justification for enhancing rates with increase ranging between 33 and 60 *per cent* over the then existing rates when the increase in diesel price was 6.29 *per cent* during the corresponding period. This is in stark comparison to enhancement of rates with increase ranging between 4 and 14 *per cent* over the existing rates in respect of other two routes where the increase in diesel price was 13.35 *per cent* during the period between December 2005 (Rs.30.25 *per* litre) and June 2008 (Rs.34.29 *per* litre).

This enhancement of rates without considering corresponding increase in diesel price and deviating from the laid down procedure of obtaining competitive rates through tender resulted in avoidable extra expenditure of Rs.37.27 lakh for handling of 1,05,173 quintals of foodstuff in six routes during the period January 2008 to March 2009.

While admitting the facts, the Director, FCS&CA stated (March 2009) that enhancement of carrying rates of foodstuff in Lunglei district were made as per orders of the State Government.

The matter was reported to the Government in June 2009; its reply was awaited (September 2009).

INDUSTRIES AND TRADE & COMMERCE DEPARTMENTS

4.6. Arrears in finalisation of accounts of Government Companies

Section 210 of the Companies Act, 1956, read with Sections 166 and 216, casts the duty on the Board of Directors of a Company to place the accounts of the Company along with Auditor's Report (including supplementary comments of CAG) in the Annual General Meeting of the shareholders within six months of the close of its financial year. As per Section 210(5), if any person, being a Director of a Company, fails to take all reasonable steps to comply with the provisions of Section 210, he shall be punishable with imprisonment for a term which may extend to six months or with fine which may extend to ten thousand rupees or with both. Similar provision exists under Section 210(6) in respect of a person who is not a Director but is charged with the duty of ensuring compliance with Section 210.

In spite of above provisions in the Companies Act, four companies viz., Mizoram Handloom & Handicrafts Development Corporation Limited (ZOHANCO), Mizoram Food & Allied Industries Corporation Limited (MIFCO), Mizoram Agricultural Marketing Corporation Limited (MAMCO) and Zoram Electronics Development Corporation Limited (ZENICS), have not finalised their accounts in time and the arrears were ranging from 5 to 9 years as of 30 June 2009 as shown in the Appendix - 4.9. Audit has been bringing out the arrears in finalisation of accounts to the notice of the State Government through the Chief Secretary by D.O. letter with a copy to the Finance Secretary every quarter. However, there has been no effective action to liquidate the arrears during past three years as shown in the Appendix 4.9. The Government has already made an investment in these companies of Rs.34.60 crore (Equity: Rs.32.75 crore, Loans: Rs. 1.85 crore) during the period upto 31 March 2008 for which the accounts have not been finalised.

In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in the Company remains outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act. In view of this, it is recommended that the Government and the company management may

- consider outsourcing the work of preparation of accounts to clear the arrears; and
- make a time-bound programme to clear the arrears and monitor it on a continuous basis.

The matter was reported to the Government (July 2009); its reply was awaited (September 2009).

INDUSTRIES, TRADE & COMMERCE, POWER & ELECTRICITY AND FOOD, CIVIL SUPPLIES & CONSUMERS AFFAIRS DEPARTMENTS

4.7. Opportunity to recover money ignored

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods upto 2003-04 showed that there were 17 paras in respect of five PSUs, one Departmental undertaking and one Department involving a recovery of Rs.3.89 crore. As per the extant instructions, the PSUs are required to take remedial action within one month after receipt of IRs from Audit. However, no effective action has been taken to take the matters to their logical end, i.e., to recover money from the concerned parties. As a result, these PSUs/Department have so far lost the opportunity to recover their money which could have augmented their finances.

PSU wise details of paras and recovery amount are given below. The list of individual paras is given in Appendix - 4.10.

Sl. No.	PSU/Department Name	No. of paras	Amount for Recovery (Rs. in lakh)
1.	Zoram Industrial Development Corporation Limited (ZIDCO)	7	139.21
2.	Zoram Electronics Development Corporation Limited (ZENICS)	1	0.61
3.	Zoram Handloom and Handicrafts Development Corporation Limited (ZOHANCO)	1	0.40
4	Mizoram Food and Allied Industries Corporation Limited (MIFCO)	1	5.17
5	Mizoram Agricultural Marketing Corporation Limited (MAMCO)	1	17.00
6	Power & Electricity Department, Government of Mizoram	1	62.78
7	Food & Civil Supplies and Consumer Affairs, Government of Mizoram.	5	164.23
	Total	**17**	**389.40**

The paras mainly pertain to recovery of expenditure incurred by company officials, non-recovery of loan distributed by the Industrial Development Corporation, pending-reliazation of sales proceeding, awaiting insurance claims, misappropriation of foodstuffs and non-accountal of foodstuffs.

Above cases point out the failure of respective PSU/Department authorities to safeguard their financial interests. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU Management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to recover the money and complete the exercise in a time bound manner.

The matter was reported to the Government (July 2009); its reply was awaited (September 2009).

INDUSTRIES, TRADE & COMMERCE, POWER & ELECTRICITY, TRANSPORT AND FOOD, CIVIL SUPPLIES & CONSUMERS AFFAIRS DEPARTMENTS

4.8 Lack of remedial action on audit observations

Eight PSUs/Department did not either take remedial action or pursue the matters to their logical end in respect of 36 IR paras, resulting in foregoing the opportunity to improve their functioning.

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods upto 2003-04 showed that there were 36 paras in respect of five PSUs, two Departmental undertakings and one Department, which pointed out deficiencies in the functioning of these PSUs/Department. As per the extant instructions, the PSUs are required to take remedial action within one month after receipt of IRs from Audit. However, no effective action has been taken to take the matters to their logical end, i.e., to take remedial action to address these deficiencies. As a result, these PSUs/Departments have so far lost the opportunity to improve their functioning in this regard.

PSUs/Department wise details of paras are given below. The list of individual paras is given in Appendix - 4.11.

Sl. No.	PSU Name	No. of Paras
1.	Zoram Industrial Development Corporation Limited (ZIDCO)	13
2.	Zoram Electronics Development Corporation Limited (ZENICS)	1
3.	Zoram Handloom and Handicrafts Development Corporation Limited (ZOHANCO)	1
4.	Mizoram Food and Allied Industries Corporation Limited (MIFCO)	4
5.	Mizoram Agricultural Marketing Corporation Limited (MAMCO)	2
6.	Power & Electricity Department, Government of Mizoram	5
7.	Director of Transport/Mizoram State Transport	3
8.	Food & Civil Supplies and Consumer Affairs, Government of Mizoram.	7
Total		**36**

The paras mainly pertain to lump sum grants requiring regularization, loss on disposals of taken over assets, loss due to inadequate security, irregular purchase of equipments, materials purchase at higher rate, injudicious purchase of old building, diversion of fund, blockade of fund, implementing non-viable project, non-levying of charges on contractors, excess expenditure over estimate, irregular payment to a firm, extra expenditure, idle investment, delay in project leading to time and cost overrun, infructuous expenditure, irregular maintenance of cash book, shortage of food stuff, irregular issue of foodstuff and unnecessary purchase of equipments.

Above cases point out the failure of respective PSU/Departmental authorities to address the specific deficiencies and ensure accountability of their staff. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/ Finance Department and PSU management periodically, have not yielded the desired results in these cases.

The PSUs/Department should initiate immediate steps to take remedial action on these paras and complete the exercise in a time bound manner.

The matter was reported to the Government (July 2009); its reply was awaited (September 2009).

Vishal Bansal

Aizawl **(Vishal Bansal)**
The **Accountant General**

Countersigned

New Delhi **(Vinod Rai)**
The **Comptroller and Auditor General of India**