CHAPTER - IV
ECONOMIC SECTOR
(STATE PUBLIC SECTOR UNDERTAKINGS)

Government Commercial and Trading Activities

4.1 Overview of State Public Sector Undertakings

4.1 Introduction

4.1.1 The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. SPSUs are established to carry out activities of commercial nature while keeping in view the welfare of the people. In Arunachal Pradesh, there were seven SPSUs (all Government Companies, including two non-working Companies). None of these Companies was listed on the Stock Exchange.

4.1.2 The working SPSUs registered a turnover of ₹ 6.31 crore for 2013-14 as per their latest finalized accounts as of September 2014. This turnover was equal to 0.05 *per cent* of the State Gross Domestic Product (GDP) of ₹ 13,491.03 crore[1]. Thus, the SPSUs make a negligible contribution to the State's economy. Major activities of Arunachal Pradesh SPSUs are concentrated in the Finance and Power Sectors. The working SPSUs earned an overall profit of ₹ 7.60 crore in aggregate for 2013-14, as per their latest finalized accounts as on 30 September 2014. They employed 237[2] employees as on 31 March 2014. The SPSUs did not include prominent Government Departments which performed activities of commercial nature, such as, Department of Power, Department of Hydro-Power Development, Department of Transport and Directorate of Supply & Transport. The Audit findings relating to these Departments are, however, incorporated in this Chapter.

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 where not less than 51 *per cent* of the paid up capital is held by Government(s). A Government Company also includes subsidiaries of a Government Company. Further, a Company in which not less than 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.

4.1.4 The accounts of State Government Companies, as defined in Section 617 of the Companies Act, 1956, are audited by Statutory Auditors, who are appointed by

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[1] State GDP figures for 2013-14 as furnished by the Director of Economics & Statistics, Government of Arunachal Pradesh

[2] As per details provided by five PSUs

the Comptroller and Auditor General of India (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 provisions of Section 619 of the Companies Act, 1956.

4.1.5 The Government of India (Ministry/Department of Corporate Affairs) has notified (September 2013) the Companies Act, 2013. However, the provisions of the new Act shall be applicable on Government Companies from the next accounting year 2014-15 (*viz.* from the accounting periods commencing on or after 1 April 2014) and audit of the accounts of Government Companies pertaining to the periods prior to 1 April 2014 shall continue to be governed by the Companies Act, 1956.

Investment in SPSUs

4.1.6 As on 31 March 2014, the investment (capital and long-term loans) in seven SPSUs[3] was ₹ 30.19 crore, as per details given below.

Table-4.1.1

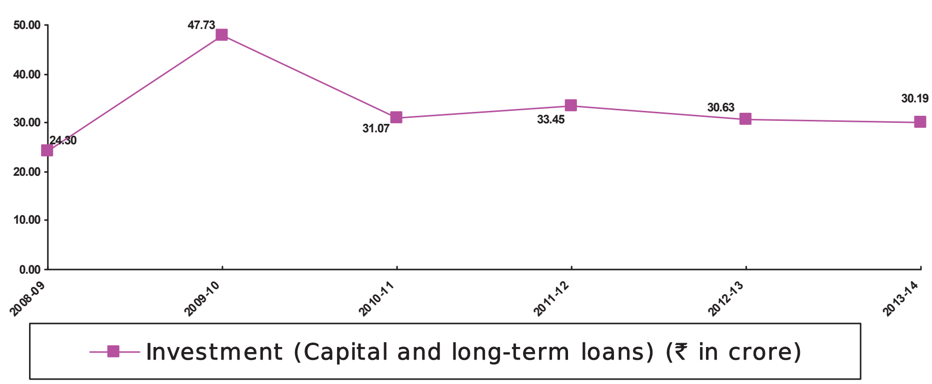
(₹ in crore)

Type of SPSUs	Government Companies		
	Capital	Long Term Loans	Grand Total
Working SPSUs	21.55	8.21	29.76
Non-working SPSUs	0.43	-	0.43
TOTAL	**21.98**	**8.21**	**30.19**

The summarised position of Government investment in SPSUs is detailed in **Appendix-4.1.1**.

4.1.7 As on 31 March 2014, of the total investment in SPSUs, 98.58 *per cent* was in working SPSUs and the remaining 1.42 *per cent* in non-working SPSUs. This total investment consisted of 72.81 *per cent* towards capital and 27.19 *per cent* in long-term loans. The investment has increased by 24.24 *per cent* from ₹ 24.30 crore in 2008-09 to ₹ 30.19 crore in 2013-14, as shown in the following Graph:

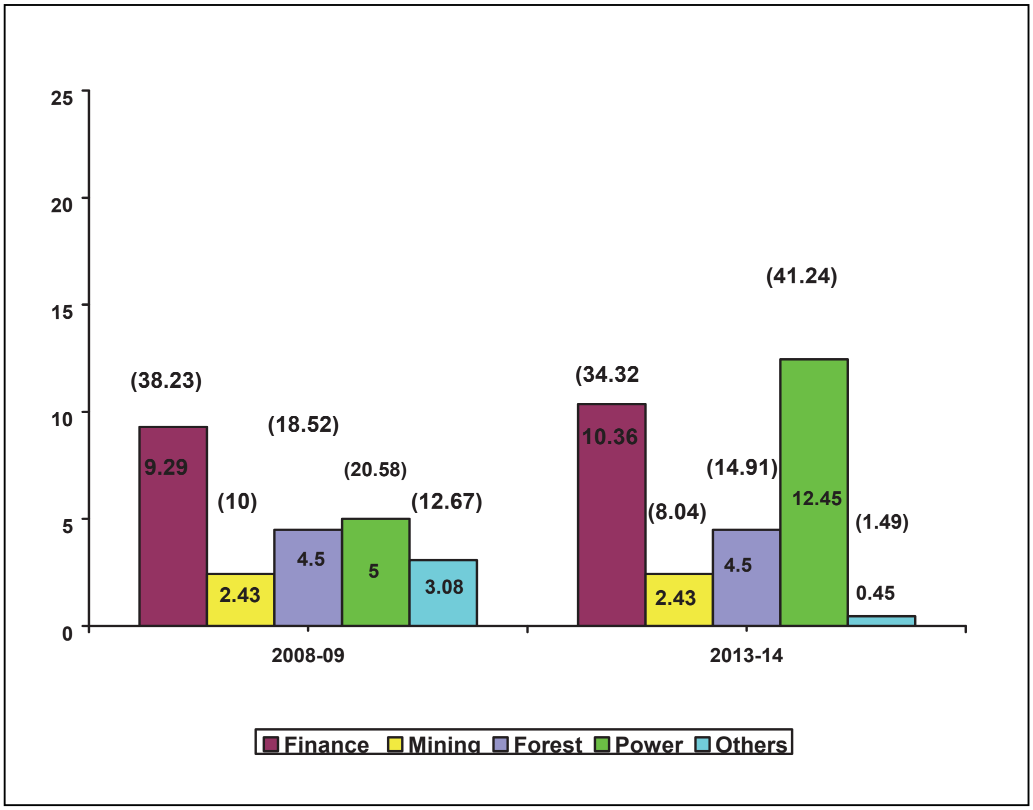
Graph-4.1.1



[3] The State has no 619-B Company

4.1.8 Investment in various important sectors and percentage thereof at the end of March 2009 and March 2014 is indicated below in the Bar Chart:

Bar Chart-4.1.1



(Figures in brackets show the percentage of total investment)

It may be noticed that as on 31 March 2014, the thrust of SPSU investment was mainly in the Finance and Power Sectors, which had 34.32 and 41.24 *per cent* of the total investment respectively. Among all sectors, the power sector had the highest investment of ₹ 12.45 crore. The investment in power sector represented the equity contribution made by the State Government in the only power sector SPSU, namely, Hydro Power Development Corporation of Arunachal Pradesh Limited.

Budgetary Outgo, Grants/Subsidies, Guarantees and Loans

4.1.9 Details regarding budgetary outgo towards Equity, Loans, Grants/ Subsidies and Guarantees issued in respect of SPSUs are given in **Appendix-4.1.3.** The summarised details of the budgetary outgo to SPSUs for three years ended 2013-14 are shown in **Table 4.1.2**:

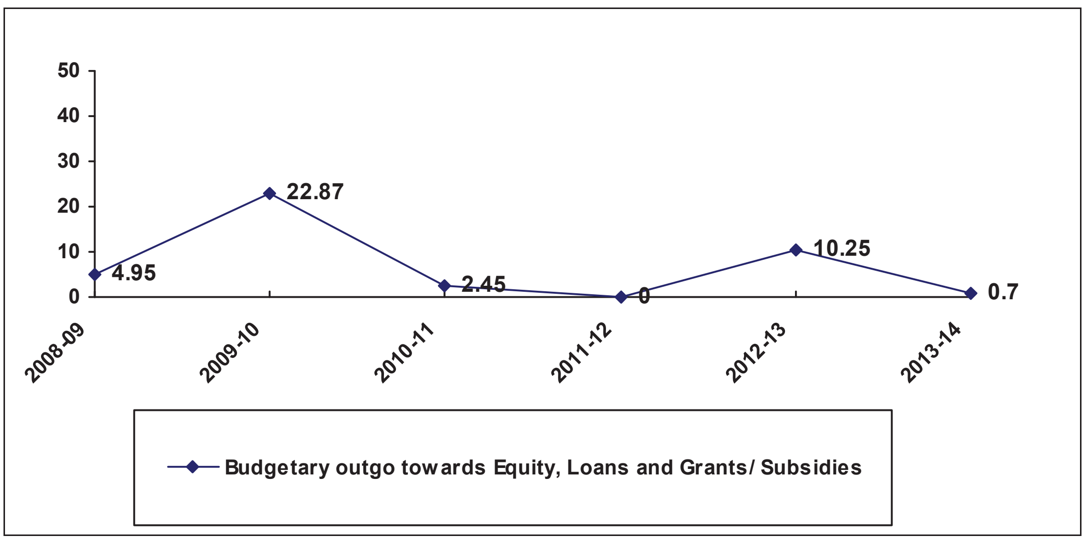
Table-4.1.2

(₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital Outgo from Budget	-	-	-	-	-	-
2.	Loans from Budget	-	-	-	-	-	-
3.	Grants/Subsidies Received	-	-	2	10.25	1	0.70
4.	Total Outgo (1+2+3)	-	-	-	10.25	-	0.70
5.	Guarantees Issued	-	-	-	-	-	-
6.	Guarantee Commitment	1	2.00	1	2.00	1	2.00

4.1.10 Details regarding budgetary outgo towards equity, loans and grants/ subsidies for the past six years are given in **Graph** below:

Graph-4.1.2



4.1.11 It could be seen from the above that during the period of six years from 2008-09 to 2013-14, the budgetary outgo was highest in 2009-10 at ₹ 22.87 crore while it was lowest at 'nil' during 2011-12. The budgetary outgo to SPSUs during current year (2013-14) was, however, at ₹ 0.70 crore. As on 31 March 2014, guarantee commitment of ₹ 2 crore extended by the State Government to one SPSU (*viz. Arunachal Pradesh Industrial Development & Financial Corporation Limited*) was pending to be availed by the said SPSU. As on 31 March 2014, no guarantee commission was payable to the State Government by any SPSUs. 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 and loans extended by the State Government and remaining outstanding as per the records of SPSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned SPSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2014 is summarised in below Table:

Table-4.1.3

(₹in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	9.04	19.53	10.49
Loans	Nil	7.86	7.86

4.1.13 It was observed that there were differences in respect of all SPSUs and the differences were pending reconciliation over a period of more than ten years. The Accountant General has taken up the matter from time to time with the Secretary, Finance Department, Government of Arunachal Pradesh, Administrative Departments of respective SPSUs and the concerned SPSUs for reconciliation of the differences. However, no significant progress in this direction was noticed. The Government and SPSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of SPSUs

4.1.14 The financial results of SPSUs as per their latest finalised accounts as on 30 September 2014 are detailed in **Appendix-4.1.2.** A ratio of SPSU turnover to State GDP shows the extent of SPSU activities in the State economy. The Table below shows details of working SPSUs turnover and State GDP for the years from 2008-09 to 2013-14.

Table-4.1.4

(₹in crore)

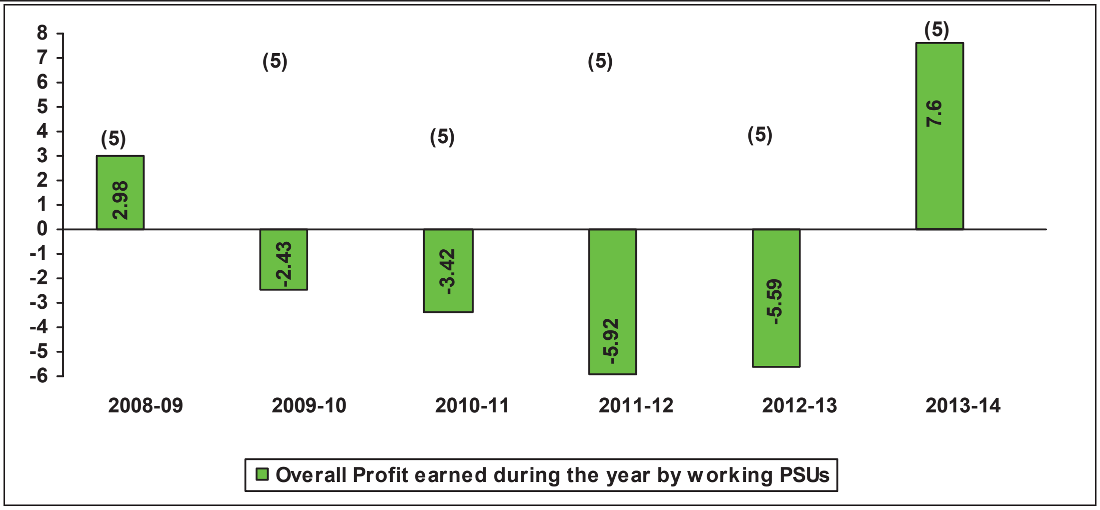
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Turnover[4]	5.57	7.79	6.37	5.82	7.57	6.31
State GDP	4547	6258	8350.16	11135.53	11942.81	13491.03
Percentage of Turnover to State GDP	0.12	0.12	0.08	0.05	0.06	0.05

It can be seen that during the period of six years, the percentage of Turnover to State GDP had reduced from 0.12 in 2008-09 to 0.05 in 2013-14. The declining trend of said percentage was indicative of the fact that the Turnover of the working SPSUs was not encouraging as compared to year-wise growth in the State GDP figures.

[4] Turnover of working SPSUs as per their latest finalised accounts as of 30 September

4.1.15 Profit earned/losses incurred by working SPSUs during 2008-09 to 2013-14 are given below in a Bar Chart:

Bar Chart-4.1.2



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

4.1.16 It may be noticed that after 2008-09, working SPSUs showed overall negative working results during the subsequent four years from 2009-10 to 2012-13. During the year 2013-14, however, the working SPSUs had earned an overall profit of ₹ 7.60 crore mainly because of the profit (₹ 3.54 crore) earned by one SPSU (*viz.* Arunachal Pradesh Forest Corporation Limited) as against the loss (₹ 7.13 crore) incurred during 2012-13. During 2013-14, out of five working SPSUs, three SPSUs earned aggregate profits of ₹ 9.29 crore and two SPSUs incurred losses of ₹ 1.69 crore. The contributors to the profits were *Arunachal Pradesh Forest Corporation Limited* (₹ 3.54 crore), *Arunachal Police Housing and Welfare Corporation Limited* (₹ 5.25 crore) and *Hydro Power Development Corporation of Arunachal Pradesh Limited* (₹ 0.50 crore). The heavy losses were incurred by *Arunachal Pradesh Industrial Development and Financial Corporation Limited* (₹ 1.41 crore).

4.1.17 A review of latest Audit Report of CAG shows that the SPSUs[5] incurred losses to the tune of ₹ 1.59 crore and made infructuous investment of ₹ 52.74 crore which were controllable with better management. Year-wise details from Audit Reports are given below.

Table-4.1.5

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	Total
Controllable losses as per Audit Report	0.61	0.61	0.37	1.59
Infructuous Investment	6.04	2.82	43.88	52.74

[5] Including Department of Power and Department of Hydro Power Development

4.1.18 The above losses pointed out by Audit Reports of the CAG were based on test check of records of SPSUs/Government Departments. The actual controllable losses would be much more. With better management, the losses could be minimized or eliminated. SPSUs/Government Departments would be able to discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for improving professionalism and accountability in the functioning of SPSUs/ Government Departments.

4.1.19 Some other key parameters pertaining to SPSUs are given below.

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Return on Capital Employed (*per cent*)[6]	6.09	--	--	--	--	15.99
Debt	9.87	10.33	11.69	11.42	8.60	8.21
Turnover[7]	5.57	7.79	6.37	5.82	7.57	6.31
Debt/Turnover Ratio	1.77:1	1.33:1	1.84:1	1.96:1	1.14:1	1.30:1
Interest Payments	0.39	0.78	0.25	0.15	1.22	0.76
Accumulated Profits (+) / losses (-)	2.64	4.06	(-) 3.73	(-)16.30	(-)22.47	(-)14.75

4.1.20 From the table above, it may be noticed that during the years from 2008-09 to 2013-14, the turnover of working SPSUs showed a mixed trend registering an overall increase of ₹ 0.74 crore in six years period. On the other hand, the debt of the SPSUs had showed decreasing trend after 2010-11. As a result, the debt-turnover ratio had improved from 1.77:1 (2008-09) to 1.30:1 (2013-14).

During the first two years (viz. 2008-09 and 2009-10) of six years period, the SPSUs had accumulated profits. In the subsequent four years, however, the SPSUs had accumulated losses ranging between ₹ 3.73 crore (2010-11) and ₹ 14.75 crore (2013-14). Further, in four out of six years (excepting 2008-09 and 2013-14), the SPSUs had negative return on capital employed on account of their negative operational results. During 2013-14, the return on capital employed was to the extent of 15.99 *per cent* due to overall profits (₹ 7.60 crore) registered by working SPSUs.

4.1.21 The State Government had not formulated (November 2014) any dividend policy to make it mandatory for SPSUs to pay a minimum return on the paid-up share capital contributed by the State Government. As per their latest finalised accounts as on 30 September 2014, three working SPSUs earned aggregate profit of ₹ 9.29 crore and none of the SPSUs had declared dividend.

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6 Nil figures represent negative return on capital employed

7 Turnover of working SPSUs as per latest provisional accounts as of 30 September 2014

Arrears in Finalization of Accounts

4.1.22 Under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956, accounts of Companies for every financial year are required to be finalised within six months from the end of the relevant financial year. The Table below provides details of progress made by working SPSUs in finalisation of accounts by September 2014.

Table-4.1.6

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-04
1.	Number of Working SPSUs	5	5	5	5	5
2.	Number of accounts finalized during the year	5	7	6	5	4
3.	Number of accounts in arrears	31	29	28	28	29
4.	Average arrears per SPSU (3/1)	6.2	5.8	5.6	5.6	5.8
5.	Number of Working SPSUs with arrears in accounts	5	5	5	5	5
6.	Extent of arrears in years	1 to 16	1 to 15	1 to 15	1 to 15	1 to 15

4.1.23 It may be seen that the average number of accounts in arrears ranged between 5.6 and 6.2 accounts per working SPSU. Delay in finalisation of accounts was mainly attributable to inadequacy of manpower and abnormal delays in compilation/approval of Annual Accounts by the SPSUs. Arunachal Pradesh Mineral Development and Trading Corporation Limited had highest arrears in accounts of 15 years (since 1999-00). In addition, there were also the arrears in finalization of accounts by non-working SPSUs. The two non-working SPSUs had backlog of five years accounts each.

4.1.24 The State Government invested an aggregate amount of ₹ 54.88 crore in five SPSUs (Equity - ₹ 5.30 crore; Loans - ₹ 2.88 crore; Grant/Subsidy - ₹ 38.50 crore; and Others - ₹ 8.20 crore) during the years for which their accounts were not finalised, as detailed in **Appendix-4.1.4**. Delays in finalisation of accounts may result in the risk of fraud and leakage of public money apart from violation of provisions of the Companies Act, 1956.

4.1.25 Administrative Departments have the responsibility to oversee activities of these SPSUs and to ensure that accounts are finalised and adopted by them within the prescribed period. Attention of concerned Administrative Departments and the Government on the issue of arrears in finalisation of accounts was regularly drawn by the Accountant General on quarterly basis, emphasizing on the need for clearing of arrears. The issue was also periodically taken up with the Chief Secretary/Finance Secretary, Government of Arunachal Pradesh, to expedite the backlog of accounts in a time-bound manner. However, no significant progress was noticed. As a result, the net worth of these SPSUs could not be assessed in audit.

In view of the above position of arrears, it is recommended that ***the Government should monitor and ensure timely finalization of accounts by SPSUs in conformity with provisions of the Companies Act, 1956.***

Winding up of Non-Working SPSUs

4.1.26 There were two non-working SPSUs in the State as on 31 March 2014. Both the non-working SPSUs had commenced the liquidation process. The non-working SPSUs (*Parasuram Cement Limited* and *Arunachal Horticultural Processing Industries Limited*) need to be wound up at the earliest as their existence does not serve any purpose to the State.

Comments on Accounts and Internal Audit

4.1.27 During October 2013 to September 2014, four working Companies forwarded their four audited accounts to the Accountant General. Of these, three accounts of three companies were selected for supplementary audit while one account of one company was given 'non-review certificate'. Details of aggregate money value of comments of Statutory Auditors and the CAG are given in below Table:

Table-4.1.7

(₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Increase in Profit	-	-	-	-	1	0.48
2.	Non-disclosure of material facts	-	-	-	-	1	0.23
3.	General	-	-	-	-	1	-

4.1.28 Statutory Auditors (Chartered Accountants) were required to furnish a detailed report upon various aspects, including Internal Control/Internal Audit System in the audited Companies, in accordance with directions issued to them by the CAG 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 Statutory Auditors on possible improvement in the Internal Control/Internal Audit System in respect of three[8] Companies during 2013-14 was as follows:

[8] Arunachal Pradesh Industrial Development and Financial Corporation Limited, Arunachal Pradesh Forest Corporation Limited and Arunachal Pradesh Mineral Development and Trading Corporation Limited

Sl. No.	Nature of comments made by Statutory Auditors
1.	Absence of a credit policy, policy of provisioning against doubtful debts/write-off and liquidated damages.
2.	Deficiency in the internal audit system, *i.e.*, frequency and scope of audit needed to be increased and compliance mechanism needed to be strengthened.
3.	Internal audit system was not commensurate with the nature and size of business of the Company

COMPLIANCE AUDIT PARAGRAPHS

Department of Hydro Power Development

4.2 Avoidable Expenditure

In the absence of an appropriate clause in the contract regarding mode of computation of the revised contract value in case of subsequent revision in the work scope, the Department incurred avoidable expenditure of ₹ 0.37 crore

The Chief Engineer, Department of Hydro Power Development (Department) entered (March 2009) into a lump sum turnkey contract with M/s Flovel Mecamidi Energy Private Limited, Faridabad (Contractor) for supply, erection, testing and commissioning of Electro-Mechanical (EM) and Hydro-Mechanical (HM) equipment for Halaipani Small Hydro Power Project (3 x 4 MW) at a cost of ₹ 37.97 crore. The scope of work included construction of a 132/33 KV Switchyard for evacuation of power from the project.

As the Department of Power (DoP) decided to construct a 33 KV Double Circuit Line in place of 132 KV Transmission Line, for evacuation of power from the project, the DHPD informed (April 2009) the Contractor to delete some items of work relating to the 132 KV Switchyard from the scope of contract. The value of the excluded items was jointly assessed by the Contractor/Department at ₹ 4.05 crore, which included apportioned portion of common factory overheads (₹ 1.01 crore[9]) and profit margin (₹ 0.41 crore[10]).

It was observed that the agreement entered with the Contractor did not contain any specific clause regarding revision in the work scope and mode of computation of the revised contract value in case of increase or decrease in the scope of work. In the absence of an enabling clause, the Department based on the request of the Contractor had agreed to reduce the original contract value by ₹ 3.06 crore (net) against the deleted works after allowing ₹ 0.99 crore towards common factory overheads

9 25 *per cent* of total cost (*viz.* ₹ 4.05 crore)

10 10 *per cent* of total cost (₹ 4.05 crore)

(₹ 0.71 crore[11]) and profit margin (₹ 0.28 crore[12]) against the deleted items. Accordingly, the work scope of the contract was reduced and the contract value was revised (October 2009) from ₹ 37.97 crore to ₹ 34.91 crore. The Contactor supplied the materials and payment of ₹ 28.50 crore was released (June 2013).

It was observed that the work was awarded on lump-sum turnkey basis and hence, allowing of the apportioned common factory overheads (₹ 0.71 crore) in respect of excluded items of works was acceptable. However, the profit margin of ₹ 0.28 crore allowed by the Department against unexecuted items of works was not justified and tantamount to undue favour to the Contractor.

Thus, in absence of an appropriate clause in the contract regarding mode of computation of the revised contract value in case of subsequent revision in the work scope, the Department incurred avoidable expenditure of ₹ 0.28 crore on account of the profit margin allowed to the Contractor against unexecuted items of works.

During March 2011, the Department entered into another agreement with the same Contractor for supply, erection, testing and commissioning of EM and HM equipment for one additional unit of 4 MW of Halaipani SHP at a cost of ₹ 8.40 crore. The contract value of this additional work was determined based on the proportionate rates of the revised agreement of October 2009. Accordingly, the contract value fixed in respect of the additional work included ₹ 0.30 crore towards factory overheads and profit margin. The component of irregular profit margin included in the base contract rates had inflated the contract value of the second contract by ₹ 0.09 crore[13] .The Contractor supplied the materials (2011-12) against the second contract and was paid ₹ 6.75 crore (June 2013). The materials valued at ₹ 35.25 crore procured for the project against the two agreements were, however, pending for erection by the Contractor for want of power house (August 2014).

Failure of the Department to include an appropriate clause in the agreement regarding mode of revision of contract value in case of subsequent increase or decrease in the work scope resulted in avoidable expenditure of ₹ 0.37 crore[14] in two contracts.

The Government replied (November 2014) that the agreement entered into for the work was purely a lump-sum turnkey contract unlike rate contract agreement. As such, the price break-up of each item was quoted by the tendering firms only for the purpose of billing and release of payment so as to facilitate the turnkey contractor to execute the work as per the schedule. As such, the quoted price of the turnkey contractor for the deleted items of work was not the real cost but was taken as base rate by the Department to reduce the cost of the lump-sum agreement that was drawn.

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[11] (₹ 0.99 crore * 25)/35

[12] (₹ 0.99 crore *10)/35

[13] (₹ 0.30 crore * 10) / 35

[14] ₹ 0.28 crore **plus** ₹ 0.09 crore

Hence, no undue advantages were extended to the turnkey contractor while making amendments in the agreement.

It was further stated that the turnkey contractor had agreed to carry additional work of one Unit of 4 MW at proportionate rate of earlier revised agreement. As such, no additional payment was made to the contractor since there was price escalation of 15 *per cent* over two years from 2009 to 2011. It was also stated that inviting fresh tender would have consumed more time and increase the project cost, *etc.*

The reply is not acceptable considering the fact that the profit margin allowed against unexecuted items of works was in addition to the actual costs incurred by the Contractor and hence, was not justified. Further, while entering into second agreement with the same Contractor for additional works, the Department should have incorporated suitable clause in the agreement for increase or decrease of items of works instead of fixing the contract value on the basis of proportionate rates of previous contract, which were irregularly inflated.

4.3 Infructuous Expenditure

Due to inadequate and improper feasibility study of project sites at planning stage investment of ₹ 43.88 crore on two mini hydro projects proved infructuous.

With a view to meet the demand for power in East Siang District, the Public Works Department (PWD), Government of Arunachal Pradesh, sanctioned (March 1991) two mini hydro projects (MHPs) namely Sipit MHP (2 MW) and Sidip MHP (3 MW) at estimated cost of ₹ 4.47 crore and ₹ 6.21 crore respectively. The Sipit and Sidip MHPs were to be constructed on Sipit and Sidip Nallahs respectively on Siang River in Upper Siang District. As per the Detailed Project Reports (DPRs) prepared (1991) by PWD, project areas for both the MHPs were rugged with steep slopes and covered by dense jungle. The DPRs were prepared based on the inspection of the topography of the project areas. It was, however, observed that while preparing the DPRs for the projects, no detailed geological survey and geo-physical investigations was conducted by PWD to assess the feasibility of the project sites for construction of two MHPs. In 1993, the Department of Power (DoP) was created and both the MHPs were handed over (June 1994) to DoP for execution.

The DoP awarded (March/ November 1993) the work for implementation of two projects on turnkey basis to M/s Subhash Projects & Marketing Limited (Contractor) at a contract value of ₹ 16.90 crore (Sidip MHP) and ₹ 15.07 crore (Sipit MHP). The works of Sidip MHP and Sipit MHP were to be completed by October 1994 and June 1995 respectively.

It was observed that the progress of project works (November 1993 to September 1999) was very slow owing to several controllable and uncontrollable reasons like, slow progress of contractor's work, frequent incidents of floods, landslides, etc. In

September 1999, the Contractor had completely stopped the work alleging the DoP for delay/non-release of payments and went for arbitration.

In an interim order, the Arbitration Tribunal issued (December 2001) directions to the DoP for release of interim payments to the Contractor with the stipulation that the Contractor would complete both the projects within 8 months (Sidip MHP) and 2 months (Sipit MHP) from the date of interim payment. Accordingly, the DoP released (October 2002) the payment of ₹ 5.60 crore to the Contractor. It was, however, observed that despite the payment released by the DoP, there was no improvement in execution of the project works by the Contractor and thus, the projects could not be completed within the agreed time schedule. The DoP approached (February 2003) the Arbitration Tribunal for refund of payment released to the Contractor but the petition was not heard by the Arbitrator. The contract was finally terminated (June 2004) and subsequently, the Department of Hydro Power Development (DHPD)[15] had taken up (January 2005) the work departmentally for the construction of damaged (2002) components of Sipit Project caused by landslides/soil erosion.

Meanwhile, the cost estimates for Sipit and Sidip MHPs were revised (January 2002) to ₹ 21.48 crore and ₹ 34.05 crore respectively on account of cost escalation due to delayed execution and increase in quantities and other related items. There was no significant progress of works under two projects thereafter. During 2007-08, DHPD again revised the cost estimates of Sidip and Sipit MHPs to ₹ 21.87 crore (Sipit MHP) and ₹ 35.09 crore (Sidip MHP) and submitted the same for sanction of additional funds under the Prime Minister's Package. The Planning Commission of India released (2008-09) ₹ 0.60 crore and ₹ 13.26 crore for Sipit and Sidip MHPs respectively.

There was no progress in the projects works even after release of additional funds under Prime Minister's Package. Execution of projects had further suffered due to incessant rainfall (May 2010) thereby causing damages to civil structures i.e., power channel, forebay tank, spillway channel, penstock pipe, anchor, saddle blocks, etc. It was stated that out of the project fund of ₹ 13.86 crore released by the Planning Commission, the DHPD had incurred (March 2011) ₹ 0.68 crore on two MHPs and diverted (March 2011) the remaining funds of ₹ 13.18 crore towards the works relating to Halaipani Small Hydro Project without approval of the Planning Commission.

In August 2011, DHPD constituted a Technical Committee[16] to study the technical and economic viability of two projects. The Technical Committee (TC) reported (October 2011) that construction of both projects was technically unviable as the

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[15] The Department of Power (DoP) was bifurcated (12 November 2003) into two departments viz. Department of Power (DoP) and Department of Hydro Power Department (DHPD).

[16] Shri. Taki Tatin, Executive Engineer (C), Geku Civil Division as Chairman, Shri. Ninya Bagra, Executive Engineer (E&M), Aalo E&M Division as Member, and Shri. K.P. Tripathi, Surveyor of Works (C), O/o the Superintending Engineer, Jengging as Member

valleys on which construction was planned had steep slopes with young and fragile geographical formation. The TC opined that the stability of the projects in the near future would be threatened. The TC noticed that the projects were uneconomical as it involved additional expenditure of ₹ 10.11 crore for Sipit MHP and ₹ 10.15 crore for Sidip MHP. Hence, the TC recommended for scrapping of the two projects.

Accordingly, the DHPD requested (November 2011) the State Government for scrapping and write off of both projects. While accepting the proposal, the State Government directed (September 2012) the DHPD to assess the salvage value of E&M equipment, penstock pipes and power house structure for use in other hydro projects with the same technical parameters.

It was observed that as of September 2012, total expenditure of ₹ 43.88 crore (including ₹ 0.68 crore out of the PM's Package[17]) had already been incurred on the two projects. It was further observed that even after a lapse of two years of deciding for scrapping of the two projects, the DHPD had not assessed the salvage value of the equipment for appropriate use in other hydro projects ignoring the directions (September 2012) of the State Government in this regard.

Thus, due to inadequate and improper feasibility study of the project sites at planning stage, the investment of ₹ 43.88 crore made in two MHPs proved infructuous. Besides, the State was also deprived of the potential generation of 5 MW per year from these MHPs. Further, inaction on part of the DoP to make alternative use of the equipment of the projects valued ₹ 17.44 crore had exposed the said equipment against the wear and tear, rust, *etc.*

The Government stated (November 2014) that after taking over the projects from the PWD, consultancy services for preparation of DPRs was assigned (1992-93) to Alternative Hydro Energy Centre (AHEC), University of Roorkee. DPRs for both projects were prepared in October 1993. During 1998-99, different components of the projects were damaged due to landslides. The Department consulted AHEC for sub-soil investigation and geological studies and based on the report submitted (April 2010) by AHEC, preventive measures were taken. However, such measures did not yield desired results. It was stated that E&M equipment and other machinery were kept unutilised pending completion of legal proceedings. It was, however, added that proposals for write-off of the projects were submitted by the Department to the Government.

The reply is not tenable as the Department should have first carried out the sub-soil investigation and geological studies during preparation of the DPRs (1992-93). Further, the additional expenditure of ₹ 0.68 crore incurred (March 2011) from the

[17] PM's Package amounting to ₹ 550 crore was sanctioned for illumination/electrification of villages located in Border Districts of Arunachal Pradesh in 2008. Out of ₹ 550 crore, ₹ 416 crore was sanctioned to DHPD

Prime Minister's Package was not justified as no fruitful results were obtained against the preventive measures taken based on AHEC report (April 2010).

Department of Power

4.4 Interest on Consumer's Security Deposit

Failure of the Department to comply with the provisions of the Electricity Supply Code had deprived the consumers of the benefits of interest amounting to ₹ 0.52 crore on security deposits

As per the Tariff Order[18] for 2013-14 issued (May 2013) by the Arunachal Pradesh State Electricity Regulatory Commission (APSERC) read with Para 4.119 of the Arunachal Pradesh Electricity Supply Code, 2013 (Electricity Supply Code) notified (April 2013) by APSERC, interest free deposits collected by the licensee (Department of Power) from the consumers would be converted into interest bearing securities. The interest on consumers' security deposits was to be paid annually, by the Department of Power (Department) at the State Bank of India base rate prevailing on the 1st day of April each year. The interest accrued during the year was to be adjusted in the consumer's bill for the first billing cycle of the ensuing financial year. The orders were effective from 5 April 2013.

During test check of Monthly Divisional Accounts (August 2013, March 2014 to May 2014) relating to 2 out of 19 divisions of the Department it was observed that as of May 2014, said 2 divisions had collected a sum of ₹ 4.56 crore[19] from consumers against Meter Security and Security Deposit. It was observed that contrary to the provisions of the Tariff Order, 2013-14 and Electricity Supply Code 2013, the above deposits had been reflected by the Department under Deposit Part-V (Miscellaneous)- Head of Account - *8443- Deposits not bearing Interest'*. It was further observed that despite the directions issued (23 January 2014) by the Government of Arunachal Pradesh, the said deposits had not been transferred to 'Head of Account - *8336- Deposits bearing Interest'* (October 2014). The total interest liability of the Department against the security deposits of ₹ 4.56 crore for the period from April 2013 to May 2014 worked out at ₹ 0.52 crore[20], which should have been passed on to the consumers by way of adjustment in the consumers' bill for the first billing cycle of ensuing financial year 2014-15[21].

[18] Clause 8 of Schedule-II (Miscellaneous Charges) of the Tariff Order for 2013-14

[19] Capital Electrical Division (₹ 2.33 crore) and Namsai Electrical Division (₹ 2.23 crore)

[20] ₹ 4.56 crore x 9.7 *per cent* (SBI Base rate as on 1 April 2013) x 14 months/12 (April 2013 to May 2014)

[21] First billing cycle for 2014-15 was April 2014 and bills are raised during the first week of the following month (*viz.* May 2014).

Thus, non-compliance by the Department with the provisions of the Electricity Supply Code had deprived the consumers of the benefits of the interest amounting to ₹ 0.52 crore on security deposits for the period from April 2013 to May 2014.

The Government stated (November 2014) that due to non-existence of a computerized billing and collection system, increased number of consumers, lack of manpower and ministerial staff, the said provisions could not be implemented. It was further stated that all efforts were being put in by Divisions to implement the directives of APSERC.

The reply is not tenable since the Arunachal Pradesh Electricity Supply Code, 2013 and Tariff Order 2013-14, were issued in April and May 2013 respectively and despite a lapse of 19 months, no initiative was taken by the Department (till October 2014) to transfer the said Security Deposits to an interest bearing account.