CHAPTER-IV

ECONOMIC SECTOR

(PUBLIC SECTOR UNDERTAKINGS)

CHAPTER IV: ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

4.1 Functioning of State Public Sector Undertakings

4.1.1 Introduction

The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature and also occupy an important place in the State economy. As on 31 March 2017, in Meghalaya, there were 17 SPSUs (15 Government companies and 2 Statutory Corporations). None of these companies was, however, listed on the stock exchange. During the year 2016-17, no SPSU was incorporated/closed down. The details of the SPSUs in Meghalaya as on 31 March 2017 are given below:

Table 4.1.1: Total number of SPSUs as on 31 March 2017

Type of SPSUs	Working SPSUs	Non-working SPSUs[1]	Total
Government Companies[2]	14	1	15
Statutory Corporations	2	Nil	2
Total	**16**	**1**	**17**

The working SPSUs registered an aggregate turnover of ₹ 1,108.66 crore as per their latest finalised accounts as of September 2017. This turnover was equal to 3.75 *per cent* of Gross State Domestic Product (GSDP) of ₹ 29,567 crore[3] for 2016-17. The working SPSUs incurred an overall loss of ₹ 266.27 crore as per their latest finalised accounts as of September 2017 as compared to the aggregate loss of ₹ 389.50 crore incurred by the working SPSUs as of September 2016. The decrease in the aggregate loss of working SPSUs during 2016-17 was mainly on account of decrease in the net losses of power sector companies from ₹ 365.30 crore during 2015-16 to ₹ 234.92 crore during 2016-17. The working SPSUs had employed 6,788 employees as at the end of March 2017. Total investment in 16 working SPSUs as on 31 March 2017 was amounting to ₹ 6,469.41 crore. The Return on Equity (RoE) in respect of 9 out of 16 working SPSUs was (-) 2.16 *per cent* as per their latest finalised accounts as on 30 September 2017. The accumulated losses (₹ 1,084.03 crore) of remaining seven working SPSUs had completely eroded their share capital (₹ 896.65 crore) as per their latest finalised accounts.

As on 31 March 2017, there was one non-working SPSU[4] lying defunct since 2006 and involved an investment of ₹ 4.72 crore. This is critical as the investment in non-working SPSU do not contribute to the economic growth of the State.

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[1] Non-working SPSUs are those which have ceased to carry on their operations (Meghalaya Electronics Development Corporation Limited).

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

[3] Source: State Finance Report 2016-17.

[4] Meghalaya Electronics Development Corporation Limited.

4.1.2 Accountability framework

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

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

Statutory Audit

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

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

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

Audit of Statutory Corporations is governed by their respective legislations. Out of two Statutory Corporations, CAG is the sole auditor for one Corporation, namely, Meghalaya Transport Corporation. In respect of the other Corporation (*viz.* Meghalaya State Warehousing Corporation), the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Role of Government and Legislature

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

The State Legislature also monitors the accounting and utilisation of Government investment in the SPSUs. For this purpose, the Annual Reports of State Government Companies together with the Statutory Auditors' Reports and comments of the CAG thereon are to be placed before the Legislature under Section 394 of the Act.

Similarly, the Annual Reports of Statutory Corporations along with the Separate Audit Reports of CAG are to be placed before the Legislature as per the stipulations made under their respective governing Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

4.1.3 Stake of Government of Meghalaya

The State Government has a huge financial stake in these SPSUs. This stake is of mainly three types:

- **Share Capital and Loans-** In addition to the Share Capital contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the SPSUs from Financial Institutions.

4.1.4 Investment in State SPSUs

As on 31 March 2017, the investment (capital and long-term loans) in 17 SPSUs was ₹ 6,474.13 crore as per details given in Table 4.1.2 below:

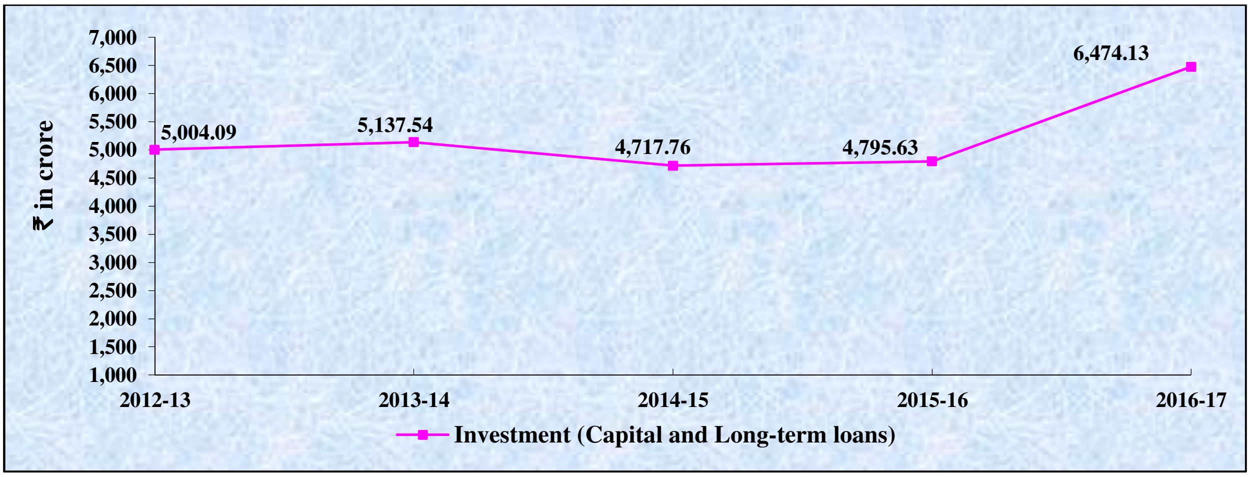
Table 4.1.2: Total investment in SPSUs

(₹ in crore)

Type of SPSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working SPSUs	4,353.22	2,019.69	6,372.91	96.50	0.00	96.50	**6,469.41**
Non-working SPSU	4.72	0.00	4.72	0.00	0.00	0.00	**4.72**
Total	**4,357.94**	**2,019.69**	**6,377.63**	**96.50**	0.00	**96.50**	**6,474.13**

Out of the total investment of ₹ 6,474.13 crore in SPSUs as on 31 March 2017, 99.93 *per cent* was in working SPSUs and the remaining 0.07 *per cent* in non-working SPSUs. This total investment consisted of 68.80 *per cent* towards capital and 31.20 *per cent* in long-term loans. The investment has grown by 29.38 *per cent* from ₹ 5,004.09 crore in 2012-13 to ₹ 6,474.13 crore in 2016-17 as shown in Chart 4.1.1 below:

Chart 4.1.1: Total investment in SPSUs



As could be noticed from the Chart above, there was a significant increase (₹ 1,678.50 crore) in the investments of the SPSUs during the year 2016-17 from ₹ 4,795.63 crore (2015-16) to ₹ 6,474.13 crore (2016-17). This increase was mainly on account of increase of ₹ 1,664.59 crore in the investment of power sector companies during 2016-17 in the form of equity (₹ 162.74 crore) and loans (₹ 1,501.85 crore).

The sector wise summary of investments in the State PSUs as on 31 March 2017 is given below:

Table 4.1.3: Sector-wise investment in SPSUs

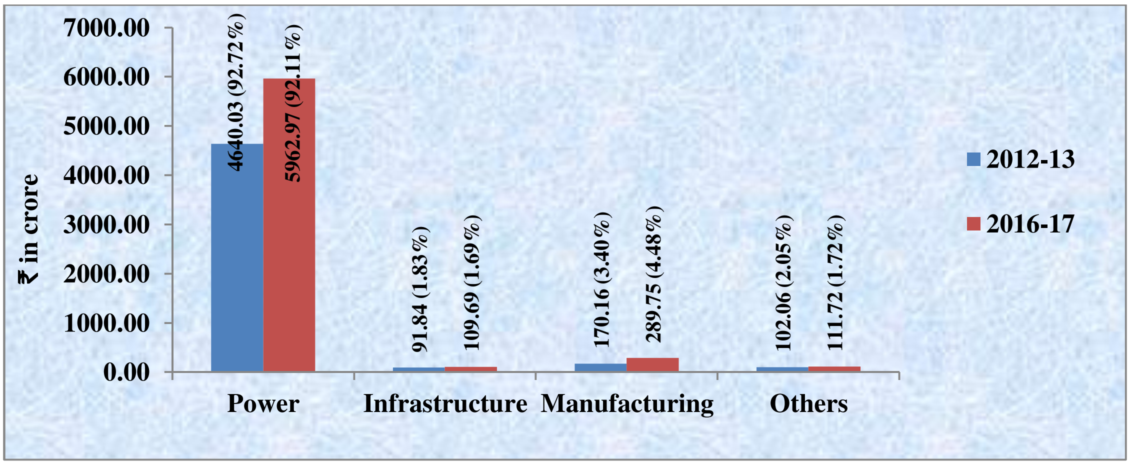
(₹ in crore)

Name of Sector	Government/Other[5] Companies		Statutory Corporations	Total Investment
	Working	Non-Working	Working	
Power	5,962.97	0.00	0.00	5,962.97
Manufacturing	285.03	4.72	0.00	289.75
Finance	0.00	0.00	0.00	0.00
Miscellaneous	4.81	0.00	3.36	8.17
Service	7.96	0.00	93.14	101.10
Infrastructure	109.69	0.00	0.00	109.69
Agriculture & Allied	2.45	0.00	0.00	2.45
Total	**6,372.91**	**4.72**	**96.50**	**6,474.13**

The investment in various important sectors and percentage thereof as on 31 March 2013 and 31 March 2017 are indicated in Chart 4.1.2.

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

Chart 4.1.2: Sector wise investment in SPSUs



It could be observed from Chart 4.1.2 above that during 2012-17, the thrust of SPSU investment was mainly in power sector, which had increased by 28.51 *per cent* from ₹ 4,640.03 crore (2012-13) to ₹ 5,962.97 crore (2016-17). Besides, the investment in manufacturing sector had also increased by 70.28 *per cent* from ₹ 170.16 crore (2012-13) to ₹ 289.75 crore (2016-17) mainly due to increase in the equity (₹ 45 crore) and long term borrowings (₹ 74.59 crore) of Mawmluh Cherra Cements Limited during 2013-17.

4.1.5 Special support and returns during the year

The State Government provides financial support to SPSUs in various forms through annual budget allocations. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and interest waived in respect of SPSUs for three years ended 2016-17 are given in Table 4.1.4 below:

Table 4.1.4: Details regarding budgetary support to SPSUs

(₹ in crore)

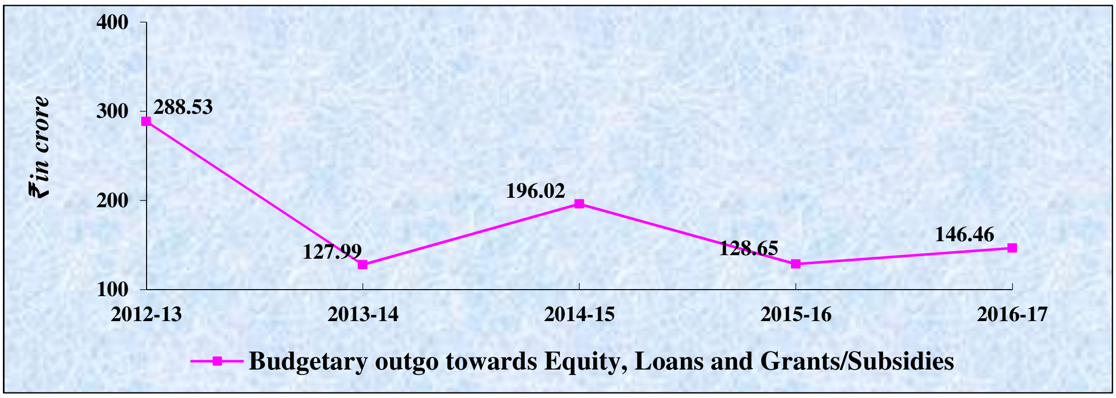
Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	4	40.30	1	3.31	3	38.90
2.	Loans given from budget	2	2.46	1	100.31	4	10.43
3.	Grants/Subsidy from budget	5 2	128.53(G) 24.73(S)	6	18.82(G) 6.21(S)	6 3	(G) 68.76 (S) 28.37
4.	**Total Outgo[6] (1+2+3)**	**10**	**196.02**	**8**	**128.65**	**11**	**146.46**
5.	Waiver of loans and interest	1	3.00	Nil	Nil	Nil	Nil
6.	Guarantees issued	Nil	Nil	Nil	Nil	1	325.00
7.	Guarantee Commitment	3	758.18	6	993.85	2	944.10

Source: As furnished by SPSUs.
(G): Grants; (S): Subsidies

[6] Actual number of SPSUs, which received equity, loans, grants/subsidies from the State Government.

The details regarding budgetary outgo to SPSUs towards Equity, Loans and Grants/Subsidies for past five years from 2012-13 to 2016-17 are depicted in Chart 4.1.3.

Chart 4.1.3: Budgetary outgo towards Equity, Loans and Grants/Subsidies



As could be noticed from the Chart above, the budgetary outgo to SPSUs during 2012-17 had shown a mixed trend. The budgetary outgo during 2013-14 was at all time low in five years at ₹ 127.99 crore which increased in 2014-15 to ₹ 196.02 crore mainly due to extension of grants/subsidy of ₹ 142.84 crore to one power sector SPSU (*viz*. Meghalaya Energy Corporation Limited). The budgetary support during 2015-16 was lower at ₹ 128.65 crore as compared to ₹ 196.02 crore provided during 2014-15. During 2016-17, however, the budgetary outgo to SPSUs had again increased to ₹ 146.46 crore. This included the budgetary support of ₹ 120.35 crore (68.86 *per cent*) provided to four power sector companies in the form of equity (₹ 29.09 crore), loans (₹ 5.41 crore) and grants/subsidy (₹ 85.85 crore). The said budgetary support provided to power sector companies included the support of ₹ 99.85 crore provided in the form of equity (₹ 29.09 crore), loans (₹ 5.41 crore) and grant (₹ 65.35 crore) for execution of power projects. The balance amount (₹ 20.50 crore) was provided to these companies towards Rural Electrification subsidy.

Further, to enable SPSUs to obtain financial assistance from Banks and Financial Institutions, State Government provides guarantee subject to the prescribed limits. The State Government charges guarantee fee against the guarantee so provided from the SPSUs concerned. This fee varies from 0.25 *per cent* to one *per cent* as decided by the State Government. As could be noticed from Table 4.1.4, the guarantee commitment of the State Government against the borrowing of the SPSUs increased from ₹ 758.18 crore during 2014-15 to ₹ 944.10 crore (2016-17).

4.1.6 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of SPSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the Finance Department and the SPSUs concerned should carry out reconciliation of differences. The position in this regard as at 31 March 2017 is summarised in Table 4.1.5:

Table 4.1.5: Equity, loans and guarantees outstanding as per Finance Accounts *vis a vis* records of SPSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs[7]	Difference
Equity	2,365.80	2,411.16	45.36
Loans	Not available[8]	290.33	Not workable
Guarantees	943.01	944.10	1.09

It can be noticed that there were unreconciled differences in the figures of equity (₹ 45.36 crore) and guarantees outstanding (₹ 1.09 crore) as per two sets of records. Audit observed that the difference in equity occurred in respect of seven SPSUs[9] and some of the differences were pending reconciliation since 2012-13. Though the Principal Secretary, Finance Department, Government of Meghalaya as well as the management of the SPSUs concerned were apprised after every quarter about the differences and it was stressed for the need for early reconciliation, no significant progress was noticed in this regard. The matter was also regularly taken up with the Chief Secretary, Government of Meghalaya after every three months to take necessary steps. The Government and the SPSUs concerned should take concrete steps to reconcile the differences in a time-bound manner.

4.1.7 Arrears in finalisation of accounts

The financial statements of the companies for each financial year are required to be finalised within six months after the end of the relevant financial year i.e. by September end in accordance with the provisions of Section 96(1) of the Act. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

The Table 4.1.6 below provides the details of progress made by working SPSUs in finalisation of their annual accounts as on 30 September 2017.

Table 4.1.6: Position relating to finalisation of accounts of working SPSUs

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Number of Working SPSUs	15	15	15	16	16
2.	Number of accounts finalised during the year	15	9	13	35	13
3.	**Number of accounts in arrears**	**52**	**58**	**60**	**43[10]**	**46**

7 Information as provided by SPSUs and includes only the investment made by State Government.

8 State Government's loans to SPSUs are extended through the Government Departments. These Government Departments reallocate the loan funds to different SPSUs. Hence, the SPSU-wise figures of State Government loans are not available in the Finance Accounts.

9 Forest Development Corporation Limited, Meghalaya Industrial Development Corporation, Meghalaya Energy Corporation Limited, Meghalaya Handloom & Handicraft Development Corporation Limited, Meghalaya Basin Management Agency, Meghalaya Transport Corporation and Meghalaya Infrastructure Development & Finance Corporation Limited.

10 Including two years' accounts of a newly added Company at serial no. A-5 of **Appendix 4.1.2** which were pending for finalisation.

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
4.	Number of Working SPSUs with arrears in accounts	14	14	15	16	16
5.	Extent of arrears (numbers in years)	1 to 15	1 to 16	1 to 14	1 to 11	1 to 12

As could be noticed from the table above, the number of accounts in arrears increased from 52 in 2012-13 to 60 in 2014-15 but decreased thereafter to 43 in 2015-16 mainly on account of finalisation of highest number of accounts (35 accounts) by working SPSUs during 2015-16 in last five years. As of September 2017, total 46 accounts relating to 16 SPSUs were in arrears. Audit noticed that more than 50 *per cent* of total SPSUs-arrears (*viz.*24 out of 46 arrear accounts) pertained to three working SPSUs namely Meghalaya Handloom & Handicrafts Development Corporation Limited (12 accounts), Forest Development Corporation Limited (six accounts) and Meghalaya Tourism Corporation Limited (six accounts).

Timely finalisation of accounts is important for the State Government to know the financial health of the SPSUs, avoid financial misappropriation, weaknesses, mismanagement, ensure safety of Government equity and fix responsibility, *etc*. The administrative departments concerned have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these SPSUs within the stipulated period. The Chief Secretary of Meghalaya and the Departments concerned were informed regularly of the arrears in finalisation of accounts by these SPSUs. Further, based on the proposal (May 2016) of the Principal Accountant General (PAG), the Chief Secretary of Meghalaya held two meetings (June/July 2016) with the Management of the SPSUs having arrears of accounts and the Principal Secretaries/Secretaries of the administrative departments concerned for clearing the backlog of accounts at the earliest. No improvement was, however, noticed in the position of arrears of accounts by working SPSUs.

4.1.8 Investment made by State Government in SPSUs

The State Government had invested an amount aggregating ₹ 251.02 crore in 14 SPSUs {equity: ₹ 118.72 crore (4 SPSUs), loans: ₹ 51.98 crore (four SPSUs) and grants ₹ 80.32 crore (eight SPSUs)} during the years for which the accounts of these SPSUs had not been finalised as detailed in **Appendix 4.1.1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not. Hence, State Government's investment in such SPSUs remained outside the scrutiny of State Legislature.

In addition to the above, there were arrear of 10 accounts as on 30 September 2017, in respect of the only non-working SPSU[11]. This SPSU became non-working in 2006 and was in the process of liquidation since June 2011.

[11] Meghalaya Electronics Development Corporation Limited

Table 4.1.7: Position relating to arrears of accounts in respect of non-working SPSU

No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
1	2007-08 to 2016-17	10

4.1.9 Placement of Separate Audit Reports

The position depicted in Table 4.1.8 below shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2017) on the accounts of Statutory Corporations in the Legislature. It could be seen that no SAR on the accounts of the Statutory Corporations was pending for placement in the State Legislature (November 2017).

Table 4.1.8: Status of placement of SARs in Legislature

Sl. No.	Name of the Statutory Corporation	Year up to which SARs issued to the Government and placed in Legislature
1	Meghalaya Transport Corporation	2013-14
2	Meghalaya State Warehousing Corporation	2015-16

4.1.10 Impact of non-finalisation of accounts

As pointed out under paragraphs 4.1.7 and 4.1.8**,** the delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. In view of the above, the actual contribution of SPSUs to the State GDP for the year 2016-17 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is, therefore, recommended that the Government may:

- *ensure preparation of accounts by SPSUs to clear the arrears and set targets for individual SPSU which could be monitored.*
- *consider finalisation of accounts as a pre-condition for providing fresh equity/loans/grants etc.*

4.1.11 Performance of SPSUs as per their latest finalised accounts

The financial position and working results of working Government Companies and Statutory Corporations 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. Table 4.1.9 below provides the details of working SPSUs turnover and State GDP for a period of five years ending 2016-17.

Table 4.1.9: Details of working SPSUs turnover vis-a vis State GDP (₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Turnover[12]	461.00	430.20	640.05	935.69	1,108.66
State GDP[13]	21,872.00	22,938.00	23,235.00	25,767.00	29,567.00
Percentage of Turnover to State GDP	2.11	1.88	2.75	3.63	3.75

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

[13] Source: Ministry of Statistics & Programme Implementation, Government of India

From the table above, it can be noticed that during the last five years ending 2016-17, the overall percentage of SPSUs turnover to State GDP had increased from 2.11 *per cent* (2012-13) to 3.75 *per cent* (2016-17). Contrary to the constant growth registered by State GDP during 2012-13 to 2016-17, the turnover of State PSUs had decreased by ₹ 30.80 crore (6.68 *per cent*) during 2013-14 as compared to 2012-13 and increased thereafter during the subsequent three years. As a result, the percentage of SPSUs turnover to State GDP had increased during all the years under reference excepting 2013-14. There was a significant increase of ₹ 468.61 crore in the SPSUs turnover during 2014-17 from ₹ 640.05 crore (2014-15) to ₹ 1,108.66 crore (2016-17). This increase was mainly on account of overall increase of ₹ 467.08 crore in the turnover of four power sector companies[14] from ₹ 529.26 crore (2014-15) to ₹ 996.34 crore (2016-17).

4.1.11.1 Erosion of capital due to losses

The paid-up capital and accumulated losses of 16 working SPSUs as per their latest finalised accounts as on 30 September 2017 were ₹ 4,281.19 crore and ₹ 1,515.45 crore respectively (**Appendix 4.1.2**). Analysis of investment and accumulated losses of these SPSUs revealed that the accumulated losses (₹ 1,084.03 crore) of seven[15] working SPSUs had completely eroded their paid-up capital (₹ 896.65 crore).

Of these seven SPSUs, the primary erosion of paid-up capital was in respect of one[16] power sector company. The accumulated losses (₹ 961.42 crore) of this power sector company had completely eroded its paid-up capital (₹ 801.20 crore) as per its latest finalised accounts. Among non-power sector SPSUs, the paid-up capital had primarily eroded in respect of one SPSU, namely, Meghalaya Transport Corporation (paid-up capital: ₹ 88.08 crore; accumulated losses: ₹ 99.63 crore).

Accumulation of huge losses by these SPSUs had eroded public wealth, which is a cause for serious concern.

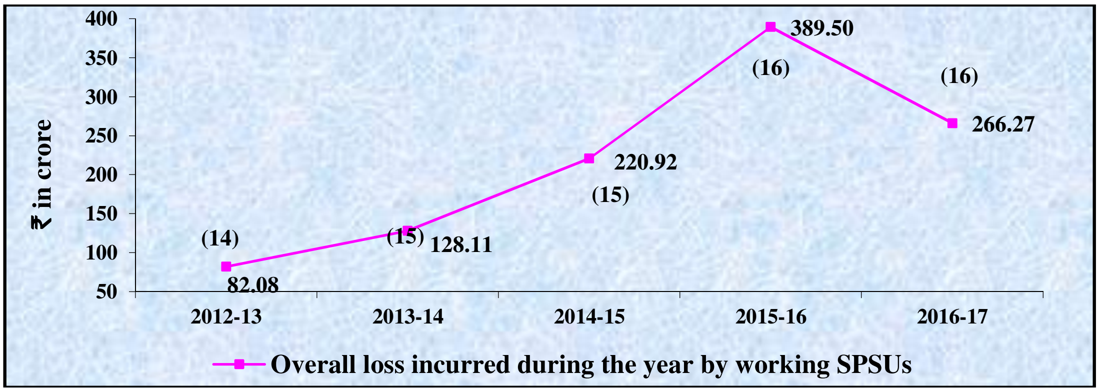
4.1.11.2 The overall losses incurred by the working SPSUs during 2012-13 to 2016-17 as per their latest finalised accounts as on 30 September of the respective year have been depicted below in Chart 4.1.4.

[14] Meghalaya Energy Corporation Limited, Meghalaya Power Generation Corporation Limited, Meghalaya Power Distribution Corporation Limited and Meghalaya Power Transmission Corporation Limited.

[15] Serial No. A1, A2, A4, A7, A10, A13 & B1 of **Appendix 4.1.2.**

[16] Serial No. A10 of **Appendix 4.1.2.**

Chart 4.1.4: Losses of working SPSUs



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

From the chart above, it can be noticed that the overall losses of working SPSUs increased considerably from 2012-13 onwards and peaked at ₹ 389.50 crore (2015-16) mainly due to the huge losses (₹ 366.55 crore) incurred by three power sector companies[17] during 2015-16. During 2016-17, the losses of power sector companies had decreased by ₹ 130.38 crore from ₹ 365.30 crore (2015-16) to ₹ 234.92 crore (2016-17). This had correspondingly decreased the overall losses of working SPSUs from ₹ 389.50 crore (2015-16) to ₹ 266.27 crore (2016-17). During 2016-17, out of 16 working SPSUs, 4 SPSUs earned profit of ₹ 9.30 crore while 12 SPSUs incurred loss of ₹ 275.57 crore as per their latest finalised accounts as on 30 September 2017. The main contributors to profits were Meghalaya Power Transmission Corporation Limited (₹ 7.17 crore) and Meghalaya Government Construction Corporation Limited (₹ 2.01 crore). Heavy losses were incurred by Meghalaya Power Distribution Corporation Limited (₹ 197.96 crore), Meghalaya Power Generation Corporation Limited (₹ 29.40 crore), Mawmluh Cherra Cements Limited (₹ 24.68 crore) and Meghalaya Transport Corporation (₹ 5.73 crore).

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

Table 4.1.10: Key Parameters of SPSUs

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Return on Capital Employed (*per cent*)*	-	-	-	-	-
Debt	1,047.53	1,126.21	1,310.44	1,231.99	1,418.51
Turnover[18]	461.00	430.20	640.05	935.69	1,108.66
Debt/ Turnover Ratio	2.27:1	2.62:1	2.05:1	1.32:1	1.28:1
Interest Payments	40.80	31.52	41.98	137.13	139.90
Accumulated losses	671.82	358.41	576.93	1,113.47	1,533.80

* Negative figures in all the five years under reference.

From the table above, it could be noticed that during 2012-17 (excepting 2013-14) the debt-turnover ratio had shown an improving trend. During 2016-17, the debt-

[17] Meghalaya Power Generation Corporation Limited (₹ 70.02 crore), Meghalaya Power Distribution Corporation Limited ₹ 295.15 crore) and Meghalaya Power Transmission Corporation Limited (₹ 1.38 crore).

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

turnover ratio (1.28:1) was at its best in five years mainly on account of growth of ₹ 615.44 crore in the turnover of four power sector companies[19] from ₹ 380.90 crore (2013-14) to ₹ 996.34 crore (2016-17). This had correspondingly increased the overall turnover of the SPSUs during the said period. The accumulated losses of SPSUs had shown an increasing trend after 2012-13. During 2013-17, the accumulated losses of SPSUs had increased by ₹ 1,175.39 crore from ₹ 358.41 crore (2013-14) to ₹ 1,533.80 crore (2016-17). This was mainly due to increase of ₹ 1,106.94 crore in the accumulated losses of four power sector companies from ₹ 119.97 crore (2013-14) to ₹ 1,226.91 crore (2016-17). This was indicative of the fact that the overall operational results of the SPSUs were highly influenced by the performance of power sector companies.

There was no information available on record regarding the existence of any specific policy of the State Government on payment of minimum dividend by the SPSUs. As per their latest finalised accounts as on 30 September 2017, four SPSUs[20] earned aggregate profit of ₹ 9.30 crore. None of these SPSUs, however, had declared any dividend during 2016-17.

4.1.12 Winding up of non-working SPSU

There was one non-working SPSU[21] involving investment of ₹ 4.72 crore as on 31 March 2017. Though the liquidation process of the non-working SPSU had commenced in June 2011, the winding up of the same was still in process (November 2017). As the annual accounts of this SPSU were pending finalisation since 2007-08, the up-to-date details of the expenditure incurred towards salaries, establishment expenditure, *etc.* were not available. As the non-working SPSU was neither contributing to the State economy nor meeting its intended objectives, the winding up process of the SPSU need to be expedited.

4.1.13 Comments on Accounts

During the year 2016-17, 10 working companies have forwarded 12 audited accounts to the Principal Accountant General (PAG). Of these, nine accounts of eight Companies were selected for supplementary audit while three accounts of two Companies were issued 'non-review certificates'. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needed to be improved substantially. The details of aggregate money value of the comments of statutory auditors and CAG are given below:

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[19] Serial no. A8 to A11 of **Appendix 4.1.2.**

[20] Meghalaya Power Transmission Corporation Limited, Meghalaya Government Construction Corporation Limited, Meghalaya Tourism Development Corporation Limited and Meghalaya State Warehousing Corporation Limited.

[21] Meghalaya Electronics Development Corporation Limited.

Table 4.1.11: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	2	0.53	4	3.31	1	1.48
2.	Increase in loss	3	109.58	16	95.69	1	1.00
3.	Non-disclosure of material facts	2	2.93	8	1,877.13	7	4,736.04
4.	Errors of classification	2	56.21	5	572.68	4	164.51

Source: As per latest finalised annual accounts of SPSUs.

During the year, the statutory auditors had given qualified certificates to all 12 accounts of 10 Companies. In addition, CAG had also issued qualified certificates on all nine accounts of eight Companies selected for supplementary audit. No adverse certificates or disclaimers were issued by the statutory auditors or CAG on any of the accounts during the year. The compliance of Companies with the Accounting Standards (AS) remained poor as there were 14 instances of non-compliance with AS relating to seven accounts.

Similarly, during the year 2016-17, one working Statutory Corporation forwarded one year accounts for audit to PAG which was completed. The statutory auditor and the CAG had given qualified certificates on the accounts of the Corporation.

4.1.14 Response of the Government to Audit

Performance Audits and Paragraphs

For the Chapter on Economic Sector (PSUs) of the Report of the CAG for the year ended 31 March 2017, Government of Meghalaya, one performance audit and three compliance audit paragraphs involving two Departments were issued to the Principal Secretaries of the respective Departments with a request to furnish replies within six weeks. The replies to the three compliance audit paragraphs and the draft performance audit had been received from the State Government. The draft performance audit report was also discussed (22 November 2017) with the representatives of audited entities (Meghalaya Energy Corporation Limited and its three subsidiaries) as well as the State Government in the Exit Conference. The formal replies to the draft Report as furnished (November 2017) by the audited entities and State Government as well as the views expressed by the representatives of the State Government in the Exit Conference have been appropriately taken into consideration while finalising the Report.

4.1.15 Follow up action on Audit Reports

Replies outstanding

The Reports of the CAG represent the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. To ensure accountability of the executive about the issues contained in these Audit Reports, the Public Accounts Committee (PAC) of the Meghalaya

Legislative Assembly issued instructions (July 1993) for submission of *suo moto* explanatory notes by the administrative departments concerned within one month of presentation of the Audit Reports to the State Legislature.

Table 4.1.12: Explanatory notes not received (as on 30 September 2017)

	Date of placement of Audit Report in the State Legislature	Total performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2010-11	23 March 2012	1	5	Nil	1
2011-12	9 October 2013	1	1	Nil	Nil
2012-13	16 June 2014	Nil	4	Nil	3
2013-14	24 September 2015	Nil	6	Nil	2
2014-15	23 March 2016	1	4	Nil	4
2015-16	24 March 2017	1	4	Nil	4
Total		**4**	**24**	Nil	**14**

From the above, it could be seen that out of 24 paragraphs and four performance audits (PAs), explanatory notes to 14 paragraphs in respect of three Departments, which were commented upon, were awaited (November 2017).

Discussion of Audit Reports by COPU

The status as on 30 September 2017 of PAs and compliance audit paragraphs that appeared in the Chapter on Economic Sector (PSUs) of the Audit Reports and discussed by the Committee on Public Undertakings (COPU) was as under.

Table 4.1.13: PAs/paragraphs appeared in Audit Reports *vis a vis* discussed as of September 2017

Period of Audit Report	Number of PAs/paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2010-11	1	5	Nil	3
2011-12	1	1	1	1
2012-13	Nil	4	Nil	1
2013-14	Nil	6	Nil	4
2014-15	1	4	1	1
2015-16	1	4	Nil	Nil
Total	**4**	**24**	**2**	**10**

Compliance to Reports of COPU

Action Taken Notes (ATN) to 15 recommendations[22] pertaining to 3 Reports of the COPU presented to the State Legislature between November 2010 and March 2017 had not been received (November 2017) as indicated below:

Table 4.1.14: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where Action Taken Notes (ATNs) not received
2008-09	1	7	7
2009-10	1	7	7
2011-12	1	1	1
Total	**3**	**15**	**15**

[22] Against four paragraphs and one performance audit.

It is recommended that the Government may ensure: (a) sending of replies to explanatory notes/compliance audit paragraphs/performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) recovery of loss/ outstanding advances/overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

4.1.16 Coverage of this Report

This Report contains four compliance audit paragraphs and one performance audit on '*Financial Management of Meghalaya Energy Corporation Limited and its three Subsidiary Companies*' involving an aggregate financial effect of ₹ 1,183.06 crore.

The audit findings covered in the Report relate to six SPSUs. The investment, turnover, equity, return and percentage of return on equity (RoE) of these SPSUs as per their latest finalised accounts as on 30 September 2017 are given below:

Table 4.1.15: Key parameters of the SPSUs covered in the Report

(₹ in crore)

Sl. No.	Name of the PSU	Investment	Turnover	Equity[23]	Return[24]	RoE (*per cent*)
1	Meghalaya Energy Corporation Limited	1,961.64	0.00	1,862.07	-14.73	-0.79
2	Meghalaya Power Generation Corporation Limited	1,772.89	191.10	621.50	-29.40	-4.73
3	Meghalaya Power Distribution Corporation Limited	1,017.40	722.17	-160.22	-197.96	Not workable
4	Meghalaya Power Transmission Corporation Limited	406.29	83.07	369.12	7.17	1.94
5	Meghalaya Industrial Development Corporation Limited	94.17	7.27	55.65	-2.35	-4.22
6	Mawmluh Cherra Cements Limited	269.70	0.05	41.49	-24.68	-59.48
	Total	**5,522.09**	**1,003.66**	**2,789.61**	**-261.95**	

Source: Latest finalised accounts of the SPSUs.

It can be seen from the Table 4.1.15 above that the six SPSUs had a total investment of ₹ 5,522.09 crore as per their latest finalised accounts. The Equity of one SPSU (serial no. 3 above) was, however, completely eroded by its accumulated losses and hence, RoE of this SPSU was not workable. The RoE of remaining five SPSUs ranged between (-) 59.48 *per cent* and (+) 1.94 *per cent.*

4.1.17 Disinvestment, Restructuring and Privatisation of SPSUs

There was no information regarding any disinvestment, restructuring or privatisation programme in any of the SPSUs during 2016-17.

[23] Equity represents Paid-up Equity Capital *plus* Free Reserves *plus* Accumulated profits *minus* Accumulated losses.
[24] Net profit after tax.

PERFORMANCE AUDIT

POWER DEPARTMENT

4.2 Financial Management of Meghalaya Energy Corporation Limited and its three Subsidiary Companies

As part of the power sector reforms in the State, the erstwhile Meghalaya State Electricity Board (MeSEB) was unbundled (March 2010) into four companies viz., Meghalaya Energy Corporation Limited (MeECL), the holding company and its three subsidiaries, Meghalaya Power Generation Corporation Limited (MePGCL), the generation entity, Meghalaya Power Transmission Corporation Limited (MePTCL), the transmission entity and Meghalaya Power Distribution Corporation Limited (MePDCL), the distribution entity. After unbundling, MeECL initially took over (April 2010) the power generation, transmission and distribution activities in the State. The subsidiary companies became operational with effect from 1 April 2012. The present Performance Audit (PA) was conducted (May 2017 to August 2017) to review the Financial Management of MeECL and its three subsidiaries covering the aspects relating to planning, revenue generation, borrowing and debt servicing activities during the period from 2012-13 to 2016-17. The major observations emerging from the present report are as follows:

Highlights

The subsidiary companies did not have the required administrative and financial autonomy to manage their individual revenue and expenditure. The holding Company was pooling together all revenue and receipts of the holding Company and its subsidiaries. The entire expenditure of these companies were met out of the said pooled fund by passing the adjustment entries in the books of the holding and subsidiaries.

(Paragraph 4.2.9)

More than 52 *per cent* of the financial resources of MeECL and its subsidiaries during the five years (2012-17) were utilised for funding losses and only 16 *per cent* was utilised for creation of fixed assets, which were essential for revenue generation and future growth.

(Paragraph 4.2.11)

During the five years (2012-17) under review, MeECL failed to prepare the Budgets for its subsidiaries and get the same approved before the start of the relevant financial year. There was no system in place to compare the budgeted figures with actuals so as to analyse the extent and reasons for variations and taking timely corrective action.

(Paragraph 4.2.12)

The revenue realised by MePDCL against sale of power during the five years (2012-17) was not sufficient to meet even the power purchase cost (including

transmission/wheeling charges) mainly due to poor billing and collection efficiency and high power purchase cost.

(Paragraphs 4.2.13, 4.2.18 and 4.2.19)

Debt servicing of MeECL was deficient as about 86 *per cent* of the loan instalments due for payment during 2012-17 were defaulted leading to high incidence of additional interest and penal charges. MeECL had to avail fresh loans for payment of overdue loan instalments and servicing of debts which placed MeECL and its subsidiaries in a debt trap situation.

(Paragraphs 4.2.29 and 4.2.30)

A review of the minutes of the meetings of the Board of Directors (BoD) of MeECL and its subsidiaries revealed that issues like achievement of targets against the budgeted revenue/expenditure, performance of the subsidiaries against billing and collection of operational revenue, progress in reduction of AT&C loss *etc.* were not discussed in the BoD meetings during the five years (2012-17) covered under audit.

(Paragraph 4.2.34.1)

4.2.1 Introduction

As part of the power sector reforms in the State, the erstwhile Meghalaya State Electricity Board (MeSEB) was unbundled (March 2010) into four companies *viz*., Meghalaya Energy Corporation Limited (MeECL), the holding Company and its three subsidiaries, Meghalaya Power Generation Corporation Limited (MePGCL), the generation entity, Meghalaya Power Transmission Corporation Limited (MePTCL), the transmission entity and Meghalaya Power Distribution Corporation Limited (MePDCL), the distribution entity. After unbundling of erstwhile MeSEB, MeECL initially took over (April 2010) the activities relating to generation, transmission and distribution of power in the State. The three subsidiary companies became operational with effect from 1 April 2012. MePGCL (the generation entity) was engaged in power generation through its seven hydroelectric plants (HEPs) with a total capacity of 314.70 MW[25]. The entire power generated by MePGCL was being sold to MePDCL. MePTCL (the transmission entity) had been engaged in transmission of power at 132 kV[26] and above purchased by MePDCL from MePGCL as well as other power generating entities. MePDCL (the distribution entity) was engaged in distribution and sale of power to the end consumers within the State. As such, MePDCL was the main revenue generating subsidiary of MeECL. MePDCL was responsible to pay off the power purchase bills against the power purchased from various sources (*viz*. MePGCL, Central Generating Units (CGUs) and other power generating entities). In addition, MePDCL was also liable to pay the wheeling charges[27] to the transmission entities (*viz*. MePTCL and other inter-state power transmission entities) towards transmission of power at

[25] Mega watt– A unit of power equal to one million watts.
[26] Kilovolt –a unit of electromotive force, equal to 1000 volts.
[27] Electric power transmission charges for transportation over transmission lines of the grid.

132 kV from the generation source to the sub-stations of MePDCL. The power so received by MePDCL was then stepped down to appropriate lower levels (*viz.* 11 kV, 220 volts, *etc.)* and supplied to the end consumers through the distribution network of MePDCL.

4.2.2 Organisational set up

Despite functional segregation into three separate entities, the Corporate Office of the holding company (MeECL) had been centrally controlling the entire activities of three subsidiaries relating to fund management, material management, planning, human resource management, *etc*. The Management of MeECL was vested in a Board of Directors (BoD) headed by the Chairman and Managing Director (CMD). The CMD of MeECL was also the CMD on the BoDs of the three subsidiaries. The Director (Finance) of MeECL exercised control over the financial management of MeECL and its three subsidiaries and was assisted by the Chief Accounts Officer (CAO) and three Deputy Chief Accounts Officers (Dy. CAO).

4.2.3 Scope of Audit

A Performance Audit (PA) on the Fund Management of the erstwhile MeSEB had featured in the Report of the Comptroller & Auditor General of India for the year ended 31 March 2004, Government of Meghalaya (GoM). The Report was discussed (June 2008) by the Committee on Public Undertakings (COPU). The COPU, however, did not issue any recommendations in this regard (December 2017).

The present PA conducted during May 2017 to August 2017 reviewed the Financial Management of MeECL and its three subsidiaries covering the period from 2012-13 to 2016-17. The PA mainly deals with the aspects relating to planning, revenue generation, borrowing and debt servicing activities of MeECL and its three subsidiaries. For the purpose of the present audit, records maintained by the Finance and Accounts Wing of MeECL and its three subsidiaries functioning under the control of the Director (Finance), MeECL were scrutinised. Besides, the records of all the nine Revenue Divisions of MePDCL as well as the records relating to all the 21 cases of long term borrowings of MeECL and its subsidiaries involving an amount aggregating ₹ 2,472.91 crore were also reviewed.

4.2.4 Audit Objectives

The objectives of the PA were to assess whether:

- the overall management of funds in MeECL and its three subsidiaries was efficient and effective;
- the budgetary planning and control of funds was efficient and effective;
- performance relating to revenue generation as well as management of receivables and payables was efficient; and,
- activities relating to fund raising, debt servicing and internal controls were efficient and effective.

4.2.5 Audit Criteria

The audit criteria for assessing the performance of MeECL and its three subsidiaries against above mentioned audit objectives were derived from the following sources:

- The Electricity Act, 2003;
- Meghalaya Electricity Supply Code 2012 (MESC, 2012);
- The National Electricity Policy, 2005 (NEP);
- Regulations/instructions issued by the Government of India (GoI)/GoM and the Regulatory Authorities;
- Tariff orders issued by Meghalaya State Electricity Regulatory Commission (MSERC);
- Annual Financial budgets of MeECL and three subsidiaries;
- Financial parameters and procedures prescribed by the four power companies;
- Policies and guidelines on efficient utilisation of funds as framed by GoM and four power companies; and,
- Financial performance indicators of MeECL and three subsidiaries.

4.2.6 Audit Methodology

The methodology adopted for attaining the audit objectives included holding of Entry Conference (8 May 2017) with the representatives of MeECL, its three subsidiaries and the GoM. The scope, audit objectives, audit criteria, *etc*. were explained in the Entry Conference. The audit methodology also included analysis of the data/records with reference to the audit criteria, raising of audit queries, interaction with the personnel of audited entities and issuing of draft Audit Report to the power companies and to the GoM for comments.

The draft Audit Report was also discussed (22 November 2017) with the representatives of MeECL and its three subsidiaries as well as the GoM in the Exit Conference. The formal replies to the draft Report as furnished (November 2017) by the MeECL on behalf of its subsidiaries and reply of GoM (January 2018) as well as the views expressed by the representatives[28] of the four companies and GoM in the Exit Conference have been appropriately taken into consideration while finalising the Report.

4.2.7 Acknowledgement

The Indian Audit & Accounts Department acknowledges the co-operation of the GoM, MeECL and its subsidiaries in providing necessary information and records for conducting the present audit.

[28] CMD (MeECL), Director Corporate Affairs (MeECL), Director (MePTCL), Company Secretary (MeECL) and Joint Secretary – Power Department, GoM.

Audit Findings

Efficient financial management serves as a tool for decision making, optimum utilisation of financial resources and borrowing of funds, as per requirement, at favourable terms. During the period of five years from 2012-13 to 2016-17 covered under the present audit, MeECL had been taking all important decisions on the matters relating to the financial activities of its subsidiaries on their behalf. The financial activities of three subsidiaries (MePGCL, MePTCL and MePDCL) mainly included purchase of power from various sources and payment thereagainst, billing towards sale of power and collection of revenue thereagainst, availing of short and long term borrowings to finance the revenue and capital expenditure and other related transactions, *etc*. Audit examined the efficiency and effectiveness in managing these activities and the findings are discussed in succeeding paragraphs.

4.2.8 Financial Position

The basic objective of unbundling the erstwhile MeSEB as stipulated under the Section 131 of the Electricity Act, 2003, was to make the power sector entities financially and operationally independent and also make them economically viable. The National Electricity Policy (NEP) 2005 also envisaged to ensure financial turnaround and attain commercial viability of the State power sector. Audit analysed the financial position of MeECL and its subsidiaries during the five years (2012-17) under review and the details have been summarised in Table 4.2.1 below:

Table 4.2.1: Consolidated financial position of MeECL and its subsidiaries

(₹ in crore)

Sl No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17[29]
A.	**Liabilities**					
1.	Share capital including equity pending allotment[30]	1,760.75	1,838.57	1,961.64	2,004.41	2,033.50
2.	Reserves & Surplus (Loss)					
i	Accumulated losses	(626.68)	(991.99)	(1,226.92)	(1,510.83)	(1,836.02)
ii	Others	309.49	321.06	312.99	310.57	36.24
3.	Long term Borrowings	1,204.53	1,243.47	1,414.97	1,623.94	2,050.23
4.	Other long term liabilities	24.86	28.85	34.53	36.95	358.46
5.	Current liabilities & provisions	1,690.91	1,515.75	1,170.66	947.06	1,280.02
	Total	**4,363.86**	**3,955.71**	**3,667.87**	**3,412.10**	**3,922.43**
B.	**Assets**					
1.	Net Fixed Assets	1,664.25	1,836.69	1,734.45	1,693.99	1,607.90
2.	Capital work in progress	914.47	919.97	1,084.28	1,208.06	1,409.07
3.	Investments	9.96	10.88	11.99	14.52	9.95
4.	Current Assets, Loans and Advances	1,775.18	1,188.17	837.15	495.53	895.51
	Total	**4,363.86**	**3,955.71**	**3,667.87**	**3,412.10**	**3,922.43**
	Net worth[31] (Sl. A1 + A2 (i))	1134.07	846.58	734.72	493.58	197.48

Source: Annual Accounts

[29] Figures for 2016-17 were provisional.
[30] Amount against equity received but share certificate was pending to be issued.
[31] Net worth = Equity share capital minus accumulated losses.

As could be seen from the table above, the accumulated losses of MeECL and its three subsidiaries during five years (2012-17) showed almost three-fold increase from ₹ 626.68 crore (2012-13) to ₹ 1,836.02 crore (2016-17). As a result, the net worth of these companies had decreased by 83 *per cent* from ₹ 1134.07 crore in 2012-13 to ₹ 197.48 crore in 2016-17. The deterioration in the net worth of four power companies was mainly attributable to the mounting accumulated losses of MePDCL, (one of three subsidiaries of MeECL), on account of high Aggregate Technical & Commercial losses (AT&C losses) and poor billing and collection efficiency as discussed under paragraphs 4.2.14.4, 4.2.18 and 4.2.19. Examination of the records of MePDCL revealed that during the period of five years (2012-17), the accumulated loss of MePDCL increased by more than three times from ₹ 468.31 crore (2012-13) to ₹ 1,492.04 crore (2016-17), which ultimately eroded its entire equity capital. As a result, the net worth of MePDCL (₹ 308.08 crore) as on 31 March 2013 turned negative {(-) ₹ 680.42 crore} as on 31 March 2017. Hence, instead of attaining the financial turnaround of the state power sector as per the spirit of NEP, the financial position of the power sector companies in the State of Meghalaya turned to be worse.

4.2.9 Administrative and financial autonomy

To improve efficiency in operations and achieve financial turnaround of the State power sector, it was imperative that the Generation, Transmission and Distribution entities had separate managements with independent administrative and financial powers. This was also essential for fixing responsibility and accountability of the executives/authorities for their actions/inactions while governing the activities of four power companies.

Examination of records of MeECL and subsidiaries, however, revealed that among four power sector companies, only the holding Company (MeECL) had been functioning with a full time Chief Executive Officer[32]. The Commissioner of Taxes, GoM was holding additional charge of Director (Finance), MeECL to control the Finance and Accounts of MeECL. The Chief Executive Officer of the holding Company was also the Chief Executive Officer of all three subsidiaries. It was further noticed that none of the subsidiaries had separate Finance and Accounts wing. As such, the Director (Finance) of MeECL was discharging the functions relating to the Finance and Accounts of the holding as well as three subsidiaries. Further, during the period of five years (2012-17) covered under audit, all the revenue and receipts of the holding and its subsidiaries were pooled together. The entire expenditure of these companies were met out of the said pooled fund by passing the adjustment entries in the books of the holding and subsidiaries. Hence, the entire exercise did not involve any physical movement of cash/funds. Further, while preparing the annual accounts of subsidiaries, the other consolidated expenses such as employee costs, finance charges and other expenses of the subsidiaries had been allocated by the holding Company among these companies by passing adjustment entries in their accounts.

[32] Chairman-cum-Managing Director.

Examination of records further revealed that MePDCL had not been making any actual payments to its sister concerns (MePGCL and MePTCL) towards the cost of power purchased and transmitted. Audit observed that the dues of MePDCL payable to these sister concerns were being settled through book adjustment entries only. The final balances payable by MePDCL to MePGCL and MePTCL were either accounted as inter-company payables/receivables or written off in the accounts of MePGCL and MePTCL. Audit observed that during 2015-16, an amount aggregating ₹ 55.78 crore receivable from MePDCL towards power purchase and transmission charges was written off in the books of MePGCL (₹ 31.79 crore) and MePTCL (₹ 23.99 crore) as bad debts. The corresponding amount was, however, booked as 'other income' in the accounts of MePDCL. The adjustment entries so passed for settling the inter-company receivables/payables were highly irregular as it resulted in depicting an incorrect picture of the operational performance and financial health of three subsidiaries of MeECL.

Hence, under the present system of financial management, the subsidiaries did not have the required administrative and financial autonomy to manage their individual revenues and expenditure in an efficient manner. This had ultimately hampered the operational performance of the subsidiaries. As a result, the financial turnaround of these companies could not be a reality even after a lapse of more than seven years of unbundling (March 2010) of erstwhile MeSEB.

The GoM/MeECL stated (January 2018/November 2017) that the Companies Act, 2013 allowed (Section 203) the key managerial personnel of holding Company to hold the same post in subsidiary companies. It was further stated that the MeECL was in the process of unbundling the accounting function of subsidiaries.

The reply was not acceptable in view of the fact that the prevailing system of financial management and accounting in MeECL and subsidiaries had defeated the basic spirit of unbundling of erstwhile MeSEB. Besides, the existing system of accounting had also provided an incorrect picture of the financial health and operational activities of these companies.

4.2.10 Financial Ratios

Financial stability of any organisation is assessed by analysing various financial ratios. Some important ratios have been discussed below:

- **Current Ratio**[33] indicates the ability of the organisation to cover the obligations against 'current liabilities' with its current assets.
- **Debt-Equity Ratio**[34] shows the relative proportion of the investment through external funding (long term borrowings) and shareholders' funds. The ratio indicates the soundness of long term financial stability of the entity.
- **Debt Service Coverage Ratio**[35] is a measure of available cash flow to pay off current debt obligations.

[33] Current Ratio = Current Assets ÷ Current Liabilities.
[34] Debt Equity Ratio = Debt ÷ Equity.

The accepted benchmarks for Current Ratio and Debt Service Coverage Ratio were 2:1 and 1:1 respectively. The standard for Debt-Equity Ratio as prescribed by MSERC was 70:30. Audit worked out the above three ratios collectively for four power companies (MeECL and its subsidiaries) during the five years (2012-17) as per the details summarised in Table 4.2.2 below:

Table 4.2.2: Financial ratios of MeECL and its subsidiaries

Sl No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	Benchmark
1	Current Ratio	1.05:1	0.82:1	0.82:1	0.77:1	0.92:1	2:1
2	Debt Equity Ratio	45:55	52:48	57:43	67:33	90:10	70:30
3	Debt Service Coverage Ratio*	-0.65:1	-0.66:1	-0.004:1	-0.19:1	-0.23:1	1:1

Source: Annual Accounts of power companies.
**Figures of 'Profit before interest and depreciation' were negative in all five years (2012-17)*

An analysis of the above ratios revealed the following:

- The power companies could not achieve the Current Ratio benchmark (2:1) during any of the five years (2012-17) under reference. The Current Ratio of these companies was less than 1:1 during four out of five years (excepting 2012-13). This was indicative of poor short-term liquidity and inadequacy of the 'current asset' to cover the obligations against 'current liabilities' of power companies. This had caused deficiency of working capital to meet the fund requirements for day-to-day operations of these companies.

- Debt Service Coverage Ratio had showed negative figures during all the five years (2012-17) under review as the 'profit before interest and depreciation' of the power companies was negative in all these years. This indicated unhealthy and unstable financial condition of power companies in the long term, exposing them to the possibilities of defaults in repayment of long term borrowings. As a result, these companies had to forcibly depend on fresh borrowings for servicing of long term debts, which further added to overall debt burden of these companies and increased the possibility of getting them into a 'debt-trap' situation.

- As against the standard Debt-Equity Ratio of 70:30 fixed by MSERC, the actual Debt-Equity Ratio of the power companies had deteriorated from 45:55 (2012-13) to 90:10 (2016-17). This was indicative of high dependency of power companies on long term borrowings leading to unsound financial health and risky financial structure considering the fact that the Debt Service Coverage Ratio of power companies was 'negative' during last five years (2012-17).

The GoM/MeECL had accepted (January 2018/November 2017) the above audit observations.

4.2.11 Sources and Utilisation of fund

The primary sources of fund of MeECL and its subsidiaries included the revenue from sale of power, subsidy from GoM and the borrowing availed from GoM and Financial Institutions (FIs). The funds so sourced were mainly utilised for payment of power

[35] Debt Service Coverage Ratio = Profit before Interest and Depreciation ÷ Amount of the Instalments (interest and principal) due for repayment on borrowings during the year.

purchase bills, servicing of long term debts, meeting the revenue expenditure against administrative overheads (including employee costs) and the capital expenditure against system improvement works. Summarised details of the combined sources and utilisation of funds of MeECL and its subsidiaries during the five years (2012-17) have been given in **Appendix 4.2.1**. It can be seen from the **Appendix 4.2.1** that during 2012-13 to 2016-17 more than 52 *per cent* (₹ 2,057.66 crore) of the total financial resources (₹ 3,932.85 crore) were utilised towards funding the losses of power companies. It is pertinent to mention that investment on creation of fixed assets is essential for revenue generation and growth of an organisation. However, as could be noticed from the **Appendix 4.2.1,** MeECL and subsidiaries had utilised only about 16 *per cent* (₹ 617.18 crore) of the available financial resources on creation of fixed assets during 2012-17. The position stated above was indicative of poor financial health and ineffective management of financial resources of MeECL and its subsidiaries.

In reply, GoM/MeECL had accepted (January 2018/November 2017) the audit observation.

4.2.12 Budgetary planning and control

Budgetary planning and control is an important tool for an effective financial management. Budgetary planning involves advance and realistic assessment of available resources *vis-à-vis* the requirements of funds for meeting the revenue and project related capital expenditure. To facilitate effective budgetary planning and control of financial resources, it was essential that the power companies annually prepare the Budget before the start of the financial year concerned. It was also a prudent practice to split the annual Budget targets into quarterly or monthly targets and compare them with actuals to enable regular monitoring and timely corrective action. On review of the Budgets prepared by MeECL for its subsidiaries for the period of five years (2012-17) covered under audit, following deficiencies were noticed:

- During all the five years (2012-17) covered under audit, MeECL failed to prepare the Budgets for its subsidiaries and get the same approved by the Board of Directors of the respective companies before the commencement of the relevant financial year as shown in Table 4.2.3 below:

Table 4.2.3: Dates of approval of Budgets of MeECL and its subsidiaries

Sl. No.	Name of Company	2012-13*	2013-14	2014-15	2015-16	2016-17
1	MeECL	01.06.2012	-	-	-	-
2	MePGCL	-	19.07.2013	08.07.2014	01.07.2015	03.11.2016
3	MePTCL	-	19.07.2013	08.07.2014	10.08.2015	03.11.2016
4	MePDCL	-	19.07.2013	08.07.2014	10.08.2015	03.11.2016

Source: Records of Audited entities
**In 2012-13 only one consolidated budget was prepared*

- There was no system in place to compare the budgeted figures with the actuals during any of the five years under reference. As such, there was no system in place to analyse the extent and reasons for variations between the actual and budgeted figures and initiate the timely corrective action.

- The power companies had been implementing various capital projects, which were partly financed under various schemes of GoI/GoM. The balance funding for said projects were, however, to be arranged by these companies through their own sources. The own sources of project funding included funds sourced in the form of equity/grant from GoM, borrowings from FIs, *etc.* Audit observed that though capital projects were identified for execution during the year, the sources to arrange the corresponding own funding part of such projects had not been identified and incorporated in the Budget.

- To ensure efficient execution of capital projects as envisaged in the Budget estimates, quarterly targets in measurable terms were not set in any of the year. As such, there was no system in place to compare the quarterly Budget estimates with actual progress achieved in each quarter.

As evident from the above, there was absence of an effective budgetary planning and control during the period covered under audit.

While accepting the observations, MeECL assured (November 2017) that appropriate action would be taken to correct the deficiencies and improve budgetary control in future.

As mentioned under paragraph 4.2.12 *supra*, MeECL and subsidiaries did not compare the budget estimates with the actuals during any of the five years under reference (2012-17) to analyse the extent and reasons for variation and take corrective actions. During the course of audit, the budget estimates prepared by MeECL for five years (2012-17) were analysed with reference to the actual revenue and expenditure for the respective years. The major deficiencies noticed in this regard have been discussed below:

4.2.12.1 Revenue Budget

The summarised details of the revenue budget estimates prepared by MeECL in respect of its subsidiaries for the five years (2012-17) *vis-à-vis* the actual expenditure thereagainst have been presented in **Appendix 4.2.2.** The details appearing in the **Appendix** revealed that the budgets did not portray a realistic estimate of the revenue and expenditure of the MeECL and subsidiaries. An analysis of revenue budget estimates *vis-à-vis* the actual revenue expenditures of four companies for five years (2012-17) revealed the following:

- The actual gross revenue from the operations of power companies during all the five years (2012-17) was significantly lower than the budget estimates. The variations ranging from 29 *per cent* (2012-13/2013-14) to 8 *per cent* (2015-16) was mainly attributable to the poor billing and collection efficiency of MePDCL as discussed under paragraphs 4.2.18 and 4.2.19 *infra.*

➢ During 2012-17, the actual power purchase cost with reference to year-wise budget estimates was significantly high (excepting 2013-14). The overall net variation (₹ 414.14 crore) in the budgeted and actual power purchase cost during 2012-17 was, to a significant extent, attributable to the delayed payment charges (DPC) aggregating ₹ 265.13 crore (64 *per cent*) levied by the Central Generating Units (CGUs) during 2012-17. This was on account of delay in payment of power purchase bills by MePDCL, as discussed under paragraph 4.2.23 *infra*.

➢ Ideally, in the case of interest liability against borrowings, there should not be any variations between the budgets and the actuals as most of the long term borrowings of power companies carried a fixed rate of interest. As could be noticed from **Appendix 4.2.2**, the actual interest charges paid by the power companies against long term borrowing were higher than the budget estimates in all the years. This was mainly due to levy of penal interest by the FIs consequent on default in payment of loan instalments and interest dues within the due dates as discussed under paragraph 4.2.29 *infra.*

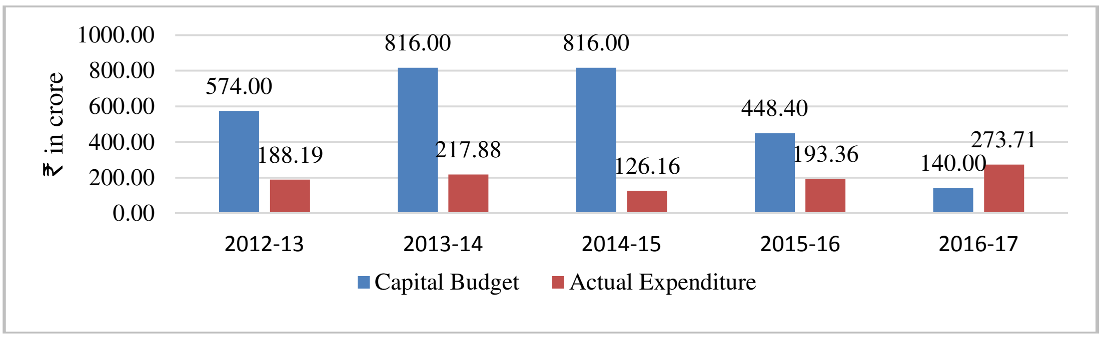
The GoM/MeECL stated (January 2018/November 2017) that the respective variations in power purchase cost and interest charges were due to high incidence of DPC on account of non-payment of power purchase bills and inability to service interest and repayment within due date due to financial constraints.

It was evident from the reply that the management of MeECL had failed in arranging funds for timely payment of power purchase bills as well as servicing of long term debts. MeECL and its subsidiaries needed to focus on improving the billing and collection efficiency as well as making their financial management efficient to contain the accumulated losses.

4.2.12.2 Capital Budget

The year-wise details of the consolidated capital budget of MeECL and its subsidiaries *vis-à-vis* the actual expenditure thereagainst for five years (2012-17) covered under audit have been summarised in **Appendix 4.2.3.** The graphical presentation of the position of the consolidated budgeted and actual capital expenditure of MeECL and its three subsidiaries for the five years (2012-17) covered under audit has been given in Chart 4.2.1 below:

Chart 4.2.1: Actual Capital Expenditure against Budget Estimates



Source: Budgets and Annual Accounts

From the **Appendix 4.2.3** and Chart 4.2.1 above, it could be seen that the actual capital expenditure in all the five years was meagre (excepting 2016-17) compared to the budget estimates. The shortfall in actual capital expenditure against budgeted expenditure ranged from 57 *per cent* (2015-16) to 85 *per cent* (2014-15). This was mainly due to failure of power companies to arrange funding for the projects planned and consequent dependence on GoM/FIs for project funding.

The GoM/MeECL stated (January 2018/November 2017) that due to financial constraints, MeECL and its subsidiaries had to depend on funding from GoM or loan from FIs for taking up capital projects.

The reply was not acceptable as the MeECL and subsidiaries should have assessed the requirement of funds in advance after taking into account the budget allocation made by GoM for the project costs and planned for timely action to avail fresh borrowings from FIs accordingly.

4.2.13 Operational Performance

MePDCL was engaged in sale of power to various categories of end consumers in the State. The operations of MePDCL involved billing of power supplied and collection of revenue thereagainst. Hence, MePDCL was the main revenue earning subsidiary of MeECL. MePGCL, the generation entity had been supplying power exclusively to MePDCL. Similarly, MePTCL was mainly transmitting the power purchased by MePDCL either from MePGCL or from other sources. The main source of income of MePTCL was transmission charges recovered from MePDCL. As mentioned under paragraph 4.2.9 *supra*, dues payable by MePDCL to MePGCL and MePTCL towards cost of power supplied/transmitted were settled through book adjustment without involving any cash flow from MePDCL. Considering the above facts, Audit analysed the operational performance and revenue generation efficiency of MePDCL and the findings are discussed below.

The summarised details of the operational performance of the MePDCL for the years (2012-17) covered under audit have been presented in **Appendix 4.2.4**. As could be seen from the **Appendix**, during four years from 2012-13 to 2015-16, revenue from sale of power registered increase of 47 *per cent* from ₹ 446.50 crore (2012-13) to ₹ 655.09 crore (2015-16). During 2016-17, however, the ‘revenue from sale of power’ had decreased by 9 *per cent* (₹ 61.44 crore) from ₹ 655.09 crore (2015-16) to ₹ 593.65 crore (2016-17). This reduction was attributable mainly to non-supply of power by NEEPCO (except free power) to MePDCL during first three quarters (April-December 2016) of the year (2016-17) due to non-payment of power purchase bills by MePDCL.

As could be further noticed from **Appendix 4.2.4**, the revenue realised from sale of power during the five years (2012-17) was not sufficient to meet even the power purchase cost (including transmission/wheeling charges). The revenue from sale of power during 2012-17 constituted only 70 to 86 *per cent* of the power purchase cost.

This was mainly due to poor billing and collection efficiency of MePDCL as discussed under paragraph 4.2.18 and 4.2.19 *infra*.

From **Appendix 4.2.4**, it could also be noticed that during the five years (2012-17) under review, the two components of cost (*viz.* cost of power purchased and employee cost) together constituted the major element of cost ranging from 86 *per cent* (2013-14) to 95 *per cent* (2015-16) of the total cost. The main reasons for high power purchase cost were high incidence of delayed payment surcharge (₹ 265.13 crore) as well as payment of fixed capacity charges (₹ 262.06 crore) by MePDCL during the five years (2012-17) as discussed under paragraph 4.2.23 *infra.* Consequently, the revenue gap of ₹ 252.49 crore in 2012-13 increased to ₹ 479.87 crore in 2016-17 as could be noticed from the **Appendix**.

Audit analysed the efficiency of MePDCL in managing the receivables (such as revenue recoverable against sale of power, subsidy support from GoM, *etc.*) and the payables (such as dues against power purchase bills) of MePDCL and the findings are discussed in succeeding paragraphs.

4.2.14 Management of Receivables

Efficient management of receivables attracts greater significance as the financial viability of a commercial organisation largely depends on maximisation of revenue collection. The main sources of revenue of the three subsidiaries were the revenue collected against sale/transmission of power as per the tariff fixed by MSERC and financial support received from time to time from GoM. The power generated by MePGCL was sold exclusively to MePDCL and transmitted by MePTCL at the tariff fixed by MSERC. On the other hand, MePDCL had been selling power to the end consumers in the State at the applicable rates as per the tariff fixed by MSERC. As such the financial viability of the three subsidiaries was greatly influenced by the factors such as:

- filing of Tariff petitions for revision of tariff by MSERC within the due dates;
- adequacy of tariff to cover the cost of operation;
- timely release of subsidy by GoM; and
- efficiency in billing of the power sold and collection of revenue thereagainst.

4.2.14.1 Timeliness of Tariff petitions

The subsidiary companies had been filing their respective Tariff petition with MSERC for each year projecting the Annual Revenue Requirements (ARR). The ARR was prepared based on estimates of expenditure and revenue for the year concerned. After scrutiny and approval of the ARR, MSERC issued the revised Tariff Order for implementation by the respective companies. MSERC, while approving the ARR of MePDCL, also considered the approved ARR of the generation and transmission entities for revision of tariff in respect of MePDCL. After revision of tariff by MSERC, MePDCL billed and collected the revenue against sale of power to end consumers at the revised rates. As mentioned above, revision of tariff by MSERC was based on the estimated ARR of MePDCL. Hence, MSERC had been undertaking the exercise to review the expenses and revenues of MePDCL as approved in the Tariff Order with reference to the final actual figures as per the audited accounts of MePDCL for the respective years. This exercise was termed as 'truing-up' of tariff. The revenue surplus/shortfall, if any, based on the truing-up of tariff were considered along with subsequent year's ARR and Tariff Orders were issued by MSERC accordingly.

As per Regulation 15 of the Tariff Regulations, 2011[36] MePDCL (the distribution licensee) shall make an application before the Commission (MSERC) for truing-up of ARR of the year concerned by 30 September of the following year on the basis of the audited statement of accounts of the MePDCL (licensee). Filing of truing-up petitions on due date assumed greater significance for recovering the shortfall in revenue of the respective year through increased tariff during the subsequent year. As there were delays in finalising the annual accounts and corresponding delay in their audit, MePDCL was filing truing-up petitions provisionally and MSERC was allowing interim tariff revisions subject to adjustment after filing the audited accounts. Review of records relating to filing of tariff petitions by MePDCL revealed inordinate delays in filing of the truing-up petition by MePDCL to MSERC as shown in **Appendix 4.2.5**. As could be seen from the **Appendix**, the delay in filing truing-up petition ranged from 4 to 44 months, which had correspondingly delayed the recovery of ₹ 300.85[37] crore by 12 to 48 months. The delay in filing of truing-up petition by MePDCL was attributable to delay in finalisation of accounts by MePDCL as discussed under paragraph 4.2.34.2 *infra*.

4.2.14.2 Adequacy of Tariff

As required under the Electricity Act, 2003, the Generation, Transmission and Distribution entities have to file the ARR and tariff petitions every year with the Regulatory Commission and get the same approved by way of revised tariff for recovery from the end consumers. Accordingly, the three subsidiary companies had been filing tariff petition and ARR with the MSERC. Analysis of the ARR filed and that approved by MSERC revealed wide variations between the revenue requirements claimed by the subsidiaries of MeECL and that approved by MSERC. This is shown in Table 4.2.4 below:

Table 4.2.4: Variations between ARR filed by three subsidiaries and approved by MSERC **(₹ in crore)**

Company	Particulars	2012-13*	2013-14	2014-15	2015-16	2016-17	Total
MePGCL	ARR Proposed	-	299.50	373.32	383.92	551.71	1,608.45
	ARR Approved	-	194.18	205.47	215.60	220.42	835.67
	Shortfall	**-**	**105.32**	**167.85**	**168.32**	**331.29**	**772.78**
MePTCL	ARR Proposed	-	75.36	89.27	183.23	211.69	559.55
	ARR Approved	-	58.32	72.79	78.12	83.29	292.52
	Shortfall	**-**	**17.04**	**16.48**	**105.11**	**128.40**	**267.03**

[36] Meghalaya State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulations, 2011.

[37] ₹ 317.14 crore (Total from **Appendix 4.2.5**) - ₹ 16.29 crore (Sl. No. 8 from **Appendix 4.2.5**) allowed for 2014-15 for which there was no delay.

Company	Particulars	2012-13*	2013-14	2014-15	2015-16	2016-17	Total
MePDCL	ARR Proposed	886.38	1,086.72	859.56	1,005.93	1,157.58	4,996.17
	ARR Approved	661.41	744.22	618.87	591.90	610.14	3,226.54
	Shortfall	**224.97**	**342.50**	**240.69**	**414.03**	**547.44**	**1,769.63**

Source: Tariff Order issued by MSERC
*(*Only single tariff for 2012-13 was filed by MeECL and was treated as tariff of MePDCL)*

Examination of the records of power companies revealed that MSERC, while approving the ARR, had done the following:

- reduced the 'return on equity' claimed by the subsidiary companies for all the five years (2012-17) limiting the equity as in 2011-12 due to non-availability of audited annual accounts for the respective accounting year;
- reduced the amount of 'depreciation' claimed by power companies for all the five years (2012-17) in absence of complete details on the fixed assets created by utilising the consumer contribution and Government grant/subsidy;
- disallowed 'interest costs' incurred during construction period of the projects and attributable to capital work in progress during three years (2013-14 to 2015-16);
- disallowed 'delayed payment charges' from power purchase cost for all the five years (2012-17);
- reckoned deemed income from sale of surplus power while approving the ARR as the actual rate of sale was far below the average cost of supply of power during three years (2014-15 to 2016-17);
- did not approve the capital cost of the project for want of audited annual accounts; and
- levied penalty during three years (2011-12 to 2013-14) for not attaining the prescribed reduction in the AT&C losses.

As a result of the above mentioned disallowances of the claims by MSERC, the subsidiary companies lost the opportunity to earn revenue to the tune of ₹ 2,809.44[38] crore during 2012-17 as worked out in audit.

The GoM/MeECL stated (January 2018/November 2017) that recently MePGCL filed (September 2017) an appeal in APTEL[39] challenging the order of MSERC to disallow the 'return on equity' on the generation projects. The outcome of the appeal was awaited.

The reply was not acceptable in view of the fact that MSERC had been continuing to limit the claims of MePGCL against 'return on equity' for the last five years, while MePGCL had filed the appeal only recently. Also, the 'return on equity' was restricted by MSERC to the equity level of 2011-12 (the last audited account available

[38] ₹ 772.78 crore (MePGCL) + ₹ 267.03 crore (MePTCL) + ₹ 1769.63 crore (MePDCL).
[39] Appellate Tribunal for Electricity.

at that time) due to the failure of MePGCL to submit its audited accounts for the years concerned, which was mandatory.

No specific replies were, however, furnished in respect of the other audit observations.

4.2.14.3 Realisation of revenue approved under ARR

After approval of the ARR filed by MePDCL, MSERC revised the tariff so that MePDCL could realise the approved ARR from various consumers through revised tariff. MSERC also fixed the figures of gross revenue to be realised by MePDCL from various sources during the year concerned. Analysis of the actual revenue collection by MePDCL vis-à-vis revenue to be collected as per revised tariff approved by MSERC revealed heavy shortfall in actual sale of power as well as revenue realisation during five years (2012-17) as shown in **Appendix 4.2.6**. It can be seen from the **Appendix** that during 2012-13 to 2016-17, there were significant shortfalls ranging between 304.98 MUs (2015-16) and 832.43 MUs (2016-17) in the quantum of power sold by MePDCL with reference to the quantum of power approved to be sold by MSERC. One of the reasons for this was stoppage of supply of power (except free power) by CGUs due to non-payment of power purchase bills by MePDCL within due dates as discussed under paragraph 4.2.23 *infra*. Shortfall in sale of the approved quantum of power had correspondingly caused shortfalls in the actual revenue collection by MePDCL as compared to that approved by MSERC in all the five years under review. Besides, the high transmission & distribution losses and deficiencies in billing and collection efficiency also adversely affected the actual revenue collection of MePDCL as discussed under paragraph 4.2.18 and 4.2.19 *infra*. The aggregate shortfall in collection of revenue by MePDCL during 2012-17 worked out to ₹ 825 crore.

The GoM/MeECL stated (January 2018/November 2017) that this was due to availability of lesser power than projected due to non-commissioning of projects as well as the imposition of power regulation by CGUs on account of delay in payment of power purchase dues.

The reply was not acceptable as the MeECL/MePGCL needed to execute the power generation projects within the prescribed schedule to ensure availability of power as per the projections. Further, the imposition of power regulation (stopping supply of power except free power) by CGUs was due to non-payment of power purchase bills by MePDCL within the due dates. This could have been avoided through efficient fund management as well as improvement in billing and collection efficiency by MePDCL.

4.2.14.4 Aggregate Technical & Commercial Losses

Reduction in the Aggregate Technical & Commercial Losses (AT&C losses) of MePDCL on sustainable basis was one of the focus areas at the time of finalising the Tariff orders by MSERC. The Transmission and Distribution losses (T&D losses) linked to collection efficiency of distribution licensee were termed as AT&C losses. AT&C losses include the losses on account of theft, non-billing, incorrect billing and inefficiency in collection of the amount billed besides the T&D losses. Regulation 91 of the Tariff Regulations, 2011 stipulated that in case the AT&C losses of a distribution licensee (MePDCL) during the previous year remained more than 30 *per cent*, the distribution licensee should achieve a reduction in such losses by minimum of 3 *per cent* during the year. For any shortfall in achieving the minimum reduction target (3 *per cent* per year) prescribed for AT&C losses, the distribution licensee (MePDCL) would be penalised by the value of energy lost on this account. The value of the energy so lost would be calculated at the average overall cost of sale of power. Audit analysis revealed that MePDCL failed to achieve the AT&C loss reduction target (3 *per cent*) during five[40] out of last six years (2011-12 to 2016-17) which led to levy of penalty by MSERC as shown in Table 4.2.5 below:

Table 4.2.5: AT&C Loss against MSERC targets

Sl.No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16*	2016-17*
1	AT&C loss target fixed by MSERC (*per cent*)	28.38	26.86	24.64	21.79	20.40	22.00
2	Actual AT&C loss (*per cent*)	40.23	41.26	42.16	34.66	36.50	34.87
3	Reduction/(Increase) (*per cent*)	(4.59[41])	(1.03)	(0.90)	7.50	(1.84)	1.63
4	Penalty for non-reduction (₹ in crore)	29.64	16.75	17.16	NIL	N.A.	N.A.

Source: Tariff Order issued by MSERC
** Provisional figures pending filing of truing up petition.*

Examination of records of MePDCL revealed that the high incidence of AT&C losses was mainly due to poor billing and collection efficiency as discussed under paragraphs 4.2.18 and 4.2.19 *infra*. Thus, due to non-reduction of AT&C losses as per the prescribed target, MSERC levied a penalty aggregating ₹ 63.55 crore on MePDCL while approving the truing-up petitions for the years 2011-12 to 2013-14. Accordingly, the approved ARR for these years was reduced by that extent. It was only in 2014-15 that MSERC did not levy any penalty as the AT&C loss during 2014-15 was reduced by more than 3 *per cent* compared to 2013-14.

It was further observed that the truing-up petition for 2015-16 filed (January 2017) by MePDCL was not considered by MSERC due to non-submission of the audited financial statements for the year 2015-16. It was, however, likely that penalty would be levied for 2015-16 also as the provisional AT&C loss had increased to 36.50 *per cent* from 34.66 *per cent* in the previous year. Thus, due to failure to achieve the reduction of minimum 3 *per cent* in AT&C losses as prescribed by MSERC, during the period of three years from 2011-12 to 2013-14, MePDCL lost the opportunity to recover revenue amounting to ₹ 63.55 crore.

The GoM/MeECL stated (January 2018/November 2017) that high AT&C losses were due to large number of unmetered consumers, poor billing and collection efficiency in rural areas and old sub-transmission and distribution systems of

[40] Excepting 2014-15.
[41] Increase from the actual AT&C loss of 35.64 *per cent* in 2010-11.

MePDCL. It was also stated that after expansion of the 11 KV system and improvement in the HT-LT line ratio, the losses would reduce.

The fact, however, remained that there was not much progress in the reduction of AT&C losses despite repeated directions and even levy of penalty by MSERC.

4.2.15 Subsidy support from Government

The Electricity Act, 2003 stipulated (Section 65) that the State Governments intending to subsidise the electricity tariff determined by the State Electricity Regulatory Commissions to any class of consumers must pay the amount of subsidy in advance to the distribution entity. In the tripartite agreement executed (24 August 2005) between the GoM, erstwhile MeSEB and Rural Electrification Corporation Limited (REC), the GoM had also committed to provide the requisite revenue subsidy to MePDCL to compensate the revenue gap against supply of electricity to identified class of consumers at subsidised rates. MePDCL had been supplying electricity at subsidised rates to the targeted beneficiaries[42]. Preferring of subsidy claims by MePDCL on time and timely release of the subsidy by the GoM was, therefore, essential for maintaining the financial stability of the distribution entity (MePDCL). Besides, it was also essential for MePDCL to submit the subsidy claim to GoM before finalisation of the State budget for the respective years so as to enable GoM to make necessary budget allocations for subsidy claimed by MePDCL.

On scrutiny of the records relating to receipt of subsidy from GoM, it was noticed that during 2012-17, GoM released only a meagre amount of ₹ 77.92 crore (6.45 *per cent*) against the accumulated subsidy receivable by MePDCL amounting to ₹ 1,207.70[43] crore as detailed in **Appendix 4.2.7.** Audit analysis revealed that in all the five years (2012-17) MeECL had submitted the subsidy claims to GoM on behalf of MePDCL only after finalisation of the budget for the respective year. As observed from the records of MeECL/MePDCL, the subsidy claims for last two years (2015-16 and 2016-17) were pending to be submitted by MeECL/MePDCL to GoM (November 2017). As a result, the GoM had also not taken any action for advance release of subsidy in violation of the provision of the Act. Failure of MeECL to submit the subsidy claims before finalisation of State Budget by GoM for the respective years had resulted in non-receipt of subsidy from GoM to the extent of ₹ 798.39 crore[44] pertaining to the review period (2012-17).

While accepting the facts, MeECL stated (November 2017) that the subsidy claims could not be submitted before the State Budget due to non-finalisation of the annual accounts of MePDCL. It was also stated that all efforts were being made to finalise the accounts of MePDCL on time to enable it to submit the subsidy claims before the State Budget in future. The GoM also stated (January 2018) that low budget provision was due to failure of the MePDCL to submit the audited accounts on time.

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[42] Below Poverty Line (BPL) consumers and the consumers falling under rural and remote areas.

[43] ₹ 331.39 crore + ₹ 876.31 crore.

[44] ₹ 876.31 crore - ₹ 77.92 crore.

4.2.16 Non-release of committed financial support by Government

As per the Memorandum of Understanding (MoU) signed (31 March 2010) between the GoM and the erstwhile MeSEB at the time of unbundling of the latter, GoM had agreed to bear the liability towards the terminal benefits (pension and retirement benefits) of the employees of erstwhile MeSEB. GoM had also committed to provide the entire amount as a one time subsidy support. The total liability on this account as on 31 March 2010 was assessed at ₹ 845.56 crore. Audit observed that as against this commitment, the GoM had released ₹ 5.52 crore only (0.65 *per cent*). GoM, however, did not release the balance amount of ₹ 840.04 crore so far (November 2017) even after a lapse of more than seven years of the commitment made (March 2010) under the MoU. As a result, MeECL and its subsidiaries had to divert an amount aggregating ₹ 416.58 crore out of their operational revenue/borrowings during the period from 2010-11 to 2016-17 towards payment of terminal benefits to the employees of erstwhile MeSEB. This further contributed towards increase in the accumulated losses and deterioration in the financial health of MeECL and its subsidiaries.

The MeECL stated (November 2017) that it had made several correspondences with GoM highlighting the need for support in respect of terminal liabilities. The GoM stated (January 2018) that request had been made (July 2009) to Ministry of Power, GoI for funding through External Aided Funding and many reminders were also sent, but no response had been received so far.

The fact, however, remained that GoM had not released the amount so far (January 2018) despite the commitment made under the MoU, causing further deterioration in the financial condition of power companies.

4.2.17 Delay in participating in UDAY scheme.

Government of India (GoI) introduced (November 2015) Ujwal Discom Assurance Yojana (UDAY) Scheme for the financial turnaround of State owned Power Distribution Companies (DISCOMs) with the main objective to improve the operational and financial efficiency of the State DISCOMs. The Scheme inter alia envisaged (Clause 7.0):

- the State Governments to take over 75 *per cent* of DISCOM debts (payable to banks/ FIs) as on 30 September 2015 during 2015-16 and 2016-17;
- Banks/FIs not to levy any pre-payment charges on the DISCOM debt;
- Banks/FIs to waive off the unpaid overdue interest and penal interest, if any against the DISCOM debt and refund/adjust any such overdue/penal interest, if already paid since 1 October 2013; and,
- State Governments to take over and fund future losses (5 *per cent* to 50 *per cent)* of DISCOMs from 2016-17 onwards.

The Scheme was optional for the States. To operationalise the Scheme in a State, the State Government and the DISCOM concerned had to execute a tripartite MoU with Government of India (GoI). Audit analysis revealed that GoM and the MePDCL executed the required tripartite MoU only in March 2017.As per the MoU, the outstanding debts of MePDCL from Banks/FIs as on 30 September 2015 were assessed at ₹ 166.67 crore. The GoM committed to take over 75 *per cent* of said debts by providing the equivalent financial support in the form of equity/grant during the last quarter of 2016-17. The GoM, however, had not released any funds so far (August 2017) against the commitment made. Hence, due to delay in operationalising the UDAY scheme in the State, MePDCL failed to avail the financial benefits envisaged under the Scheme, which could have helped in attaining the financial turnaround of MePDCL as per the Scheme objectives.

The GoM/MeECL accepted (January 2018/November 2017) that there was undue delay on part of GoM in signing the MoU. No comments were, however, offered on non-release of committed financial support by GoM to MePDCL.

4.2.18 Billing efficiency

To attain the financial turnaround and improve the commercial viability of the distribution entity, it was essential to maximise the billing efficiency by metering all supplies and issuing the electricity bills based on actual meter reading. Analysis of data relating to energy injected and billed by MePDCL for sale of power within the State during the period under review revealed that the billing efficiency was poor ranging between 65.44 *per cent* (2014-15) and 69.84 *per cent* (2012-13) as detailed in **Appendix 4.2.8**. As could be seen from the **Appendix**, the billing efficiency showed a decreasing trend during 2012-13 (69.84 *per cent*) to 2014-15 (65.44 *per cent*). After a marginal increase in 2015-16 (67.38 *per cent*), the billing efficiency again decreased in 2016-17 (67.35 *per cent*). As a result, more than 30 *per cent* of the energy injected during the period (2012-17) could not be billed. Detailed analysis of Circle-wise performance of MePDCL during 2012-17 revealed that the dismal billing performance of MePDCL was mainly on account of poor billing efficiency in two out of six Circles, namely, East Garo Hills Circle and West Garo Hills Circle. The billing efficiency of these two Circles during 2012-17 ranged from 26.27 *per cent* (2013-14) to 38.65 *per cent* (2012-13) {East Garo Hills Circle} and 37.21 *per cent* (2016-17) to 55.04 *per cent* (2012-13) {West Garo Hills Circle}. Audit observed that poor billing efficiency of MePDCL was attributable to high incidence of unmetered supply (24 *per cent*), billing not based on actual meter reading, average billing due to existence of defective meters (13.50 *per cent*), *etc*. Further, MePDCL had also failed to achieve the year-wise distribution loss targets set by MSERC during the period, which also contributed to low billing efficiency. As could be noticed from **Appendix 4.2.8,** the T&D losses of MePDCL during the period under review, were higher by 7.12 *per cent* (2012-13) to 11.79 *per cent* (2014-15) than the all India average[45].

The MeECL stated (November 2017) that the poor billing and collection efficiency was due to high AT&C losses, inability to recruit permanent staff, non-synchronisation of electronic data in different platforms, *etc*.

[45] Figures for 2015-16 and 2016-17 were not available.

The reply was not acceptable as the deficiencies pointed out could have been overcome through effective managerial action and according top priority on reducing the T&D losses so as to improve the revenue generation.

4.2.19 Revenue collection efficiency

As the sale of energy was the main source of revenue of MePDCL, prompt and efficient collection of this revenue assumed great significance. The liquidity position of a power distribution organisation depended on its efficiency to collect the revenue billed on the consumers. MSERC, at the time of issuing tariff orders, had also impressed upon MePDCL to improve metering, introduce computerised data base of consumers to ease the billing process and improve the billing and collection efficiency.

During the course of audit, the revenue collection mechanism prevailing in MePDCL was also examined. The consumers of MePDCL could make payments of the bills by cash, cheques, demand drafts or direct remittance into the account of MePDCL through online payments. As per the Meghalaya Electricity Supply Code 2012 (MESC, 2012) issued by MSERC, the consumers were required (Clause 9.1) to pay electricity charges within 15 days from the date of bill, failing which consumers were liable to pay 'delayed payment charges' at 2.50 *per cent* of the bill amount per month. Further, if the bills remained unpaid for more than one month, the MePDCL was authorised to disconnect the supply of the consumers concerned.

The details of year-wise (2012-17) receivables of MePDCL at the beginning of the year, revenue billed and realised during the year, receivables pending to be realised at the end of each year, percentage of revenue collection, *etc*. have been summarised in **Appendix 4.2.9.** As could be seen from the **Appendix**, the percentage of revenue collection of MePDCL during the five years (2012-17) was very low ranging from 59.46 *per cent* (2012-13) to 68.81 *per cent* (2013-14). Further, the revenue collection of MePDCL fell short of the target set by MSERC during all five years (2012-17). The shortfall ranged from 29.69 *per cent* (2013-14) to 39.38 *per cent* (2016-17). Consequently, revenue of more than 30 *per cent* of the billed amount for each of the five years (2012-17) covered under audit was locked up with the consumers. This indicated lack of effective penal action against defaulting consumers which included disconnection of supply and filing of money suit for recovery of electricity dues, *etc*. as discussed under paragraph 4.2.20.1 *infra*.

As provided under the MESC, 2012, MePDCL had been levying delayed payment charges (DPC) on the consumers who defaulted in payment of electricity bills within the due dates. The imposition of DPC was to deter consumers from defaulting the payment of electricity charges within due dates. As at the beginning of 2012-13, the amount of unrecovered DPC stood at ₹ 232.18 crore. During the period of five years (2012-17), MePDCL had further levied DPC aggregating ₹ 307.44 crore on the consumers who had defaulted in payment of electricity dues. Audit however, noticed that out of total DPC amount of ₹ 539.62 crore levied up to 31 March 2017 (including the opening balance of ₹ 232.18 crore), MePDCL had waived ₹ 243.70 crore. Even after waiver of the same, MePDCL could collect only ₹ 136.55 crore during the period of five years (2012-17) and the balance amount of ₹ 159.37 crore remained un-recovered as on 31 March 2017. Thus, the failure of MePDCL to collect the entire amount of DPC levied, had reduced the deterrent effect of levy of DPC as envisioned in the MESC, 2012.

4.2.20 Management of consumer dues

Initiating stringent legal action against the defaulting consumers for recovery of electricity dues as per the provisions of the Electricity Act and Rules was essential for improving the revenue collection efficiency. For this purpose, MePDCL was required to prepare the age-wise analysis of consumer dues periodically and bring the same to the notice of the top management for appropriate action. Audit noticed that receivables of MePDCL against supply of power to consumers as on 31 March 2017 stood at ₹ 564.89 crore. Of this, ₹ 60.82 crore was due from inter-state customers while the remaining amount (₹ 504.07 crore) pertained to domestic consumers. This included ₹ 318.21 crore (63 *per cent*) against sale of power and ₹ 185.86 crore (37 *per cent*) against various other charges (*viz.* delayed payment charges, electricity duty, FPPA[46] charges, service connections, capital receipts, *etc*.). Audit observed that MePDCL had never carried out the age-wise analysis of unrecovered dues to assess the extent of pendency of these dues. On scrutiny of records, it was further noticed that the above position of long pending receivables of MePDCL was never reported to its Board of Directors for appropriate directions. Analysis of dues against domestic consumers as on 31 March 2017 revealed serious managerial lapses in follow-up and monitoring of these receivables, which led to accumulation of arrears as discussed in the succeeding paragraphs:

4.2.20.1 Dues from consumers with disconnected supply

As per Electricity Act, 2003 (Section 56 (2)) no sum due from any consumer was recoverable after a period of two years from the date when such sum first became due unless such sum had been continuously shown as recoverable towards outstanding charges against electricity supplied and the distribution licensee had also not disconnected the supply of the consumer concerned. As such, once the supply of a defaulting consumer was disconnected, MePDCL must recover the unpaid electricity dues within a period of two years of first billing. Audit analysed the dues relating to 4,339 consumers (whose digital billing data was provided to Audit), out of the total 4.15 lakh consumers of MePDCL as on 31 March 2017. It was observed that a sum of ₹ 100.99 crore was due against 374[47] out of 4,339 consumers test checked. It was further noticed that MePDCL had already disconnected the power supply of said 374 consumers for more than two years. MePDCL, however, failed to initiate any action to recover the outstanding dues from these consumers so far (November 2017) rendering the said receivables irrecoverable as per the provisions of the Act.

[46] Fuel and Power Purchase cost Adjustment Charges.
[47] Consumers owing more than ₹ 1 lakh.

The GoM/MeECL stated (January 2018/November 2017) that now they had introduced a scheme for waiver of 60 *per cent* of delayed payment charges and expected some improvement in realisation.

The reply, however, ignored the fact that the said consumer dues had already become time barred as per the Electricity Act, 2003 and same could not be recovered.

4.2.20.2 Locking up of funds due to ligitation

Analysis of dues from consumers as on 31 March 2017 revealed that ₹ 74.59 crore was outstanding against six High Tension industrial consumers due to prolonged litigation as shown in **Appendix 4.2.10**. Of this, a significant portion of 88 *per cent* (₹ 65.59 crore) pertained to three consumers. Audit observed that the power connection of these three consumers had not been disconnected by MePDCL despite the continuous default in payment of outstanding electricity dues by the said consumers. Failure of MePDCL to prioritise and pursue the litigations vigorously enabled the defaulting consumers to evade payment of energy charges by filing petitions before Courts/Lokadalats.

The GoM/MeECL stated (January 2018/November 2017) that recently an 'out of court' settlement had been arrived at in two cases and realisation against these cases was anticipated.

The fact remained that delay in taking timely action against defaulting consumers had led to a significant revenue loss to MePDCL on account of unrealised electricity dues.

4.2.20.3 Dues against Government Departments

Examination of the records of MePDCL revealed that as on 31 March 2017, receivables amounting to ₹ 49.90 crore of MePDCL were locked up with Government Departments towards outstanding dues against supply of power as shown in **Appendix 4.2.11**. Audit analysis revealed that as on 31 March 2014, the said outstanding dues stood at ₹ 17.11 crore only, which had increased by around three fold to ₹ 49.90 crore within a period of three years. The MeECL had taken up (September 2016) the matter with Chief Secretary, GoM, for expeditious settlement of outstanding dues of Government Departments. No tangible progress was, however, achieved in clearing the dues so far (November 2017).

The MeECL stated (November 2017) that the matter had been taken up with GoM. No specific comments were, however, offered by GoM on the issue.

4.2.21 Non-revision of Security Deposit

As per the provisions (Clause 6.10) of the Meghalaya Electricity Supply Code, 2012 (MESC, 2012), the MePDCL was entitled to collect a security deposit (SD) from consumers to the extent of three months' average electricity consumption so as to facilitate recovery of unpaid electricity dues in case of default by consumers. The SD so collected from the consumers was also subject to review by MePDCL on annual basis for Low Tension (LT) consumers based on their consumption during the previous 12 months; and, on half-yearly basis for High Tension/Extra High Tension (HT/EHT) consumers based on their consumption during the previous six months. The consumers concerned were required to deposit the required amount for the shortfall, if any, towards additional SD within one month of serving the demand notice by MePDCL.

During examination of records, however, it was noticed that MePDCL did not have a system of periodical review and revision of consumer SD and to recover additional SD as per the provisions of MESC, 2012. Based on the directions issued (December 2012) by the MeECL to review and revise the SD of industrial HT/EHT consumers, MePDCL served (January 2013) demand notices on 98 HT/EHT consumers for remitting additional SD amounting to ₹ 39.81 crore. Instead of remitting the additional SD as demanded by MePDCL, one association[48] of HT industrial consumers approached (April 2013) MSERC for quashing the notices and amending the related provisions of MESC, 2012. MSERC turned down (September 2013) the case in favour of MePDCL and allowed it (MePDCL) to decide on collecting the additional SD amount in three or six instalments. MePDCL, however, failed to pursue the matter further. The Table 4.2.6 below indicates the details of SD to be collected by MePDCL at the rate of three months' average revenue, SD actually collected and shortfall thereof during the five years (2012-17):

Table 4.2.6: Shortfall in collection of Security Deposit by MePDCL during the five years (2012-17)

(₹ in crore)

Year	Revenue Billed during the year	Average Monthly Revenue	Security deposit to be collected	Security Deposit actually collected	Shortfall
1	**2**	**3(col. 2/12 months)**	**4 (col. 3 x 3 months)**	**5**	**6(4-5)**
2012-13	412.88	34.41	103.22	24.87	78.35
2013-14	440.20	36.68	110.05	28.73	81.32
2014-15	488.04	40.67	122.01	33.57	88.44
2015-16	530.88	44.24	132.72	35.97	96.75
2016-17	527.81	43.98	131.95	43.45	88.50

Source: Data furnished by the Audited entity and Annual Accounts

As could be seen from the table above, failure to periodically review and revise the SD amount as per the provisions of the Supply Code deprived MePDCL of the opportunity of collecting 'zero cost' funds ranging between ₹ 96.75 crore (2015-16) and ₹ 78.35 crore (2012-13) during the five years (2012-17). The said funding, if collected, could have helped MePDCL in improving its liquidity position and day-to-day operational performance. As MePDCL had not maintained consumer-wise data for collection of SD, Audit could not comment on the loss, if any, suffered by the Company due to non-recovery of unpaid electricity dues of defaulting consumers in absence of adequate SD amount.

The GoM/MeECL stated (January 2018/November 2017) that MePDCL collected SD initially at the time of providing the electricity connection and whenever there was enhancement of load. It was further added that it was impossible to review the consumption every year for about four lakh consumers.

[48] Byrnihat Industries Association (BIA).

The reply was not acceptable in view of the fact that under the computerised system of billing and recording the SDs of each consumer, it could be quite simple with suitable software to review and revise SD at periodic intervals. Non-review/revision of SD on periodic basis had violated the provisions of MESC, 2012, which was mandatory for MePDCL.

4.2.22 Non-rationalisation of Security Deposit

The consumers of MePDCL comprised LT, HT and EHT consumers. MePDCL had been collecting SD in cash from all the consumers at the time of sanctioning new connection as well as additional load at the rate prescribed in the tariff order. Collection of SD in cash had great significance for maintaining the liquidity position of the MePDCL taking into account the lead time of around three months between supply of power and collection of payments thereagainst from the consumers. Besides, the provisions of MESC, 2012 also indicated to collect the SD in cash and hence, any change in the mode of collection of SD amount required appropriate amendment to the MESC, 2012 by MSERC.

As discussed under paragraph 4.2.21 *supra*, one association of HT industrial consumers had approached (April 2013) MSERC to allow remitting the SD amount in the form of a bank guarantee (BG) by amending the provisions of MESC, 2012. The MSERC, however, had decided (September 2013) the issues in favour of MePDCL taking cognizance of the fact that the system of accepting BG was unreliable and collection of SD in cash was in line with the provisions of MESC, 2012. Subsequently, one EHT industrial consumer requested (July 2014) MePDCL to permit them to furnish SD in the form of a BG for the additional load applied by the consumer. Considering the request, the Board of Directors of MePDCL took (July 2014) a policy decision to collect 25 *per cent* of the additional load SD by way of demand draft and the balance in the form of an irrevocable BG from industrial HT/EHT consumers who were regular in payment of electricity dues. Accordingly, MePDCL accepted (July 2014 to March 2017) BG amounting to ₹ 11.69 crore towards additional SD from four consumers. Audit, however, noticed that MePDCL before taking a policy decision on the issue, did not take up the matter with MSERC for amendment to the MESC, 2012 in this regard. As such, the special treatment given to HT/EHT consumers in the mode of payment of SD was not in line with the provisions of the MESC, 2012 and tantamounted to undue favour to HT/EHT consumers.

The GoM/MeECL stated (January 2018/November 2017) that acceptance of BG towards SD was to encourage industrial consumers to enhance their connected load.

The reply was not acceptable as collection of SD in any mode other than cash was not in line with the provisions of MESC, 2012. Hence, any concession to any class of consumers in this regard, required amendment of MESC, 2012 by MSERC, which was never sought by MePDCL before accepting the BG from HT/EHT consumers.

4.2.23 Management of payables

To meet the power demand in the State, MePDCL was purchasing power from MePGCL as well as from Central Generating Utilities[49] (CGUs) besides Unscheduled Interchange[50] (UI) drawals from the Regional Grid and power swapping[51]. The total power purchased including free power and swapped power during the five years under review was 10141.34 MUs. The cost of power purchased constitutes about 74 *per cent* to 82 *per cent* of the total expenditure of MePDCL during 2012-17 (**Appendix 4.2.4**). Hence, MePDCL was required to arrange adequate funds to ensure the payment of power purchase bills within the due dates and avoid any interruption in supply of power by the suppliers on this account.

During the five years (2012-17) under review ended 2016-17, MePDCL purchased 4082.42 MUs from CGUs. As per the Power Purchase Agreements (PPAs) executed with the CGUs, MePDCL was required to make payments against the power purchased from CGUs within two months of raising the power purchase invoice. In case MePDCL failed to make the payment within the due period, a surcharge at the rate of 1.5 *per cent* per annum was leviable on MePDCL for the delays. Therefore, to minimise the power purchase cost, it was imperative to pay the bills within the due date.

A review of the records of MePDCL revealed that during the five years ended 2016-17, MePDCL did not make payment against the power purchase bills or wheeling charges within the due dates excepting a few bills of OTPC[52] and NHPC[53]. This led to heavy accumulation of power purchase dues and consequent levy of surcharge by CGUs amounting to ₹ 265.13 crore during the five years (2012-17) as shown in Table 4.2.7 below:

Table 4.2.7: Position of outstanding power purchase bills and levy of surcharge by CGUs

(₹ in crore)

Year	Payable at the beginning	Purchases during the year	Total	Payments during the year	Amount adjusted from sale, *etc.*	Rebate allowed	Surcharge levied	Payable at the end
1	**2**	**3**	**4 (2+3)**	**5**	**6**	**7**	**8**	**9 [(4+8)-(5+6+7)]**
2012-13	231.50	348.04	579.54	264.38	29.13	0.02	6.13	292.14
2013-14	292.14	359.09	651.23	201.38	26.48	0.03	4.84	428.18
2014-15	428.18	415.34	843.52	394.38	19.16	0.13	112.87	542.72
2015-16	542.72	421.34	964.06	321.46	15.16	0.02	84.37	711.79
2016-17	711.79	477.39	1189.19	617.62	25.19	0.03	56.92	603.27
Total	**-**	**2,021.20**	**-**	**1,799.22**	**115.12**	**0.23**	**265.13**	**-**

Source: Data furnished by the Audited entity

The MSERC, while considering the truing-up application, disallowed the amount of delayed payment surcharge (₹ 265.13 crore) from power purchase cost and

49 NEEPCO, NHPC, NTPC and OTPC.
50 Unscheduled Interchange means the difference between actual drawal and scheduled drawal.
51 Short - term supply of power with a condition to return the same at a later date.
52 OTPC - ONGC Tripura Power Company.
53 NHPC - National Hydro Power Corporation.

accordingly, the ARR was reduced to that extent. As a result, MePDCL could not recoup the expenses incurred towards delayed payment charges as a tariff component and it had to bear the said burden leading to further deterioration in the financial position of MePDCL. It was further noticed that in addition to imposing the delayed payment charges on MePDCL, two CGUs (NEEPCO[54] and NHPC) had further imposed (June 2012-December 2016) power regulations[55] on supplies to MePDCL during the periods as detailed in Table 4.2.8 below:

Table 4.2.8: Regulations imposed by CGUs on MePDCL

Sl. No.	Regulated period	CGU	Power Station
1	June 2012 to February 2013	NHPC	-
2	January2014 to September 2015	NHPC	Loktak HEP-
3	July 2012 to January 2013	NEEPCO	AGTPP[56] & AGBPP[57]
4	April 2013 to May 2014	NEEPCO	AGTPP & AGBPP
5	November 2013 to May 2014	NEEPCO	RHEP[58], DHEP[59]
6	April 2016 to December 2016	NEEPCO	all power stations

Source: Data furnished by the Audited entity

Examination of records of MePDCL further revealed that during the above periods of non-supply, although no power was supplied by the two CGUs, MePDCL had to pay the capacity charges (fixed) aggregating ₹ 262.06 crore at the prescribed rates. It was further seen that due to non-supply of power by NEEPCO and NHPC, MePDCL had to impose load shedding during the above period. The financial position of MePDCL/MeECL had worsened further as MeECL had to avail (December2014/December 2016) long term loans of ₹ 100 crore and ₹ 325 crore bearing interest of 12.75/12.5 *per cent* per annum from the FIs to pay off the dues against power purchase bills of NHPC and NEEPCO.

In reply, GoM/MeECL accepted the facts and stated (January 2018/November 2017) that now MeECL/MePDCL have been prioritising payment towards power purchase bills.

4.2.24 Non-remittance of Electricity Duty collected

As per the provisions (Clauses 3 and 4) of the Meghalaya Electricity Duty Act, 1964, MePDCL was required to levy and collect Electricity Duty at prescribed rates, from its consumers through the electricity bills and remit the same to GoM.

On scrutiny of the records of MePDCL, Audit noticed that though MePDCL recovered an amount aggregating ₹ 20.86 crore from consumers towards Electricity Duty during the five years ended 2016-17, it did not remit the same to the GoM as detailed in Table 4.2.9 below:

54 NEEPCO - North East Electric Power Corporation.
55 Stopping supply of power excepting free power.
56 AGTPP - Agartala Gas Turbine Power Plant.
57 AGBPP - Assam Gas Based Power Plant.
58 RHEP - Ranganadi Hydro Electric Power.
59 DHEP - Doyang Hydro Electric Power.

Table 4.2.9: Electricity Duty collected by MePDCL but not remitted to GoM

(₹ in crore)

Sl. No.	Year	Outstanding at the beginning	Collected during the year	Amount remitted to GoM	Closing balance
1	2012-13	4.91	3.87	0	8.78
2	2013-14	8.78	4.02	0	12.80
3	2014-15	12.80	4.65	0	17.45
4	2015-16	17.45	4.28	0	21.73
5	2016-17	21.73	4.04	0	25.77
Total (2012-17)			**20.86**	**Nil**	**25.77**

Source: Annual Accounts

It could be noticed from the table above that the revenue amounting to ₹ 25.77 crore collected by MePDCL towards Electricity Duty on behalf of GoM, was irregularly appropriated for its own use without the approval of GoM.

The MeECL stated (November 2017) that huge amounts were due from Government Departments towards electricity charges and payment of Electricity Duty would be made as soon as the outstanding electricity dues were realised from Government Departments.

The reply was not acceptable as appropriation of Government revenue for own use of MePDCL was irregular.

No specific comments were, however, offered by GoM on the issue.

4.2.25 Management of Borrowings

As the revenue realised by MeECL and its subsidiaries was not sufficient to meet their operational costs, MeECL and subsidiaries had to depend heavily on the borrowings to fund new projects, service long term debts and bridge the revenue gap for day-to-day operations. The position of the collective borrowings[60] of MeECL and its subsidiaries from FIs during the five years under review (2012-17) has been shown in the Table 4.2.10 below:

Table 4.2.10: Borrowings of MeECL and its subsidiaries from Financial Institutions

(₹ in crore)

Year	2012-13	2013-14	2014-15	2015-16	2016-17	2012 to 2017
Opening Balance	975.88	1,060.35	1,085.72	1,238.50	1,365.20	**975.88**
Borrowings during the year	132.00	87.65	401.81	180.37	659.84	**1,461.67**
Total	**1,107.88**	**1,148.00**	**1,487.53**	**1,418.87**	**2,025.04**	**2,437.55**
Repayments during the year	47.53	62.28	249.03	53.67	264.36	**676.87**
Closing Balance	1,060.35	1,085.72	1,238.50	1,365.20	1,760.68	**1,760.68**

Source: Data furnished by Audited entity

As could be seen from the table above, the borrowings of MeECL and subsidiaries from FIs during the five years (2012-17) had increased by 80 *per cent* from ₹ 975.88 crore at the beginning of 2012-13 to ₹ 1,760.68 crore at the end of 2016-17. This increase was significant and had ultimately brought the power companies under heavy debt burden and debt trap situation as discussed under paragraph 4.2.30 *infra.*

[60] Excluding the interest component.

The deficiencies noticed in the management of borrowings by MeECL and its subsidiaries have been discussed in succeeding paragraphs:

4.2.26 Higher interest rates of borrowings due to poor credit rating

The rate of interest charged by the FIs depended on the credit rating of the borrower. The credit rating depended largely on the factors like financial position, position of outstanding borrowings, promptness in repayment of principal and interest, *etc.* of the entity concerned. The two FIs (PFC[61] and REC) graded the state sector borrowers as A^+, A, B and C. The lowest rate of interest was allowed to A^+ category borrower and as the rating goes down to A, B and C the interest rate on borrowings also correspondingly increased by 0.25 *per cent* for each category.

PFC and REC assigned the lowest category ratings ('B'/'C') to MeECL and its subsidiaries. This led to higher interest rates (higher by 0.50 to 0.75 *per cent* than the interest rate offered to A+ Companies) on the long term borrowings sanctioned to these power companies.

The GoM/MeECL accepted (January 2018/November 2017) the audit observation.

4.2.27 Failure to submit External Credit Rating

MeECL availed (October/December 2011) two Corporate Term Loans of ₹ 65 crore and ₹ 50 crore from State Bank of India (SBI) at the concessional interest rate of 13.75 *per cent* per annum (*viz.* 3.75 *per cent* above the Base Rate of 10 *per cent*) as against the prevailing interest rate of 17.25 *per cent* (*viz.* 7.25 *per cent* above the Base Rate). The Term Loans were availed for payment of power purchase bills and other outstanding liabilities. The SBI had allowed the concessional rate subject to submission of the External Credit Rating by MeECL from an approved rating agency on or before 31 March 2012. In case MeECL failed to submit the said Rating within the stipulated time, the concessional rate of interest was to be withdrawn by SBI. Scrutiny of records, however, revealed that MeECL could submit the credit rating to SBI only on 10 September 2013 after a delay of 17 months from the stipulated date (31 March 2012). The delay in submitting the credit rating was attributable to delay in initiating (November 2012) action by MeECL for obtaining the credit rating from ICRA[62]. As a result, the lenders levied interest at higher rate of 17.25 *per cent* (*viz.* 7.25 *per cent* above base rate) during 1 April 2012 to 31 August 2013 resulting in avoidable expenditure of ₹ 3.33 crore towards additional interest liability.

The GoM/MeECL stated (January 2018/November 2017) that at that point of time, MeECL was in the process of unbundling and trifurcation which caused the delay in appointment of the rating agency.

The reply was not acceptable as the MeECL should have prioritised the action for obtaining the credit rating in view of the cut-off date fixed by SBI and the amount of additional interest involved.

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[61] Power Finance Corporation Limited.

[62] International Credit Rating Agency.

4.2.28 Pre-closure of two high cost loans

MeECL availed (September 2016) a Special Term Loan of ₹ 250 crore from REC at the interest rate of 11.75 *per cent* per annum. The loan amount was utilised mainly for payment of overdue instalments (principal and interest) of five REC loans and pre-closure of two high cost loans (13.25/12.75 *per cent* interest) availed from REC.

Audit observed that at the time of availing (September 2016) the Term Loan, the overdue instalments of two out of above mentioned five REC high cost loans was ₹ 75.74 crore. It was noticed that though MeECL availed the loan with the intention to clear the overdue instalments, it paid only ₹ 14.15 crore of the overdue instalments of the said two loans in September 2016 and the balance amount (₹ 61.59 crore) was paid in October 2016. Similarly, despite availing the Term Loan in September 2016, MeECL paid the overdue instalments (principal and interest) against remaining three high cost REC loans only during December 2016 to May 2017.

Further, MeECL closed (December 2016) the balance outstanding (₹ 112.50 crore) against two high cost REC loans after two months of availing (September 2016) the Term Loan, though the same was availed specifically to close down the said loans. These delays led to avoidable payment of ₹ 0.98 crore towards differential interest (₹ 0.45 crore) against two high cost loans settled during December 2016 and penal interest (₹ 0.53 crore) towards overdue instalment of other three REC loans.

The GoM/MeECL stated (January 2018/November 2017) that for pre-payment/closure of loans they had to arrange necessary funds from own sources which could be arranged by December 2016 and the loans were pre-paid in the same month.

The reply was not factually correct as pre-payment/closure of high cost REC loans was made by way of adjustment against the Special Term Loan of ₹ 250 crore availed (September 2016) from REC and not out of the own funds of MeECL as claimed in the reply.

4.2.29 Poor Servicing of debts

Repayment of instalments (principal and interest) on due dates is one of the important aspect of efficient financial management. This is essential to ensure early liquidation of the debts, avoiding penal interest thereon for any default in loan repayment and improving the credit rating of the organisation. As on 31 March 2017, MeECL had availed total 17 loans aggregating ₹ 2,204.66 crore from 7 FIs, which included 8 loans (₹ 1,213.05 crore) availed during 2012-17. Against these loans, total 695 instalments were due for payment towards principal (297 instalments) and interest (398 instalments) during the five years ended 2016-17. Audit examined the promptness of MeECL in payment of these instalments and noticed the following:

- Out of the 695 instalments (₹ 1,023.66 crore) due for payment during 2012-17, MeECL paid only 123 instalments amounting to ₹ 139.24 crore (13.60 *per cent)* within the due dates.

➢ While releasing subsequent instalments of loan, the FIs adjusted ₹ 324.15 crore towards overdue instalments (principal and interest) of previous loans. As a result, the loan amount availed for implementation of the projects could not be utilised for intended purpose to the full extent which ultimately hampered implementation of the project.

➢ The terms and conditions of loans provided for levy of additional interest (two/three *per cent*) and compound interest in case of delay in payment of the loan instalments. During the period of five years (2012-17), as mentioned above, MeECL failed to pay 572 instalments (₹ 884.42 crore) on due dates resulting in avoidable payment of additional interest and penal charges amounting to ₹ 21.36 crore.

➢ As the payment of loan instalments (principal and interest) were guaranteed by GoM, the lenders invoked the guarantee and requested the GoM to release funds for payment of instalments overdue. Accordingly, on three occasions GoM had to release ₹ 29.37 crore to MeECL in the form of soft loan for repayment of overdue instalments of principal and interest.

The GoM/MeECL stated (January 2018/November 2017) that revenue realised from sale of power was being utilised for payment of power purchase dues, expenses against operation and maintenance works, terminal benefits, employee cost, *etc.* It was also stated that MeECL was trying every possibility to reduce the penal charges by servicing the interest and repayment of principal.

The fact, however, remained that about 86 *per cent* of the instalments were not paid on due dates resulting in high incidence of additional interest and penal charges.

4.2.30 Debt-trap due to borrowings for debt servicing

Servicing of debts through own revenue generation is imperative to facilitate easy liquidation of debts and minimise the finance costs. Audit, however, noticed that during the period of five years (2012-17) covered under audit, the revenue generated by MeECL and its subsidiaries was not sufficient even to meet their variable costs (i.e. cost of power purchase, wheeling charges *etc.*) as discussed under paragraph 4.2.13 *supra.* As a result, MeECL and subsidiaries had to resort to outside borrowings for servicing the debts. During 2014-15, MePGCL availed (October 2014) a loan of ₹ 145.03 crore from PFC for closing down the loan (₹ 127.60 crore) availed and payment of overdue instalments {principal (₹ 14.83 crore) and interest (₹ 2.60 crore)} against a loan from HUDCO[63]. Further, as discussed under paragraph 4.2.28 *supra,* MeECL had also availed (September 2016) a Special Term Loan of ₹ 250 crore from REC for paying off the overdue instalments of previous REC loans as well as closure of two high cost loans of REC (₹ 112.50 crore). This further added to the overall financing cost and increased the borrowings rather than liquidating the debts thereby placing the MeECL and subsidiaries in a debt trap situation.

The MeECL stated (November 2017) that due to non-release of financial assistance committed by GoM under Meghalaya Power Sector Reforms Transfer Scheme 2010,

[63] Housing Urban Development Corporation Limited.

MeECL was facing financial constraints and had to avail fresh loans for repayment of overdue instalments of principal and interest.

The reply was not acceptable as the MeECL needed to pursue the issue of releasing the committed financial assistance at appropriate level with GoM.

No specific reply was, however, offered by GoM on the issue.

4.2.31 Non-creation of Bond redemption reserve

Prudent financial management demands setting apart a portion of the revenue earned to create appropriate reserves to facilitate redemption of the Bonds immediately on maturity. Erstwhile MeSEB issued (July 2008/August 2009) Bombay Stock Exchange (BSE) Bonds amounting to ₹ 170 crore for funding implementation of Myntdu Leshka Hydro-Electric project (MLHEP). The Bonds were guaranteed by GoM and had specific redemption in two phases *viz.* ₹ 120 crore (October 2017) and ₹ 50 crore (November 2018).

Audit, however, noticed that, there was no laid down policy of MeECL and its subsidiaries for creating any committed reserves for redemption of Bonds as per the due dates for redemption of these Bonds. As such, though the Bonds were due for bullet repayment (one time repayment) in October 2017/November 2018, MeECL did not have any financial planning for redemption of these Bonds. Absence of an appropriate financial planning to fund timely redemption of the Bonds would cast a heavy financial burden on MeECL and its subsidiaries while redeeming the said Bonds. Under such situation, MeECL would be forced to resort to further borrowing, else GoM would have to come forward to finance redemption of these bonds in view of the guarantee given by it.

The GoM/MeECL stated (January 2018/November 2017) that MeECL could not create a reserve fund for redemption of Bonds, but it had redeemed Bonds to the extent of ₹ 120 crore on 17 October 2017 from its own resources. Agreeing to the Audit observation, MeECL further stated that the redemption of Bonds from its own sources had burdened their cash flow and MeECL was now proposing to avail loans from FIs to mitigate the same.

The fact remained that in the absence of an appropriate redemption reserve to finance the redemption of Bonds, MeECL was forced to avail fresh loans.

4.2.32 Borrowing from State government

The GoM also provided loans to MeECL and its subsidiaries for various purposes including implementation of various schemes and projects, repayment of borrowings and meeting revenue expenditure, *etc*. The GoM loans so availed carried interest at the rates varying between 7.18 *per cent* and 9.32 *per cent* per annum. The position of loan availed by MeECL/subsidiaries from GoM during the five years (2012-17) has been shown in the Table 4.2.11 below:

Table 4.2.11: Position of collective borrowings availed by MeECL and subsidiaries from GoM during 2012-17

(₹ in crore)

Year	Opening balance	Loans received during the year	Total	Repayments during the year	Closing balance
2012-13	55.82	5.98	61.80	0	61.80
2013-14	61.80	17.63	79.43	0	79.43
2014-15	79.43	44.13	123.56	0	123.56
2015-16	123.56	41.54	165.10	0	165.10
2016-17	165.10	5.42	170.52	0	170.52

Source: Data furnished by Audited entity

As per the terms and conditions of the GoM loans, the instalments (principal and interest) for repayment of loans were to be paid half yearly failing which penal interest at 2.50 *per cent* was leviable. Audit, however, noticed that MeECL had not paid any of the instalments of principal or interest during the period of five years (2012-17) under review so far (November 2017). The cumulative interest liability against GoM loans as on 31 March 2017 stood at ₹ 49.17 crore. The liability towards penal interest on account of overdue interest liability worked out to ₹ 14.30 crore as of March 2017. Non-payment of any instalment (principal and interest) against GoM loans during the five years (2012-17) highlighted the absence of an appropriate financial planning by MeECL and subsidiaries for liquidating the long term borrowings.

The GoM/MeECL stated (January 2018/November 2017) that as per Section 67A of the Electricity (Supply) Act, 1948 interest on loans from Government was to be paid only out of the balance of revenue left after meeting all other expenses.

The reply was not acceptable as it did not consider the fact that the Electricity (Supply) Act, 1948 was already repealed after notification (June 2003) of the Electricity Act, 2003.

4.2.33 Non-remittance of Guarantee fee

The loans availed and Bonds issued by MeECL and its subsidiaries were guaranteed by GoM. As on 31 March 2017, the total guarantees issued by GoM stood at ₹ 1,281.94 crore. As against this, the actual guarantee utilised and outstanding was ₹ 935.77 crore (excluding interest of ₹ 7.33 crore) as on 31 March 2017. As per the standing orders (April 1989) issued by GoM, guarantee fee (at the rate of 0.50 *per cent* of the guarantee issued) had to be deposited by the borrower (MeECL and its subsidiaries) within 30 April every year, until the guarantee was vacated or the loan was fully repaid. Audit, however, noticed that MeECL did not remit the guarantee fee in any of the years during the period from 2012-13 to 2016-17. The total amount payable by MeECL against guarantee fee as on 31 March 2017 stood at ₹ 31.46 crore as shown in the Table 4.2.12 below:

Table 4.2.12: Guarantee Fee payable by MeECL and its subsidiaries

(₹ in crore)

Year	Opening balance	Payable during the year	Total	Paid during the year	Closing balance
2012-13	7.58	4.20	11.78	0	11.78
2013-14	11.78	4.79	16.57	0	16.57
2014-15	16.57	4.70	21.27	0	21.27
2015-16	21.27	3.57	24.84	0	24.84
2016-17	24.84	6.62	31.46	0	31.46

Source: Data furnished by Audited entities

The MeECL stated (November 2017) that they had assured (September 2016) GoM for payment of outstanding Guarantee fee as and when their financial position improves.

No specific comments were, however, offered by GoM on the issue.

4.2.34 Internal control

Effective system of internal control and internal audit needed to be in place for efficient functioning of an organisation. Further, an effective system of top level budgetary review and constant monitoring of billing and collection efficiency, reduction in AT&C losses, repayment of borrowings, *etc*. had to be in place to ensure efficient financial management. Besides, finalisation and certification of the annual accounts as per the timeframe prescribed under the Companies Act, 1956/Companies Act, 2013 was also desirable to ensure strict monitoring of the operations of the organisation. Further, reporting of the internal audit findings to the top management was also essentially required for initiating appropriate remedial measures, if necessary, within the reasonable time. Deficiencies noticed in the internal control mechanism and internal audit are discussed in the following paragraphs:

4.2.34.1 Discussion of important issues in BOD meetings

A review of the minutes of the meetings of the Board of Directors (BoD) of MeECL and its subsidiaries revealed that issues like achievement of targets against the budgeted revenue/expenditure, performance of the subsidiaries against billing and collection of operational revenue, progress in reduction of AT&C loss *etc*. were not discussed in the BoD Meetings during the five years (2012-17) covered under audit.

In the exit meeting, CMD of MeECL informed (November 2017) that video conferences with the officers of MeECL and its subsidiaries were held for monitoring the aforementioned issues.

No documentary evidence was, however, provided by MeECL for verification by Audit in support of the claims of the CMD, MeECL. Audit also did not come across any records documenting the said meetings or follow-up actions for decisions taken in these meetings.

4.2.34.2 Non-finalisation of accounts

As per the provisions of the Companies Act, 1956/Companies Act, 2013[64] annual accounts of the MeECL and subsidiaries were to be finalised and audited within a period of six months from the end of the relevant financial year. MeECL and subsidiaries, however, failed to finalise their accounts within the due dates as detailed in Table 4.2.13 below:

Table 4.2.13: Details showing finalisation of accounts

Sl. No.	Year of Accounts	Due date for finalisation	Actual date of certification by the Statutory Auditors (extent of delay in months)			
			MeECL	**MePGCL**	**MePTCL**	**MePDCL**
1	2012-13	30.09.2013	20.07.2015 (21)	17.07.2015 (21)	17.07.2015 (21)	17.07.2015 (21)
2	2013-14	30.09.2014	01.02.2016 (16)	15.01.2016 (15)	11.01.2016 (15)	11.01.2016 (15)
3	2014-15	30.09.2015	30.11.2016 (14)	30.11.2016 (14)	30.11.2016 (14)	30.11.2016 (14)
4	2015-16	30.09.2016	28.12.2017 (15)	06.09.2017 (11)	12.10.2017 (12)	12.10.2017 (12)
5	2016-17	30.09.2017	Accounts not finalised* (6 months)			

Source: Data furnished by Audited entity and Annual Accounts
**position as on March 2018*

As could be seen from the table above, during all the five years (2012-17) covered under audit, MeECL and its subsidiaries failed to finalise their annual accounts within the due date. The delays in finalisation of accounts of four companies ranged from 11 months (2015-16) to 21 months (2012-13). These delays led to corresponding delays in filing of truing-up petitions before MSERC by power companies as well as disallowance of expenditure by MSERC claimed in the petitions of the power companies and consequent delay in recovery of revenue as discussed under paragraphs 4.2.14.1 and 4.2.14.2 *supra*.

The GoM/MeECL stated (January 2018/November 2017) that various measures had been taken to gear up the finalisation of accounts and was expected to accomplish finalisation of accounts within the prescribed time limit with effect from financial year 2017-18 onwards.

The fact, however, remained that inordinate delay in finalisation of accounts had led to non-acceptance of the expenditure figures by MSERC as claimed in the tariff petitions of power companies besides violation of the provisions of the Companies Act, 1956/Companies Act, 2013.

4.2.34.3 Internal audit

The role of internal audit was to provide an independent assurance regarding the effectiveness of the risk management, governance and internal control processes prevailing in an entity. To ensure this, the internal audit wing of the entity should have independence and objectivity in its functioning. Besides, to maintain the independence of the internal audit wing, it was equally important that the findings of

64 Accounts of periods commencing on or after 01 April 2014 are governed by the Companies Act, 2013 while the accounts pertaining to earlier periods continued to be governed by the Companies Act, 1956.

the internal audit are reported directly to the top management for appropriate and timely remedial action.

The internal audit wing of MeECL and its subsidiaries was headed by the Deputy Chief Accounts Officer (Audit) who was also holding other charges such as, Establishment, Funds, Administrative General duties (AGD) *etc*. Besides, the internal audit wing was reporting to the Chief Accounts Officer of MeECL instead of the BoDs of the respective power companies which indicated lack of independence and objectivity of the wing. Further, the Director (Finance) of the holding Company, was responsible for taking all major financial decisions in respect of MeECL and its subsidiaries. The internal audit of the office of the Director (Finance) was, however, confined to checking of the cash book and vouchers of Headquarters Drawing Account only. Hence, other decisions/activities of Director (Finance) were not under the purview of internal audit. As a result, the internal audit wing had only a restricted scope and all the financial decisions such as availing of long term loans from FIs, project funding, deployment of unutilised funds, investment of pension funds, *etc*. were not subjected to the scrutiny by the internal audit wing.

The status of completion of internal audit of the revenue and expenditure of all the nine Revenue Divisions of MePDCL presently in existence has been shown in **Appendix 4.2.12.** As could be seen from the **Appendix**, none of the nine Divisions had been audited for the periods upto 31 March 2017. Further, the internal audit wing had completed the audit upto 31 March 2016 in respect of only three out of nine Divisions.

While accepting the audit observation, GoM/MeECL stated (January 2018/November 2017) that there were only two internal audit teams and audit of high risk and high priority Divisions were taken up first.

The fact, however, remained that there was heavy backlog in internal audit highlighting inadequacy of effective internal control.

The facts narrated in previous paragraphs indicated that the system of internal control and internal audit prevailing in MeECL and its subsidiaries was weak and not commensurate with the nature and volume of activities of these companies.

Conclusion

The overall management of funds of MeECL and its subsidiaries was beset with absence of administrative and financial autonomy to the subsidiaries to manage their individual revenues and expenditures. The budgetary planning and control was deficient due to the absence of timely and realistic budgets, lapses in monitoring as well as non-analysis of reasons for wide variations between actuals and budget estimates.

Revenue generation by MePDCL, which was the main revenue earning subsidiary of MeECL, was inadequate due to dismal performance in billing and collection of operational revenue and high power purchase costs. Deficiencies in management of receivable and payables by MePDCL had caused regular defaults in payment of power purchase bills leading to significant expenditures towards delayed payment surcharge. Fund raising and debt servicing activities of MeECL and subsidiaries were deficient leading to high incidence of default in repayment of loans thereby causing payment of higher interest rates, additional interest and penal charges. Reluctance of GoM to release committed subsidies annually and lack of persuasion on the part of MeECL and subsidiaries had further aggravated the financial condition of MeECL and subsidiaries.

The internal control and monitoring mechanism prevailing in MeECL and subsidiaries was also deficient as appropriate system for periodical review and monitoring of important operational areas at the top management level was non-existent.

Recommendations

Government may consider:

- *making the three subsidiaries independent by restricting the interference of the holding Company to a minimum in management of their day-to-day financial activities;*
- *evolving an effective system of budgetary control by setting quarterly targets for revenue, expenditure and project implementation as well as the constant monitoring thereof at top level;*
- *taking appropriate action to improve the billing and collection efficiency of MePDCL and releasing of the committed financial support to MeECL and subsidiaries so as to improve their financial health; and,*
- *making the system for monitoring of the operational and financial activities of MeECL and subsidiaries at top management level more robust.*

COMPLIANCE AUDIT PARAGRAPHS

COMMERCE & INDUSTRIES DEPARTMENT

MEGHALAYA INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

4.3 Loss of interest

Parking of Scheme funds (₹ 9.30 crore) in a 'non-interest bearing' account led to an interest loss of ₹ 1.98 crore.

The Ministry of Commerce & Industry, Government of India (GoI) sanctioned (March 2015) an amount of ₹ 18.60 crore to the Government of Meghalaya (GoM) under the Assistance to States for Development of Export Infrastructure and Allied Activities (ASIDE) Scheme for setting up four[65] border haats along the India-Bangladesh (Meghalaya) Border with Meghalaya Industrial Development Corporation Limited (Company) as the implementing agency. The GoI released (March 2015) an amount of ₹ 9.30 crore to Company as first instalment of the Scheme with the condition that the project be completed in a time bound manner. As per sound financial prudence, the Company was required to keep the unutilised Scheme funds in a separate interest bearing bank account so as to ensure maximum returns thereon.

Examination of the records of the Company revealed that the final location of the Border Haat could not be identified (July 2017) by GoM due to delays in conducting the joint inspection of the Boarder Haat sites with the Bangladesh Officials. The project works under the Scheme could not be commenced so far (November 2017) and the project fund (₹ 9.30 crore) remained idle for more than 30 months after their release (March 2015).

Examination of records revealed that Company had parked the Scheme funds (₹ 9.30 crore) in current account which did not bear any interest[66] for 30 months from April 2015 to September 2017.

Keeping the Scheme funds (₹ 9.30 crore) idled in a non-interest bearing current account during April 2015 to September 2017 was not a prudent action on part of the Company and had resulted in an interest loss of ₹ 1.98 crore[67].

The Government replied (March, 2018) that the Company has decided (October, 2017) to park the fund in interest bearing account by converting ASIDE current account to a flexi deposit account.

The reply confirmed the contention of the audit observation.

[65] At Bholaganj, Saydabad, Bhulyapara and Bagan Bari.

[66] ASIDE/140/Pt.IV/A/387 dated 30.11.2016.

[67] At the prevailing interest rate of 8.5 *per cent* during 8 December 2014 to 10 May 2015 in respect of Fixed Deposit for one year or more with State Bank of India. (₹ 9.30 crore x 8.50 *per cent* x 30 months)/12 months.

MAWMLUH CHERRA CEMENTS LIMITED

4.4 Avoidable expenditure

Delays in remitting the EPF contribution to the Employees Provident Fund Organisation resulted in avoidable expenditure of ₹ 58.84 lakh towards interests and damages.

Mawmluh Cherra Cements Limited (Company) was engaged in manufacturing of cement and covered under the purview of Employees Provident Fund and Miscellaneous Provisions Act, 1952 (Act). The Company was having 455 employees on its rolls. The provisions of the Act and the Employee Provident Fund Scheme, 1952 formed thereunder provided (Clause 38) that the employer shall deduct the contribution of employees from their wages and remit the amount so deducted along with employer's own contribution to the Fund within 15 days of the close of every month. In case of any default by the employer in remittance of any contribution to the Fund (Clause 32A), the employer was liable to pay penalty/damages at the rate given below:

Sl. No.	Period of default by employer	Rate of damages (in *per cent* of arrears per annum)	
		Up to 25 September 2008	From 26 September 2008
a.	Less than two months	17	5
b.	Two months and above but less than four months.	22	10
c.	Four months and above but less than six months.	27	15
d.	Six months and above	37	25

The Act further provided (Section 7 Q) that the employer shall be liable to pay simple interest at the rate of 12 *per cent* per annum or at such higher rate as may be specified in the Scheme. The interest rate should be on the amount due from the employer under this Act from the date on which the amount had become due till the date of its actual payment.

Scrutiny of the records relating to recovery and remittances of contributions to the Employees Provident Fund Organisation (EPFO) during the period from 2010-11 to 2016-17 revealed inordinate delays (ranging from 6 days to 337 days) in remitting the EPF contributions by the Company to the Fund. As a result, EPFO levied interest and damages amounting to ₹ 58.84 lakh on the Company during the period of five years (2012-17). Failure of the Company to remit the EPF contributions to EPFO within the due dates prescribed under the Act resulted in avoidable expenditure of ₹ 58.84 lakh (**Appendix 4.3.1**) which were paid by the Company during January 2014 to January 2017 as detailed under **Appendix 4.3.2**.

The Government/Company stated (October 2017) that the Company was facing tremendous liquidity crises due to delay in completion of its expansion project. This resulted in non-remittance of EPF dues on time.

The reply was not acceptable as the EPF dues were in the nature of statutory liability. Hence, the Company was required to remit its share of EPF dues along with the employees' contribution to EPFO immediately after recovery of the same from the salaries of the employees.

MAWMLUH CHERRA CEMENTS LIMITED

4.5 Avoidable Expenditure

Avoidable expenditure of ₹ 22.50 lakh due to inordinate delay in initiating timely action for enhancing the Authorised Share Capital.

Section 94 of the Companies Act, 1956[68] (1956 Act) permitted a Company to alter its share capital by passing a resolution in General Meeting, if so authorised by its Article of Association (AoA). Section 97 (1) of the 1956 Act further provided that if increase of share capital was beyond the authorised share capital[69] of the Company, notice of such increase shall be filed with the Registrar of Companies (RoC) within 30 days after passing resolution in the General Meeting. Accordingly, the application fee at the prescribed rate[70] was also payable for increase in share capital. As per Unlisted Public Companies (Preferential Allotment) Rules 2003, any allotment of securities shall be completed within 60 days from the receipt of application money.

Mawmluh Cherra Cements Limited (Company) was a wholly owned State Government Company with an Authorised Capital of ₹ 80 crore. As on 31 March 2013, the Company had Issued[71], Subscribed[72]and Paid up capital[73] of ₹ 72.83 crore. AoA of the Company empowered its Board of Directors (BoD) to increase the authorised share capital by passing an ordinary resolution in the General Meeting.

An increase in the authorised capital of the Company became necessary when Government of Meghalaya (GoM) released ₹ 50.07 crore (₹ 10 crore in 2011-12 and ₹ 40.07 crore in 2012-13) towards equity share capital. The BoD of the Company resolved (26 March 2013) to increase its authorised share capital by at least ₹ 50 crore. BoD's decision was to be followed by passing an ordinary resolution in the General Meeting and filing of notice for increase in the Authorised Capital with the RoC along with the required application fee. Subsequently, the Company requested (May/October 2013) the GoM for additional funds amounting to ₹ 30.72 crore. Based on the request of the Company, GoM released (2013-14) ₹ 22 crore as its contribution towards equity share capital of the Company. In view of

[68] Repealed by Companies Act 2013.

[69] Authorised share capital is the maximum capital that a company is allowed to raise through the sale of its shares.

[70] ₹ 4,000 upto ₹1 lakh, ₹ 300 for every ₹ 10,000 increase after ₹ 1 lakh upto ₹ 5 lakh, ₹ 200 for every ₹ 10,000 increase after ₹ 5 lakh upto ₹ 50 lakh, ₹ 100 for every ₹ 10,000 increase after ₹ 50 lakh upto ₹ 1 crore and ₹ 50 for every ₹ 10,000 increase after ₹ 1 crore.

[71] Subscribed share capital is the total of a company's shares that are held by shareholders.

[72] When a company goes for an issue of shares, the amount allowed to be issued is called issued capital.

[73] Paid-up capital is the amount of money that a Company receives from shareholders in exchange for shares.

the anticipated funding by the GoM, it was necessary to enhance the Authorised Capital of the Company at least by ₹ 90 crore.

Scrutiny of records, however, revealed that although the Company had held two general meetings (27 June 2013 and 17 September 2013) after BoD's decision (26 March 2013) regarding increasing the Authorized Capital, no resolution in this regard was moved in any of these meetings for passing/approval. The Company passed the resolution for increasing the Authorised Share Capital by ₹ 90 crore only in the extra ordinary general meeting held on 16 January 2017.

In the meantime, the Government of India enacted the Companies Act, 2013 (new Act which came into force with effect from 1 April 2014) and promulgated (March 2014) the Companies (Registration of Offices and Fees) Rules, 2014 (Rules). As per these Rules, fee prescribed for enhancement of Authorised Share Capital was increased[74] by ₹ 25 for every ₹ 10,000 increase in Share Capital beyond ₹ 1 crore. The Company passed the resolution (January 2017) and filed (February 2017) the same with RoC after the notification (March/April 2014) of the new Act/Rules. As such, the Company had to remit a fee of ₹ 67.50 lakh as against ₹ 45 lakh required to be remitted in 2013 as per the Companies Act, 1956. Subsequently, the share certificate for allotment of Equity Share Capital (₹ 90.07 crore) was issued (March 2017) in the name of the Governor of Meghalaya. Hence, failure to initiate timely action for enhancing the Authorised Share Capital of the Company as early in 2013 resulted in avoidable expenditure of ₹ 22.50 lakh.

The Government/Company stated (October 2017) that it was aware of the issue but had to give priority to commissioning of new plant and the Company lacked the finances for payment of registration fee.

The reply was not acceptable in view of the fact that the GoM had released ₹ 50.07 crore in cash during 2011-12 (₹ 10 crore) and 2012-13 (₹ 40.07 crore) towards equity contribution. As such, the Company should have spared the necessary amount to meet the expenditure towards the fee payable to RoC for enhancement of authorized share capital. Further, the inaction on the part of the Company to initiate the required procedure for enhancing its Authorized Share Capital despite clear directions of its BoD lacked justification and indicated inefficiency on the part of the Management.

[74] ₹ 5,000 upto ₹ 1 lakh, ₹ 4,000 for every ₹ 10,000 increase after ₹ 1 lakh upto ₹ 5 lakh, ₹ 300 for every ₹ 10,000 increase after ₹ 5 lakh upto ₹ 50 lakh, ₹ 100 for every ₹ 10,000 increase after ₹ 50 lakh upto ₹ 1 crore and ₹75 for every ₹ 10,000 increase after ₹ 1 crore. As per earlier slab it was ₹ 50 for every ₹ 10,000 increase after ₹ 1 crore.