CHAPTER-III

ECONOMIC SECTOR

(PUBLIC SECTOR UNDERTAKINGS)

CHAPTER III: ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

3.1 Functioning of Public Sector Undertakings

3.1.1 Introduction

As of 31 March 2019, State of Meghalaya had 17 PSUs (15 Government Companies and two Statutory Corporations) as detailed below:

Table 3.1.1: Total number of PSUs as on 31 March 2019

Type of PSUs	Working PSUs	Non-working PSUs	Total
Government Companies[36]	14	1	15
Statutory Corporations	2	Nil	2
Total	**16**	**1**	**17**

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

3.1.2 Investment in PSUs

3.1.2.1 State Government's investment in PSUs

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

As on 31 March 2019, the investment of the State Government (capital and long-term loans) in 17 PSUs was ₹ 2,736.21 crore[37] as per details given in **Table 3.1.2**:

Table 3.1.2: Details of State's investment in PSUs

(₹ in crore)

Year	Equity Capital	Long term Loans	Total
2018-19	2,532.97	203.24	**2,736.21**
2014-15	2,319.28	44.14	**2,363.42**

The State Government investment as on 31 March 2019 consisted of 92.57 *per cent* towards capital, 7.43 *per cent* in long-term loans as against 98.13 *per cent* (capital) and 1.87 *per cent* (long-term loans) as on 31 March 2015. A graphical presentation of State Government investment in PSUs during last five years (2014-15 to 2018-19) has been given in **Chart 3.1.1**:

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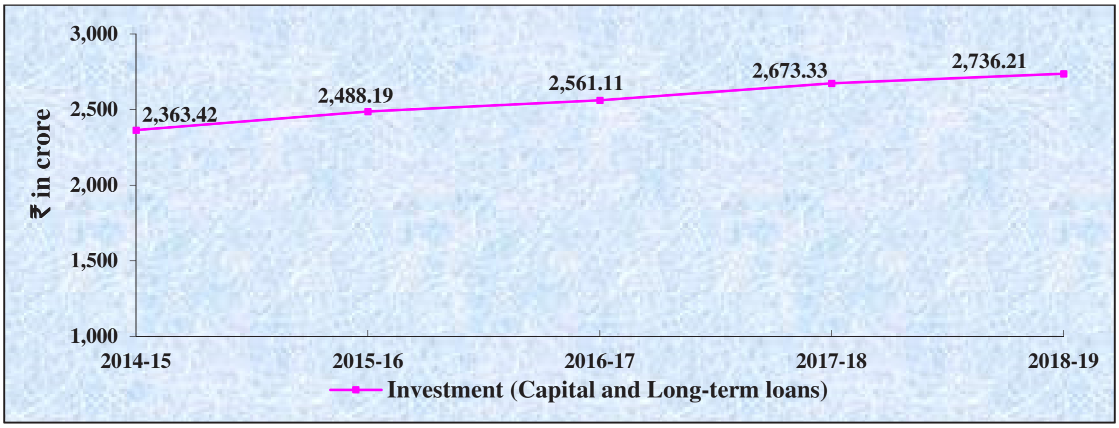
36 Government Companies include other companies referred to in Section 139(5) and 139(7) of the Companies Act 2013.

37 Investment figures are provisional and as per the information provided by the PSUs as none of the 17 PSUs has finalised accounts for 2018-19 as of September 2019.

Chart 3.1.1: State's total investment in PSUs



As can be noticed from the **Chart** above, the State Government's investment in PSUs during last five years showed an increasing trend. The State's investment grew by 15.77 *per cent* from ₹ 2,363.42 crore in 2014-15 to ₹ 2,736.21 crore in 2018-19.

During 2018-19, out of 15 working PSUs where State Government had made direct investment, 10 PSUs incurred loss and only four PSUs[38] earned profit (₹ 9.61 crore) as per their latest finalised accounts. None of the four profit making PSUs had declared any dividend. There was no recorded information about the existence of any specific policy of the State Government regarding payment of minimum dividend by the PSUs.

The State Government's investment (historical value) in PSUs had eroded by 12.62 *per cent* in 2018-19, and the losses of nine PSUs[39] (accumulated losses of ₹ 1,839.14 crore) had completely eroded the State's investment in their paid-up capital (₹ 1,077.58 crore), as per their latest finalised accounts.

3.1.2.2 Total Sector-wise investment in PSUs

Total investment of State Government and Other Stakeholders (Central Government, Holding companies, Banks, Financial Institutions, *etc*.) in PSUs under various important sectors at the end of 31 March 2015 and 31 March 2019 were as under:

Table 3.1.3: Sector-wise details of total investments in PSUs

(₹ in crore)

Name of Sector	Government/Other Companies		Statutory Corporations		Total Investment	
	2014-15	2018-19	2014-15	2018-19	2014-15	2018-19
Power	4298.38	6053.64	0	0	4298.38	6053.64
Manufacturing	167.31	347.36	0	0	167.31	347.36
Infrastructure	96.42	143.34	0	0	96.42	143.34
Service	7.96	7.96	89.83	99.44	97.79	107.40
Agriculture & Allied	2.45	2.45	0	0	2.45	2.45
Miscellaneous	9.03	9.83	3.36	3.36	12.39	13.19
Total	**4581.55**	**6564.58**	**93.19**	**102.80**	**4674.74**	**6667.38**

It can be noticed from the **Table** above that as compared to 2014-15, the combined investment of State Government and Other Stakeholders increased significantly during 2018-19 in Power sector (₹ 1755.26 crore), Manufacturing sector (₹ 180.05 crore) and

[38] Excluding one PSU (serial no. 14 of **Appendix 3.1.1)** functioning on '*no profit no loss*' basis.
[39] Sl. No. 1, 2, 4, 6, 7, 10, 12, 13 & 15 of **Appendix 3.1.1.**

Infrastructure sector (₹ 46.92 crore). The increase in investment under power sector was mainly on account of the long terms borrowings (₹ 710.99 crore) of two power sector companies availed during 2014-18 for construction of two hydro power projects.

3.1.3 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of PSUs 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 PSUs concerned should carry out reconciliation of differences.

As on 31 March 2019, there were unreconciled differences in the figures of equity (₹ 7.24 crore) and loans (₹ 449.04 crore) as per two sets of records. The difference in equity occurred in respect of eight PSUs[40]. The difference in loan figures mainly pertained to power sector PSUs (₹ 447.78 crore) as the Finance Accounts figures included the loans sanctioned to erstwhile Meghalaya State Electricity Board prior to its unbundling (March 2010) into power sector companies, which remained unreconciled.

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

The Government and the PSUs concerned may take concrete steps to reconcile the differences in a time-bound manner. The Government should correct the system of financing the PSUs and the accounts be updated.

3.1.4 Special support and guarantees to PSUs during the year

State Government provides financial support to PSUs in various forms through annual budgetary allocations. The details of budgetary outgo towards equity, loans and grants/ subsidies in respect of PSUs for three years ended 2018-19 are given in **Table 3.1.4**:

Table 3.1.4: Details of budgetary support to PSUs

(₹ in crore)

Particulars	2016-17		2017-18		2018-19	
	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
Equity Capital outgo from budget	3	38.90	4	90.47	1	9.73
Loans given from budget	4	10.43	3	1.38	3	31.69
Grants/ Subsidy from budget (including Capital Grants)	6 3	(G) 68.76 (S) 28.37	8 2	(G)109.53 (S) 6.00	10 2	(G)222.02 (S)0.29
Total Outgo[41] (1+2+3)	**11**	**146.46**	**13**	**207.38**	**13**	**263.73**
Guarantees issued during the year	1	325.00	Nil	Nil	1	230.00
Guarantee Commitment (Cumulative)	3	1136.78	3	1087.78	3	1096.78

Source: As furnished by Companies/Corporations. **(G): Grants; (S): Subsidies**

[40] Sl. No. 1, 3, 5, 6, 8, 13, 14 and 15 of **Appendix 3.1.1.**

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

As can be noticed from **Table** above, the budgetary support provided by State Government to PSUs increased from ₹ 146.46 crore in 2016-17 to ₹ 263.73 crore in 2018-19, mainly due to grants (₹ 174.71 crore) provided to one PSU[42] for execution of externally aided projects.

The State's guarantees of ₹ 230.00 crore issued during 2018-19 pertained to one power sector company (Meghalaya Power Generation Corporation Limited) against the borrowings availed from Power Finance Corporation Limited (a Central PSU).

3.1.5 Accountability framework

The audit of the financial statements of a Company in respect of financial years commencing on or after 01 April 2014 is governed by the provisions of the Companies Act, 2013 (Act) and audit of the financial statements in respect of financial years that commenced earlier than 01 April 2014 continued to be governed by the Companies Act, 1956. The new Act has brought about increased Regulatory Framework, wider Management responsibility and higher Professional Accountability.

3.1.5.1 Statutory Audit/ Supplementary Audit

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

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

3.1.5.2 Role of Government and Legislature

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

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this purpose, the Annual Reports of State Government Companies together with the Statutory Auditors' Reports and comments of the CAG thereon are required 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 required to be placed before the Legislature as per the stipulations made under their respective governing Acts. The Audit Reports of CAG are submitted

42 Meghalaya Basin Management Agency, a company incorporated (July 2012) under section 25 of the Companies Act, 1956 for channelizing investments from multi-lateral agencies, central government, UN organizations and other stakeholders, for implementation of specialised development projects. As per section 25 of the Act, the Company is exempted from adding the word 'Limited' in its name.

to the State Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

3.1.6 Arrears in finalisation of accounts

The financial statements of the companies are required to be finalised within six months after the end of the 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 to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

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

Table 3.1.5 provides the details of progress made by the working PSUs in finalisation of their annual accounts as on 30 September 2019.

Table 3.1.5: Position relating to finalisation of accounts of working PSUs

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Number of Working PSUs	15	16	16	16	16
Number of accounts finalised during the year	13	35	13	30	16
Number of accounts in arrears	60	43[43]	46	32	32
Number of Working PSUs with arrears in accounts	14	15	16	16	16
Extent of arrears (numbers in years)	1 to 16	1 to 14	1 to 11	1 to 7	1 to 5

GOC: Government/ Other Companies; SC: Statutory Corporations.

As can be seen from the **Table** above, although the situation improved gradually during last five years in terms of number of accounts finalised and extent of arrears, 32 accounts of 16 PSUs were still in arrears as on 30 September 2019. The earliest Accounts in arrears was since 2014-15 (five Accounts), which related to Meghalaya Transport Corporation.

The Accountant General (Audit), Meghalaya had been regularly pursuing with the Chief Secretary of Meghalaya and the administrative departments concerned for liquidating the arrears of accounts of PSUs. However, the State Government and the PSUs concerned could not address the issue to clear pendency of accounts of the PSUs in a time bound manner.

[43] Including two accounts of new Company (Meghalaya Infrastructure Development and Finance Corporation Limited) added during 2015-16.

3.1.7 Investment by State Government in PSUs whose accounts are in arrears

The State Government invested ₹ 288.31 crore in 8 PSUs {equity: ₹ 143.07 crore (five PSUs) and long term loans: ₹ 145.24 crore (four PSUs)} during the years for which the accounts of these PSUs had not been finalised as detailed in **Table 3.1.6**.

Table 3.1.6: Investment by State Government in PSUs having accounts in arrears

(₹ in crore)

Name of PSU	Accounts finalised up to	Accounts pending finalisation	Investment by State Government during the period of accounts in arrears	
			Equity	Loans
Meghalaya Industrial Development Corporation Limited	2016-17	2017-18 to 2018-19	50.00	-
Mawmluh Cherra Cements Limited	2017-18	2018-19	34.61	113.55
Meghalaya Energy Corporation Limited	2016-17	2017-18 to 2018-19	46.80	-
Meghalaya Power Generation Corporation Limited	2016-17	2017-18 to 2018-19	-	30.11
Meghalaya Power Distribution Corporation Limited	2016-17	2017-18 to 2018-19	-	1.22
Meghalaya Power Transmission Corporation Limited	2016-17	2017-18 to 2018-19	-	0.36
Meghalaya Handloom & Handicraft Development Corporation Limited	2016-17	2017-18 to 2018-19	0.30	-
Meghalaya Transport Corporation	2013-14	2014-15 to 2018-19	11.36	-
Total:			**143.07**	**145.24**

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

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

3.1.8 Performance of PSUs as per their latest finalised accounts

The financial position and working results of working Government Companies and Statutory Corporations are detailed in **Appendix 3.1.1**. **Table 3.1.7** provides the comparative details of working PSUs turnover and State GDP for a period of five years ending 2018-19.

Table 3.1.7: Details of working PSUs turnover vis-a-vis State GDP

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover[44]	640.05	935.69	1,108.66	1,136.88	1,121.40
State GDP[45]	23234.53	25117.36	27438.62	30789.65	34388.91
Percentage of Turnover to State GDP	2.75	3.73	4.04	3.69	3.26

44 Turnover of working PSUs as per the latest finalised accounts as on 30 September of respective year.
45 Source: Ministry of Statistics & Programme Implementation, Government of India.

From the above **Table** above it can be seen that contribution of PSUs to the State GDP ranged from 2.75 *per cent* (2014-15) to 4.04 *per cent* (2016-17) during the period.

The PSUs' turnover registered an overall growth of ₹ 481.35 crore (75 *per cent*) during the last five years from ₹ 640.05 crore (2014-15) to ₹ 1,121.40 crore (2018-19). There was an overall increase of ₹ 495.88 crore in the turnover of four power sector companies[46] from ₹ 529.26 crore (2014-15) to ₹ 1025.14 crore (2018-19).

3.1.8.1 Key parameters

Some other key parameters of PSUs performance as per their latest finalised accounts as on 30 September of the respective year are given in **Table 3.1.8**.

Table 3.1.8: Key Parameters of PSUs

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Debt	1,310.44	1,231.99	1,418.51	1,756.87	1,768.72
Turnover[47]	640.05	935.69	1,108.66	1,136.90	1,121,40
Debt/ Turnover Ratio (DTR)	2.05:1	1.32:1	1.28:1	1.55:1	1.58:1
Interest Payments	41.98	137.13	139.90	154.94	166.87
Accumulated losses	576.93	1,113.47	1,533.80	2,182.97	2,229.77

Debt-Turnover Ratio

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

PSU Debt

During the period of five years, the PSUs debt increased by ₹ 458.28 crore (35 *per cent*) from ₹ 1,310.44 crore (2014-15) to ₹ 1,768.72 crore (2018-19). This had correspondingly increased the interest expenditure of PSUs from ₹ 41.98 crore (2014-15) to ₹ 166.87 crore (2018-19), which was also one of the factors contributing towards increase in the accumulated losses of PSUs during the five years.

However, as can be seen from **Table 3.1.8**, there was overall improvement in the DTR in last five years from 2.05:1 (2014-15) to 1.58:1 (2018-19), mainly due to overall growth in PSU-turnover (75.21 *per cent*) during last five years from ₹ 640.05 crore (2014-15) to ₹ 1,121.40 crore (2018-19).

3.1.8.2 Erosion of capital due to losses

The paid-up capital and accumulated losses of 16 working PSUs as per their latest finalised accounts as on 30 September 2019 were ₹ 4,425.05 crore and ₹ 2,229.77 crore respectively (**Appendix 3.1.1**).

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

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

The Return on Equity (RoE) in respect of 7 out of 16 working PSUs was (-) 0.88 *per cent* as per their latest finalised accounts. The accumulated losses (₹ 1,839.14 crore) of remaining nine[48] working PSUs had completely eroded their paid-up capital (₹ 1,077.58 crore) as per their latest finalised accounts. Of these nine PSUs, the primary erosion of paid-up capital was in respect of three PSUs as detailed in **Table 3.1.9**:

Table 3.1.9: PSUs with primary erosion of paid up capital

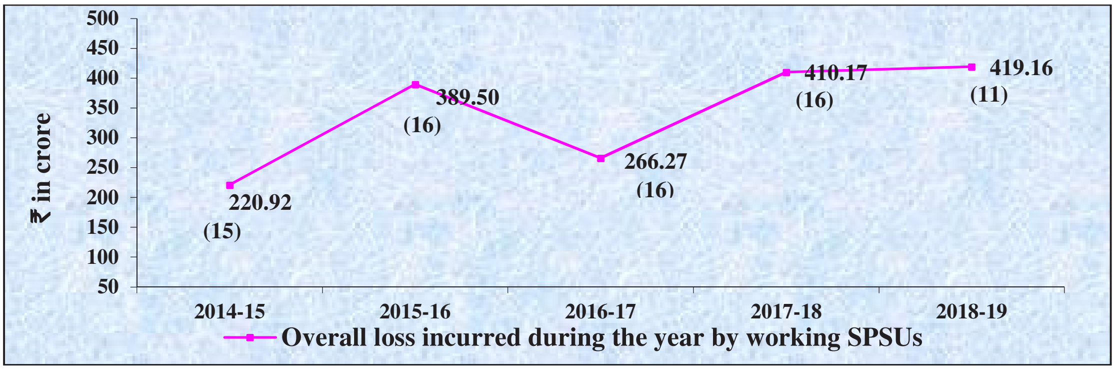
(₹ in crore)

Name of PSU	Latest finalised accounts	Paid up capital	Accumulated losses
Meghalaya Power Distribution Corporation Limited	2016-17	811.62	1492.04
Mawmluh Cherra Cement Limited	2017-18	162.90	208.88
Meghalaya Transport Corporation	2013-14	88.08	99.63

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

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

Chart 3.1.2: Overall losses of working PSUs[49]



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

From the **Chart** above, it can be observed that overall losses of working PSUs during last five years had shown an increasing trend (except during 2016-17). The high losses of the working PSUs during 2017-18 (₹ 410.17 crore) and 2018-19 (₹ 419.16 crore) were contributed by the power sector companies to the extent of 90 *per cent* (₹ 369.72 crore) and 88.07 *per cent* (₹ 369.19 crore) respectively.

During 2018-19, out of 16 working PSUs, four PSUs earned profits of ₹ 9.61 crore while 11 PSUs incurred losses of ₹ 428.77 crore. The remaining one PSU (Meghalaya Basin Management Agency) was functioning on 'no profit no loss' basis. The details of major contributors to overall losses of working PSUs as per their latest finalised accounts are given in **Table 3.1.10**:

[48] Sl. No. 1, 2, 4, 6, 7, 10, 12, 13 & 15 of **Appendix 3.1.1.**

[49] As per the latest finalised accounts as on 30 September of the respective year.

Table 3.1.10: Major contributors to profits and losses of working PSUs

(₹ in crore)

Name of PSU	Latest finalised accounts	Profit (+)/ loss (-)
Meghalaya Power Distribution Corporation Limited	2016-17	(-) 343.21
Mawmluh Cherra Cements Limited	2017-18	(-) 39.08
Meghalaya Power Generation Corporation Limited	2016-17	(-) 19.88
Meghalaya Energy Corporation Limited	2016-17	(-) 14.25
Meghalaya Power Transmission Corporation Limited	2016-17	(+) 8.15

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

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

During 2018-19, as per their latest finalised accounts out of 15 working PSUs[50] where State Government had made direct investment, 10 PSUs[51] incurred loss and only four PSUs[52] earned profit. On the basis of return on historical value, the State Government investment had eroded by 12.62 *per cent* during 2018-19. As per the RORR where the PV of investment is considered, the State Government investment eroded by 8.70 *per cent* as shown in **Appendix-3.1.2**. This difference in percentage of investment erosion was on account of adjustment made in the investment amount for time value of money.

3.1.10 Impact of Audit Comments on Annual Accounts of PSUs

During October 2018 to September 2019, 10 working companies had forwarded 15 audited accounts to the Accountant General (Audit), Meghalaya (AG). Of these, nine accounts of six Companies were selected for supplementary audit while six accounts of four Companies[53] 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 in **Table 3.1.11**:

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[50] Including one PSU (serial no. 14 of **Appendix 3.1.1**) functioning on '*no profit no loss*' basis.

[51] Sl. Nos. 3, 4, 6, 7, 8, 9, 10, 12, 13 and 15 of **Appendix 3.1.1**.

[52] Sl. Nos 1, 5 11 and 16 of **Appendix 3.1.1**.

[53] Meghalaya Infrastructure Development and Finance Corporation Limited, Meghalaya Tourism Development Corporation Limited, Meghalaya Handloom & Handicrafts Development Corporation Limited and Meghalaya Basin Management Agency.

Table 3.1.11: Impact of audit comments on working Companies

(₹ in crore)

Particulars	2016-17		2017-18		2018-19	
	No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
Decrease in profit	1	1.48	2	0.13	4	4.47
Increase in loss	1	1.00	7	61.31	5	42.06
Non-disclosure of material facts	7	4,736.04	12	332.52	13	402.99
Errors of classification	4	164.51	8	570.28	7	593.60

Source: As per latest finalised annual accounts of PSUs.

During the year, the statutory auditors had given qualified certificates for all 15 accounts of 10 companies. In addition, CAG had also issued qualified certificates on nine accounts of six companies selected for supplementary audit. No adverse certificates or disclaimers were issued by the CAG or statutory auditors on any of the accounts during the year. The compliance of companies with the Accounting Standards (AS) remained inadequate as there were 47 instances (16 instances by CAG and 31 instances by statutory auditors) of non-compliance with AS relating to eight accounts of seven companies.

Similarly, during the year 2018-19, one working Statutory Corporation (Meghalaya State Warehousing Corporation) forwarded one year accounts for supplementary audit to PAG which was completed. The statutory auditors and the CAG had given qualified certificates on the accounts of the Corporation.

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

3.1.10.1 Meghalaya Industrial Development Corporation Limited (2016-17)

Government Scheme Funding not routed through Accounts

The Company did not account the funds (₹ 48.20 crore) received for execution of projects under 'Assistance to States for Development of Export Infrastructure and Allied Activities (ASIDE)' Scheme in the books of accounts. This led to understatement of 'current liabilities' and 'cash and bank balances' to that extent.

Treating the interest earned on unspent Scheme fund as own income

The Company booked the interest income (₹ 3.77 crore) earned against investment of unspent funding received from State and Central Governments for implementing various Schemes, as its 'own income' instead to adding the said income to the respective Scheme Fund. This resulted in overstatement of 'Interest Income' and understatement of 'loss for the year' to the same extent.

3.1.10.2 Mawmluh Cherra Cements Limited (2017-18)

Wrong classification of interest payable on Government Loans

The Company had wrongly classified the interest accrued (₹ 22.45 crore) against State Government Loans under 'Non-Current liabilities' instead of 'Other Current

Liabilities' contrary to the provisions of the Companies Act, 2013 (General Instructions, Part-I of Schedule).

3.1.10.3 Meghalaya Energy Corporation Limited (Consolidated Financial Statements) (2016-17)

Short provisioning against unpaid dues of consumers

The Company had kept provisions of 3 *per cent* (₹ 0.99 crore) against the dues (₹ 32.84 crore) receivable from 4,561 consumers whose power supply was disconnected for more than 2 years (February 2002 to March 2015). Since the unpaid dues of these consumers were doubtful of recovery, Company should have provided for the entire outstanding dues. Short provisioning against doubtful debts resulted in overstatement of 'current assets-trade receivables' and understatement of 'loss for the year' by ₹ 31.85 crore each.

3.1.10.4 Meghalaya Power Transmission Corporation Limited (2016-17)

Double booking of capital assets

The Company purchased capital assets valuing ₹ 8.27 crore (Battery bank & battery charge: ₹ 2.97 crore and lines & cables head: ₹ 5.30 crore) for capital works under 'System Development Division' and booked the same under CWIP. While making partial payments (₹ 6.39 crore) against the above purchases, the Company (System Protection Umiam PSDF division), had erroneously accounted the capital assets purchased under CWIP for ₹ 6.39 crore. This double booking to CWIP, resulted in overstatement of assets (CWIP) and liabilities (dues payable to vendors for purchase of capital goods) by ₹ 6.39 crore each.

Reasons for writing off the receivables (wheeling charges) not disclosed

The Company has written off wheeling charges (₹ 17.02 crore) receivable from Meghalaya Power Distribution Corporation Limited (a sister concern) without adequate disclosure on the reasons/ justification for the same under 'notes on accounts'.

3.1.10.5 Meghalaya Power Distribution Corporation Limited (2016-17)

Short provisioning against Trade Receivables

The Company kept a provision of 3 *per cent* (₹ 10.90 crore) against 'unsecured receivables' as on 30 September 2016 (₹ 363.43 crore) instead of the closing balance of 'unsecured receivables' as on 31 March 2017 (₹ 554.33 crore). As per Conservative Principles of Accounting, the Company should have provided for doubtful debts against the closing balance of 'debtors' (unsecured receivables) outstanding at the close of the year (31 March 2017).

COMPLIANCE AUDIT PARAGRAPHS

COMMERCE & INDUSTRIES DEPARTMENT

MAWMLUH CHERRA CEMENTS LIMITED

3.2 Unproductive modernisation of Cement Plant

The Company's project for modernisation of its cement plant suffered due to faulty Techno Economic Feasibility Report prepared by the Consultant and inefficient planning and project execution. The project was completed with a cost overrun of ₹ 81 crore and time overrun of nine years. Despite major capital investment, the Company could achieve only 22 *per cent* capacity utilisation against projected capacity utilisation of 60 to 75 *per cent.*

Mawmluh Cherra Cements Limited (Company) was incorporated in the year 1955 and started production (November 1966) of Ordinary Portland Cement (OPC) using wet process technology. The Government of Meghalaya (GoM) had invested an amount of ₹ 162.79 crore in the Company, which was 99.93 *per cent* of the total paid up share capital (₹ 162.90 crore) as on 31 March 2019. The Company decided (October 2004) to augment its existing wet process production capacity[54] by adding a new 600 Tonnes Per Day (TPD) dry process plant (annual capacity: 1,80,000 MT). The Company planned the Project based on the Techno Economic Feasibility Report (TEFR) prepared (August 2004) by M/s Holtec Consulting Private Limited[55]. The Company targeted completion of the modernisation project by October 2007 at an estimated cost of ₹ 62 crore. The Company, however, could commission the plant after nine years (September 2016) of the scheduled date (October 2007) at a revised cost of ₹ 143 crore[56], entailing a cost overrun of ₹ 81 crore (131 *per cent*). The GoM financed the project significantly by providing (December 2007 to March 2016) a total funding of ₹ 158.06 crore[57] (equity: ₹ 91 crore and loan: ₹ 67.06 crore).

The Company had been a profit earning entity for 18 consecutive years from 1989-90 to 2006-07 and had accumulated profits of ₹ 9.52 crore at the close of the accounting year 2006-07. The Company turned into a loss making entity from 2007-08 onwards and as per the latest accounts finalised (2018-19), the Company had a negative net worth due to complete erosion of shareholders' equity (₹ 162.90 crore) by the accumulated losses (₹ 234.79 crore).

The Company's average[58] cement production per year prior to taking up the modernisation project was 99,084 MT. The Techno Economic Feasibility Report

54 Existing capacity: 930 MT per day (TPD) comprising two kilns (340 TPDx2) and one kiln (250 TPD).

55 A consultancy firm selected by the Company on nomination basis.

56 This represents the total project cost as capitalised by the Company in its Accounts and includes the direct costs towards civil works (₹ 19.01 crore), plant & machineries (₹ 39.40 crore), electrical works (₹ 12.10 crore) as well as indirect proportionate costs towards interest on loans, Consultant fees, *etc.*

57 ₹ 138.06 crore for the project and ₹ 20 crore for working capital.

58 Average production for 5 years from 2002-03 to 2006-07.

projected a capacity utilisation of 60 to 75 *per cent* with estimated production of 3,07,800 MT[59] of cement (final product) from the new plant during first three years of its commissioning (September 2016 to March 2019). As against this, the plant could achieve average capacity utilisation of 22 *per cent* only with total actual production of 98,638 MT of cement (shortfall in production: 2,09,162 MT). The sale value of cement during the said period was 97,085 MT (98.43 *per cent* of production) which was sold mostly to private parties through its authorised distributors.

On the execution of the project, the Compliance Audit done in October/ November 2019 revealed the following:

3.2.1 Time and cost overrun of the project

The Company entered into four major contracts[60] with four different Contractors for the modernisation project. The major reasons for delay of nine years in completion of project have been discussed in the following paragraphs:

Performance of the Consultant

3.2.1.1 Deficient Project Report

The Company who had previously engaged M/s Holtec Consulting Pvt. Ltd (Consultant) for preparation of the Techno Economic Feasibility Report (TEFR) for the project, again engaged (December 2004) them as the Consultant for implementation of the project. The scope of their work included basic engineering, procurement services, evaluation of the soil investigation and topographic survey results, preparation of drawings for civil works and project supervision, *etc.* Based on the TEFR, the Company planned execution of the project with installation of new as well as re-use of existing equipment/ machineries after necessary modifications/ upgradation. Audit observed that the TEFR failed to properly assess the life and suitability of the existing machineries/ equipment for re-use in the new plant, and the Company had to provide for new equipment/ machineries in place of existing equipment/ machineries initially planned for re-use in the project. This led to major revision in the project cost from ₹ 62.00 crore to ₹ 84.94 crore (37 *per cent* increase) at tendering stage itself leading to a liquidity crisis for the Company.

The Company and the Government replied (January 2020) that the Consultant had envisaged reduction in the Project Cost by utilising some of the portions of existing machinery after necessary modifications. However, this had to be shelved considering the age and the outdated technology of the old machineries/ equipment.

[59] Projected production for 2016-17 (60 *per cent*) (6 months): 54,000 MT; 2017-18 (66 *per cent*): 1,18,800 and 2018-19 (75 *per cent*): 1,35,000 MT.

[60] Separate contracts for Technical consultancy (M/s Holtec Consulting Pvt. Limited); Civil works (M/s Tuscon Engineer); Supply/installation of plant & machinery (M/s Promac Engineer Industries Ltd) and Electrical, Control & Automation work (M/s Larson & Toubro Ltd).

The replies of the Government/ Company only corroborate the fact that the TEFR was faulty having not assessed the potential utility of the existing old and outdated technology of the equipment.

Further, a specialist firm[61] had conducted (June 2006) the geo-technical investigation work under the technical supervision of the Consultant. As per the agreement, the Consultant was required to supervise and evaluate the results of investigation work conducted by such firm. While executing civil works (September 2006), the Civil Contractor encountered presence of unanticipated rocks and old structures at the foundation area, which necessitated revision of faulty civil drawings prepared by the Consultant. The Consultant submitted revised civil drawings in phases up to June 2009. The deficient supervision of the Consultant and delayed submission of revised civil drawings had hampered the pace of civil works, which had cascading effect on execution of mechanical and electrical works, and delayed the overall project completion.

3.2.1.2 Ineffective supervisory performance

As per the contract terms, the Consultant was required to depute Engineers/ Supervisors to oversee the execution of project work to ensure quality work within the scheduled time. The Consultant, however, had not deputed any Engineer/ Supervisor at the project site for about one year since March 2008. This had adversely impacted the quality and timeliness of on-going civil works as per schedule.

3.2.1.3 Faulty defect liability clause

As per the terms of the Consultancy Contract (*clause 1.8)*, the defect liability of the Consultant was limited only to the rectification of errors/ omissions in the drawings/ specifications. Thus, the Consultant was not liable to compensate the Company against any losses, caused due to defects in the services provided by them. Consequently, the Company could not take any action against the Consultant despite serious deficiencies in their performance as discussed above. The Consultant was paid total fees of ₹ 3.30 crore[62] till March 2015 against the contract cost of ₹ 0.72 crore *plus* per diem fees, travelling expenses and testing/ analysis costs.

3.2.1.4 Funding issues

Based on the assurance of GoM to provide ₹ 15.00 crore[63] towards project funding, Company executed (May 2008) contracts for civil works and installation of plant & machineries and also enhanced the Bank term loan from ₹ 37.38 crore to ₹ 50.96 crore to finance the revised project cost. The GoM, however, released (December 2007/ September 2008) the first and second instalments (₹ 5.00 crore and ₹ 10.00 crore) after delay of eight and six months from the committed dates respectively. Due to delay in

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61 M/s Driltech Consultant Private Limited (DCPL), a firm of specialists engaged for the purpose.

62 ₹ 2.78 crore (Reports & Project Consultancy) *plus* ₹ 0.52 crore (Travelling expenses), which included unpaid bills (₹ 0.12 crore) of the Consultant.

63 GoM had assured to provide ₹ 15.00 crore in two instalments of ₹ 7.50 crore each during 2006-07 and 2007-08.

receipt of funds, the Company could not contribute the proportionate margin money[64] towards project cost to avail the term loan from the Bank. Resultantly, the Company was unable to honour its obligations towards payment to the Consultant as per the agreed payment schedule. As observed from the correspondence between the Consultant and the Company, the Consultant had delayed submission of revised civil drawings mainly due to delay in release of their payment, which adversely impacted the progress of work.

3.2.1.5 Cascading effects of delay in civil works

The Company could complete (August 2015) the civil works after a delay of more than eight years of scheduled date (April 2007). Further, due to delay in civil works, the Company issued (July 2011) the work orders for electrical and instrumentation works after more than three years of the targeted date (2007) with scheduled completion by May 2012. As a result, the electrical works could be completed (August 2015) after more than three years of the scheduled date (May 2012) with a cost overrun of ₹ 2.37 crore over the original contract value (₹ 9.73 crore).

3.2.2 Sub-optimal utilisation of capacity

As mentioned above, the plant achieved average capacity utilisation of 22 *per cent* during first three years of its operations (up to 2018-19) as against the projected capacity utilisation of 60, 66 and 75 *per cent* for three years respectively. The plant suffered a shortfall in production of 2,09,162 MT of cement. The reasons for poor performance of plant as seen in audit are discussed below:

3.2.2.1 Machine Hour Utilisation - Frequent breakdown

Audit examined the utilisation of machine hours during first three years of plant operations (October 2016 to March 2019) and noticed as under:

3.2.2.2 Excessive Machine stoppages

The production process had four production machineries (namely, limestone crusher, vertical roller mill, kiln and cement mill). During first three years of operations, the production machineries had excessive stoppage hours ranging between 43 *per cent* (cement mill) and 90 *per cent* (limestone crusher) of the available machine hours. Thus, during this period, the actual machine hour utilised in four production machineries ranged from 57 *per cent* (cement mill) to 10 *per cent* (limestone crusher) only.

The Company, however, had not recorded the reasons for 58 to 79 *per cent* of machine stoppages, due to which factors responsible for high production stoppage could not be identified. Hence, Audit could not comment whether excessive machine stoppages were on account of mechanical, electrical or instrumentation faults, general maintenance issues, power failure or any other operational reasons.

[64] As per Terms and conditions for sanction of Term Loan, the Company should bring in proportionate margin money as envisaged in the means of financing of the project.

The Company/ GoM stated (January 2020) that the reasons for frequent breakdowns of the equipment of the new Dry Process Plant are examined in detail and steps to rectify them are taken whenever such incidents occur. These experiences are taken as learning tools to prevent further occurrences in those affected areas.

The reply is not tenable as a new plant would not be facing such frequent breakdowns since its commissioning in September 2016 and the Company is yet to come up with a comprehensive plan to solve the problem.

3.2.2.3 Idling of machineries/ equipment

As per the supply agreement entered into (February 2006) between the Supplier and the Company, supply of machineries/ equipment was to be completed between June 2006 and June 2007. Although completion of civil works was pending, the Company had not asked the Supplier to re-schedule the delivery of the machineries by linking the supplies with the progress of civil works. In absence of the civil structure, major components of the plant and machineries (cost: ₹ 28.91 crore) supplied during 2006 to 2009 remained idle at project site for approximately 36 months. By the time commercial production under the new plant started (October 2016), nine years of the useful operational life of these machineries had lapsed. Further, due to poor storage and upkeep of these equipment, most of these machineries/equipment were found in a bad condition and the Company had to get them repaired to make them commission worthy. As a result, machineries faced frequent breakdowns and actual machine hour utilisation during the period remained significantly low between 10 and 57 *per cent.*

3.2.2.4 Absence of skilled staff

The Company embarked upon this major modernisation project without assessing their existing human resources capacity and planning for revised staff requirements. As a result, the Company faced shortage of experienced and skilled technical staff in the factory to operate the new modernised plant. The Board of Directors of the Company had also recorded (May 2018) the inexperience of staff deployed in the production process as one of the major factor for long stoppages of new plant.

The Company, however, had neither hired the desired technical staff nor conducted any training for developing the skills of the existing staff to operate the new plant. As per the contract terms, the Supplier of mechanical equipment of modernised plant was under obligation to arrange for necessary training of the operational staff to operate the plant. The Company failed to enforce the clause on the Supplier for arranging training of its technical staff.

The Company/ Government stated (January 2020) that the disrupted operations had been a handicap for recruiting personnel in the senior managerial category and that a proposal had been sent (December 2018) to the Government for sanction of funds so that the Company could bring a team of experts to assist in operating the plant. Till such time, the plant management is confident of operating on its own.

The reply is not tenable as failure on part of the Company to arrange proper technical training to its operational staff for more than three years of commissioning (September

2016) of the modernised plant was one of the major factors responsible for dismal performance of the plant.

3.2.3 Conclusion

The Company's decision to augment its existing cement production capacity suffered due to inefficient planning and execution of the project. The Project Consultant prepared a faulty Techno Economic Feasibility Report and was also ineffective in supervising the project. The project initially planned at a cost of ₹ 62 crore was completed at a cost of ₹ 143 crore with a cost overrun of ₹ 81 crore (131 *per cent*) and time overrun of nine years. Despite this major capital investment, the Company could achieve only a 22 *per cent* capacity utilisation (actual production: 98,638 MT of cement) of the plant during first three years of its operations, as against a projected capacity utilisation of 60 to 75 *per cent* with estimated production of 3,07,800 MT of cement. The Company sold 98.43 *per cent* (97,085 MT) of the cement produced mostly to private parties through its authorised distributors. The Company's financial position did not improve and as per the latest accounts finalised (2018-19), the net worth of the Company was negative due to complete erosion of shareholders' equity (₹ 162.90 crore) by the accumulated losses (₹ 234.79 crore).

3.2.4 Recommendations

Government/ Management may consider to:

- *carry out an in depth analysis of the causes of excessive break-downs and low capacity utilisation and take appropriate measures to improve capacity utilisation;*
- *properly assess and address the requirement of technical and skilled manpower for efficient operations of the modernised plant; and*
- *ensure effective monitoring of production operations at the top management level by identifying problems and promptly taking corrective measures to increase sales turnover of the Company.*

POWER DEPARTMENT

MEGHALAYA POWER DISTRIBUTION CORPORATION LIMITED

3.3 Unrecovered revenue dues of electricity charges

Failure to initiate timely action for recovery of electricity charges dues have resulted in pending recovery of ₹ 11.93 crore from disconnected consumers, for more than two years. The Company may find it difficult to recover these dues legally.

Meghalaya Electricity Supply Code, 2012 (MESC 2012) (Clause 6.11) authorises Meghalaya Power Distribution Corporation Limited (MePDCL) to recover the charges for electricity supplied in accordance with such tariffs as may be fixed from time to time by Meghalaya State Electricity Regulatory Commission. For this purpose, reading of meters installed at the premises of the consumers shall be taken (Clause 7.1) periodically (monthly/bi-monthly) and billing shall be done. Section 56 (1) of the Electricity Act, 2003 as well as Clause 9.2 of the MESC 2012 provides that if the consumer neglects to pay the bills within due date, the MePDCL is empowered to cut off the supply of electricity to the consumer after giving not less than 15 days' notice in writing without prejudice to the rights to recover the dues by filing suit. The Act further provides (Section 56 (2)) that the arrears of electricity charges beyond a period of two years cannot be recovered if the supply of electricity to the consumer is cut off. Therefore, it is essential to promptly disconnect the supply of defaulting consumers as per the prescribed procedure and take quick action to recover the outstanding dues once the supply of such consumers is cut off.

While providing of service connections in areas other than Shillong was being taken up by Distribution Sub-division(s), the billing and serving of disconnection notices was being taken up by the Revenue Sub-division(s). Audit noticed[65] that the outstanding electricity charges against 8463 consumers[66] as on February 2020 amounted to ₹ 27.60 crore (**Appendix 3.3**). Further, out of these dues, an amount of ₹ 11.93 crore was due from 3876 consumers[67] whose power supply was disconnected during the period from April 2015 to March 2018 and which as per Section 56 (2) of the Electricity Act, 2003 have become time-barred[68] (March 2020). Hence, the chance of recovery of the said amount is nullified as per the extant provisions of the Act. Thus, MePDCL had failed to act early as per Section 56 (1) of the Electricity Act, 2003/Clause 9.2 of the MESC 2012 from the time they first became receivable as well as towards their recovery after disconnection.

Audit observed that during April 2018 to February 2020, the number of defaulting consumers with disconnected supply had increased by 4587 defaulting consumers[69]

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65 Audit was conducted from 13-17 November 2017 and 6-16 March 2018.

66 Consumers falling under Jowai Revenue Division (3248) and Central Revenue Division (5215).

67 Consumers falling under Jowai Revenue Division (1442) and Central Revenue Division (2434).

68 Time-barred debts are those receivables from a consumer (defaulting), which are no longer legally collectable due to lapse of a certain number of years as specified under the applicable statute.

69 Consumers falling under Jowai Revenue Division (1806) and Central Revenue Division (2781).

with corresponding increase of ₹ 15.67 crore (131 *per cent)* in the unrecovered dues of such consumers. This trend of increase in the unrecovered dues of defaulting consumers indicated the failure of MePDCL in not disconnecting the power supply of consumers in time.

Audit observed that MePDCL has been incurring losses consistently during the last five years (2014-15 to 2018-19) ranging from ₹ 191.83 crore to ₹ 343.21 crore. As per the latest finalised accounts (2018-19[70]), MePDCL had negative net worth due to complete erosion of shareholders' equity (₹ 846.86 crore) by the accumulated losses (₹ 1,981.78 crore). Besides, the 'trade receivables' of MePDCL during last five years ending 2018-19 had also registered a significant increase of 27 *per cent* from ₹ 465.06 crore (2014-15) to ₹ 591.36 crore (2018-19). However, despite increasing arrears of revenue (trade receivables) and poor financial condition, MePDCL had not been alert and vigilant in recovering its legitimate dues from defaulting consumers.

Thus, on account of poor monitoring, belated disconnection of supply and not initiating prompt action for recovery of outstanding dues of defaulting consumers, MePDCL's dues of ₹ 11.93 crore pending recovery from disconnected consumers for more than two years have become time-barred.

In reply, MePDCL stated (February 2020) that to speed up the process of disconnection, administrative control of Revenue had been brought under the Chief Engineer (Distribution) and special disconnection drives are being undertaken to avoid accumulation of unpaid dues. It was further stated that for recovery of outstanding dues, efforts are being made to trace defaulters to come forward for settlement of outstanding dues.

The fact remains that unless MePDCL puts in place an effective monitoring system and regularly follows-up consumers' dues at Sub-divisional level, the unpaid dues situation may not improve significantly. Further, MePDCL may face difficulties in recovering the time-barred dues of ₹ 11.93 crore pending against disconnected consumers, which are no longer legally collectable as per the provisions of the Electricity Act, 2003.

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

Recommendations

To address the issue increasing dues of defaulting consumers, MePDCL needs to devise an effective system to:

- *monitor outstanding dues of consumers on regular basis, from the time they first become due for payment and act instantly for recovery of these dues;*
- *disconnect supply of defaulting consumers without delay as per the prescribed procedure;*

[70] MePDCL finalised its accounts for 2018-19 on dated 20 January 2020.

- *take all possible action against defaulters, (including sending notices, tracing consumers, recovering unpaid dues from available deposits, etc.) before filing suits for recovery of dues; and*
- *file recovery suit against all defaulting consumers whose supply had been disconnected due to non-payment of electricity dues.*

PUBLIC WORKS DEPARTMENT

MEGHALAYA GOVERNMENT CONSTRUCTION CORPORATION LIMITED

3.4 Appointment of Consultants without competitive bidding process

Appointment of consultants for architectural services without following the tendering and competitive bidding procedure in violation of Meghalaya Financial Rules, 1981 and CVC guidelines.

Meghalaya Government Construction Corporation Limited (MGCC) was incorporated as a Government Company for carrying out works and convenience of all kinds which include construction of buildings, roads, bridges, roadways, reservoir, embankment, water supply, *etc.* of Government departments/undertakings and any other organisation on agency/ contract/ negotiation/ competition basis. Where detailed drawings and estimates were required, architectural firms were appointed by MGCC for providing such services.

Rule 257 of the Meghalaya Financial Rules, 1981 (MFR) apart from other things states that *"Sealed tenders should invariably be invited in the most open and public manner possible, by advertisement in the Government Gazette or the Press, or by public notice in English and in Vernacular; tenderers should have free access to the contract documents"*. It also stated that *"Original as well as repair works up to a limit of ₹ 20,000 in each case may be allowed to local people of the district or region affected by flood at scheduled or estimated rate without calling for tender"*.

Chapter 5.4 read with Chapter 1.5 of the Manual of Policies and Procedure of Employment of Consultants issued by CVC lays down the procedure for appointment of architectural consultancy based on '*percentage contract*'[71] commonly used for architectural services. As per the Manual, selection of architectural consultants is to be made based on two-stage bidding. The final selection should be made among the technically qualified consultants who have quoted the lowest percentage. However, use of such a contract for architectural services is recommended only if it is based on a fixed target cost and covers precisely defined services. As MGCC is a state government public sector undertaking, it is bound by the rules/directions of the Government.

During the course of audit (July-September 2019), it was observed that MGCC appointed six Consultants for architectural services based on 'percentage contract' for various scheme projects during 2013-14 to 2019-20 at the rate (percentage) ranging between 1.50 and 7.50 *per cent* of the project cost as detailed in **Table 3.4**.

[71] Under 'percentage contract' or 'cost plus contract', a client agrees to pay a contractor the direct cost of the work, in addition to a percentage of the cost of the project to cover profit and overhead expenses. Such contracts ensure the contractor receives a fair return, and also allows more flexibility in the scope of work.

Table 3.4: Details of consultancy works awarded without following the tendering procedure

Project	Consultancy Firm	Date of appointment	Rate (%)	Base cost of project	Fee payable	Fee paid
				(₹ in crore)		
Construction of Meghalaya Police Academy at Umran.	M/s Spacescapes	05-07-2013	1.69	40.00	0.68	0.62
Construction of Cultural Complex cum District Library at Nongpoh.	Anderson Structural Consultants	15-07-2013	3.00	2.42	0.07	0.07
Construction of Muga SSPC in West Garo Hills, Tura .	M/s Design & Development	26-11-2015	2.00	4.53	0.09	0.09
Construction of Phase A work at JNV South West Khasi Hills.	Architect Harish Tripathi & Associate	06-10-2017	1.50	17.86	0.27	0.25
Construction of Phase B work at JNV Dhubri, Assam.	M/s Design & Development	24-07-2018	1.50	9.55	0.14	0.04
Beautification of NEC Secretariat Complex at Nongrim Hills at Shillong.	Reshmi Jyrwa	25-09-2019	7.50	0.83	0.06	0.03
Total				**75.19**	**1.31**	**1.10**

Audit observed that MGCC appointed all the six architectural firms on nomination basis without following the procedure of tendering and competitive bidding prescribed under the MFR and CVC guidelines.

This clearly indicates that MGCC had violated the MFR and CVC guidelines and thus failed to ensure transparency in the process of selection and appointment of consultancy firms.

In reply, MGCC stated (January 2020) that it did not have in-house architecture and structural engineer and hence, architects were engaged on verbal request with a condition that payment would be made only if the Scheme is sanctioned by the concerned department. They also opined that if open bids were invited from Architects, MGCC would have to bear the cost of Architect fee from its own sources in the event of the Scheme not being sanctioned or delayed.

The reply is not tenable as appointment of architectural firms without following the tendering procedure is a violation of the provisions of MFR and CVC guidelines. The reply also indicate that the Company has been hiring consultants when the project had not been sanctioned by the competent authority.

The matter was reported (November 2019) to the Government, their replies had not been received (November 2020).

The Government may advise MGCC to appoint the consultants for architectural services only after projects are sanctioned and after following the due procedures for appointment of consultants by complying with tendering and competitive bidding as prescribed under the MFR and CVC guidelines.