

CHAPTER – VII
**GOVERNMENT COMMERCIAL
AND TRADING ACTIVITIES**

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CHAPTER – VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7 General

This chapter deals with the results of audit of Government companies and departmentally managed commercial undertakings. Paragraphs 7.1.1 to 7.1.14 give an overview of Government companies and departmentally managed commercial undertakings. Paragraphs 7.2 to 7.7 deal with miscellaneous topics of interest.

7.1 Overview of Government companies and departmentally managed commercial undertakings

7.1.1 Introduction

As on 31 March 2008, there were five Government companies (three working companies and two non-working companies¹) and two departmentally managed commercial undertakings viz., State Transport Services² and State Trading Scheme as against same number of Government companies and departmentally managed commercial undertakings as on 31 March 2007 under the control of the State Government. The results of audit of the Power (Electricity) Department are also incorporated in this chapter. The accounts of Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956. The accounts of departmentally managed commercial undertakings are audited by the CAG under Section 13 of CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Working Public Sector Undertakings (PSUs)

7.1.2 Investment in working Government companies

As on 31 March 2008, the total investment in three working Government companies was Rs. 18.11 crore³ (equity Rs. 9.07 crore and long term

¹ Non working Government companies are those that are in the process of liquidation/ closure/merger, etc.

² These undertakings prepare Proforma Accounts

³ State Government investment was Rs. 16.21 crore (others :Rs.1.90 crore). Figure as per Finance Accounts 2007-08 is Rs.8.01 crore. The difference is under reconciliation.

loan⁴:Rs. 9.04 crore) as against total investment of Rs. 16.18 crore (equity : Rs. 9.04 crore and long term loans : Rs. 7.14 crore) in three working PSUs (Government companies) as on 31 March 2007.

The summarized statement of Government investment in the working Government companies in the form of equity and loan is given in **Appendix-7.1**.

As on 31 March 2008, the total investment in working Government companies, comprised 50.08 *per cent* of equity and 49.92 *per cent* of loans as compared to 55.87 *per cent* and 44.13 *per cent* respectively as on 31 March 2007.

7.1.3 Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues, and conversion of loans into equity by the State Government to working Government companies are given in **Appendices – 7.1 and 7.3**.

The budgetary outgo in the form of grant/subsidy from the State Government to Arunachal Pradesh Forest Corporation Limited was Rs 20 lakh during 2007-08. The Government did not give any guarantee to any company for the loan taken during the year. As at the end of 31 March 2008, the guarantee amounting to Rs. 96.62 lakh against Arunachal Pradesh Industrial Development and Financial Corporation Limited was outstanding.

7.1.4 Finalisation of accounts by working PSUs

Accounts of the companies for every financial year are required to be finalised within six months from the end of relevant financial year under Section 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year.

It can be seen from **Appendix- 7.2** that none of the three working Government companies had finalised their accounts for the year 2007-08 within the stipulated period.

The accounts of all the three working companies were in arrears for periods ranging from one to 14 years as on 30 September 2008 as detailed below:

⁴ *Long term loans mentioned in the para 6.1.2 and 6.1.8 are excluding interest accrued and due on such loans.*

Table 7.1

Sl. No.	Number of working Government companies	Year from which accounts are in arrears	Number of years for which accounts are in arrear	Reference to Sl. No. of Appendix-II
1.	1	2007-08	1	1
2.	1	1999-2000 to 2007-08	9	3
3.	1	1994-95 to 2007-08	14	2

The State Government had invested Rs. 8.57 crore (equity: Rs. 1.52 crore; loans: Rs. 0.15 crore; and grant/subsidy Rs. 6.90 crore) in three working companies during the years for which accounts have not been finalized as detailed in **Appendix- 7.4**. In the absence of timely finalization of accounts and their audit, it can not be ensured whether the investment and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such companies remain outside the scrutiny of the Legislature. Further, delay in finalization of accounts may also result in risk of fraud and leakage of public money apart from violation of provisions of the Companies Act, 1956.

It is the responsibility of the Administrative Departments to oversee and ensure that the accounts are finalised and adopted by the companies within prescribed period. Though the concerned Administrative Departments and officials of the Government were appraised quarterly by the Audit regarding arrears in finalisation of the accounts, no effective measures have been taken by the Government and, as a result, the net worth of these Government companies could not be assessed in audit.

7.1.5 Financial position and working results of working Government companies

The summarised financial results of working Government companies as per their latest finalised accounts are given in **Appendix – 7.2**. According to the latest finalised accounts of three working Government companies all the three companies had incurred an aggregate loss of Rs. 4.77 crore.

7.1.6 Loss incurring working Government companies

Out of the three loss incurring working Government companies, Arunachal Pradesh Industrial Development Financial Corporation Limited had accumulated losses of Rs. 19.02 crore which has eroded its paid up capital of Rs. 2.15 crore.

7.1.7 Return on capital employed

As per the latest annual accounts finalised upto September 2008, the capital employed⁵ worked out to Rs. 50.03 crore and total return⁶ thereon amounted to Rs. (-) 4.77 crore as compared to Rs. 49.64 crore and total return of Rs. (-) 3.87 crore respectively in the previous year. The details of capital employed and total return on capital employed in case of working Government companies are given in **Appendix – 7.2**.

Non-working Government companies

7.1.8 Investment in non-working Government companies

As on 31 March 2008, the total investment in two non-working Government companies was Rs. 3.15 crore (equity: Rs. 0.42 crore and long term loans: Rs. 2.73 crore). There was no change in the total investment as compared to 2006-07.

The plants of both the non-working Government companies remained inoperative from December 1986 and July 1987 and all the employees had been retrenched. The proposals for disposal of assets (including plant and machinery) of the companies were pending for long with the Government.

7.1.9 Finalisation of accounts of non-working Government companies

The accounts of both the non-working companies were in arrear for periods ranging from 20 to 24 years as on 30 September 2008 as can be seen from **Appendix – 7.2**.

7.1.10 Financial position and working results of non-working Government companies

The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Appendix – 7.2**.

The summarised details of paid-up capital, net worth, cash loss and accumulated loss of one non-working Government company (Sl. No.4 of **Appendix – 7.2**) as per its latest finalised accounts are given below while the other non-working Government company (Sl. No.5 of **Appendix – 7.2**) was in construction stage, at the time of closure of its activities.

⁵ Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in case of Arunachal Pradesh Industrial Development and Financial Corporation Limited, where it represents a mean of aggregate of opening and closing balances of paid-up-capital, free reserves and borrowings (including refinance).

⁶ For calculating total return on capital employed, interest on borrowed fund is added to net profit/subtracted from the loss as disclosed in profit and loss account.

Table 7.2**(Rupees in lakh)**

Year	Paid-up capital	Net worth ⁷	Cash loss ⁸	Accumulated loss
1987-88	23.50	66.71	11.49	32.09

7.1.11 Response to inspection reports, draft paragraphs and reviews

Observations made during audit and not settled on the spot are communicated to the heads of the companies and concerned Departments of State Government through inspection reports. The heads of the offices/companies are required to furnish replies to the inspection reports through respective Heads of Departments within a period of six weeks. Inspection reports issued upto March 2008 pertaining to seven Government companies/departmental commercial undertakings and Power (Electricity) Department disclosed that 376 paragraphs relating to 55 inspection reports remained outstanding at the end of March 2008. Of these, 16 Inspection reports containing 68 paragraphs had not been replied to for more than three years. Department-wise break-up of Inspection reports and audit observations outstanding as on 31 March 2008 is given in **Appendix – 7.5**.

Similarly, draft paragraphs on the working of the Government companies and departmentally managed commercial undertakings are forwarded to the Principal Secretary/Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. One review and one draft paragraph which were forwarded to the Department of Power and Department of Hydro Power during July 2008 and June 2008 respectively as detailed in **Appendix-7.6** has not been replied to so far (October 2008).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/reviews as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayments in a time bound schedule and (c) system of responding to audit observations is revamped.

7.1.12 Position of discussion of commercial chapter of Audit Report by the Committee on Public Undertakings (COPU) / Public Accounts Committee (PAC)

The position of reviews/paragraphs of Commercial Chapter of Audit Reports discussed in COPU/PAC as on 31 March 2008 was as follows:

⁷ Net worth represents paid up capital plus free reserves less accumulated loss.

⁸ Cash loss represents loss for the year less depreciation for the year.

Table 7.3

Period of Audit Reports	Total number of reviews/ paragraphs appeared in Audit Report		Number of reviews/paragraphs discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
(1)	(2)	(3)	(4)	(5)
1987-1988	2	2	2	1
1988-1989	-	3	-	2
1989-1990	-	1	-	-
1991-1992	-	4	-	3
1994-1995	-	5	-	3
1995-1996	-	2	-	1
1996-1997	-	5	-	3
1997-1998	-	4	-	3
1998-1999	1	4	-	-
1999-2000	1	4	-	-
2000-2001	-	6	-	3
2001-2002	1	7	-	4
2002-2003	-	4	-	3
2003-2004	1	4	-	-
2004-2005	-	3	-	-
2005-2006	-	3	-	-
2006-2007	1	5	-	-
Total	7	66	2	26

7.1.13 Departmentally managed Government commercial and quasi-commercial undertakings

Though the State Transport Services and the State Trading Scheme (Central Purchase Organisation) of Directorates of Transport and Supply are commercial in nature and are functioning as such, they had not been declared as commercial organisations by the Government (September 2008).

Preparation of Proforma Accounts of the State Transport Services for 2006-07 and 2007-08 and of the State Trading Scheme for 2002-03 to 2007-08 were in arrears. The arrears in finalisation of accounts was last brought to the notice of the Government in September 2008.

The financial position, working results and operational performance of the State Transport Services for the three years upto 2006-07 as per provisional accounts are given in **Appendix – 7.7**.

The operating loss showed an increasing trend and was Rs. 30.05 crore during the year 2006-07 as against Rs. 16.50 crore during the previous year. The accumulated loss stood at Rs. 203.94 crore which was 96.63 per cent of capital

of Rs. 211.05 crore. As analysed in audit, the losses were attributable to high incidence of operating expenditure which increased from Rs. 25.07 crore in 2005-06 to Rs. 40.21 crore in 2006-07; poor load factor due to low density of population; concession to students and staff; operation on un-economic routes; competition from private bus/sumo operators and high percentage of off-road vehicles.

The working results of the State Trading scheme for the three years upto 2001-02 as per finalised accounts are given in **Appendix – 7.8**. With effect from September 1975, the selling price of each commodity had been fixed by adding 30 *per cent* to cost price to cover the overhead charges.

During the three years upto 2001-02, the actual overhead charges worked out to a higher percentage as follows:

Table 7.4**(Rupees in lakh)**

		1999-00	2000-01	2001-02
1.	Overhead charges (items (b) and (c) of trading expenses)	263.64	216.40	390.95
2.	Cost of procurement (opening stock plus purchases less closing stock)	399.17	396.57	239.59
3.	Percentage of overhead cost to cost of procurement (percentage of 1 to 2)	66.05	54.57	163.17

The reasons for higher percentage of overhead charges to cost of procurement was attributable to high incidence of establishment and contingent charges which alone constituted 49.08 *per cent*, 50.99 *per cent* and 121.79 *per cent* of cost of procurement during the three years respectively.

7.1.14 Power (Electricity) Department

The operational performance of the Department for the last three years up to 2007-08 is given in **Appendix – 7.9**.

The transmission and distribution (T&D) losses ranged from 33.97 to 43.63 *per cent* to total power available for sale as against the norms of 15.5 *per cent* fixed by the Central Electricity Authority (CEA). During three years up to 2007-08, the excess T&D loss beyond norm was 352.08 MU.

Section 'B' Paragraphs

Power Department

7.2 Implementation of Rural Electrification Schemes

The objective of electrification of all villages by March 2007 failed in the planning and sanction stage itself as the Department did not formulate any plan to cover all unelectrified villages and also did not make any efforts to get funds for the same. The Department incurred Rs. 5.04 crore without achieving the target of electrification of 24 villages under Pradhan Mantri Gramodaya Yojana. Due to deficient selection of 27 villages, without considering the availability of source of power supply, the expenditure of Rs. 4.94 crore on electrification remained unfruitful.

7.2.1 The Government of India (GOI) launched (May 2001) Pradhan Mantri Gramodaya Yojana (PMGY) with the objective of providing cent *per cent* electrification of villages by March 2007. The programme was to be implemented by the Department of Power as Implementing Agency of the State Governments. To accelerate the pace of rural electrification, GOI launched (March 2005) the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) as a new comprehensive programme which aimed at electrifying all villages and habitation and providing all Rural Households (RHHs) access to electricity by March 2012.

The GOI designated the Rural Electrification Corporation Limited (REC) as the nodal agency to coordinate and achieve the goal of electrification of villages/hamlets and finance the projects. Accordingly, a bipartite agreement was entered (24 August 2005) into between REC and the State Government prescribing the terms and conditions of funds flow as also implementation modalities.

7.2.2 The records relating to implementation of Rural Electrification (RE) schemes were test checked in audit during June/July 2008 with a view to assess the performance of the Department in implementation of RE programmes during 2002-03 to 2007-08 and its achievements with reference to the targets set out in the programme. The records of Chief Engineer (Power) office and seven¹ Electrical Divisions (estimated cost: Rs. 31.05 crore) out of 16 divisions (estimated cost: Rs. 62.73 crore) were examined. The Audit findings are discussed in the succeeding paragraphs.

¹ Capital Electrical Division, Naharlagun Electrical Division, Tawang Electrical Division, Ziro Electrical Division, Along Electrical Division, Yiangkiang Electrical Division and Pasighat Electrical Division.

Release of funds

7.2.3 As per guidelines (17 September 2001) of Ministry of Power (MOP)/Planning Commission, the plan for the programme was to be formulated by the State Government and submitted to MOP latest by 15 May every year after approval of the State Level Monitoring Committee. The funds were to be released in two installments by Ministry of Finance (MOF) every year under Rural Electrification (PMGY) as a combination of grants at 90 per cent and balance 10 per cent as soft loan. Funds, however, were released under RE - Minimum Needs Programme (MNP) as 100 per cent loan. RGGVY Scheme was to be implemented by the State Governments through their Utilities on turnkey contracts basis. Funds for the project were to be made available by REC to State Government with 90 per cent capital subsidy and 10 per cent loan on the over all cost of the projects. Execution of each project was to be completed by Department within two years failing which the capital subsidy was to be converted into interest bearing loan.

The general terms and conditions of MOP (September 2001) for utilization of funds, *inter alia*, stipulated that:

- The State Government shall release funds to the Implementing Agency within one month of release of funds by MOF;
- Implementing Agency shall open a separate and single bank account for the funds received under the programme. The interest earned on this account will not be diverted to any other programme;
- The funds received under RE(MNP)/PMGY shall not be diverted for other purposes either by the State Government or Implementing Agency.
- The submission of utilisation certificate along with physical progress report for the previous year was necessary for release of the first installment in the next financial year. For release of the second installment, submission of audited accounts of scheme for the previous year was required.

The State Government approved a total outlay of Rs. 73.66 crore for seven schemes under RE (MNP)/PMGY/PM's Package during the period between 2001-02 and 2004-05 for electrification of 402 villages in 16 districts in Arunachal Pradesh. The GOI released funds to the tune of Rs. 62.73 crore as detailed in **Appendix-7.10** during the period between November 2000 and March 2005 which was released by the State Government to the Department during the period between November 2002 and March 2005. The entire amount was spent by the department up to March 2008.

It was noticed in audit that:

- The State Government released funds to the tune of Rs. 62.73 crore to the Department after delays of 4 to 21 months from the date of receipt of funds

from MOF in violation of the terms and conditions of release of funds. Thus, the State Government diverted such funds for various other purposes and released funds at the fag end of the financial year.

- The Department had not opened a separate bank account on receipt of funds for RE works under RE(MNP)/PMGY.
- The Department did not submit utilization certificates in time as stipulated in the scheme. Utilisation Certificates for the year 2001-02 and 2002-03 were submitted to State Government with a delay of one to two years. Audited accounts were not submitted for any scheme.

Diversion of Funds

- Pasighat Electrical Division incurred an expenditure of Rs. 34.45 lakh on salary and wages of staff, Rs. 7.66 lakh on maintenance and other works, Rs. 2.51 lakh on purchase of petrol, Rs. 1.63 lakh on purchase of computer, Rs. 1.33 lakh on repair of transformer and Rs. 0.86 lakh on telephone bills, etc and charged to MNP and PMGY during 2003-04.
- Similarly, Yingkiang Electrical Division incurred an expenditure of Rs. 7.52 lakh on salaries and wages of the staff under PMGY scheme (2002-03). Further, the Division incurred an expenditure of Rs. 16.83 lakh towards wages during 2003-04 and booked the same under MNP during that year.
- Along Electrical Division also incurred an expenditure of Rs. 4.27 lakh on purchase of vehicle and charged to MNP 2001-02. Further, the Department instructed (March 2004) the Division to incur 15 *per cent* of the scheme towards wages. As such, Rs. 25.14 lakh was appropriated towards wages.

Thus, an amount of Rs. 1.02 crore was diverted and utilized for the purpose not envisaged in the sanctioned schemes and was unauthorized and irregular.

The Department stated (November 2008) that the electrification work was being done departmentally and hence the payments of wages were charged to staff and the other expenditure also related to works under electrification works. The department did not maintain records for the works carried out departmentally and as such the reply was not susceptible for verification.

Guidelines for PMGY scheme

7.2.4 The mandatory guidelines issued by MOP for PMGY scheme, *inter alia*, included the following:

- The State Government would constitute a State Level Monitoring Committee for monitoring electrification of villages under PMGY schemes

and ensure electrification of all villages in the State by the end of the Tenth Plan. The State Government would also constitute a District Level Committee for coordinating and implementing the programme at the District level.

- The State and District Level Committees would evolve suitable mechanism for independent verification of works. The MOP would also get an independent verification done. This would include sample check.
- The list of villages/basties being electrified must be made available to the MP/MLA as well as District/Block/Village levels institutions and a certificate in confirmation thereof would be sent to the MOP along with the utilisation certificate.
- It shall be the responsibility of the implementing agency to ensure that the work done and all the materials utilized in the same conform to the prescribed specification and the works would be completed without time and cost overrun.

The following deficiencies were found in the compliance of above guidelines:

- Periodical meetings of the State level Monitoring Committees were not held to monitor the implementation of the schemes. The District level Committees were not constituted.
- Huge variations in procurement of critical and major components like poles, stay sets, etc. were found. Utilization of materials was not as per specifications and wide variations in specified quantity *vis-à-vis* actual quantity utilized were found. (paragraph 7.2.19)
- Independent verification of works and sample check was not carried out in respect of PMGY schemes. Certificates from the Gram Panchayat were not furnished along with the completion report of village electrification.
- Lists of electrified villages/basties were not furnished to MP/MLA as well as District/Block/Village level institutions and a certificate in confirmation thereof was also not sent to the MOP along with the utilisation certificate.

The Department stated (November 2008) that District level committees could not be constituted though efforts were made in this regard. Payments to suppliers were made as and when funds were made available and the liabilities were bound to be incurred. Cost of procurement could not be maintained due to cost variation/escalation. Certificates from local bodies for all the villages electrified could not be obtained though efforts were made in this regard.

The reply is not acceptable as in the absence of monitoring committees the implementation of these schemes could not be monitored effectively. Funds were released by the GOI/State Government as per the sanctioned estimates. The fact remains that the Department failed to obtain certificate of electrification of villages even after lapse of three years of completion of all schemes. However, the Department did not furnish any reasons for non opening of separate bank account and delay in submission of utilisation certificates.

Implementation of the Programme

Pradhan Mantri Gramodaya Yojana (PMGY)

7.2.5 The State Government approved Rs. 33.33 crore for electrification of 181 villages during 2001-02 to 2004-05. The target was revised to 160 villages due to discontinuation of the scheme in March 2005. As against sanction of Rs. 33.33 crore, only Rs. 27.36 crore was released by the GOI/State Government. As against revised target of 160 villages, only 127 villages were electrified.

Audit scrutiny revealed that 54 villages were to be electrified under PMGY 2004-05 at an estimated cost of Rs. 10.80 crore. Since the PMGY scheme was discontinued, the target was revised to 33 villages with the allotted funds of Rs. 6.84 crore. The work was continued up to March 2006. However, only nine villages were electrified though the entire allotted amount of Rs. 6.84 crore was spent. Thus, there was no effective monitoring mechanism in place to watch the expenditure incurred on the scheme.

Minimum Need Programme (MNP)

7.2.6 The State Government approved Rs. 31.33 crore under MNP to electrify 182 villages targeted during 2001-02 to 2004-05. As against sanction of Rs. 31.33 crore, only Rs. 26.41 crore were released by the GOI/State Government. As such only 158 villages were electrified.

Audit scrutiny revealed that 93 villages were to be electrified at an estimated cost of Rs. 16.92 crore under MNP during 2004-05 and 2005-06. The expenditure during 2004-05 was restricted to Rs. 12.00 crore. However, the scheme was discontinued (2005-06) and MNP and PMGY were clubbed under RGGVY scheme. The Department could electrify only 69 villages.

PM's Package

7.2.7 The State Government approved Rs. 9.00 crore under PM's Package. Total 60 villages were targeted to be electrified during the period 2001-02. As against the target of 60 villages only 34 villages were electrified during

2001-02 and balance 26 villages were electrified in 2004-05 on receipt of funds.

7.2.8 The Department electrified 345 villages out of 402 villages targeted for electrification during the period 2001-02 to 2007-08 at the cost of Rs. 62.73 crore under PMGY/MNP/PM's package. As on March 2007, out of total of 4,593 villages only 2,257 villages were electrified. Thus the achievement of village electrification was only 49 *per cent* as against the target of *cent per cent* electrification by end of March 2007. The main reasons, as noticed in audit were, improper planning, inadequate funding, slow pace of utilisation of funds, execution of work on work order basis etc., as discussed in succeeding paragraphs.

Non formulation of plan to achieve the target

7.2.9 The PMGY guidelines stipulated that a plan for each district would be formulated indicating status of village electrification and programme for extending electrification in rural area to be completed by the Tenth plan and coverage of all households targeted by 2012. The plan for the programme shall contain districtwise/block wise list of villages, which would include at least one dalit/tribal basti village. The Department however, did not formulate any plan to cover the unelectrified villages under PMGY by 2007. The villages to be electrified in each district under each of the PMGY schemes were proposed based on the funds allotment by the State Government. The Department did not make any efforts with the State Government to provide adequate funds to electrify all villages by the target date.

The Department stated (November 2008) that due to uncertainty of continuation of the schemes and difficult geographical and social conditions no such plan could be formulated. The contention of the Department is not acceptable since to achieve the objectives of village electrification within a specified target, there should have been a specific plan with time bound programme.

Non preparation of Detailed Project Reports

7.2.10 Detailed Project Reports (DPRs) were not prepared for village electrification under PMGY/MNP schemes. Only a broad estimate indicating the village parameters were submitted by the Divisions. Item wise detailed estimates were not prepared even at the Division level. In absence of proper DPRs/item wise detailed estimates adequacy or otherwise of procurement of materials and justification of the project could not be verified in audit.

An adhoc estimate was prepared for electrification of 54 villages at an estimated cost of Rs. 10.80 crore under PMGY during 2004-05 and 2005-06. The average cost per village was estimated as Rs. 20 lakh based on the

average cost incurred (Rs. 2846.52 lakh for 139 villages) on electrification of villages during the year 2003-04. However, there were no detailed parameters for villages to be electrified nor itemwise details were prepared. The State Government approved the scheme based on the adhoc estimates. Due to discontinuation of the scheme in March 2005 only Rs. 6.84 crore were released and the target was revised to 33 villages. However, the division electrified only nine villages under the scheme. It was noticed in audit that the total cost of electrification of nine villages worked out to Rs. 1.80 crore. However, the entire fund of Rs. 6.84 crore was spent. Thus the expenditure of Rs. 5.04 crore incurred over and above the average cost for nine villages lacked justification.

The Department stated (November 2008) that due to discontinuation of the scheme the works could not be completed. However, the Department did not furnish any reason for expenditure over and above the average cost.

Deficient selection of villages

7.2.11 No specific criteria/basis was adopted in selection of villages for electrification. The availability of power supply, nearby grid connectivity etc were not considered in selecting the villages for electrification. Villages were not chosen sequentially based on their location. Instead, they were chosen randomly.

Under Along Electrical Division, 26 villages were proposed under PMGY (2003-04) and MNP (2002-03 & 2003-04) for electrification even though no source of power supply/grid connectivity was available. The villages were electrified at a cost of Rs. 4.69 crore. It was noticed in audit that due to non availability of source of power supply, these villages had no electricity connectivity as on date (October 2008). Thereby, entire expenditure remained unfruitful so far in the absence of adequate planning.

7.2.12 Three villages viz. Silli Ete, Jime and Ichi-Chiku were to be electrified at estimated cost of Rs. 74.77 lakh under PMGY during 2002-03. It was observed that there was no nearby source of power supply available for village Ichi-Chiku under Basar circle. The power supply was to be met through 2x2.5 MVA 33/11KV sub station which was to be commissioned at Basar under Accelerated Power Development Reform Programme (APDRP).

The work of electrification of the village Ichi-Chiku was completed by February 2004 at a cost of Rs. 24.92 lakh. However, proposed sub station was not commissioned till date (November 2008). Consequently, the village though declared electrified, service connections could not be provided due to non availability of power and the intended benefit could not be derived so far.

Thus, due to unplanned selection of villages for electrification, the funds of Rs. 4.94 crore incurred on electrification of above 27 villages remained unfruitful, defeating the very purpose of the scheme.

The Department stated (November 2008) that power supply to these villages was planned from other schemes which are under progress and on completion of the schemes electricity would be supplied to these villages. The Department admitted that due to remoteness of the localities the materials were prone for theft. Since the lines are not charged there is scope of theft/misutilisation of the materials erected which may result in the whole expenditure of Rs. 4.94 crore becoming infructuous.

7.2.13 In Along Electrical Division the villages Boru-Rakshap and Sala Potom were chosen which were at the far end of the route from existing grid while Poyom and Bogo villages which were nearer to the existing grid were left out. Due to this, the above two villages were to be substituted for electrification during 2001-02 under PMGY.

The Department stated (November 2008) that two extra villages were electrified as they fell in line to the villages originally targeted and there was additional expenditure incurred. The fact, however, remains that selection of villages was not made sequentially considering the availability of grid connection.

7.2.14 Census code of 10 villages⁹ proposed by Pasighat Electrical Division and sanctioned for electrification at a cost of Rs. 2.13 crore under MNP/PMGY did not match with the list of census villages or the villages having electricity connection.

The Department stated (November 2008) that the census code did not match because there were changes in census code in 2001 and also due to typographical mistakes. The works were completed and villages electrified. The reply is not acceptable since the villages for electrification were to be selected indicting the latest census codes. Since there is discrepancy in the census codes, the factual position of village existence and their electrification by incurring the expenditure of Rs. 2.13 crore could not be verified in audit.

Procurement of materials and equipments under PMGY/MNP

Procurement of materials at higher cost

7.2.15 The village electrification work was to be carried out as per the REC specifications and cost. It was found in audit that Along Electrical Divisions had procured (March 2004) 673 nos. of 9.5 Meters poles and 749 nos. of 7.5 meters poles at rates of Rs. 9030 and Rs. 5530 each respectively. The

⁹ Rina, Riga Hqr, Riga (Mobuk), Posing, Lingka, Tebo, Rema Camp, Ugeng, Upper Ngyopok I and Sissen

REC/approved rates for these poles were Rs. 6102 and Rs. 4399 each respectively. Thus, procurement of poles at higher rates resulted in additional expenditure of Rs. 28.18 lakh. Since the estimates were prepared on the basis of REC specification, procurement of materials at higher rate lacked justification.

The Department stated (November 2008) that the REC cost data are mainly an estimate and not the actual rates. In practice, the materials were procured based on the approved rate or after following tendering process. Since funds were generally received at the fag end of the financial years, tenders could not be called for in many cases. The reply is not acceptable since tenders were not called for at Circle office also and as such, the basis for arriving at the higher rate was not on record. Further, the poles were also procured at the estimated cost of Rs. 6102 during the same period.

Excess procurement of materials

7.2.16 It was noticed in audit that the Capital Electrical Division and Along Electrical Division procured materials valued at Rs. 43.05 lakh in excess of the actual requirements under PMGY/MNP. Since the materials were procured in excess of the actual requirement and the schemes were discontinued, the same could not be utilized resulting in blocking up of funds amounting to Rs. 43.05 lakh.

The department stated (November 2008) that due to discontinuation of some schemes, certain residual materials remained unutilized, and the same would be used in other works. The reply is not acceptable since the excess procurement was as a result of not having a detailed DPR. There is no scope of utilization of these materials since works are now being implemented through turnkey contracts.

Deficiencies in execution of works

7.2.17 In the absence of any specific guidelines for execution of work under turnkey contract, all works were executed departmentally. The works were executed through award of work orders on local parties. Tenders were not invited and further the work orders were split to avoid obtaining sanction of the higher authority, in violation of the provisions of the CPWD code. The works were executed in violation of provisions of the CPWD manual as discussed below:

Unauthorised expenditure

7.2.18 As per Para 2.2 of CPWD Manual Vol. II, work should be commenced after administrative approval had been obtained. In addition detailed estimates and availability of funds were also prerequisite for commencement of works. Further, the State Government noticed (October 2001) that many divisions were in habit of incurring expenditure leading to serious financial indiscipline and mismanagement besides objectionable procedural lapses. The State Government directed (October 2001) that no expenditure be incurred against any scheme which had no Administrative Approval and Expenditure Sanction from the Government.

However, in contravention to the provisions of CPWD Manual and specific instructions of the State Government, the divisions continued to incur expenditure on electrification of villages without Administrative Approval/ Expenditure Sanction as discussed below:

- The Capital Electrical Division incurred expenditure of Rs. 31.69 lakh in the year 2002-03 on electrification of two villages viz Tarasso Karbi and Tassamso under MNP. These villages were declared electrified by March 2003. However, these two villages were included in MNP scheme 2003-04 and the Administrative Approval and Expenditure Sanction was accorded in September 2003 i.e. six months after completion of work.
- The Division also incurred an expenditure of Rs. 16.87 lakh towards electrification of Nyoing village under PMGY during the period October 2005 to March 2006 without sanction.

The Department stated (November 2008) that due to discontinuance of MNP scheme by the GOI no fund was made available for the already electrified Nyoing village, it was decided to declare Nyoing village under PMGY in lieu of Upper Dulana village so that the liability created for Nyoing village could be cleared from the on going PMGY fund. The reply is not acceptable since the Nyoing village was not included and sanctioned under PMGY. Further, separate funds were received under MNP.

- Under Along Electrical Division two villages namely Lutak and Ralling, were to be electrified at estimated cost of Rs. 40.22 lakh. Subsequently, it was decided to electrify Kamu village in place of Lutak. It was found in audit that the division had incurred Rs. 5.77 lakh on procurement of materials and labour charges for Lutak village against estimated cost of Rs. 20.61 lakh. The village Lutak was not declared electrified even though expenditure was incurred on this village. It was found that the village Lutak was included under the list of villages not electrified under RGGVY scheme. Since the lines

though erected were not charged there was scope for theft/misutilization of the materials resulting in the expenditure becoming infructuous. Thus, due to undertaking the work of electrification of the villages without expenditure sanction was unauthorized and may result in wasteful expenditure. The Division also incurred expenditure of Rs. 5.76 lakh on transportation and erection of HT poles and stay sets for electrification of Botakkayi village during March 2004. However, Administrative Approval and Expenditure Sanction for the scheme were accorded in July 2004 i.e. after the expenditure had already been incurred.

- Pasihat Electrical Division incurred an expenditure of Rs. 38.06 lakh on electrification of village Kadang Camp under PMGY (2001-02) without proper sanction. The department stated (November 2008) that the village Kadang Camp was electrified in lieu of Murali Camp, which was a sanctioned village under the scheme but could not be electrified due to not having mandatory clearance from the Forest Department. The reply was not acceptable since the village Kadang Camp was not even a census village.

The Department (November 2008) stated that the expenditure was knowingly incurred even without sanction as the funds were expected to be received in the year end. Substitution of the villages was permitted and the same was necessitated due to problem in electrifying targeted village. The reply is not acceptable since incurring the expenditure without sanction was not only in contravention to the CPWD manual it was also contradictory to the Government directives.

Non confirmation of village electrification works

7.2.19 During the years 2001-02 to 2006-07, the Department electrified 345 villages after incurring an expenditure of Rs. 62.73 crore under PMGY, MNP and PM's Package. As per the guidelines, for procurement of equipment and materials and the construction, erection/installation, specifications of REC would be adopted for implementation of the schemes. The procurement of materials and the actual utilisation in electrification works were reviewed in audit to verify the work done under the village electrification. It was found in audit that the actual utilization of the materials was far less than the norms as detailed below:

- Naharlagun Electrical Division had taken up the work of village electrification of Papu I under PMGY scheme during the year 2004-05 at a cost of Rs. 15.17 lakh. As per the estimate it was proposed to construct 2 KM of 11 KV line and 2.5 KM of LT distribution line with 3 phase 5 wires. As per specification 84 poles and 19.06 KM of ACSR

conductor were required. However, only 47 poles and 9.547 KM of conductor were used. In view of under utilisation of the material, the completion of the work could not be vouchsafed in audit.

The Department stated (November 2008) that requirement of material was met from the residual material of the previous scheme and transfer entry order was affected subsequently. The reply is not acceptable since the department could not produce any documentary evidence for utilisation of the material from other schemes.

- The village Bomdo was electrified in December 2005 at a cost of Rs. 41.55 lakh under PMGY during 2004-05 and 2005-06 under Yingkiang Electrical Division. It was found in audit that issue of materials including the poles commenced only in May 2006. Thus, completion of work connected with electrification of the said village at a cost of Rs.41.55 lakh was not feasible.

The Department stated (November 2008) that contractors delivered materials in advance without orders which were regularized at a later date. The reply is not acceptable since the receipt of materials was not synchronised with issue and erection work. Moreover, erection of other critical items like conductors etc. was also not on record.

- Pasighat Electrical Division incurred an expenditure of Rs. 33.56 lakh on electrification of the village Lileng Camp under MNP during 2002-03. It was found in audit that a fictitious village called Lileng camp had been included as targeted village in the scheme. The Division also incurred an expenditure of Rs. 38.06 lakh on electrification of village Kadang Camp under PMGY (2001-02). The village Kadang Camp did not have electricity connectivity and further it was not in the list of census villages.

The Department stated (November 2008) that there was mistake in correspondence as regard to electrification of Lileng camp which was another name for Lileng village and Kadang Camp was electrified in lieu of Murali Camp. The fact remains that Lileng village was not a census village and as per departments record it was a fictitious village. Further, neither Kadang Camp nor Murali Camp, were census villages.

- The Bomdila Electrical Division incurred an expenditure of Rs. 50.52 lakh on electricity of Dingchaangpam, Khorung and Kamsiri (March 2005). It was found in audit that the electrification of these three villages required 150 poles of different sizes and 38.63 Km ACSR conductors. However, only 83 poles and 28.94 Km ACSR conductors were purchased and used for electrification. Electrification of these

three villages with the above quantity against estimate of 150 poles and 38.63 Km ACSR conductors was not feasible.

- The village Thalath sanctioned for electrification under PMGY (2002-03) was declared electrified in January 2005 at a cost of Rs. 18 lakh. However, in September 2005, it was stated that the electrification work was not completed and further an amount of Rs. 7.52 lakh was required to complete the work.
- The Changlai village sanctioned for electrification under PMGY (2001-02). The village was declared electrified in February 2002 at a cost of Rs. 14.25 lakh. However, the Executive Engineer stated (May 2004) that practically no work was completed and sought an additional amount of Rs. 4 lakh for the completion of the electrification work.

As such, electrification of above mentioned villages could not be verified in audit.

Excess consumption of materials

7.2.20 Review of the records revealed that in certain cases the materials used were in excess of the REC norms, thereby incurring additional expenditure. Capital Electrical Division had electrified five villages (Jumi, New Ban and Sinduputha in 2001-02 and Chessa Nishi and Dokum Pichola in 2004-05) under PMGY/MNP schemes. As per the parameters 252 poles of various sizes were required. It was, however, found in audit that 464 poles were used. The total excess expenditure on this account worked out to Rs. 12.27 lakh.

Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)

7.2.21 The Department of power submitted (February to December 2006) 16 projects valued at Rs. 581.19 crore to electrify 1,798 villages to the MOP/REC for approval. Twelve projects valued at Rs. 386.88 crore were sanctioned by GOI/REC in January/February 2008 and the balance four projects were sanctioned in September 2008. The turnkey contracts for these four projects were yet to be finalized (October 2008).

It was noticed in audit that a plan for rural electrification was formulated in March 2005 for implementation of RGGVY scheme. As on March 2005, 1,798 virgin villages were to be electrified. As per the plan, 507 unelectrified villages and 87 de-electrified villages were targeted to be electrified by 2007-08. The projects under the scheme submitted during February 2006 to December 2006, were not prepared in accordance with the conditions and guidelines of the Scheme. Due to discrepancies in preparation and submission of the Projects there was inordinate delay in obtaining the sanction of GOI/REC. 12 projects were sanctioned in March 2008 and balance four projects were sanctioned in September 2008. The projects were to be completed on turnkey basis, within a period of two years, failing which the

capital grant was to be converted into interest bearing loan. The turnkey contracts for implementation of the scheme were not finalized and awarded till October 2008. Thus, the Department could not even initiate the implementation of the scheme by March 2008 and the target to electrify 507 villages could not be achieved.

Recommendations

The State Government and the Department should:

- **ensure electrification of the villages in a time bound manner so as to achieve prime objective of the schemes;**
- **strictly adhere to the guidelines/directives for optimizing operational and financial performance;**
- **evolve a mechanism for independent verification of the works done; and**
- **synchronise other schemes so as to provide power supply to all the electrified villages.**

The matter was reported to the Department in July 2008; their reply was awaited (October 2008).

7.3 Avoidable expenditure

Injudicious procurement of materials resulting in avoidable expenditure of Rs. 72 lakh and blocking up of funds of Rs. 61 lakh since 1997-98.

Ziro Electrical Division had unutilized stores worth Rs. 1.33 crore as on 31 July 2007 involving 94 items procured between March 1991 and April 1997 for *cent per cent* rural electrification programme. Out of this, materials worth Rs. 61 lakh were found usable and balance materials valued at Rs. 72 lakh were unusable.

It was observed in audit that though the Rural electrification programme was implemented, the materials were not utilized. Further, the materials were purchased though sufficient quantities were lying in the stores. Procurement of materials without assessing the actual requirement resulted in accumulation of stores valued at Rs. 1.33 crore. The division did not take effective steps to utilize these usable stores or transfer them to other needy Divisions. With the passage of time, the entire usable materials may also lose their utility and become unusable/obsolete.

The Department stated (September 2008) that a circular has been issued to all circles and divisions to place requisition for proper utilization of materials. The reply however, did not elaborate the reasons for procurement of materials in excess of requirement and in spite of their availability in stock.

Thus, weak internal controls and injudicious purchase of materials resulted in avoidable expenditure of Rs. 72 lakh on materials which became unusable and resulted in blocking up of funds of Rs. 61 lakh (usable materials) in addition to avoidable inventory carrying cost.

7.4 Expenditure on wages

Expenditure of Rs. 82.53 lakh incurred on wages during 2004-05 to 2006-07 remained unsubstantiated.

Ziro Electrical Division had two Diesel Generating (DG) sets under Raga Electrical sub-division, which were not put to use during the period between 2004-05 and 2006-07 though they were in good condition.

Scrutiny (August 2007) of records revealed that the division spent Rs. 98.03 lakh during this period on maintenance of these sets. Out of Rs. 98.03 lakh, Rs. 82.53 lakh was spent on wages. Since the DG sets were not in use during the period, the expenditure of Rs. 82.53 lakh incurred on wages which constituted 84 *per cent* of the total expenditure could not be vouchsafed in audit.

The Department stated (September 2008) that since the operation of DG set was rare the Division had diverted all the staff from maintenance of DG set to other work like maintenance of transmission lines, sub stations etc., though they were paid from DG set maintenance head. The reply does not hold good since the Division in its earlier reply (January 2008) had stated that the staff engaged in the operation and maintenance of DG sets were diverted to other work only in the early part of 2007-08. The Division could not produce records in support of the labourers being used for maintenance of transmission lines, sub stations etc. Further, the Division had received funds for maintenance of lines etc., under separate letter of credits during the period. Therefore, diversion of funds meant for maintenance of DG sets to maintenance of lines etc. was unauthorised.

7.5 Loss of revenue

Incorrect classification of tariff in respect of commercial consumers resulted in loss of revenue of Rs.13.12 lakh during April 2005 to March 2008.

Tariff notifications of Department of Power, Government of Arunachal Pradesh (January 2000) as amended from time to time, stipulated different tariffs for different Category of commercial consumers.

Capital Electrical Division, Itanagar sold 17,48,444 KWH energy to Bharat Sanchar Nigam Limited and Sate Bank of India and billed the consumers under 'Non-Residential' Category from April 2005 to September 2006 and 'Commercial-HT' Category from October 2006 to March 2008. It was observed that since these consumers were commercial, they should have been classified

under 'Commercial' Category during the period from April 2005 to September 2006 and 'Commercial-LT' Category from October 2006 to March 2008 as no HT agreements were entered into with these commercial consumers with regard to demand/energy charges. Thus, the Department of Power sustained loss of revenue of Rs. 13.12 lakh due to incorrect classification of consumers for application of tariff.

The Department agreed with the observation made by audit and stated (August 2008) that incorrect classification of tariff occurred due to inadvertent clerical mistake and necessary consumer bills have been raised to recoup the balance revenue. However, the differential amount was yet to be realized. (October 2008)

Supply and Transport Department

7.6 Extra expenditure

Non-adherence to the terms of the agreement in transportation of essential ration commodities resulted in extra expenditure of Rs. 12.91 crore during 2003-04.

The Directorate of Supply and Transport (DST) submitted a note to the Government of Arunachal Pradesh for seeking Government approval for transportation of Essential Ration Commodity (ERC) to Monigong CPO centre from Lilabari Depot. As per the note, the land route/head load transportation charges worked out to Rs. 4193.40 per quintal as against the air freight charges of Rs. 9276.18 per quintal and thus, the land route/head load transportation charges in place of air sorties was projected as economical to the State. Based on the above cost analysis, the proposal to transport ERC by land route/head route was approved.

Accordingly, an agreement with N L Yameen Enterprises, Nirjuli was entered (April 2003) for transportation of Government stores from Assistant Director of Supply & Transport (ADST), Lilabari Depot to CPO, Monigong at a cost of Rs. 4,193.40 per quintal during the period between 01 April 2003 to 31 March 2004. There was no provision in the agreement for transportation of ERC by head load.

It was observed in audit that the DST allowed (September 2003) the transporter on its request, to lift the ERC from Along (a place en-route Lilabari to Monigong) instead from Lilabari. The transporter lifted 3,859 quintals from Along during 2 December 2003 to 6 February 2004 for which it claimed Rs.3 per quintal per KM for land route (130 KM - Along to Toto) and Rs.250 per quintal per KM for head load (149 KM - Toto to Monigong). The total transportation charges thus, worked out to Rs. 37,640 per quintal as against the agreed rate of Rs. 4193.40 per quintal. The DST paid a total amount of Rs. 14.53 crore as claimed by the transporter for transportation of 3,859

quintals, without taking the approval of the competent authority. Due to not affecting the payments as per the agreed rates the DST extended undue benefit of Rs. 12.91 crore to the transporter.

The DST stated (April 2008) that the contractor had claimed the rate of Rs. 37,640 per quintal based on the Government approved rate prevailing during that period. The reply is not acceptable since the rate paid was not approved by competent authority.

7.7 Misappropriation

Misappropriation of sales proceeds of Rs. 17.19 lakh and of stores items of Rs. 7.36 lakh due to lack of internal control during April 2001 to May 2005.

As per the Central Purchasing Organisation (CPO) guidelines, the Store Keeper of a CPO Centre should hand over the sale proceeds alongwith a forwarding memo to the Circle Officer (CO)/Extra Assistant Commissioner (EAC) in-charge of the CPO Centre after closing daily sales account. The sale proceeds should regularly be remitted with challans in quadruplicate to Deputy Commissioners (DCs)/Additional Deputy Commissioners (ADCs) for crediting into Government Treasury. The CPO centre should submit Monthly Return of the sale proceeds deposited during the period to the Directorate, Supply and Transport (DST), Naharlagun through the DC/ADCs concerned on the first day of the following month. The guidelines provide physical verification of stores held by CPO by a Board of Officials once in every month and forwarding of such verification report and Board Proceedings to the DST, Naharlagun through DCs/ADCs concerned for follow-up action. Guidelines stipulate inspection of CPO centres atleast twice in a year by Sub-Inspectors/Inspector of supply and once in a year by CO/EACs concerned.

The Public Accounts Committee (PAC) of the Lok Sabha in their 76th Report (1976) had criticized the large scale “irregularities”, “misappropriation” and “heavy loss due to deterioration of CPO stores” in Arunachal Pradesh and recommended that there should be strict supervision and regular inspection of all the CPO centres. In order to implement the recommendation of PAC, a directive was issued (July 1976) by DST, Naharlagun to all concerned in which detailed time schedules were prescribed for carrying out periodical inspection at all levels.


It was noticed in audit that the CPO Centre, Pipsorang, Kurung Kumey district neither submitted the monthly returns nor remitted the sale proceeds regularly since its inception in April 2001. Despite this, neither the physical verification of stores nor the periodical inspection of the centre was carried out as stipulated in the guidelines and directives of the PAC. Inspection of the CPO Centre was conducted in July 2005 by Loss Section of DST, Naharlagun. It was also observed that as against the total sale of CPO commodities of Rs. 49.35 lakh during the period between 7 April 2001 and 20 May 2005, the Store Keeper of

the Centre remitted (date not indicated) Rs. 32.16 lakh to the DC, Ziro and retained the balance amount of Rs. 17.19 lakh with him. Further ration items valued at Rs. 7.36 lakh dispatched to the CPO Centre by Additional Director of Supply Transport (ADST), Lilabari during the period between June 2003 and October 2003 were not entered in the stock register of the centre. Thus, the sale proceeds of Rs. 17.19 lakh and ration items valued Rs. 7.36 lakh were misappropriated by the Store Keeper.

While agreeing with the observation, the DST stated (April 2008) that correspondence was made with the Deputy Commissioner, Kurung Kumey to locate the store keeper since whereabouts of the Store Keeper of the CPO centre was not known to the DST. Since the store keeper is not traceable, the chances of recovery of the amount misappropriated are remote.


Thus, due to non adherence to the CPO guidelines and PAC directives and lackadaisical attitude on the part of authority in exercising timely check and control and allowing the store keeper to retain the sale proceeds, rendered it possible for the store keeper to misappropriate the stock and sale proceeds to the tune of Rs. 24.55 lakh.

Itanagar
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