CHAPTER - VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7.1 General

7.1.1 This chapter deals with the results of audit of Government companies and departmentally managed commercial undertakings.

7.1.2 Paragraphs 7.1.3 to 7.1.47 give an overview of Government companies and departmentally managed commercial undertakings and paragraph 7.2 deals with review on 132 KV single circuit transmission line from Deomali to Namsai and paragraphs 7.3 to 7.9 deal with miscellaneous topics of interest.

Overview of Government companies and departmentally managed commercial undertakings

Introduction

7.1.3 As on 31 March 2002 there were five Government companies (three working companies and two non-working companies) and two departmentally managed commercial undertakings *viz.,* State Transport Services and State Trading Scheme as against same number of Government companies and departmentally managed commercial undertakings as on 31 March 2001 under the control of the State Government. The accounts of the 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 Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of Companies Act, 1956. The accounts of departmentally managed commercial undertakings are audited solely by the CAG under Section 13 of CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Working Government companies

Investment in working Government companies

7.1.4 The total investment in three working companies as on 31 March 2001 and 31 March 2002 are as follows :

Table – 7.1

(Rupees in crore)

Year	No. of working Companies	Equity	Share application money	Long term money	Total
2000-01	3	8.42	0.20	3.01	11.63
2001-02	3	8.62	-	2.01	10.63

7.1.5 The summarised statement of Government investment in the working Government companies in the form of equity and loan is given in **Appendix - XLVI**.

7.1.6 Due to repayment of loan amounting to Rs.1.00 crore by one company without any further investment in equity the debt equity ratio has decreased from 0.35:1 in 2000-01 to 0.23:1 in 2001-02.

7.1.7 As on 31 March 2002, the total investment in working Government companies, comprised 81.09 *per cent* of equity and 18.91 *per cent* of loan compared to 74.11 *per cent* and 25.89 *per cent*, respectively as on 31 March 2001.

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

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

7.1.9 The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from State Government to 3 working Government companies for the three years upto 2001-02 are given below :

Table – 7.2

(Rupees in crore)

Sl. No.	Particulars	1999-2000		2000-2001		2001-2002	
		No. of companies	Amt.	No. of companies	Amt.	No. of companies	Amt.
1.	Equity capital outgo from budget	1	0.18	2	0.37	-	-
2.	Loans given from budget	-	-	-	-	-	-
3.	Grants/subsidy towards project/ programmes/ schemes	-	-	-	-	-	-
Total outgo		**1**	**0.18**	**2**	**0.37**	**-**	**-**

7.1.10 During the year 2001-02, the Government had not given fresh guarantee for raising loans by working Government companies. At the end of the year guarantees amounting to Rs.0.90 crore (principal: Rs.0.88 crore and interest: Rs.0.02 crore) against one Government company were outstanding. There was one case of default in repayment of guaranteed loans during the year. No guarantee commission was payable to the Government by the Government companies.

Finalisation of accounts by working Government companies

7.1.11 The 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 Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year.

7.1.12 It can be noticed from **Appendix - XLVII** that none of the three working Government companies had finalised their accounts for the year 2000-01 within the stipulated period. During the period from October 2001 to September 2002, three working Government companies finalised their accounts for earlier years.

7.1.13 The accounts of all the three working companies were in arrears for periods ranging from 3 years to 8 years as on 30 September 2002 as detailed below :

Table – 7.3

Sl. No.	Number of working Government companies	Year from which accounts are in arrear	Number of years for which accounts are in arrear	Reference to Sl. No. of Appendix-XLVII
1.	1	1999-2000	3	1
2.	1	1997-1998	5	3
3.	1	1994-1995	8	2

7.1.14 The administrative departments have 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 Government were appraised quarterly by the audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government and as a result, the investments made in these Government companies could not be assessed in audit.

Financial position and working results of working companies

7.1.15 The summarised financial results of working Government companies as per latest finalised accounts are given in **Appendix - XLVII**.

7.1.16 According to latest finalised accounts of 3 working Government companies, two companies had incurred an aggregate loss of Rs.0.97 crore and one company earned profit of Rs.3.70 crore.

Profit earning working Government company and dividend

7.1.17 The lone working Government company which finalised its accounts for 1996-97 (Sl. No.3 of **Appendix - XLVII**) had earned profit for two or more successive years. No dividend has been declared during the year. The State Government has not formulated any dividend policy for payment of minimum dividend.

Loss incurring working Government companies

7.1.18 Of the two loss incurring working Government companies, one company (Sl. No.1 of **Appendix - XLVII**) had accumulated losses amounting to Rs.6.18 crore which has far exceeded its paid up capital of Rs.1.63 crore.

7.1.19 Despite poor performance and complete erosion of paid up capital, the State Government continued to provide financial support to this company. According to available information, the financial support so provided by the State Government to this company by way of share capital contribution amounted to Rs.17.00 lakh during 2000-01. No financial support has been provided by Government during 2001-02 to these companies.

Return on capital employed

7.1.20 As per the latest finalised accounts (upto September 2002) the capital employed[*] worked out to Rs.43.99 crore and total return[**] thereon amounted to Rs.3.71 crore which is 8.43 *per cent* as compared to total return of Rs.5.61 crore (15.60 *per cent*) in the previous year (accounts finalised upto September 2001). The details of capital employed and total return on capital employed in case of working Government companies are given in **Appendix - XLVII**.

Non-working Government companies

Investment in non-working Government companies

7.1.21 As on 31 March 2002, the total investment in two[***] non-working Government companies was Rs.3.24 crore (equity: Rs.0.42 crore and long term loan: Rs.2.82 crore) as against total investment of Rs.2.01 crore (equity: Rs.0.42 crore and long term loan: Rs.1.59 crore) as on 31 March 2001 in two non-working Government companies. During the year 2001-02 there was an increase of Rs.1.23 crore in the long term loan of Arunachal Pradesh Horticulture Processing Industries Limited which it received from its holding company (Arunachal Pradesh Industrial Development and Financial Corporation Limited) for payment to retrenched employees under "Golden Handshake Scheme".

7.1.22 The plants of both the non-working Government companies remained inoperative from December 1986 and July 1987 and all the employees had been retrenched. Although no budgetary support was extended during 2001-02 to the non-working companies for disbursement of salaries and wages, the proposals for disposal of the companies assets (including plant and machinery) were long pending with the Government.

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[*] 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).

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

[***] 1. Parasuram Cements Ltd. and 2. Arunachal Horticulture Processing Industries Ltd.

7.1.23 As both the non-working companies were under liquidation/closure under Section 560 of the Companies Act, 1956 for 6 to 7 years and substantial amount of investment of Rs.3.24 crore was involved in these companies, effective steps need to be taken for their expeditious liquidation.

Finalisation of accounts of non-working Government companies

7.1.24 The accounts of two non-working companies were in arrears for periods ranging from 15 to 20 years as on 30 September 2002 as could be noticed from **Appendix - XLVII**.

Financial position and working results of non-working Government companies

7.1.25 One non-working Government company has not finalised its accounts since inception. The other non-working company has so far finalised its accounts upto 1986-87, summarised financial results of which as per latest finalised accounts are given in **Appendix - XLVII**.

7.1.26 The details of paid-up capital, net worth, cash loss/cash profits and accumulated loss of one non-working PSU as per its latest finalised accounts are given below :

Table – 7.4

(Rupees in lakh)

Year	Paid-up capital	Net worth	Cash loss (-)/ Cash profit (+)	Accumulated loss (-)/Profit (+)
1986-87*	13.50	83.42	(-) 1.78	(-) 15.40

Results of audit of accounts of PSUs by Comptroller and Auditor General of India

7.1.27 During the period from October 2001 to September 2002, the audit of accounts of two Government companies (both working) were selected for review. The net impact of the audit observations as a result of review of the Government companies were as follows :

Table – 7.5

(Rupees in lakh)

Details	No. of accounts of Government companies		Amount	
	Working	Non-working	Working	Non-working
i) Non-disclosure of material facts	1	-	7.26	-

7.1.28 Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above companies are mentioned below:

* Parasuram Cements Ltd.

Arunachal Pradesh Forest Corporation Limited (Accounts for 1996-1997)

7.1.29 (a) The net fixed assets (Rs.10.22 crore) include value of unsuitable seedlings amounting to Rs.7.26 lakh which awaited write off, but, the fact has not been disclosed.

(b) Expenditure on lease rent (Rs.2.44 crore) charged to profit and loss account for the year includes Rs.0.75 crore pertaining to previous year which should have been exhibited under prior period adjustment account.

Recommendations for improving performance or closure of Government companies

7.1.30 Even after completion of five years of its existence, the turnover of one working Government company, *viz.,* Arunachal Pradesh Industrial Development and Financial Corporation Limited, had been less than Rs.5.00 crore in each of the preceding five years of latest finalised accounts. The company also had been incurring losses for five consecutive years (as per latest finalised accounts) leading to negative net worth of Rs.1.70 crore. In view of poor turnover and continuous losses, the Government may either improve performance of above Government company or consider its closure.

Response to Inspection reports, draft paras and reviews

7.1.31 Observations made during audit and not settled on the spot are communicated to the head 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 2002 pertaining to 8 Government companies/departmental commercial undertakings disclosed that 581 paragraphs relating to 112 Inspection reports remained outstanding at the end of September 2002. Of these, 18 Inspection reports containing 79 paragraphs had not been replied to for more than 5 years. Department-wise break-up of Inspection reports and audit observations outstanding as on 30 September 2001 is given in **Appendix - L**.

7.1.32 Similarly, draft paragraphs and reviews 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. It is observed that one review and eight draft paragraphs which were forwarded to the various departments during April to June, 2002 as detailed in **Appendix - LI**, have not been replied to so far (December 2002).

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

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

7.1.34 The reviews/paragraphs of commercial chapter of Audit Reports pending discussion as on 31 March 2002 by the COPU are shown below :

Table – 7.6

Period of Audit Reports	Total number of reviews/ paragraphs appeared in Audit Report		Number of reviews/paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1987-1988	2	2	-	1
1988-1989	-	3	-	1
1989-1990	-	1	-	1
1990-1991	1	1	-	-
1991-1992	-	4	-	1
1992-1993	1	1	-	-
1993-1994	1	3	-	-
1994-1995	-	5	-	2
1995-1996	-	2	-	1
1996-1997	-	5	-	2
1997-1998	-	4	-	1
1998-1999	1	4	1	4
1999-2000	1	4	1	4
2000-2001	-	6	-	6

Departmentally managed Government commercial and quasi-commercial undertakings

7.1.35 Though the State Transport Services and the State Trading Scheme (Central Purchase Organisation) of Transport and Supply Directorates are commercial in nature and are functioning as such, they have not been declared as commercial organisations by the Government (September 2002).

7.1.36 Preparation of proforma accounts of the State Transport Services for 2000-01 and 2001-02 and of State Trading Scheme for 2001-02 was in arrears. The arrear in finalisation of accounts was last brought to the notice of the Government in July 2002.

7.1.37 The financial position, working results and operational performance of the State Transport Services for the three years upto 1999-2000 as per finalised accounts are given in **Appendix - XLIX**.

7.1.38 During last 3 years upto 1999-2000, the State Transport Services had incurred operating losses varying from Rs.0.74 crore to Rs.2.04 crore and net losses varying from Rs. 10.58 crore to Rs.12.19 crore. As on 31 March 2000, the accumulated loss stood at Rs.81.38 crore which was 97.63 *per cent* of Government capital of Rs.83.36 crore. As analysed in Audit, the reasons for incurring losses were attributable to high incidence of salaries and wages, poor operation of buses per day (average 89.96 to 99.07 kms) and low occupancy ratio (45.68 to 58.75 *per cent*).

7.1.39 The working results of State Trading scheme for the three years upto 2000-01 as per finalised accounts are summarised below:

Table – 7.7

(Rupees in lakh)

		1998-99	1999-2000	2000-01
A.	Income			
(a)	Sales	294.52	348.34	370.37
(b)	Increase(+)/decrease(-) of stock	(+) 0.22	(+) 39.17	(-) 47.75
	Total – A	**294.74**	**387.51**	**322.62**
B.	Trading Expenses:			
(a)	Purchases	314.32	438.34	348.82
(b)	Packing materials	54.62	67.74	14.17
(c)	Establishment and contingent charges	195.84	195.90	202.23
(d)	Air dropping and godown losses	20.76	30.95	17.33
	Total – B	**585.54**	**732.93**	**582.55**
C.	Trading Profit (+)/ Loss (-)(A-B)	(-) 290.80	(-) 345.42	(-) 259.93
D.	Non-trading expenses – interest on capital and audit fee (provisions)	24.70	23.51	30.68
E.	Net profit (+)/Loss (-)	(-) 315.50	(-) 368.93	(-) 290.61

7.1.40 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.

7.1.41 During the three years upto 2000-01, the actual overhead charges worked out to a higher percentage is as shown below:

Table – 7.8

(Rupees in lakh)

		1998-99	1999-00	2000-01
1.	Overhead charges (items (b) and (c) of trading expenses)	250.46	263.64	216.40
2.	Cost of procurement (opening stock plus purchases less closing stock)	314.10	399.17	396.57
3.	Percentage of overhead cost to cost of procurement (percentage of 1 to 2)	79.74	66.05	54.57

7.1.42 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 62.35 *per cent*, 49.08 *per cent* and 50.99 *per cent* of cost of procurement during the three years respectively.

Power (Electricity) Department

7.1.43 The department has not prepared proforma accounts pending constitution of State Electricity Board. The matter was last taken up with the Chief Secretary in May 2002. Reply of the Government was awaited (December 2002).

7.1.44 The operational performance of the department for the last three years upto 2001-2002 is given in **Appendix - LII**.

7.1.45 The Auxiliary Consumption was excessively high ranging from 8.46 to 10.36 percentage to total power generated.

7.1.46 The transmission and distribution (T&D) losses were excessive ranging from 49.22 to 56.12 *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 upto 2001-02, the excess T&D loss beyond norm was 170 MU or Rs.31.56 crore in financial terms.

7.1.47 During the three years upto 2001-02, the losses per unit sold were Rs.4.48, Rs.6.27 and Rs.6.13 crore respectively. The total expenditure during the period was Rs.52.49 crore, Rs.57.82 crore and Rs.57.85 crore respectively as against revenue of Rs.16.19 crore, Rs.13.60 crore and Rs.11.79 crore in respective years. The department incurred losses amounting to Rs.36.30 crore, Rs.44.22 crore and Rs.46.06 crore during the three years upto 2002 respectively.

SECTION – A - REVIEW

POWER DEPARTMENT

7.2 Review on Construction of 132 KV Single Circuit transmission line from Deomali to Namsai

Highlights

Construction of 132 KV transmission line from Deomali to Namsai not administratively approved and technically sanctioned was irregularly taken up for execution in March 1994 at an estimated cost of Rs.31.64 crore to draw State's share of power from Kathalguri Gas Based Power Project and Central Sector, but temporarily suspended in August 1999 after incurring an expenditure of Rs.17.51 crore with 30 *per cent* progress only and remained incomplete till date.

(Paragraphs 7.2.1, 7.2.4, 7.2.5, 7.2.9 and 7.2.12)

There was an irregular diversion of fund of Rs.22.29 lakh from this project towards construction of building beyond the scope of detailed project report and schedule of works.

(Paragraph 7.2.13)

There was an undue and erroneous concession of Rs.1.91 crore to the executing contractor by inflating contract value from Rs.43.68 crore to Rs.45.59 crore (March 1995).

(Paragraph 7.2.14)

Procurement of materials at higher rate amounted to extra expenditure of Rs.6.69 crore.

(Paragraph 7.2.15)

Excess procurement of materials leading to blockage of fund of Rs.1.62 crore.

(Paragraph 7.2.16)

Penalty of Rs.2.85 crore was not imposed on the contractor for unfinished work.

(Paragraph 7.2.23)

Materials procured at a value of Rs.9.69 crore were lying idle.

(Paragraph 7.2.25)

There was no monitoring of the work at the department's level.

(Paragraphs 7.2.29 and 7.2.30)

Social objectives of the project were not achieved.

(Paragraphs 7.2.31 to 7.2.34)

Introduction

7.2.1 For meeting demand of power in the backward areas of eastern part of Arunachal Pradesh (Tirap, Changlang and Lohit districts), the Chief Engineer (CE) of the State Power Department submitted a proposal (February 1993) to the Central Electricity Authority (CEA) for "Construction of 132 KV single circuit transmission line from Deomali to Namsai". The proposed transmission line was regarded as pioneering step towards formation of 132 KV State Power Grid to draw State's share of power from Kathalguri Gas Based Power Project (KGBPP) and other Central Sector generating stations of North Eastern Region through the transmission network of Power Grid Corporation of India Limited (PGCIL) through Deomali sub-station and to distribute power through 132/33 KV substations and sub-transmission systems operating at 33/11 KV. The Project had the following objectives :

Objectives

7.2.2 To ensure sufficient and steady power supply in the backward area of the State and to act as a catalyst towards improvement of living conditions of the people, agricultural and industrial development.

7.2.3 To improve power distribution system in Tirap, Changlang, Lohit and Dibang Valley districts at required voltage and to avoid burning of transformers, snapping of conductor and other related problems.

Appointment of consultant

7.2.4 The department engaged (March 1994) one Guwahati based firm M/S K.R. Engineering Services (KRES) on lowest quoted rate basis at a total cost of Rs.46.07 lakh for the purpose of conducting survey and investigation (S&I) and preparation of a detailed project report. The firm submitted (February 1995) the project report for an estimated cost of Rs.31.64 crore for a line length of 196.5 kms. The basis of working out the estimated cost was not indicated in the project report nor was the same available on record.

Administrative Approval

7.2.5 Neither any technical estimate for the work was prepared by the CE nor the required administrative approval of the department thereon was obtained. In absence of these, the execution of the work was irregular.

Approval of CEA

7.2.6 While agreeing with the proposal of construction of the transmission line, the CEA advised (May 1993) the CE to submit a project report for their final approval. However, the project report was not submitted to CEA for obtaining approval, reasons for which were not on record.

Award of work

7.2.7 Based on the project report, the CE invited tenders (June 1994) on turnkey contract basis. Only four parties participated in tender but the comparative statement of quotations and the basis of selection of turnkey contractor was not made available to audit.

7.2.8 In March 1995, the CE with the approval (February 1995) of the State Works Advisory Board (WAB) executed agreement with a Calcutta based firm M/S Horizon Hi-tech Engicon (Private) Limited (HHEPL) and issued turnkey works order for 'supply, installation, testing and commissioning' of the transmission line for a contract value of Rs.45.59 crore which was neither administratively approved by the department nor technically sanctioned by the CE himself. The excess contract value of Rs.13.95 crore (Rs.45.59 crore – Rs.31.64 crore) over the estimated cost as per project report was attributable to

- difference in rates for erection works (Rs.0.80 crore),
- materials (Rs.11.24 crore) and
- inclusion of one floating item as 'head load charge' (Rs.1.91 crore as computed in audit) in the terms and conditions of contract without exhibiting the same in the work schedule attached to the tender documents and without quantifying the distance (to be covered) and weight of materials (to be carried).

Achievement

7.2.9 The scope of work included (a) check survey, tower spotting and final peg marking (196.5 kms), (b) stub setting and erection of towers (595 numbers) including all related civil works (c) earthing of towers (595 numbers), and (d) stringing of panther conductor (196.5 kms). As per terms of contract, the construction of the line was to be completed and commissioned by April 1998 (commencing from March 1995). While the work of stringing of panther conductor had not been taken up at all, the progress of other items of work varied only from 8.24 to 64.55 *per cent* when the work was ultimately suspended in August 1999 as the contractor had left the work site. Implementation of the project has been discussed in paras 7.2.14 to 7.2.34.

Organisational set up

7.2.10 The Chief Engineer, Power Department overall incharge of the project was assisted by the Superintending Engineer (SE), Arunachal Pradesh Electrical Circle-II (upto 10 March 1997) and SE, Electrical Circle, Miao (afterwards).

Audit coverage

7.2.11 Records of CE, SEs Arunachal Pradesh Electrical Circle-II Pasighat and Electrical Circle, Miao, EEs, Deomali Electrical Division and Miao Electrical Division for the period from 1993-94 to 2001-02 were test audited during February-March 2002. Important points noticed as a result of test check are brought out in the succeeding paragraphs.

Finance

7.2.12 State Government did not accord administrative approval (AA)/expenditure sanction (ES) of the project nor was the project technically sanctioned (TS) by the CE (Power), who, continued to irregularly release Plan funds through letter of credit (LOC) from time to time on the basis of the annual operation plan (AOP). Year-wise allotment of funds for the project and expenditure incurred were as under:

Table - 7.9

(Rupees in crore)

Year	Release of funds/expenditure incurred
1994-1995	1.30
1995-1996	7.55
1996-1997	5.00
1997-1998	1.75
1998-1999	1.81
1999-2000	0.10
Total	**17.51**

7.2.13 Out of Rs.17.51 crore shown above as expenditure incurred, total amount of Rs.15.78 crore was paid (September 1998) to HHEPL, upto 7th running account (RA) bill. The balance amount of Rs.1.73 crore was spent on different items like survey work, tools & plants, materials, wages and other miscellaneous items executed by the division through different contractors. Of Rs.1.73 crore, there was an irregular diversion of Rs.22.29 lakh during 1995-96 to 1999-2000 towards construction of a building beyond the scope of the project report and schedule of works. Entire expenditure incurred was without any technical and administrative approval, and thus irregular.

Implementation

Improper finalisation of contract

7.2.14 Scrutiny of the contract agreement No. 6 of 1994-95 executed (March 1995) between CE and M/s HHEPL disclosed that the actual value of the contract should have been Rs.43.68 crore as per schedule of works attached to the contract agreement instead of the contract value of Rs.45.59 crore **(Appendix – LIII)**. Thus, there was an irregular and undue concession extended to the firm to the tune of Rs.1.91 crore by erroneously inflating the total contract value to that extent. The EE, Miao Electrical Division in his report (January 1997) to the SE (AP Circle-II), Pasighat also raised this point to justify that the difference of Rs.1.91 crore was attributable to head load charge (actual expenditure on this account upto 7th running bill dated 12.04.1998 was Rs.0.52 crore) as per terms and conditions of the contract agreement. However, project report, schedule of works (1994) and preliminary estimate (February 2000)* submitted by the CE were silent in respect of head loading charges as referred to above. The department, thus, did not assess properly the item of works to be executed before entering into the agreement.

Procurement of materials at higher rates

7.2.15 The department had incurred an extra expenditure of Rs.6.69 crore for procurement of materials from M/S HHEPL, Calcutta at much higher rate compared to the approved (April 2001) rates of PGCIL which had also supplied similar items in the works executed by them in Arunachal Pradesh. Though it was reported (February 2000) by the CE to the Government that PGCIL's rates were also taken into consideration while revising the estimate to Rs.48.91 crore for according AA/ES, but in practice it was not followed for no recorded reasons. The details of extra expenditure are shown as below:

Table – 7.10

Sl. No.	Name of material	Unit	Rates of procurement	Approved rate of PGCIL	Quantity procured	Differential higher rates involved (4-5)	Extra-expenditure (7x6)	Rate as per project report
			(Rupees)	(Rupees)		(Rupees)	(Rs. in lakh)	(Rupees)
1.	2.	3.	4.	5.	6.	7.	8.	9.
1.	Panther conductor	per km.	2,17,000	84,708	315.945 km	1,32,292	417.97	90,000
2.	'C' type tower material	per mt	54,500	33,975	424.089 mt	20,525	87.04	50,400
3.	11 KV disc. Insulator							
	a) 70 KN insulator	each	710	405	6199 Nos.	305	18.91	650
	b) 90 KN insulator	each	820	405	30780 Nos.	415	127.74	750
4.	Vibration damper for panther conductor	each	1000	322	2484 Nos.	678	16.84	750
Total							**668.50**	

* Preliminary estimate because no sanction (technical and administrative) accorded earlier submitted in February 2000 for the first time for approval.

Excess procurement of materials

7.2.16 As per schedule of works, 31 'C' type towers (C+O = 17 Nos.; C + 3 = 11 Nos.; and C + 6 = 3 Nos.) were to be erected. The assessed weight of each tower was 3.393 MT for C+O type, 4.219 MT for C+3 type, and 4.786 MT for C+6 type and the weight of accessories for 'C' type towers was 9.011 MT. Accordingly, total requirement of 31 'C' type towers with accessories was 127.459 MT (as per analysis of audit based on PROJECT REPORT) against which the contractor had supplied 424.089 MT. Thus, 296.630 MT (424.089 MT – 127.459 MT) of 'C' type tower materials valuing Rs.1.62 crore (@ Rs.54,500 per MT) were procured in excess. This resulted in unnecessary blocking of fund amounting to Rs.1.62 crore.

Execution of work

7.2.17 As per clause 5.03 of the agreement, the work was to be completed within thirty six months from the date of execution of the contract (March 1995).

7.2.18 The estimated quantity of items of works (included in scope of work) to be executed, schedule date of completion, the actual quantity executed, and percentage of physical progress as of April 1998 (date of last measurement) were as under:

Table – 7.11

Sl. No.	Items of work/contract	Estimated quantity to be executed	Schedule date of completion	Quantity executed	Percentage of physical progress
1.	Check survey and tower spotting	196.5 kms	07/1995	38.71 kms	19.70
2.	Fabrication, procurement of tower materials	2471 mt	12/1996	859.11 MT	34.77
3.	Foundation work, benching, levelling	26250 cum	06/1997	16944.17 cum	64.55
4.	Excavation for foundation	48,600 cum	- do -	7710.99 cum	15.87
5.	Foundation concreting	9150 cum	- do -	1329.658 cum	14.53
6.	Tower erection	2471 mt	09/1997	203.506 MT	8.24
7.	Stringing	196.5 circuit kms	12/1997	Nil	Nil
8.	Testing and commissioning	-	03/1998	-	-
9.	Supply of:				
	a) ACSR 'panther' conductor	615.00 kms	Not included in bar chart	315.945 kms	51.37
	b) Accessories for line:				
	i) Vibration damper	2484 Nos.	-do-	2484 Nos.	100
	ii) Number Plate	595 Nos.	-do-	595 Nos.	100
	iii) Anti-climbing device	595 Nos.	-do-	595 Nos.	100
	iv) Danger plate	595 Nos.	-do-	595 Nos.	100
	v) 70 KN Disc insulator	6199 Nos.	-do-	6199 Nos.	100
	vi) 90 KN Disc insulator	30780 Nos.	-do-	30780 Nos.	100

7.2.19 It would, therefore, be evident from the above that the contractor devoted himself towards supply of materials only and not to execution of work as specified in the bar-chart as per agreement. Contractor had supplied high valued materials costing Rs.15.03 crore which represented 88 *per cent* of total value (Rs.17.10 crore) of work done and measured upto 7th RA bill (April 1998). The department, on the other hand, failed to monitor the work though it continued to make payments to the contractor as and when claimed for.

7.2.20 Though the contractor failed to execute further works after August 1999, no penal provision was resorted to, to realise the compensation from the contractor as per agreement. In fact, contractor was paid 92 *per cent* of his dues, being Rs.15.78 crore against Rs.17.10 crore of total work done and measured upto 7th RA bill (April 1998). No effective steps for re-starting the work for completion of the project were also initiated by the department, resulting in blocking of funds and non-fulfilment of the basic objective.

Penalty not imposed

7.2.21 As per clause 5.07 of terms and conditions of the agreement, if the contractor failed to complete all items of work within the stipulated period as per contract, the contractor should pay to the department a penalty @ 1/4 *per cent* of the value of the balance work or such smaller amount as the Chief Engineer (whose decision in writing would be final) might decide for each calendar week (7 days) or part thereof of delay in completion from the scheduled completion date or extension thereof subject to a maximum of 10 *per cent* value of the balance incompleted work.

7.2.22 The target date of completion of the work was April 1998. The contractor did not follow the time schedule, and left the work in August 1999 (physical progress - 30 *per cent* of the total work).

7.2.23 Scrutiny of records disclosed that neither the CE decided any rate of penalty in this case nor was the penalty levied on the contractor for delay in completion of the work. Thus, maximum penalty amounting to Rs.2.85 crore, being 10 *per cent* of value of unfinished work of Rs.28.49 crore (Rs.45.59 crore - Rs.17.10 crore) as due was not imposed on the contractor in terms of the agreement.

Security deposit not deducted - an undue benefit to the contractor

7.2.24 The department did not deduct security deposit from the RA bills of the contractor at the stipulated rate of 10 *per cent* subject to maximum limit of Rs.5 lakh (in terms of Para 22.1 of CPWD Manual) on the plea that Rs.5 lakh in fixed deposit receipt (FDR No. 148452/187/95-96 dated 08/11/1995 on UCO Bank), Itanagar were obtained from the contractor in December 1995 as reported by the CE to the divisional authority during February 1995 and January 1996. The division failed to produce or give any clue about the FDR (Rs.5 lakh) received by CE. Thus, whether the department has actually obtained the FDR or not is a matter of doubt.

Materials lying idle/unutilised

7.2.25 Unutilised materials **(Appendix - LIV)** valuing Rs.9.69 crore issued to the contractor between December 1995 to January 1998 are lying at storage site at Kharshang. Materials had been issued to the contractor for the execution of work, and he was the sole custodian till the work was completed and handed over to the department. The contractor has withdrawn all the staff from the storage site, and the materials are lying in open yard with all the risk of damages/deterioration /losses. So far no action plan has been framed for their best utilisation.

Analysis of rates awarded to contractor not furnished.

7.2.26 As envisaged in clause 5.08 of the agreement (March 1995), cement required for foundation and masonry work was to be supplied free of cost by the department, and according to clause 5.10 *ibid* the contractor was required to submit the utilisation statement of cement alongwith RA bills. As per project report based on which the agreement was executed with M/S HHEPL, the rate of reinforced cement concrete work for foundation including shoring and shuttering, etc., was Rs.4365.00 per cum in case of ‘Deomali to Namsai’ and ‘Changlang to Namsai’. In the latter case only it was mentioned that cement was to be issued free of cost. But as per schedule of work, the above rate was Rs.4800.00 per cum. Due to unavailability of analysis of rate for the above item of work, justification of higher rates allowed to the contractor could not be verified by audit. Further the contractor did not submit the utilisation statement alongwith the RA bills and the department made payment without verifying the utilisation statement while passing the bills for payment. In the absence of utilisation statement actual consumption of cement could not be verified in audit.

7.2.27 In the case of the following major items of works, the contractor was allowed to execute work at much higher rate compared to the rate in project report:

Table – 7.12

(Rupees)

Sl. No.	Item of Work	Unit	Rate as per project report	Rate allowed to M/S HHEPL as per contract	Excess in rate over the project report (bracket indicates percents)
1.	2.	3.	4.	5.	6.
1.	Check survey including checking of preliminary profile, tower spotting and peg-marking	km	14550	16000	1450 (9.97)
2.	Concreting of foundation work including shoring, shuttering and form boxed, etc. re-inforced cement concrete of M-15 grade	cum	4365	4800	435 (9.97)

(Rupees)

1.	2.	3.	4.	5.	6.
3.	Protection of tower footings:				
	a) random rubble masonry including shoring and shuttering	cum	1818.75	2000	181.25 (9.97)
	b) stone bound in galvanised wire netting	cum	1455	1500	45 (3.09)
	c) plain cement concrete	cum	2910	3100	190 (6.53)
4.	Tower erection including benching of bolt, nut and mounting of all accessories	MT	5092	5200	108 (2.12)
5.	Stringing of power conductor panther for three phases including fitting and fixing of hardware, etc. including jumpering	circuit km	26190	28500	2310 (8.82)
6.	Stringing of ground conductor including fitting and fixing of hardwares, etc.	km	8730	9500	770 (8.82)

7.2.28 In absence of rate analysis, the reasonableness of awarding the work at higher item rates could not be verified in audit.

Monitoring

7.2.29 A comprehensive system of monitoring is essential for effective control over expenditure as well as smooth implementation of the project. There was total failure of the department from the very inception of the project which was approved by the WAB but ventured for execution without obtaining CEA's approval and without ensuring availability of requisite funds besides administrative approval/technical sanction/expenditure sanction. The project was targeted for completion by April 1998 *i.e.* within 3 years from the date of commencement (20 April 1995) of the work. The progress of the work was too slow throughout the project execution since inception and no work was carried out by the contractor since August 1999. The department temporarily suspended the work since then, reportedly due to paucity of fund despite a time overrun of 4 years till date. The overall progress was only 30 *per cent* as reported by the department in February 2000, but no remedial action was taken till date to remove all such bottlenecks for restarting the work.

7.2.30 Further, though the Deputy Secretary (Power), Government of Arunachal Pradesh framed several charges against the contractor (M/S HHEPL) and others in May 1997 and directly reported the matters to Police (Itanagar PS case No. 73/97 dated 26 May 1997), the contractor was allowed to work even thereafter without any legal/penal action. No follow-up report against those charges was available on records. This indicates total lack of intra-departmental co-ordination besides overall deficiency in monitoring work.

Social objectives were not achieved

7.2.31 The main object of the project was to draw state's share of power from KGBPP and other central sector through the network of PGCIL at 132KV/33 KV sub-station at Deomali for the eastern sector of the State. Due to the failure on the part of the contractor in execution of the work as well as the department's failure in getting administrative approval/technical sanction/ expenditure sanction the completion of the project got delayed and the work was ultimately suspended since August 1999. Resultantly, the social objectives as to (i) availability of cheap power to at least 15.00 lakh people in the backward areas of eastern Arunachal Pradesh (ii) injection of power in the State from KGBPP (iii) boost to agriculture/industries could not be achieved.

7.2.32 Further, due to inadequacy of the transmission network in the State, rural areas are mostly kept under load shedding during peak hours. This is adversely affecting the people who are forced to use alternative means at higher cost. The small scale industries operating in the region are running on their own diesel generation due to shortage of power. KGBPP was commissioned in 1995 by the North Eastern Electric Power Corporation Limited (NEEPCO), but the State Government has not been able to draw power at cheaper rate due to absence of transmission net work from KGBPP to Deomali and from Deomali to Namsai.

7.2.33 Thus, the very purpose of the project to draw and distribute power for economical and industrial development of such backward areas of the State was totally defeated, so much so, the benefits expected to flow out of the project could not be derived at all besides locking up of entire fund of Rs.17.51 crore in the unfinished project.

7.2.34 The foregoing points were reported to the department (March 2002); replies have not been received (December 2002).

SECTION – B – PARAGRAPHS

INDUSTRIES DEPARTMENT

PARASURAM CEMENTS LIMITED

7.3 Loss of finished products

Due to gross negligence of the managements of PCL/APIDFCL, there was loss of Rs.0.28 crore of finished goods

7.3.1 Parasuram Cements Limited (PCL) a subsidiary company of Arunachal Pradesh Industrial Development and Finance Corporation Limited (APIDFCL), had stopped its production since May 1995 when the company had its closing stock of finished goods valued at Rs.0.28 crore. After closing of production, APIDFCL the holding company of PCL had decided to sell out the assets of the company and deployed (August 1996) one Chartered Engineer and Registered Valuer to assess the value of the assets of PCL. The Valuer had submitted its report (September 1996) indicating the value of finished/semi-finished stock as 'nil'. There was no reflection of any sale out of that stock during the period from May 1995 to September 1996 either in cash book or in the general ledger of PCL. Neither PCL, nor APIDFCL had investigated the reasons for missing stock (January 2002). Thus, due to gross negligence of the management of PCL/APIDFC, disappearance of entire stock within a period of almost sixteen months was made possible resulting in loss of Rs.0.28 crore.

7.3.2 Matter was reported to the management/Government in March 2002; reply has not been received (December 2002).

7.4 Shutdown of a company due to mismanagement

Mismanagement led to bankruptcy and closure of PCL with blockage of assets (Rs.1.58 crore) and increased liability (Rs.1.48 crore)

7.4.1 Mention was made in Paragraphs 7.3.1 and 7.3.2 of the Report (1994-95) of the Comptroller and Auditor General of India regarding incurring of infructuous and avoidable expenditure (Rs.12.89 lakh) in respect of M/S Parasuram Cements Limited (PCL) a subsidiary company of Arunachal

Pradesh Industrial Development and Finance Corporation Limited (APIDFCL) which was incorporated on 23 June 1984 with authorised share capital of Rs.45.00 lakh. The plant was established (February 1985) near Tezu with the installed capacity for production of 9000 tonnes of cement per year of 300 days (*i.e.* 30 TPD).

7.4.2 Test check (January 2002) of records (April 1993 - December 2000) of the PCL, presently in the custody of APIDFCL revealed that the plant never achieved the projected utilisation capacity and the target fluctuated between 1 and 41.8 *per cent* during 1984-85 to 1995-96. Further scrutiny disclosed that though the plant started functioning from 1985, most of the staff recruited initially (1983) at high salaries including advance increments in certain cases, were not equipped with adequate knowledge and experience to run the cement plant as reported (October 1995) to the Government by the deputy commissioner (DC) of Lohit district, Tezu who was also functioning as managing director (MD) for PCL. Besides, locational disadvantages and acute shortage of power added further to the sickness of this subsidiary company. Acute financial crunch *vis-à-vis* accumulated liabilities during the years as attributed (October 1995) by the DC-cum-MD to all round mis-management ultimately led to the closure of the plant in May 1995.

7.4.3 In August 1996, the MD of the holding company (APIDFCL) assigned the job for valuation of assets, etc. of PCL to one Chartered Engineer and Registered Valuer (CERV) who submitted (September 1996) his report to the management stating *inter alia* the value of fixed and current assets at Rs.1.67 crore excluding the value of land, staff quarters, office building, etc. against which net liability of the PCL was Rs.1.48 crore. But, still there was no move on the part of the Government/management of the holding company to dispose of the properties as follow-up of CERV's report (September 1996).

7.4.4 The board of directors (BOD) of PCL in their extra-ordinary meeting held on 16 July 1997 had decided to sell out the assets of the PCL at the scrap value of Rs.73.00 lakh which was, not approved by the Government due to non-finalisation of arrear accounts. In January 1998, PCL had implemented one golden handshake scheme (GHS) with retrenchment of all the staff with total payment of Rs.31.62 lakh (GHS: Rs.19.56 lakh; other dues like dearness allowance, bonus, etc: Rs.12.06 lakh) as on 31 December 1996 with the support of loan extended by APIDFCL, but without obtaining any approval of the Government.

7.4.5 Besides, delay in disposal of assets in time, the PCL was not only burdened with huge liability (Rs.148.07 lakh) but the assets worth Rs.158.24 lakh (fixed: Rs.145.64 lakh excluding Rs.8.81 lakh being the cost of land development; current: Rs.12.60 lakh) remained idle for years together on account of lack of an active strategy on the part of both the Government and the management. These idle assets are obviously fraught with the risk of losing their commercial value due to wear and tear with the passage of time.

7.4.6 The matter was reported to the management (APIDFCL)/Government in March 2002; reply has not been received (December 2002).

GEOLOGY AND MINING DEPARTMENT

ARUNACHAL PRADESH MINERAL DEVELOPMENT AND TRADING CORPORATION LIMITED

7.5 Loss due to unauthorised removal of coal

Unauthorised grant of exploration of coal and lack of supervision helped in large scale illegal removal of coal by a private party resulting in a loss of Rs.20.26 lakh

7.5.1 Test check (February 2001) of records of the Arunachal Pradesh Mineral Development and Trading Corporation Limited (APMDTCL) revealed that the Government of Arunachal Pradesh leased out (May 1983) Namchik-Namphuk coalfields measuring 44.032 sq.km to Coal India Limited (CIL) for a period of 30 years. The agreement with Coal India was terminated midway in August 1994, prior to which the State Government already leased out (July 1994) one block of the coal field comprising an area of 4.661 sq.km to APMDTCL for 20 years with the aim of promoting mining activities by the State. At the time of termination of the agreement with CIL in August 1994, the lessee (CIL), handed over to the Government 1460 MT of stacked coal in the extraction site for which, CIL had already claimed (February 1998 and January 1999) Rs.11.62 lakh.

7.5.2 Meanwhile, the managing director (MD) of APMDTCL, permitted (March 1995) one private party *viz*. M/S Donyi Polo Industries (P) Limited (DPIL), Itanagar to carry out detailed exploration work in the coal field. MD had requested the sub divisional officer, Miao for grant of innerline* pass to DPIL to facilitate exploration work. No formal agreement was concluded with the DPIL restraining it from carrying on commercial activity.

7.5.3 The DPIL unauthorisedly mined and removed 1000 MT of coal from the coalfields during 1996, and this fact came to the notice of APMDTCL only in March 1999 when a joint inspection was conducted by the officers of the Department of Geology and Mining and APMDTCL. The inspection revealed large scale mining and theft/transportation of truck loads of coal from the pit head for a considerable period in 1996. The company (APMDTCL) belatedly framed a complaint on 12 March 2000 to lodge an FIR with Kharshang Police Station against DPIL for theft of coal (1460 MT + 1000 MT) but the FIR was not ultimately filed for want of exact address of the Directors of DPIL.

* exploration area where coal mining is done.

7.5.4 The department in reply (September 2001) while admitting the facts of unauthorised removal of coal, stated that the FIR was filed with Police in July 2001 and that the Government had formed (July 2001) a high level committee to know the exact quantity of coal unauthorisedly removed from the coalfields. The reply of the department is, silent on the issue of the MD (APMDTCL) arbitrarily permitting the DPIL to enter into the coal field for unauthorised extraction of coal and also not ensuring any monitoring and supervision of DPIL's activities.

7.5.5 Thus, due to utter laxity on the part of the management, there was illegal removal of coal at least to the extent of 2460 MT attributable to unauthorised grant of permission (March 1995) to the DPIL by the MD causing at least a loss of Rs.20.26 lakh to the State exchequer. The recovery of loss is now remote as the whereabouts of the party are reportedly not known/available with the Government.

POWER DEPARTMENT

7.6 Idle outlay

Issue of work orders for delivery of 41 micro hydel sets without specifying the project sites therein resulted in blockage of Rs.9.88 crore with loss of interest of Rs.7.11 crore.

7.6.1 The Chief Engineer (Power) executed an agreement on turn key basis during 1994-95 with M/S Hydro Power Equipments (HPE), Jorhat for supply, installation and commissioning of 31 micro hydel sets (10,11 & 10 sets of 20 KW, 30 KW & 50 KW respectively) for contract value of Rs.7.95 crore inclusive of all taxes and freight. An amount of Rs.2.00 crore was paid as mobilisation advance (MA) to the contractor during December 1994 against the bank guarantee of equal amount, kept valid only upto 30 June 1998. Approval of Works Advisory Board (WAB) as required under the rules was not obtained. As per further terms and conditions of the contract, 10 to 20 sets were to be supplied per month within 90 days of receipt of order. Besides, the sets were to be supplied FOR destination for installation and commissioning in the project sites.

7.6.2 Test check (December 2001) of records of Bomdila Civil Division (Power Department) revealed that 6 sets of 30 KW and 5 sets of 50 KW were delivered (March 1996) by the firm at the departmental store at Charduar, Jorhat (Assam), as department could not select sites of work. Payment of Rs.1.00 crore was made to the supplier in March 1996. All these sets were lying idle since their procurement at the departmental store (Assam) except 2 sets (50 KW) reported (June 1999) to have been taken by the Yingkiong Division as per Chief Engineer's directive (December 1998). But there was no report as yet on their actual installation/commissioning.

7.6.3 In December 1998, the department in its meeting with the supplier decided to restrict the supply to 11 sets only but no further development was available on records nor reported. The department has also not assessed the estimated expenditure required for transportation, installation and commissioning of these sets in the project sites.

7.6.4 Similarly, 30 micro hydel sets with contract value of Rs.7.70 crore procured at Rs.6.88 crore during January 1995 to October 1997 from M/S M.R. Power Project (MRPP), Guwahati (in terms of approval (July 1994) of the WAB) have also been lying idle in the said departmental store (Assam) without any hope of their installation in the near future. A complaint was reported (June 1999) to have been lodged with the State Police against the firm for forgery and cheating in this case as the firm failed to complete installation/commissioning even of a single set inspite of its commitment (December 1998) to the department.

7.6.5 Thus, due to faulty planning and issue of work orders in haste even before selection of proper sites, Government investment of Rs.9.88 crore remained idle for over 4 to 7 years with the loss of interest of Rs.7.11 crore worked out in audit upto March 2002 at the minimum Government borrowing rate of 11.30 *per cent*.

7.6.6 The matters were reported to the department/Government in March 2002; replies have not been received (December 2002).

7.7 Undue benefit to contractor due to delay in execution of projects

Undue payments of unsecured mobilisation advances (Rs.2.00 crore) followed by further payments of a bill (Rs.24.30 lakh) to a turnkey contractor for completion of 2 hydel projects not only locked up a fund of Rs.2.24 crore but also resulted in loss of interest of Rs.2.13 crore

7.7.1 In March 1993, the Chief Engineer (Power) awarded to M/S Subhash Marketing Corporation Limited, Calcutta the construction works of (i) Kipti Micro hydel project phase II (3x1 MW) for a contract value of Rs.18.34 crore, and (ii) Mukto Micro hydel project (3x1 MW) for a contract value of Rs.11.89 crore on turnkey basis. The scope of works included fabrication, supply, erection and commissioning of electro-mechanical works including related civil works required to complete the projects. As per terms of contract, both the projects were to be taken up in April 1993 and completed by October 1994 failing which penalty upto 10 *per cent* of contract value was realisable from contractor. No clause for realisation of security deposit from contractor was stipulated in the contract to enforce fulfilment of contractual obligations, to ensure timely commissioning of the projects with a view to earning revenue of the Government besides meeting the growing demand of power.

7.7.2 Test check of records (December 2001) of Bomdila Civil Division (Power Department) revealed that the department paid (April 1993) mobilisation advance (MA) amounting to Rs.2.00 crore (Rs.1.00 crore for each project) to the contractor against bank guarantees (BG) of equal amounts which were valid only upto 19/02/1995 and 10/05/1993 respectively. Thereafter, the BGs were not revalidated by the contractor. Further, the contractor who was to submit detailed programmes, indicating various activities involving designs, drawings, etc. within 3 months as per Agreements did not comply with such terms/conditions nor were the works executed so far.

7.7.3 Despite non execution of the contracted works, the divisional officer paid (February 1998) a further amount of Rs.24.30 lakh to the contractor on the basis of certificate of a junior engineer on the bill stating that the power house structure under Kipti project was brought to site. No further progress of work was available on records nor reported by the division in either of the projects indicating total absence of monitoring of the works. Surprisingly, no penal provision of the contract was invoked to levy/realise compensation of Rs.3.02 crore from the defaulting contractor nor was it ensured by the department to get the BGs revalidated in time to recover the dues (MA) from the contractor to safeguard the interest of the Government.

7.7.4 Thus, there were undue payments of MA which remained unsecured besides incurring further idle expenditure of Rs.24.30 lakh on power house structure leaving the works unfinished even after 8 years of execution of turnkey contracts for which compensation of Rs.3.02 crore was not realised from the delinquent contractor. Further, there was also a loss of interest of Rs.2.13 crore at minimum Government borrowing rate of 11.30 *per cent* per annum on locked up fund of Rs.2.24 crore.

7.7.5 The above matters were reported to the department and to the Government in March 2002; replies have not been received (December 2002).

7.8 Undue financial aid and idle outlay

Execution of faulty agreement and lack of monitoring resulted in undue financial benefits to a firm for Rs.2.49 crore in the shape of unadjusted mobilisation advance and transportation charges, and idle outlay of Rs.8.46 crore on materials remaining unutilised for about 5 years, besides loss of interest of Rs.6.18 crore on total investment/outstandings.

7.8.1 The Chief Engineer (Power) floated the notice inviting tenders (NIT) in January 1993 for "Fabrication, supply, erection and commissioning of electro-mechanical works including related civil works for Kush Micro hydel project at Sangram" and entered into an agreement in October 1993 with M/S. Boving Fouress Ltd., Bangalore (firm) being the lowest bidder at total contract value of Rs.16.06 crore on turnkey basis against the firm's offer of Rs.15.99 crore (civil works: Rs.8.08 crore; electro-mechanical works: Rs.7.91 crore) thereby awarding (October 1993) the contract, interestingly, at a higher price of Rs.6.39 lakh for no recorded reasons. The work scheduled to be completed in November 1996, has not yet been completed. Neither the approval nor justification on revision of estimate could, however, be verified from the records made available to audit by Ziro Civil Division (Power).

7.8.2 Test check (June 2001) of divisional records also revealed the following :

(1) The materials worth Rs.8.46 crore was delivered (December 1994 to March 1997) at Lilabari at a distance of about 276 kms from the work site (*viz.* Sangram) as the work site was not ready to be handed over to the firm. The differential transportation charges were estimated at Rs.42.29 lakh against which only Rs.24.41 lakh were recovered (March 1996) leaving a balance of Rs.17.88 lakh remaining unrecovered for which no follow up action was initiated by the department.

(2) Interest free mobilisation advance (MA) of Rs.4.01 crore was paid to the firm in terms of the agreement. Payment of MA was not stipulated in the NIT. Against the MA the firm had pledged a bank guarantee (BG) for Rs.4.01 crore which was reduced from time to time and last BG for Rs.2.06 crore expired on 16 September 1998. The MA unrecovered was Rs.2.31 crore.

(3) The work was awarded (October 1993) on turnkey basis. The firm did not take (July 2001) over the site for starting the work.

7.8.3 Thus, execution of faulty agreement with the firm by the Chief Engineer (Power) and lack of effective monitoring of works resulted in undue financial benefit of Rs.2.49 crore to the firm (MA : Rs.2.31 crore, TC : Rs.17.88 lakh) and idling of materials costing Rs.8.46 crore having been dumped at Lilabari (Assam) since March 1997, besides sustaining loss of Rs.6.18 crore towards interest on total investment/outstandings.

7.8.4 The matter was reported to the Government in July 2001; reply has not been received (June 2002). The department has, however, reported (March 2002) that the matter was under investigation of Central Bureau of Investigation (CBI) and all records had accordingly been seized by the CBI. Further, development is awaited (December 2002).

7.9 Undue financial benefit

Injudicious decision of the department to release the advance in bulk to the supplier resulted in undue financial benefit of Rs.3.93 crore.

7.9.1 On the basis of the firm's request (November 1992) and without invitation of tenders, the Chief Engineer (CE), Power Department placed (February 1993) an order worth Rs.6.94 crore on M/s Jaypee Rewa Cement Company for supply of 30,000 MT of ordinary portland cement conforming to IS-269-1976 specification (@ Rs.2313/- per MT, inclusive of taxes, excise duty and railway freight upto Jogigopa Rail head). The terms and conditions of the order (February 1993) stipulated that advance payment would be made to the extent of 75 *per cent* of the total quantity ordered under programme phasing against bank guarantee (BG) of a scheduled bank for the equivalent amount remaining valid upto 31 January 1994. The balance 25 *per cent* was to be released within 20 days after receipt of railway receipts (RRs) as proof of despatch of cement. It was also stipulated in the order that the delivery schedule would be intimated to the supplier from time to time as per requirements of the department.

7.9.2 Test check (September 2001) of records of the Capital Electrical Division, Itanagar revealed that the department without properly assessing the requirements of cement under programme phasing in terms of supply order (February 1993), placed 7 indents between June 1993 and December 1997 for a total quantity of 22000 MT of cement and made advance payment of Rs.5.20 crore against five BGs furnished in January 1993, being 75 *per cent* of total contract value of Rs.6.94 crore for entire quantity of 30,000 MT of cement (27.02.1993 : Rs.2.00 crore; 20.05.1993 : Rs.3.20 crore) even before such delivery schedule was chalked out which was in violation of terms and conditions of the supply order. The firm supplied only 19,991.90 MT of cement in 10 instalments between August 1993 and March 1999, and the BG had also expired between June 1996 and June 1998 due to lack of effective pursuance on the part of the department. Against this, an amount of Rs.3.73 crore only was adjusted upto 1998-99 leaving the balance of Rs.1.47 crore with the supplier from whom, the balance quantity of 10,008.10 MT

(30,000 MT – 19,991.90 MT) of cement was awaited. No effective steps have been taken for recovery of balance quantity (10,008.10 MT) of cement/unadjusted value (Rs.1.47 crore) of advances.

7.9.3 Thus, (i) injudicious decision on the part of the department to release the advance in bulk to the supplier much ahead of preparation of delivery schedule, instead of paying such advances in phased manner (ii) and failure to get the bank guarantee for the outstanding amount extended resulted in undue financial benefit of Rs.3.93 crore in the shape of unrecovered and unsecured advance (Rs.1.47 crore) since 1998-99 and interest (Rs.2.46 crore) at the minimum rate (11.30 *per cent*) of Government borrowing which the supplier has been enjoying for over last eight years.

7.9.4 The matter was reported to the Government/department in November 2001; their reply has not been received (December 2002).

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