CHAPTER VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

CHAPTER VII : GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

General

This chapter deals with the results of audit of Government companies and Statutory corporations. Paragraph 7.1 gives a general view of Government companies and Statutory corporations. Paragraph 7.2 contains a Performance Review on 'Implementation of Accelerated Power Development and Reforms Programme' (APDRP), by the Meghalaya State Electricity Board' and paragraphs 7.3 to 7.8 deal with other topics of interest.

7.1 Overview of Government companies and Statutory corporations

7.1.1 Introduction

As on 31 March 2007, there were 10 Government companies (all working) and three Statutory corporations (all working) under the control of the State Government as against the same number of working Government companies and working Statutory corporations as on 31 March 2006. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors who are appointed by the

Comptroller and Auditor General of India (CAG) as per the provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619 (4) of the Companies Act, 1956. The audit arrangement of the Statutory corporations is as follows:

Table 7.1

Sl. No.	Name of the corporation	Authority for audit by the CAG	Audit arrangement
1.	Meghalaya State Electricity Board (MeSEB)	Under Rule 14 of the Electricity (Supply) (Annual Accounts) Rules, 1985 read with Section 185 (2)(d) of the Electricity Act, 2003[(1)].	Sole audit by the CAG
2.	Meghalaya Transport Corporation (MTC)	Section 32(2) of Road Transport Corporations Act, 1950	
3.	Meghalaya State Warehousing Corporation (MSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962	Audit by Chartered Accountants and supplementary audit by the CAG

Working Public Sector Undertakings (PSUs)

7.1.2 Investment in working PSUs

As on 31 March 2007, the total investment in 13 working PSUs (10 Government companies and three Statutory corporations) was Rs.1290.34 crore[2] (equity: Rs.389.90 crore; long-term loans[3]: Rs.892.37crore and share application money: Rs.8.07 crore) against the total investment of Rs.896.80 crore (equity: Rs.379.72 crore; long-term loans: Rs.512.92 crore and share application money: Rs.4.16 crore) as on 31 March 2006. The analysis of investment in working PSUs is given in the following paragraphs.

7.1.3 Sector-wise investment in working Government companies and Statutory corporations

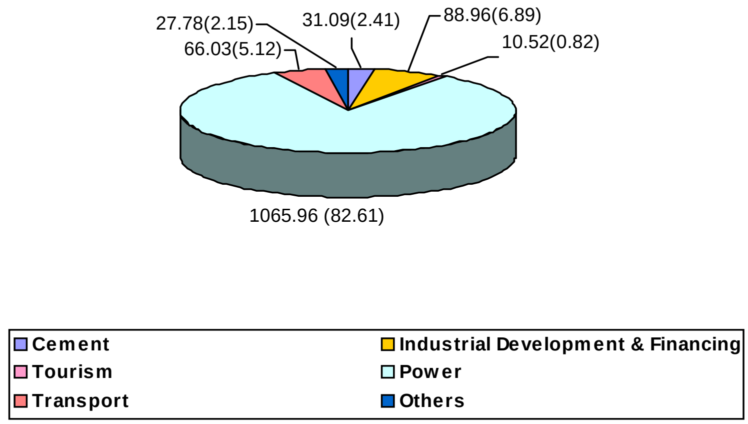
The investment (equity and long term loans) in PSUs in various sectors and percentage thereof at the end of 31 March 2007 and 31 March 2006 are indicated in the pie charts.

(1) The earlier provision of Section 69(2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003.

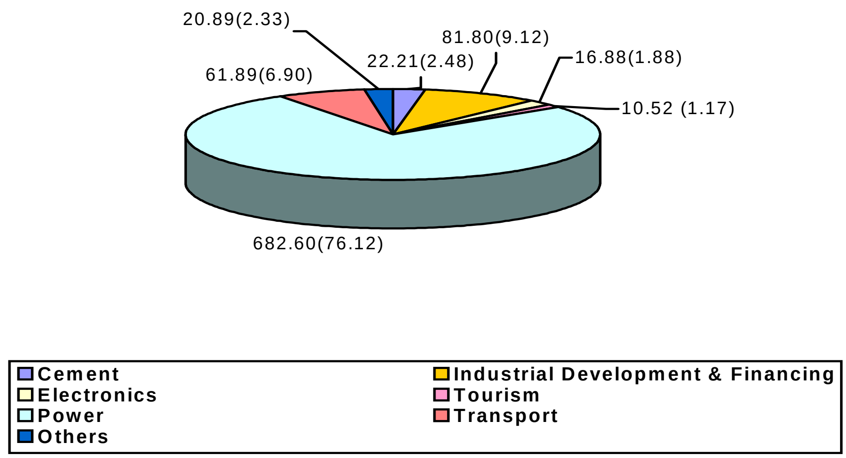
2 State Government's investment was Rs.760.13 crore (Others: Rs.530.21 crore). Figure as per Finance Accounts 2006-07 is Rs.142.48 crore. The difference is under reconciliation.

3 Long term loans mentioned in paragraphs 7.1.2, 7.1.4 and 7.1.5 are excluding interest accrued and due on such loans.

Investment as on 31 March 2007 (Rs.1290.34 crore)
(Figures in brackets indicate percentage of investment)



Investment as on 31 March 2006 (Rs.896.80 crore)
(Figures in brackets indicate percentage of investment)



7.1.4 Working Government companies

The total investment in working Government companies at the end of March 2006 and March 2007 was as follows:

Table 7.2

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2005-06	10	113.28	4.16	32.31	149.75
2006-07	10	119.21	8.07	28.41	155.69

Increase in the total investment was mainly due to increase in the share capital of Meghalaya Industrial Development Corporation Limited.

The summarised statement of Government investment in working Government companies in the form of equity and loan are detailed in **Appendix 7.1.**

As on 31 March 2007, the total investment in working Government companies comprised 81.75 *per cent* of equity capital and 18.25 *per cent* of loans as compared to 78.42 *per cent* and 21.58 *per cent* respectively as on 31 March 2006.

7.1.5 Working Statutory corporations

The total investment in three Statutory corporations at the end of March 2006 and March 2007 was as follows:

Table 7.3

(Rupees in crore)

Name of Corporation	2005-06		2006-07	
	Capital	Loan	Capital	Loan
Meghalaya State Electricity Board (MeSEB)	202.00[4]	480.60	202.00[4]	863.96
Meghalaya Transport Corporation (MTC)	61.90[5]	-	66.03[5]	-
Meghalaya State Warehousing Corporation (MSWC)	2.55	-	2.66[6]	-
Total	**266.45**	**480.60**	**270.69**	**863.96**

The summarised statement of Government investment in working Statutory corporations in the form of equity and loans is detailed in **Appendix 7.1.**

As on 31 March 2007, the total investment in working Statutory corporations comprised 23.86 *per cent* of equity capital and 76.14 *per cent* of loans as compared to 35.67 *per cent* and 64.33 *per cent* respectively as on 31 March 2006.

(4) State Government loan was converted into equity.

(5) Figures for 2005-06 and 2006-07 in respect of MTC are provisional.

(6) Figures for 2006-07 in respect of MSWC are provisional

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

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

The budgetary outgo in the form of equity capital and loans and grants/subsidies from the State Government to working Government companies and working Statutory corporations for the three years up to March 2007 is given below:

Table 7.4

(Rupees in crore)

	2004-05				**2005-06**				**2006-07**			
	Companies		**Corporations**		**Companies**		**Corporations**		**Companies**		**Corporations**	
	No.	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**
1.Equity	2	3.10	2	2.80	1	0.21	2	20.57	3	9.84	2	3.11
2. Loans	-	-	1	25.56	-	-	1	8.52	-	-	1	9.66
3. Grants	2	0.58	-	-	2	0.68	-	-	2	0.60	-	-
4. Subsidy	-	-	2(7)	13.60	1	3.90	2(7)	13.60	-	-	2(7)	27.15
Total outgo	**4(8)**	**3.68**	**2(8)**	**41.96**	**4(8)**	**4.79**	**3(8)**	**42.69**	**5**	**10.44**	**3(8)**	**39.92**

During 2006-07, no fresh guarantee has been given by the State Government against loan raised by the PSUs. At the end of the year, guarantees amounting to Rs.376.90 crore against two working Government companies (Rs.3.26 crore) and one working Statutory corporation (Rs.373.64 crore) were outstanding.

Against guarantees given by the State Government in earlier years to Meghalaya Mineral Development Corporation Limited amounting to Rs.2.33 crore for obtaining loans from other sources, the Company defaulted in repayment of loan of Rs.2.26 crore at the end of 2006-07. At the end of 2006-07, guarantee commission of Rs.12.44 crore (including current year: Rs.3.15 crore) was payable by the Meghalaya State Electricity Board to the State Government.

7.1.7 Finalisation of accounts by working PSUs

The accounts of Government companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 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

(7) Represents subsidy against Rural Electrification losses to Meghalaya State Electricity Board and grants to Meghalaya Transport Corporation for operation of buses on uneconomic routes.

(8) Actual numbers of companies/corporations which received equity/loans/grants/subsidy from State Government during the year.

Legislature within nine months from the end of the financial year. Similarly, in the cases of Statutory corporations, their accounts are to be finalised, audited and presented to the Legislature as per the provisions of their respective statutes.

Out of 13 working PSUs (10 working Government companies and three Statutory corporations), only one Statutory corporation *viz*., Meghalaya State Electricity Board had finalised its accounts for the year 2006-07 within the stipulated period. During the period from October 2006 to September 2007, eight working Government companies finalised eight accounts for the previous years. The remaining two companies did not finalise any of the accounts during this period. During this period, two Statutory corporations *viz.*, Meghalaya State Warehousing Corporation and Meghalaya Transport Corporation finalised their accounts for the years 2005-06 and 2000-01 respectively.

The accounts of 10 working Government companies and two Statutory corporations were in arrears for periods ranging from 1 to 15 years as on 30 September 2007 as detailed below:

Table 7.5

Sl. No.	Number of companies/ corporations		Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Serial No. of Appendix 7.2	
	Govern-ment companies	Statutory corporations			Government companies	Statutory corpora-tions
1.	02	01	2006-07	01	1&10	3
2.	02	-	2005-06 to 2006-07	02	4 & 9	-
3.	01	-	2003-04 to 2006-07	04	5	-
4.	01	01	2001-02 to 2006-07	06	3	2
5.	02	-	2000-01 to 2006-07	07	2 & 7	-
6.	01	-	1999-2000 to 2006-07	08	6	-
7.	01	-	1992-93 to 2006-07	15	8	-

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments of the Government were apprised quarterly by the Audit regarding arrears in finalisation of accounts, no remedial measures had been taken by the Government. As a result, the net worth of these PSUs could not be assessed in audit.

7.1.8 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government companies and Statutory corporations) as per their latest finalised accounts are given in **Appendix 7.2**. Besides, statements showing the financial position and working results of individual Statutory corporations for the latest three years for which accounts are finalised are given in **Appendices 7.4 & 7.5** respectively.

According to the latest finalised accounts of 10 working Government companies and three Statutory corporations, eight companies and two corporations had incurred an aggregate loss of Rs.10.28 crore and Rs.89.96 crore respectively and the remaining two companies and one corporation earned profit of Rs.0.84 crore and Rs.0.05 crore respectively.

Working Government companies

7.1.9 Profit earning working companies and dividend

Out of eight Government companies which had finalised their accounts for previous years during October 2006 to September 2007, only two companies had earned an aggregate profit of Rs. 0.84 crore.

7.1.10 Loss incurring working Government companies

Of the eight loss incurring working Government companies, seven companies had accumulated losses aggregating Rs.64.63 crore which eroded their entire aggregate paid-up capital of Rs.11.73 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to four out of these seven companies in the form of contribution towards equity, grants, *etc.* According to available information, the total financial support so provided by the State Government by way of equity and grant during 2006-07 to these companies amounted to Rs.2.09 crore.

Working Statutory corporations

7.1.11 Profit earning working Statutory corporations and dividend

One Statutory corporation *viz*. Meghalaya State Warehousing Corporation, which finalised its accounts for the previous year, earned a profit of Rs.4.73 lakh and declared dividend of Rs.0.90 lakh during the year.

7.1.12 Loss incurring working Statutory corporations

Meghalaya State Electricity Board and Meghalaya Transport Corporation incurred loss as per their latest finalised accounts and their accumulated losses aggregated to Rs.454.41 crore, which exceeded their paid up capital of Rs.251.29 crore. Despite poor performance and complete erosion of the paid up capital, the State Government continued to provide financial support to these Statutory corporations by way of loan (Rs.9.66 crore), equity (Rs.3 crore) and subsidy/grant (Rs.27.15 crore).

7.1.13 Operational performance of working Statutory corporations

The operational performance of the working Statutory corporations is given in **Appendix 7.6**. Some of the important observations on the operational performance of the Statutory corporations are given below:

Meghalaya State Electricity Board

- The percentage of transmission and distribution losses to total power available for sale increased from 25.97 *per cent* in 2004-05 to 36.84 *per cent* in 2006-07.

Meghalaya Transport Corporation

- Average kilometres covered per bus per day decreased from 135 Km in 1998-99 to 124 Km in 2000-01.
- Loss per kilometre increased from Rs.10.38 in 1998-99 to Rs.26.01 in 2000-01.

7.1.14 Return on capital employed

As per the latest annual accounts of PSUs, the capital employed[9] worked out to Rs.82.38 crore in 10 working companies and total return[10] thereon was (-) Rs.1.95 crore as compared to total return of (-)Rs.2.28 crore in the previous year. Similarly, the capital employed and total return thereon in case of working Statutory corporations as per their latest finalised accounts worked out to Rs.726.97 crore and (-)Rs.65.30 crore respectively against the capital employed of Rs.623.83 crore and return of (-)Rs.17.09 crore in the previous year. The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in **Appendix 7.2**.

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

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

7.1.15 Status of placement of Separate Audit Reports of Statutory corporations in Legislature

The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations as issued by the CAG, in the Legislature by the Government.

Table 7.6

Sl. No.	Name of Statutory corporations	Year up to which SARs placed in the Legislature	Year for which SARs not placed in the Legislature		Reasons for delay in placement in the Legislature
			Year of SAR	Date of issue to the Government	
1.	Meghalaya State Electricity Board	2004-05	2005-06	8 May 2007	Under process of placement to Legislature
2.	Meghalaya Transport Corporation	1999-2000	2000-01	22 September 2007	Under printing
3.	Meghalaya State Warehousing Corporation	2004-05	2005-06	27 July 2007	Under printing

7.1.16 Disinvestments, privatisation and restructuring[11] of Public Sector Undertakings

During 2006-07 none of the Public Sector Undertakings (PSU) has disinvested their shares nor has any PSU been privatised, restructured, merged or closed.

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

During the period from October 2006 to September 2007, the accounts of five working Government companies and three Statutory corporations were selected for audit. The net impact of audit observations as a result of audit of the accounts of these PSUs was as follows:

Table 7.7

Details	Number of accounts		Rupees in lakh	
	Government companies	Statutory corporation	Government companies	Statutory corporations
(i) Decrease in profit	-	-	-	-
(ii) Increase in profit	1	1	17.50	1.16
(iii) Increase in loss	1	1	8.49	950.00
(iv) Decrease in loss	1	2	4.39	2236.18

[11] Restructuring includes merger and closure of PSUs.

Some of the major errors and omissions noticed in the course of audit of annual accounts of Government companies and Statutory corporations are mentioned below:

7.1.18 Errors and omissions noticed in the case of Government companies

Meghalaya Industrial Development Corporation Limited (1999-2000)

- Overstatement of profit by Rs.17.50 lakh due to inclusion of bonus shares received from the assisted units as miscellaneous income instead of accounting under investment.

Meghalaya Government Construction Corporation Limited (2004-05)

- Understatement of loss by Rs.4.39 lakh due to adjustment of advance paid for purchase of vehicle against subsidy.

7.1.19 Errors and omissions noticed in the case of Statutory corporations

Meghalaya State Electricity Board (2005-06)

- Overstatement of income by Rs.1.91 crore due to inclusion of (a) energy charges (Rs.1.82 crore) and (b) rebate received from the contractor (Rs.9.42 lakh) twice in the accounts.

- Overstatement of income by Rs.2.39 crore due to inclusion of compensation bill relating to earlier years in the current year sale of power, raised against Public Health Engineering Department.

- Understatement of income by Rs.2.81 crore due to short booking of sale of power.

- Overstatement of expenditure by Rs.17.58 crore due to inclusion of (a) energy charges (Rs.14.05 crore) and (b) wheeling charges (Rs.3.53 crore) relating to previous years.

- Understatement of expenditure by Rs.4.43 crore due to non-accountal of (a) Income Tax re-imbursement claim (Rs.1.02 crore); (b) Fuel Price adjustment bill (Rs.1.61 crore); and (c) fees and charges (Rs.1.80 crore) payable to PGCIL for unified Load Despatch & Communication Scheme.

Meghalaya Transport Corporation (2000-01)

- Understatement of loss by Rs.40 lakh due to non-provision of penal interest payable to CPF authorities for non-payment of employer and employee's contribution.

7.1.20 Audit assessment of working results of Meghalaya State Electricity Board (MeSEB)

Based on the audit assessment of the working results of MeSEB for three years up to 2005-06 and taking into consideration major irregularities and omissions pointed out in SARs on the annual accounts of the MeSEB and not taking into account the subsidy/subventions receivable from the State Government, the net surplus/deficit and the percentage of return on capital employed of the MeSEB would be as follows:

Table 7.8

(Rupees in crore)

Sl. No.	Particulars	2003-04	2004-05	2005-06
1.	Net surplus (+)/deficit (-) as per books of accounts	(-) 18.31	10.95	(-) 57.07
2.	Subsidy from the State Government	10.35	10.80	10.80
3.	Net surplus (+)/deficit (-) before subsidy from the State Government (1-2)	(-) 28.66	0.15	(-) 67.87
4.	Net increase/decrease in net surplus (+)/deficit (-) on account of audit comments on the annual accounts of the MeSEB	(-) 14.61	(-) 16.27	(-) 13.62
5.	Net surplus (+)/deficit (-) after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-) 43.27	(-) 16.12	(-) 84.49
6.	Total return on capital employed	(-) 13.08	(-) 37.07	(-) 12.50
7.	Percentage of total return on capital employed	--	--	--

7.1.21 Persistent irregularities and system deficiencies in financial matters of PSUs

The following persistent irregularities and system deficiencies in the financial matters of the two Statutory corporations had been repeatedly pointed out during the course of audit of their accounts but no corrective action has been taken by these PSUs so far.

Meghalaya State Electricity Board

- Age-wise analysis of receivables has not been made.
- Subsidy registers for purchases, advances, *etc.* remained un-reconciled with the financial records.
- Stores ledger remains incomplete and Priced Stores Ledger has not been properly maintained.
- Assets were not physically verified.

Meghalaya Transport Corporation

- The details of opening balance, consumption and closing balances in respect of stores, tyres and tubes were not furnished. The manner in which the value of above stocks and consumption were assessed has not been furnished to Audit.
- The opening and closing balances of stationery and forms and tickets were not assessed and accounted for.
- Party-wise ledger for Sundry Creditors has not been maintained.
- Fixed assets and the land holding have not been physically verified by the Corporation.

7.1.22 Internal audit / Internal control

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit/internal control systems in the companies audited by them in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which need improvement.

- The Statutory Auditors in their reports qualified that in three[12] companies no internal audit system exists or that internal audit is not commensurate with the size and nature of business of the companies.
- The internal control procedure was inadequate especially with regard to purchase of raw materials in Meghalaya Electronics Development Corporation Limited.

7.1.23 Response to inspection reports, draft paragraphs and reviews

Audit observations made during local audit and not settled on the spot are communicated to the heads of PSUs and concerned heads of departments of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through the respective heads of departments within a period of six weeks. Inspection reports issued up to March 2007 pertaining to 13 PSUs/Departments disclosed that 219 paragraphs relating to 56 inspection reports remained outstanding up to September 2007**.** Of these, 20 inspection reports containing 33 paragraphs had not been replied to for more than three years. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2007 is given in **Appendix 7.7.**

Similarly, draft paragraphs and reviews on the working of the Government companies and Statutory corporations are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-

[12] Mawmluh-Cherra Cements Limited, Meghalaya Electronics Development Corporation Limited and Forest Development Corporation of Meghalaya Limited.

officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Six draft paragraphs and one performance audit review were forwarded to Power, Transport, Industries and Mining and Geology departments during April to August 2007. Replies to two draft paragraphs (**Appendix 7.8**) have not been received (February 2008).

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

7.1.24 Position of discussions of Commercial Chapters of Audit Reports by the Committee on Public Undertakings (COPU)

The following table indicates the details regarding number of reviews and paragraphs as appearing in the Audit Reports and discussed by COPU by the end of 30 September 2007:

Table 7.9

Period of Audit Report	Total number of reviews and paragraphs appeared in Audit Report		Number of reviews and paragraphs discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
1984-85	3	3	2	2
1985-86	1	3	1	--
1986-87	1	3	--	1
1987-88	1	4	--	1
1988-89	1	4	1	1
1989-90	1	4	1	1
1990-91	2	4	--	2
1991-92	1	4	--	1
1992-93	1	4	--	--
1993-94	1	4	1	--
1994-95	2	4	--	--
1995-96	1	4	--	--
1996-97	1	4	--	--
1997-98	1	4	--	1
1998-99	1	2	--	--
1999-00	2	7	--	2
2000-01	2	4	--	--
2001-02	1	6	1	1
2002-03	1	4	--	3
2003-04	1	5	--	--
2004-05	1	3	1	--
2005-06	1	3	-	-
Total	**28**	**87**	**8**	**16**

7.1.25 619-B Companies

There was one non-working company within the purview of section 619-B of the Companies Act, 1956. The table given below indicates the details of paid-up capital and working results of the company based on its latest available accounts.

Table 7.10

(Rupees in crore)

	Year of accounts	**Paid up Capital**	**Investment by**			**Profit (+)/ Loss (-)**	**Accumulated Profit (+)/ Loss (-)**
			State Govern-ment	**Govern-ment Companies**	**Others**		
Meghalaya Phyto Chemicals Limited	1984[13]	0.75	…	0.54	0.21	(-) 0.66	(-) 2.20

[13] The Company is defunct and thus, in absence of management no accounts after 1984 (Calendar year) have been compiled.

SECTION 'A': PERFORMANCE REVIEW

POWER DEPARTMENT

MEGHALAYA STATE ELECTRICITY BOARD

7.2 Implementation of Accelerated Power Development and Reforms Programme

Highlights

Non-release of matching contribution of Rs.13.23 crore by the State Government resulted in non-receipt of grant amounting to Rs.46.48 crore from the union Ministry of Power (MOP).

(**Paragraph 7.2.8**)

Delayed release of funds by the State Government to the Board has attracted penal interest liability of Rs.3.58 crore.

(**Paragraph 7.2.8**)

The board incurred extra expenditure of Rs.3.39 crore on the procurement of components not provided in the Detailed Project Reports.

(**Paragraphs 7.2.13 and 7.2.14**)

The Board incurred additional expenditure of Rs.6.46 crore on the procurement of major components at the rates higher than the issue rates of these components from its own stores.

(**Paragraph 7.2.18**)

7.2.1 Introduction

The Union Ministry of Power (MOP) launched (February 2001) Accelerated Power Development Programme (APDP), which was rechristened (March 2003) as Accelerated Power Development and Reform Programme (APDRP) to leverage the reforms in power sector through the State Governments. APDRP envisaged upgradation of sub-transmission and distribution system (33KV and below) including energy accounting and metering and to encourage/motivate utilities to reduce total losses by providing incentives for which financial support was being provided by the Government of India (GOI).

The main objectives of the APDRP are to:

- reduce Aggregate Technical and Commercial (AT&C) losses;
- improve financial viability of the power sector;
- improvement in quality and reliability of power supply; and
- increase consumer satisfaction.

The MOP entered (November 2002) into a Memorandum of Agreement (MOA) with the State Government for implementation of APDRP in the State. Subsequently, Meghalaya State Electricity Board (Board) signed (March 2003) a Tripartite Agreement with the MOP and the State Government to affirm joint commitment of the two parties to reform the power sector in the State and set out reform measures. The funds from MOP were to be released to the Board through the State Government. Power Grid Corporation of India Limited (PGCIL), the lead Adviser-cum-Consultants (AcCs) under the overall guidance of MOP was to monitor the implementation of the programme in the State.

In order to oversee the implementation of APDRP, the Chairman of the Board is assisted by the Chief Engineer (Distribution), designated as Nodal Officer. The Chief Engineer (Distribution) is assisted by Chief Executive Officers at the level of Superintending Engineer in seven[1] APDRP circles and Executive Engineers in 17 Divisions.

7.2.2 Scope of audit

The performance review was conducted in September/October 2006 and June/July 2007 with a view to assess the performance of the Board during 2000-07 in conceptualization and implementation of APDRP and its achievements with reference to the targets set in the programme. The records of six[2] circles (estimated cost of Rs.132.83 crore-58.40 *per cent*) out of seven circles (estimated cost - Rs.227.43 crore) along with the records of two sub-transmission and distribution projects (selected on the basis of work completed in two distribution circles- Shillong and Western) were examined during performance audit.

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[1] Shillong, Tura, Jowai,Western, Central, Eastern and Garo Hills circles

[2] Shillong, Western, Jowai circles, SCADA/DMS Shillong, Central circle and SCADA/DMS, Western circle

7.2.3 Audit objectives

The performance review of implementation of APDRP by the Board in the State was conducted with a view to ascertain whether:

- Detailed Project Reports (DPRs) were prepared realistically to achieve the programme objectives;
- requirement of funds was assessed realistically; the funds were sanctioned and released in time at all levels and the funds were utilised efficiently, economically and effectively;
- implementation of various schemes, sub-schemes was carried out as per the guidelines of the reform programme efficiently, economically and effectively;
- the programme had provided for an effective and working monitoring mechanism at all levels;
- an effective and efficient system of evaluation was evolved for assessing the achievements with reference to the results envisaged in action plan;
- aggregate Technical and Commercial (AT&C) losses were reduced in accordance with action plan and targets; and
- the commitments agreed to in the MOA with the MOP and the objectives of the programme as given in the DPRs were achieved.

7.2.4 Audit criteria

The following audit criteria were used in the performance audit:

- Targets and benchmarks laid down in the Memorandum of Understanding (MOU) and MOA, guidelines issued by the MOP and the State Government;
- Terms and conditions set out by the MOP/State Government while releasing the funds;
- Projections/targets set out in DPRs; and
- Terms and conditions stipulated in various work orders and contracts, *etc*.

7.2.5 Audit methodology

The methodology adopted for the performance audit were examination of:

- benchmark/condition of MOU and MOA and guidelines issued by MOP/State Government;
- policy formulated by the Board for implementation of the programme;
- DPRs, Bid Documents, Tender proposals, minutes of meetings of the Technical and Commercial Evaluation Committee (TEC), records relating to implementation of projects;
- system of monitoring, internal controls and MIS reports; and,
- issue of audit queries and interaction with the Management.

Audit findings arising from the performance review were reported (November 2006/August 2007) to the Department of Power, Government of Meghalaya and also discussed (December 2006/October 2007) in the exit conference attended by the Principal Secretary and Commissioner, Department of Power, Government of Meghalaya, Member (Technical) and Chief Engineer (Distribution) of the Board. The views expressed by the members in the meetings and the reply (October 2007) of the State Government have been taken into consideration while finalising the review. The Audit findings are discussed in the succeeding paragraphs.

Audit findings

7.2.6 Funding Pattern

As per MOA, the funds were to be provided by the MOP in respect of Special Category States (Meghalaya being a Special Category State) through a combination of grants at 90 *per cent* and balance 10 *per cent* as soft loans to the State Governments. However, the loan component of 10 *per cent* for Special Category States stood dispensed (November 2005) with. The modalities for release of funds for Special Category States were as under:

- 30 *per cent* of the Project Cost –up front on approval of project under APDRP.
- After spending 30 *per cent* of the project cost, next tranche of 40 *per cent* would be released.
- Release of 10 *per cent* of the project cost by FIs/own resources.
- After spending 80 *per cent* of the project cost (70 *per cent* released by Government of India and 10 *per cent* by FIs), next tranche of 20 *per cent* to be released by GOI.

7.2.7 Project cost and finance

Power Grid Corporation of India (PGCIL), as Advisor cum Consultant (AcC) was entrusted with assessing and identifying deficiencies in the technical as well as commercial areas, based on data of the existing network as submitted by the Board. DPRs were prepared (October 2002 to November 2004) by PGCIL and were approved (November 2002 to March 2005) by the MOP for a total outlay of Rs.227.43 crore for execution of the projects in seven circles of the State. The MOP released (January 2003 to September 2006) funds amounting to Rs.90.44 crore (39.77 *per cent*) up to March 2007 to the Board through the State Government. The Board had incurred expenditure of Rs.86.20 crore (37.90 *per cent* of estimated cost) up to March 2007. Although, MOP approved DPR/estimated cost circle-wise, it released the funds on lump-sum basis without bifurcation for each circle. Hence, physical targets to be achieved in each circle against funds released could not be ascertained.

7.2.8 The general terms and conditions issued (June 2003) by MOP for utilisation of funds, *inter alia,* included that:

- utilities shall open a separate bank account in the first instance itself in a scheduled/nationalized bank for the purpose of implementing the scheme under APDRP. Funds from the Government/ internal resources or loans from FIs earmarked for the purpose shall be credited to this account;

- the State Government shall release the funds provided under APDRP to the State power utility within a week of the said amount being credited in the State Government account by the MOP otherwise it will be treated as diversion of funds;

- the funds received under APDRP shall not be diverted for other purposes either by the State Government or utilities. Otherwise the equivalent amount would be adjusted with 10 *per cent* penal interest against next instalment of Central Plan Assistance to the State Government.

Audit scrutiny revealed the following:

- The Board did not open separate bank account on receipt of funds for APDRP till September 2007. The funds received through the State Government were credited to the principal accounts of the Board till September 2007. In the absence of separate account of APDRP funds, the utilisation of funds, balance remaining unutilised, funds utilised from internal sources, *etc*. were not susceptible for verification in audit.

Non-release of matching contribution of Rs.13.23 crore by the State Government resulted in non-receipt of grant amounting to Rs.46.48 crore from the MOP.

- As per the funding mechanism, 90 *per cent* of the project cost was to be released by MOP by way of grant and 10 *per cent* of the project cost was to be arranged by the State Government from FIs or from own resources. Therefore, release of funds by MOP was based on the arrangement of matching funds by the State Government and furnishing utilisation certificate for the amount spent. It was, however, observed that, neither the State Government mobilised 10 *per cent* of the project cost nor furnished the Utilisation Certificate for Rs.86.20 crore spent during 2003-07 on APDRP scheme. Consequently, the Board could not avail the grants of Rs.46.48 crore from MOP as the State Government did not provide matching funds of Rs.13.23 crore **(**as detailed in **Appendix 7.9).** This in turn adversely affected the progress of works. It is pertinent to mention that MOP released (September 2006) Rs.32.07 crore as against the State Government's request for release of Rs.36 crore, since the State Government did not provide matching fund. Further, an amount of Rs.6.15 crore (from the advance of Rs.7.92 crore paid to PGCIL for implementation of SCADA/DMS in Western and Shillong Circles) was temporarily diverted (2005-07) by PGCIL for execution of ongoing APDRP Schemes in Jowai and Western Circles.

  The Government stated (October 2007) that it had agreed in principle to release Rs.10 crore as matching funds. The fact remains that the delay in release of matching contribution by the State Government has resulted in less release of funds by MOP which in turn had effected timely completion of schemes under APDRP.

Delayed release of funds by the State Government has attracted penal interest liability of Rs.3.58 crore and also adversely affecting the progress of works.

- The State Government released (May 2003 to December 2006) funds amounting to Rs.90.44 crore to the Board after a delay of 2 to 10 months from the date of receipt of funds from MOP in violation of the terms and conditions of release of funds. This resulted in diversion of funds, thereby attracting penal interest of Rs.3.58 crore (**Appendix 7.10**) and also adversely affecting the progress of APDRP works.

  The Government stated (October 2007) that the transfer of funds involved certain procedure such as referring the schemes through the Departmental Committee of the Planning and Finance Department and hence there was some delay. It, however, assured that in future care would be taken to transfer funds to the Board within the specified period.

7.2.9 Implementation of the Programme

Implementation of the schemes in seven circles was to be done as per the approved DPRs. The DPRs prepared (October 2002 to November 2004) by PGCIL in respect of the following four packages for each circle were approved (November 2002 to March 2005) by the MOP.

Table 7.11

(Rupees in crore)

Sl. No.	Name of Package	Scope of work	Estimated cost
1.	Package A	System metering, consumer metering, Meter test bench, Mapping & indexing of consumers network and computerisation/data logging	37.95
2	Package B	Revamping of sub-stations and Revamping of Distribution sub-station	59.47
3	Package C	Reconductoring/New lines/ feeder bifurcation	67.92
4	Package D	R&M of existing DTs, new DTs, LT capacitors and associated HT and LT lines	22.98
Total			**188.32**

Source: Data provided by the Board

A separate Package E, {Supervisory Control and Data Acquisition (SCADA)/ Distribution Management System (DMS)} was prepared (June 2004) by PGCIL for computerized billing, collection, computerized customer care centre and communication system in respect of Shillong and Western Circles. This package was approved (September 2004/March 2005) by MOP at an estimated cost of Rs.39.11crore.

7.2.10 The circle-wise expenditure/ percentage of expenditure incurred (up to March 2007) as compared to the estimated cost are given in the following table.

Table 7.12

(Rupees in crore)

Name of circle	Date of approval by MOP	Estimated cost	Cumulative expenditure (up to March 2007)	Percentage of expenditure to the estimated cost	Status of work (up to March 2007)
Shillong circle	November 2002	15.70	15.31	97.52	completed
Tura circle	November 2002	6.77	5.74	84.79	in progress
Western circle	November 2002	15.97	12.85	80.46	in progress
Jowai circle	May 2003	2.52	2.20	87.30	completed
Central circle	September 2004	59.53	25.67	43.12	in progress
Garo Hills circle	September 2004	36.21	13.28	36.67	in progress
Eastern circle	September 2004	51.62	3.15	6.10	in progress
SCADA/DMS Shillong	September 2004	21.12	4.32	20.45	in progress
SCADA/DMS Western	March 2005	17.99	3.68	20.45	in progress
Total		**227.43**	**86.20**	**37.94**	

Source: Data provided by the Board.

It can be seen from the above table that the APDRP works could be completed only in two (Shillong and Jowai) circles by March 2007 and the works in respect of other circles were in progress. The details of circle-wise progress of works are given in **Appendix 7.11.** As per approved DPRs, the works were to commence within six months from the date of approval of MOP and were scheduled to be completed within 24 months from the date of commencement of work. Accordingly, the entire works of APDRP were to be completed by September 2006 in seven circles and SCADA/DMS works by September 2006/March 2007. It can, however, be seen from **Appendix 7.11** that the works in two (Shillong and Jowai) circles could be completed after a delay of one year. The works in respect of other circles are still under progress. The main reasons for delay in execution of works, as analysed by audit, were due to

- delay in release of funds/non-providing of matching funds by the State Government.

- more than one year was taken by the Board to finalise (July/September 2004) the contracts in respect of Shillong and Tura, Jowai and Western circles as the rates obtained in the tenders were much higher than the estimated cost.

- more than two years were taken by the board in finalising (February 2006/September 2006) contracts for Central, Eastern and Garo hills Circles due to delay in release of funds by the State Government.

Thus, delay in completing the works in time had deprived the State of the benefits envisaged in APDRP scheme.

7.2.11 Non-involvement of AcCs in Tendering process

The MOP had indicated (June 2003) that in respect of APDRP tenders, the bid opening statement and its evaluation reports should be forwarded to the MOP or its assigned representative prior to placement of the orders. However, PGCIL, lead AcCs, were not involved with the tendering process and techno-commercial bid evaluation and as such invitation of bids, their evaluation and award of work was being done by the Board. Non-involvement of AcCs resulted in the following deficiencies:

- in contravention of APDRP guidelines for executing works on turnkey basis, the Board executed works valuing Rs.37.20 crore departmentally (paragraph 7.2.12), thereby losing advantage of firm prices, avoidable delays in tendering process, *etc*.

- The Board failed to adhere to the technical specifications, scope of work and quantity as specified in the DPRs (paragraphs 7.2.13 to 7.2.16, 7.2.18 to 7.2.21)

The Government stated (October 2007) that PGCIL was involved in the tendering process as and when required. The reply is not acceptable as the fact that non-adherence of the technical specifications in procurement of consumer meters, meter test benches, reduction in scope of work in number of packages though specified in the DPRs and deviation from the original estimates proved that PGCIL was not involved in tendering process.

7.2.12 Non-Implementation of projects on turnkey basis

As per the guidelines issued (June 2003) by MOP and subsequent modifications, the Board was to implement the projects sanctioned under the APDRP, on turnkey basis, through pre-qualified turnkey contractors, selected on competitive basis to ensure quality and maintain a rigid completion schedule for identification of single point responsibility for execution. The Board, however, over-looked the above facts and decided to execute the works valuing Rs.37.20 crore (as detailed in **Appendix 7.12**) departmentally in six circles[3].

The Government stated (October 2007) that as there was poor response to the tenders invited for allotment of works on turnkey basis and the works were to be completed within the time schedule, some of the APDRP packages were, with the approval of the members of the Board, undertaken departmentally instead of turnkey basis. The reply is not tenable as the execution of works on turnkey basis is time saving, cost effective because work is awarded as a complete package, less time is required for coordination and contractor is responsible for any failure. The fact is that there were substantial delays in completing works executed departmentally.

Procurement of material/equipment

7.2.13 Extra expenditure on procurement of electro mechanical meters

For replacement of defective meters, the DPR provided for 36,528 electronic meters without meter box for Central circle. The Board placed (February 2006) orders on Lotus Wires & Cables (LW&C), Delhi, on turnkey basis, for supply and erection of:

The Board incurred extra expenditure of Rs.2.17 crore on procurement of electro-mechanical energy meters not provided in the DPR.

- 25,570 electro mechanical energy meters with meter box at a cost of Rs.5.53 crore (at an average rate of Rs.2,162 per meter) instead of electronic meters mentioned in the DPR, and
- balance 10,958 electronic meters with meter box at a cost of Rs.1.44 crore (at the average rate of Rs.1,312 per meter) as provided in the DPR.

Comparing the rates of electronic meters with the rates of electro-mechanical meters, the Board incurred avoidable expenditure of Rs.2.17[4] crore on procurement of electro mechanical meters, contrary to specifications provided in the DPR. It was noticed that PGCIL, which had prepared the DPR, were also not consulted before procuring electro-mechanical meters.

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[3] Shillong,Tura, Jowai, Western, Central and Garo Hills.

[4] Rs.2162 – Rs.1312= Rs.850 x 25570 = Rs.2.17 crore.

The Government stated (October 2007) that there were very few manufacturers manufacturing quality electronic meters and most of the manufacturers were using cheap and lower quality chips. Further, it was stated that major utilities like the Gujarat State Electricity Board and the Kolkata Electricity Supply Corporation were using electro mechanical meters. The reply is not tenable as the MOP approved DPRs provided for only electronic meters for replacement of defective meters. Further, the Board had placed orders for electronic meters for partial quantity from the same supplier for the same circle and also placed orders for electronic meters for other circles. Further, by spending more amount on one work of the scheme, the other works would have suffered for want of sufficient funds.

7.2.14 Extra expenditure on supply and erection of fully automatic meter test benches in Shillong, Tura and Eastern Circles

The Board incurred extra expenditure of Rs.1.22 crore on the procurement of fully automatic meter test benches not provided in the DPRs.

The DPRs provided for erection of semi automatic meter test bench for six circles at the rate of one number for each circle at the estimated cost of Rs.10 lakh per bench. Instead of ordering for semi automatic meter test bench, the Board placed orders for three fully automatic meter test bench for three circles and semi automatic meter test bench for other three circles as detailed in the following table:

Table 7.13

Sl. No.	Name of the circle	Specification for which meter test bench was ordered	Name of the supplier	Date of work orders	Cost (Ex-works) Rupees in lakh	Total contract price (including ED, ST, F&I and Erection) (Rupees in lakh)	Month of commissioning
1.	Shillong	Fully automatic	M/s C.G. Actaries Electrical Management Ltd, New Delhi	July 2004	44.68	46.91	April 2005
2.	Tura	Fully automatic	M/s C.G. Actaries Electrical	July 2004	44.68	46.91	April 2005
3.	Jowai	Semi automatic	M/s Contimeters Electricals, Delhi	September 2004	21.00	21.50	May 2006
4.	Western	Semi automatic	M/s Contimeters Electricals, Delhi	September 2004	21.00	21.50	May 2006
5.	Central	Semi automatic	M/s Lotus Wires and Cables, Delhi	February 2006	14.75	17.48	July 2007
6.	Eastern	Fully automatic	M/s Lotus Wires and Cables, Delhi	September 2006	76.01	89.07	Yet to be commissioned

Source: Data provided by the Board

The commissioning/ordering of fully automatic meter test bench for Shillong, Tura and Eastern Circles, was contrary to specifications provided in the DPRs. It was noticed that PGCIL was not consulted during the tendering process before taking a decision to procure fully automatic meter test benches. Thus, the Board incurred extra expenditure of Rs.1.22 crore[5] on the procurement of three fully automatic meter test benches as compared to the rates of semi automatic meter test benches commissioned in Western, Jowai and Central Circles.

Further, semi automatic meter test benches commissioned in Jowai, Western and Central circles were free from trouble and were performing well. Whereas fully automatic meter test benches commissioned in Shillong and Tura circle had persistent problems (even after incurring of expenditure of Rs.2.75 lakh on repairs) of continuous fluctuation below and above the tolerance limit. The results of test depicted in the test bench screen were unstable, two or more of three phase meters could not be tested at a time, despite having a capacity of positioning of ten meters, *etc*. One of the components *viz*. SGQ units was required to be repaired in Spain by the supplier.

The Government, while admitting that DPRs provided for semi automatic meter test bench, stated (October 2007) that orders were placed for fully automatic meter test bench as it satisfied the technical specification with 0.05 class accuracy as per sample test report furnished by the supplier. The reply is not tenable as semi automatic meter test bench also satisfied the technical specification parameters specified in the bidding documents with 0.1 class accuracy. Moreover, sample test reports of fully automatic meter test bench revealed that the average accuracy ranged between 0.64 and 0.90, which could be done with semi automatic meter test bench. Therefore, the investment of huge amount on fully automatic meter test bench was not prudent especially when semi automatic meter test benches commissioned in Jowai, Western and Central circles fulfil the technical specifications as provided in DPR and met the requirement of the Board.

7.2.15 Payment at higher rates on the supply of energy meters

For replacement of defective meters, DPRs provided for electronic meters without meter box. The Board, however, placed (July 2004) orders on Secure Meters Ltd., Udaipur, on turnkey basis, for supply and installation of static/electronic meters with meter box for Shillong and Tura circles. The rates finalised (July 2004) by the Board was Rs.971 for single phase meters and Rs.5,809 for three phase meters.

It was noticed that PGCIL awarded (September 2004) the contract to Contimeters Electrical Pvt. Ltd., Delhi on turnkey basis at the rates ranging between Rs.300 to Rs.320 for supply of single phase meter without meter box and Rs. 4,200 for three phase meter without meter box, as per specifications (similar to those provided for Shillong and Tura circle except meter box) provided in the DPR for Western and Jowai circles. Further, there were no complaints on performance of the meters ordered by PGCIL for Western and

[5] Rs. 46.91lakh – 21.50 lakh = Rs.25.41 lakh x 2 Nos = Rs.50.82 lakh + Rs.71.59 lakh (Rs.89.07 lakh– Rs.17.48 lakh) =Rs.122.41 lakh or **Rs.1.22 crore**.

Jowai circles. Compared to the rates finalised by PGCIL with those of the rates finalised by the Board for Shillong and Tura circles, the Board incurred extra expenditure of Rs.38.29 lakh[6].

The Government stated (October 2007) that the lowest tenderer was selected, on turnkey basis, for the whole package irrespective of the rates quoted for each item and hence rates for particular item in one package cannot be compared to the rates of the same items in a different package. It was further stated that turnkey project do not have the flexibility for negotiation with the lowest bidder. The reply is not tenable as the Board should have evolved a rate contract system for procurement and installation of meters for all circles as per the terms and conditions of MOA for getting the benefit of competitive rates on larger quantities.

7.2.16 Erection charges

Besides finalisation of higher rates for supply of energy meters for Shillong and Tura circles, the Board also finalised (July 2004) the contracts for erection of energy meters at higher rates of Rs.296 for single and Rs.1,072 for three phase meters in Shillong and Tura circles. Whereas, PGCIL finalised (September 2004) rates for erection charges at Rs.150 for single phase meter and at Rs.400 for three phase meters in Jowai and Western circles. Compared to the rates of PGCIL, the Board incurred avoidable expenditure of Rs.10.43 lakh[7].

The Government stated (October 2007) that the tendering process was conducted at different points of time and therefore question of following PGCIL rates did not arise. The reply is not tenable as the rates finalised by the Board were much higher than the rates finalised by PGCIL during the same period.

7.2.17 Meter testing charges

In contract for package A, the scope of the work, inter alia, included design, engineering, testing and supply of specified material/make. However, Secure Meters Ltd furnished test report only for three phase meters and did not furnish test report in respect of 4,200 single phase meters procured for Shillong and Tura Distribution circles. These meters were tested only in Meter Test Laboratory of the Board for which it did not collect meter testing charges amounting to Rs.1.05 lakh (at the rate of Rs.25 per meter being charged for meter testing). In respect of Central circle also, 36528 single phase meters were tested in Meter Test Laboratory of the Board, for which it did not collect meter testing charges amounting to Rs.9.13 lakh.

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[6] Rs.971-Rs.300=Rs.671 x 2697 Nos+
Rs.971-Rs.310=Rs.661 x 1117 Nos+
Rs.971-Rs.320=Rs.651 x 386 Nos+
Rs.5809-Rs.4200=Rs.1609 x 640 Nos =**Rs.38.29 lakh**

[7] Rs.296-Rs.150=Rs.146 x 4200 Nos +
Rs.1072-Rs.400=Rs.672 x 1072=Rs.10.43 lakh.

The Government, while admitting the facts that only three phase meters were tested in the presence of the Board's engineers at the factory premises of the supplier, stated (October 2007) that testing of single phase meters in the presence of the Board's engineers at the factory premises of the supplier had been waived off since the Board found testing methods and facilities as satisfactory. Since testing of single phase meters was conducted at Meter Test Laboratory of the Board and testing in the presence of the Board's engineers at the factory premises had been waived off, the Board should have collected meter testing charges amounting to Rs.10.18 lakh from the suppliers.

7.2.18 Additional expenditure due to award of turnkey contract at higher rates

The Board incurred additional expenditure of Rs.6.46 crore due to its failure to negotiate the rates quoted in turnkey contract to bring them at par with the issue rate of its own stores.

The Board awarded (August 2004) contract, on turnkey basis, to Mahati Electrics, Pune for supply and erection of renovation and modernisation (R & M) of existing DTs, providing of new DTs, Low Tension (LT) capacitors *etc*. at a total contract price of Rs.5.49 crore for package 'D' in Shillong circle.

For reconductoring, feeder bifurcation and construction of new feeders under package 'C', the Board awarded (February/September 2006) the contracts, on turnkey basis, to Upendra Nath Saha, Tura at a contract price of Rs.14.10 crore for Garo Hill circle and to Marbaniang Enterprise, Shillong at a contract price of Rs.21.42 crore for Eastern circle. Scrutiny of records revealed that the prices finalised in turnkey contracts were more than the issue prices notified by the Board from time to time in respect of major components (*viz* conductors, steel tubular poles, transformers, *etc*.) for departmental works. Compared to the issue rates of the Board with the rates of turnkey contracts, the Board incurred additional expenditure of Rs.6.46 crore on procurement of major items as detailed in **Appendix 7.13**. This clearly indicated that the proper evaluation of the tenders was not done and efforts were not made to bring down the rates to the level of issue rates of the Board. Further, PGCIL was not involved as lead AcCs in tender finalisation and awarding of contracts under APDRP.

The Government stated (October 2007) that the lowest tenderer was selected, on turnkey basis on the whole package irrespective of the rates quoted for each item and hence rates for particular item in one package cannot be compared to the rates of the same items in a different package. The reply is not tenable as the Board should have negotiated with the lowest bidder to have uniformity in the rates in the best financial interest of the Board.

7.2.19 Extension of undue benefit to a private firm

PGCIL while entering (September 2004) into agreement with Contimeters Electricals Pvt. Ltd, Delhi, on turnkey basis, for supply and installation of energy meters for package 'A' in Western and Jowai circles, specifically provided in LOA, that the contract price was inclusive of excise duty and sales tax on bought out items. In respect of direct supply items, excise duty and sales tax were not included in the contract price, which were to be reimbursed to them on submission of proof of payment. The Board, however, finalised

(July 2004/February 2006/September 2006) the contracts by including excise duty and sales tax in the total contract price both for bought out and direct supply items without imposing any conditions for production of documentary evidence for payment of taxes by the supplier. In package 'C' of Eastern circle, it was noticed, that, even though the lowest bidder, *viz*. Marbaniang Enterprise, Shillong quoted the rates separately for ex-works, ED, CST and VAT for each items, the Board awarded the contract at a total contract price of Rs.21.42 crore by adding all the elements (ED, CST and VAT) in the ex-works rates for each item. In the absence of such conditions in the contract, the amount of Rs.1.42 crore payable to the contractors towards CST/VAT can not be vouchsafed.

The Government stated (October 2007) that the firm had been asked to produce all the relevant documents which would be verified by the Board and recovery made, if any, would be intimated to audit. Further progress in this regard is awaited (October 2007).

7.2.20 Excess procurement of material resulting in idle investment on Stock

- Mahati Electrics, Pune was awarded (August 2004) the contract, on turnkey basis, for supply and erection of R & M of existing DTs, providing of new DTs, Low Tension (LT) capacitors *etc*. on turnkey basis for Rs.5.48 crore for package 'D' of Shillong circle. The work was started (December 2004) and was to be completed in 15 months (April 2006). It was observed that material valuing Rs.0.84 crore was returned to the Board after completion (May 2006) of the said work. Thus, material valuing Rs.0.84 crore were procured in excess of the requirements.

  The Government stated (October 2007) that change in the alignment in the construction of lines and sub-station resulted in excess procurement of lines and sub-station materials. It was further stated that these materials would be re-allocated to other circles for APDRP works with proper accounting.

- Similarly, 1,380 three phase consumer meters and 4188 Wedge type UDC connectors (Rs.64.49 lakh) and two HT, three LT.CT meters and 274 three phase whole current meters (worth Rs.9.59 lakh) under package 'A' of Western circle and Shillong circle respectively were handed over to the Board by the Secure Meters Ltd, Udaipur and Contimeter Electrical Pvt. Ltd. after completion of the work.

The return of materials by contractors, particularly when the contracts were on turnkey basis, clearly indicated that bill of quantity was not properly assessed while issuing LOA for the work. Thus, excess procurement of material over and above the actual requirement resulted in idle investment of Rs.1.58 crore (as detailed in **Appendix 7.14**). The loss of interest on idle investment worked out to Rs.15.80 lakh per annum.

The Government stated (October 2007) that the efforts would be made to utilise the surplus material in other circles for APDRP works. The reply is no justification for failure to assess bill of quantities while issuing LOA. Further if scope of work was reduced the tender amount should have been accordingly reduced.

Deficiencies in execution of works

7.2.21 Execution of works not covered under DPRs

Implementation of APDRP works was to be done as per DPRs which specify details of targets with respect to each item of work and overall objectives to be achieved. Scrutiny of records revealed that order for a new item of 170 CT/PT combined set with metallic enclosure and mounting structure suitable for outdoor application for 33KV/11 KV feeder at the cost of Rs.2.16 crore (Rs.1.27 lakh per set) was placed (July 2004) on Secure Meters Ltd., Udaipur for Shillong and Tura circles, even though the same was not covered under Package 'A' of APDRP. To match the estimated cost under Package 'A' of Shillong and Tura circles, the Board reduced the quantity of commercial/consumer meters as mentioned in the DPR from 14,673 to 4,840, the cost of reduction was estimated to Rs.2.79 crore.

The Government stated (October 2007) that CT/PT combine set metering unit was necessary for measurement of energy consumption of industry connected with high tension line as the energy meter cannot be connected directly to HT line. The reply is not acceptable as there was no provision for CT/PT combine set in the DPR. Further, due to reduction in the procurement of commercial\consumer meters, the Board could not achieve the estimated reduction in T& D Losses from 25 *per cent* to 17.90 *per cent*, as envisaged in DPR, ever after completion (May 2006) of the APDRP work in Shillong circle.

7.2.22 Non execution of work as per DPRs

- For the work of R&M and capacity addition of existing seven sub-stations and construction of three new sub-stations, as provided in the DPR for package 'B' in Shillong circle, the Board received the lowest bid (Indo Power Projects Ltd) at a price of Rs. 8.62 crore as against the estimated cost of Rs.5.27 crore. As the entire quantity provided in the DPR could not be covered within the amount sanctioned by MOP, the Board decided (June 2004) to abandon the R& M works of seven existing sub-stations and issued (August 2004) LOA, on turnkey basis, at a total contract price of Rs.5.26 crore for the construction of new three sub-stations only. As per original plan, three sub-stations were to be constructed at Mawlai, Jhalupara and Lawsohtun. The work of first new sub-station at Mawlai was started (April 2005) and completed (January 2007). The other two sub-stations were proposed to be constructed at a site belonging to the Union Ministry of Defence (MOD). Since the possessions of land get delayed, the Board decided (October 2005) to shift the site for the second sub-station to Mawprem instead of Jhalupara. Hence, the work of second sub-station at Mawprem was started (October 2005) and completed (January 2007). The possession of site for third sub-station was taken from MOD, on lease basis, only in February 2007 and the Board decided (April 2007) to undertake the work of third sub-station departmentally after taking over all materials procured by the contractor for third sub-station. The erection of third sub-station was under progress departmentally (October 2007).

- Similarly, for the work of R & M and construction of exiting 417 DTs, 212 new DTs, LT capacitors and associated HT and LT lines, as provided in the DPR for package 'D' in Shillong circle, the Board received (January 2004) the lowest bid (Mahati Electrics, Pune) of Rs.9.64 crore as against the estimated cost of Rs.5.39 crore. As the entire quantity provided in DPR could not be covered within the amount sanctioned by the MOP, the Board decided (June 2004) to reduce the scope of work and issued (August 2004) LOA, on turnkey basis, at a total contact price of Rs.5.48 crore. The Board reduced the scope of work from 212 - DTs to 88 – DTs, abandoning the entire 417- R & M of the existing DTs and restricting 11 KV new lines from 89.8 cKM to 13.17 cKM and new LT lines from 81.1 cKM to 9.47 cKM . The work was completed in May 2006.

Thus, due to reduction in scope of work of both 'A' & 'B' packages of Shillong circle, the estimated reduction in T& D Losses from 25 *per cent* to 17.90 *per cent*, as envisaged in DPR, could not be achieved ever after completion (May 2006) of the APDRP work.

The Government stated (October 2007) that the results could not be achieved within a short span of time and T&D losses were expected to come down within next few years. The reply is not acceptable as the board could not achieve the expected reduction in T&D losses due to reduction in the scope of works by omitting some of the important items of works.

7.2.23 Non-obtaining of approval of the MOP for deviation from the original estimates

The DPR provided for revamping of 15 numbers of 33/11KV sub-stations and construction of six new 33/11 KV sub-stations for Package 'B' in Central circle at an estimated cost of Rs.18.36 crore. The lowest rate obtained (February 2006) in the tender was Rs. 19.27 crore for the above work. Hence, the Board decided to reduce the scope of work and awarded (February 2006) the contract to Shayama Powers India (Pvt.) Ltd, Gurgaon, on turnkey basis, for revamping of 12 numbers of 33/11 sub-station and construction of six new 33/11 KV sub-stations, at a total contract price of Rs.18.36 crore. After finalisation (June 2006) of the layout and drawings, the scope of the work had undergone major changes involving additional expenditure of Rs.3.84 crore over and above the estimated cost of Rs.18.36 crore. Thus, the final cost of the project would be 21 *per cent* more than the estimated cost.

In the Tenth Steering Committee Meeting for implementation of APDRP, it was decided (November 2006) to allow a variation of 10 to 15 *per cent* in the price within overall sanctioned cost of the project and also decided to approve the revised cost with the condition that the enhance rate would be met from the matching funds. However, the Board did not seek/obtain the approval of the MOP for deviations from the original estimates. Further, a number of items were omitted by the Board from the scope of the work though mentioned in the DPRs.

The Government stated (October 2007) that the approval of the MOP would be sought for in due course. Further, it is not clear as to how the Board would be able to achieve the envisaged benefits of APDRP scheme by reducing the scope of work.

7.2.24 Inordinate delay in implementation of SCADA/DMS

As per the APDRP guidelines, information technology and computer aided tools for revenue increase, outage reduction; monitoring and control play a vital role in distribution sector. These applications would be used in the distribution sector to ensure higher revenue as a result of segregation of T& D losses and controlling commercial losses. The execution of Supervisory Control and Data Acquisition (SCADA)/Distribution Management System (DMS) of Shillong and Western Circles was entrusted (September 2005) to PGCIL under APDRP and an advance Rs.7.92 crore was paid (October 2005). The work was to be completed within 30 months from the date of release of advance or signing of the agreement whichever was later. However, PGCIL awarded (February 2007) the contract to Areva, Noida at a total contract price of Rs.13.69 crore and started (April 2007) survey works on collection of data on sub-stations, system metering, and identification of locations for construction of billing collection centres and meter billing centres.

The main reason for delay in allotment and implementation of SCADA/DMS was due to diversion of Rs.6.15 crore available for these works for on-going works of Package ‘A’ of Jowai and Packages ‘A’ & ‘B’ of Western circles. The demand (May 2007) of PGCIL for further release of Rs.5.25 crore to facilitate payment for on going works and advance payment for SCADA work have not been met so far (October 2007).

The Government stated (October 2007) that PGCIL had been reminded to complete the work of SCADA project at the earliest. As the Board did not release the funds as requested by PGCIL the chances of early completion of work appear remote.

Non achievement of objectives

7.2.25 Delay in installation of system metering

T&D losses are one of the major factors affecting the performance of the power distribution network. For this, it was necessary to have meters at all levels. With a view to ensuring proper energy accounting and auditing, improve reliability of power, improve billing and collection efficiency, it was decided (February 2000) in the conference of Power Ministers to provide 100 *per cent* system metering in transmission and sub-transmission lines by March 2001. The Board proposed (December 2000) to provide 100 *per cent* system metering at an estimated cost of Rs.1.81 crore. However, there was delay of two to three years in achieving 100 *per cent* metering due to delayed release of funds by the State Government. MOP released (March 2001) funds of Rs.1.81 crore to the State Government, who in turn released (March 2002) to the Board after a lapse of one year. The Board achieved 100 *per cent* system metering by installing 309 feeder meters at a cost of Rs.1.92 crore (October 2003 and September 2004) after delay of two years. Thus, there was loss of potential revenue to the extent of Rs.2.01 crore, being the projected benefit envisaged in the DPR due to delay in implementation of the scheme.

The Government (October 2007) stated that care would be taken in releasing funds in time in future.

7.2.26 Non-reduction of Transmission and Distribution (T&D) Losses

The table below indicates circle wise T&D losses before implementation of APDRP and estimated T&D losses to be achieved as specified in the DPR and the actual as at the end of 2006-07:

Table 7.14

Name of circle	T&D losses in 2001-02	Estimated losses in T&D after completion of projects as specified in the DPR	T&D losses at the end of 2006-07
Shillong	25.00	17.90	25.68
Tura	47.00	33.00	25.72
Western	27.75	22.34	24.51
Jowai	17.34	10.45	24.55
Central circle	64.75	37.31	56.27
Eastern	73.52	25.00	38.94
Garo Hill	70.10	27.34	55.79

Source: Data provided by the Board

The table above shows that the chances of achieving the reduction in T&D losses, as envisaged in DPR were remote. T&D losses in Shillong and Jowai circles which were to be reduced to 17.90 *per cent* and 10.45 *per cent* respectively as per DPR, however, increased to 25.68 *per cent* and 24.55 *per cent* respectively even after completion (May 2006) of APDRP works in these circles.

The Government stated (October 2007) that the results could not be achieved within a short span of time and T&D losses were expected to come down within next few years. The reply is not tenable as T&D losses could not be reduced as specified in the DPR after completion of the work.

7.2.27 Non-reduction of AT & C losses

The main objective of the APDRP was to reduce the Aggregate Technical and Commercial Losses (AT&C losses) from around 60 *per cent* to around 15 *per cent* in five years. This implied a targeted reduction of 9 *per cent* per annum.

The AT&C losses in Meghalaya were 52.13 *per cent* in 2002-03 which could be reduced to only 41.85 *per cent* at the end of 2006-07 as shown in the table below:

Table 7.15

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Total energy injected (MU)	804.59	980.85	1149.90	1203.99	1192.34
Total energy sold (MU)	504.32	667.56	764.10	718.667	787.52
Billing efficiency (*per cent*)	62.68	68.06	66.45	59.69	66.05
T&D Losses (MU)	300.27	313.29	385.80	485.323	404.82
T& D Losses (*per cent*)	**37.32**	**31.94**	**33.55**	**40.31**	**33.95**
Amount billed (Rs. in crore)	125.56	158.65	225.47	254.3	218.35
Amount realised (Rs. in crore)	110.24	151.71	182.22	218.8	208.94
Collection efficiency (*per cent*)	87.80	95.63	80.82	86.04	95.69
Units realised (MU)	385.17	597.7	686.39	810.78	693.4
AT&C Losses (MU)	419.42	383.149	463.51	393.21	498.94
AT&C Losses (*per cent*)	**52.13**	**39.06**	**40.31**	**32.66**	**41.85**

Source: Data provided by the Board

It can be seen from the table that the Board could not achieve the targeted reduction of AT&C losses to 15 *per cent* in 2006-07 as envisaged, in spite of spending Rs.86.20 crore on APDRP works.

While analysing circle wise AT&C losses for the year 2006-07, it was also noticed that AT&C losses in respect of Eastern, Central and Garo Hills Circles were more than 55 *per cent*. It was, however, much less ranging between 12 *per cent* and 20 *per cent* in Shillong, Tura and Jowai circles due to inclusion of arrears of earlier years collected during the current year. In order to arrive at actual AT&C losses in respect of these three circles, the details regarding actual amount realised against the units billed for the year 2006-07 were called for (July 2007) but the same were not furnished to audit (October 2007).

The Government stated (October 2007) that as per MOP guidelines, AT&C loss was to be achieved at 15 *per cent* at the end of the 11th Plan i.e. 2011-2012. Further, it was stated that reduction in AT&C losses would solely depend on the realisation of outstanding dues from the Government departments, which was to the tune of Rs.55.93 crore (August 2007). The reply is not acceptable since with the present percentage of AT & C losses of 41.85 in 2006-07, the chances of achieving the target of 15 *per cent* by 2011-12 appears remote. Further, the State Government needs to take effective steps to recover the dues from its own departments so that the Board could improve its financial viability as envisaged in APDRP scheme.

7.2.28 Widening of gap between ACS and ARR

One of the important objectives of APDRP was to narrow down the gap between average cost of supply (ACS) and average revenue realisation (ARR) within a specified time schedule. No such time schedule has been fixed by the Board. The gap between ACS and ARR during the period between 2004-05 and 2006-07 is detailed below:

Table 7.16

(Figure in Rupees)

Year	ACS	ARR	Gap
2004-05	2.40	2.05	0.35
2005-06	3.71	2.66	1.04
2006-07	5.09	2.93	2.16

Source: Data provided by the Board

It may be observed from the above details that there was huge gap between ACS and ARR in 2006-07. This was due to purchase of power at higher rates without corresponding increase in tariff. Thus, the value of gap between ACS and ARR worked out to Rs.234.09 crore[8] for the last two years ending 31 March 2007.

The Government stated (October 2007) that it was contemplating an increase in tariff based on the recommendations (October 2007) of State Electricity Regulatory Commission (SERC). Further progress is awaited (October 2007).

7.2.29 Non-conducting of Energy accounting and audit

As per MOA, the State Government would undertake Energy accounting and audit at all levels to promote accountability and reduce transmission and distribution losses and bring them to the level of 20 *per cent* and achieve break-even in current distribution operation by 2005 and positive results thereafter. The Board, however, had not conducted Energy accounting and audit as per MOA. Instead it decided to conduct a pilot study in one/two KV feeder in each circle for voltage wise technical and commercial loss segregation for which NIT was floated only in December 2006. The contract has not been finalised so far for want of funds (October 2007).

The Government stated (October 2007) that the work relating to Energy accounting and audit would be taken up soon on release of funds by the MOP.

7.2.30 Non compliance of MOA conditions

A Memorandum of Agreement (MOA) between the MOP and the State Government was entered into (22 November 2002) for undertaking reforms in

[8] 810.78 MU x Rs.1.04 = Rs.84.32 crore + Rs.149.77 crore (693.40 MU x Rs.2.16) = Rs.234.09 crore.

power sector in the State with financial help from MOP. For release of funds under APDRP Project, the MOP stipulated certain mandatory conditions which are as follows:

- The State Government would corporatise the Board by 31 March 2004.
- The State Government will set-up State Electricity Regulatory Commission (SERC) by 31 March 2003 and file tariff petition.
- A State Level Distribution Reforms Committee (SLDRC) shall be constituted by the State Government within one month of signing this MOA. The Committee shall meet once in two months and review the progress of implementation of the APDRP project, compliance of MOA and performance against APDRP targets and benchmarks.

Audit, however, noticed that:

- The Board appointed (August 2004) Power Finance Corporation (PFC) for carrying out reforms and restructuring study for the Board. The PFC submitted (25 November 2005) its final report which was placed (December 2005) before the Board. The Board approved the scheme and recommended the State Government to set up an Empowered Committee of Senior Officers of the State Government and Board to complete the exercise. The Government stated (October 2007) that the permission has been received from the GOI to Corporatise the Board by December 2007.
- SERC was set up (7 June 2006) and the first tariff petition was filed (June 2007) before SERC, which is yet to be decided (October 2007).
- SLDRC was constituted on 4 March 2003 and only nine Meetings have been held over the period of four years as against 24 meetings envisaged in the MOA. It was noticed that 9^{th} meeting was held on 15 June 2007 and time interval between 8^{th} and 9^{th} meetings was 10 months. In the 10^{th} meeting, it was decided (September 2007) to conduct meeting at the interval of three months.

Conclusion

The State Government failed to comply with the guidelines issued by the MOP in transferring funds to the Board in time which resulted in diversion of funds thereby attracting penal interest and losing future central assistance. The State Government also failed to provide matching funds which in turn adversely affected the overall progress of APDRP work. The Board did not involve the lead consultant (PGCIL) in the tendering process. As a result, the proper evaluation of the tenders was not done and efforts were not made to bring down the rates to the level of issue rates and to have uniformity in the rates in the best financial interest of the Board. Materials procured were not conforming to the specifications provided in the DPRs. The reduction in the scope of work as provided in the DPRs resulted in non-achievement of reduction of T&D losses. Priority was not given for implementation of SCADA/DMS and computer aided tools for revenue increase, monitoring and control in distribution sector for controlling AT&C losses. There were shortfalls in achievements by all the circles as a result of which the overall objective of 'Upgradation of Sub-transmission and Distribution System including energy accounting and metering' could not be achieved as envisaged.

Recommendations

The State Government should

- **ensure timely release of funds/providing matching funds for implementation of the APDRP projects within a specified time schedule in order to achieve reduction in AT&C losses, improve financial viability of the Board, reduce outage and interruption and finally increase consumer satisfaction.**

- **ensure participation of PGCIL in tendering process while finalising the award of work.**

- **ensure timely completion of APDRP projects by enhancing the quality of monitoring and control.**

- **give priority for implementation SCADA/DMS for controlling AT&C losses.**

- **conduct Energy accounting and audit on priority basis to arrive at the correct figures of AT&C losses.**

SECTION 'B': AUDIT OF TRANSACTIONS

INDUSTRIES DEPARTMENT

MEGHALAYA INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

7.3 Doubtful recovery of loan

Inadequate follow up action and imprudent business practices adopted by the Company resulted in doubtful recovery of loan of Rs.4.42 crore.

The Company sanctioned (September 1995) a term loan of Rs.63 lakh and disbursed (December 1995 and March 2000) Rs.61.62 lakh to Smt. Belmanora Suchiang, Shillong for setting up of a medical diagnostic and research centre i.e. Park View Hospital, at Lumsohphoh, Shillong. The loanee mortgaged (December 1995) the land (9495 square feet) at Lumsohphoh and buildings and other assets created on the land in favour of the Company. The original papers of the mortgaged property were retained by the Company. It was noticed that the Company again sanctioned (October 1999) second term loan of Rs.80 lakh for expansion of the said hospital against the same security without assessing the then present value of the mortgaged assets. The amount was disbursed (between October 1999 and March 2000 to the loanee after adjusting Rs.38.12 lakh towards interest against the first loan.

Smt. Belmanora Suchiang sold (August 2001) the Hospital including all assets to North Eastern India Trust for Education and Development (NEITED), Shillong without the prior approval of the Company. On being approached by NEITED, the Company approved (November 2001) the transfer of the Hospital along with its assets to NEITED on the condition that the latter shall repay the outstanding loan of Rs.1.85 crore (including accrued interest). An agreement to this effect was signed (April 2003) between the Company and NEITED. The Company sanctioned (April 2003) an additional term loan of Rs. one crore to the NEITED on the personal guarantee of the trustees of NEITED. The repayment of outstanding loan of Rs.1.85 crore including interest accrued thereon was co-terminus with the new term loan.

The NEITED, however, did not make any payment to the Company and after three years NEITED sold (March 2006) the Hospital along with the assets without prior approval of the Company to Khasi Hills Autonomous District Council (KHADC), Shillong for Rs.1.10 crore with liability of outstanding term loan of the Company of Rs.2.42 crore and accrued interest thereon. After the sale NEITED informed (March 2006) the Company about the sale of Hospital. The Company approved (March 2006) the sale and entered into an agreement (June 2006) with KHADC for repayment of the outstanding loan of Rs.2.42 crore and accrued interest amounting to Rs.2 crore. The KHADC, however, sold (June 2006) the said Hospital to Shri B. Mylliemngap Shillong, for Rs.80 lakh with liabilities of outstanding loan to the Company. The Company allowed (September 2006) take over of the Hospital by Shri B. Mylliemngap provided he settled the outstanding dues of the Company and closed the account. The Company executed (March 2007) agreement with Shri B. Mylliemngap for the term loan of Rs.2.42 crore disbursed by it.

Frequent sale of Hospital by one party to the other without making any repayment of principal/ interest and without the approval of the Company indicates the malafied intentions of the parties. Further, the Company did not take any action to protect its interest by recovering its dues by selling the property (since the original papers of mortgaged property are with the Company). As such the recovery of loan of Rs.2.42 crore and accrued interest of Rs. two crore appears doubtful. Further the fact that NIETED sold the property to KHADC for Rs.1.10 crore shows that the Company initially overvalued the property while sanctioning loans to Smt. Belmanora Suchiang. On the same ground loan to NIETED was not justified. Even after Rs.2.42 crore was at stake which was more than the value of the property, no action was taken by it to protect its interest.

The Government stated (February 2008) that the principal amount of Rs.2.42 crore was fully secured as the party had already executed an agreement with the Company. The reply is not tenable as the party did not execute the mortgage deed as stipulated in the agreement and the Company's interest had not been protected for recovering the principal and accrued interest thereon.

7.4 Irregular writing off of debts and further sanctioning of loans

Failure to take effective action for recovery of dues resulted in loss of Rs.25.67 crore and further sanctioning of bridging loan to the subsidiaries to the tune of Rs.1.83 crore.

The Company decided (July 2005) to write off the loans of Rs.25.67 crore which were outstanding against Government companies/subsidiaries/private firms for a long time. While approving the write off of the loans, the Board of Directors also directed (July 2005) the Management to take all legal measures to recover the dues or to advertise and find interested parties to take over the units.

Scrutiny (January 2007) of records revealed that the Company did not take any legal action to recover the dues even after a lapse of two years except taking possession of Tribal Integrated Progressive Multipurpose Co-operative Society against whom loan of Rs.20.11 lakh was outstanding and written off. Though the Company had security in the form of mortgaged land and building, *etc*. of the sick units it did not take any action for sale of the mortgaged property as provided in the State Financial Corporation Act, 1951. The Company also failed to find interested parties, as desired by BOD, to take over the units.

Incidentally it may be mentioned that even after writing off the outstanding loan of Rs. 24.11 crore due from its subsidiaries and Government companies, the Company continued to sanction further bridging loan to its subsidiaries which as of July 2007 stood at Rs.1.83 crore. The Company stated (August 2007) that the bridging loans to its subsidiaries were sanctioned for payment of salaries and other administrative expenses.

Thus, inaction on the part of the Company in taking effective steps to recover the dues resulted in loss of Rs.25.67 crore. The Company also did not take any steps to disinvest or wind up its subsidiaries but continued to sanction bridging loan, despite declaring the subsidiaries as sick units.

The Government stated (February 2008) that the Company had served notice to all defaulting companies. The Government also stated that Meghalaya Watches Limited was under the process of liquidation. The Government, however, did not give any specific reply regarding disinvestment/winding up of other subsidiaries.

MAWMLUH CHERRA CEMENTS LIMITED

7.5 Extra expenditure

Improper assessment of demand of electricity by the Company resulted in incurring of extra expenditure of Rs.47.22 lakh on electricity charges.

Under the tariff structure of Meghalaya State Electricity Board (Board), billing demand for a 'High Tension Industrial Power Consumer' (HTIPC) is to be assessed and billed on the (i) maximum demand established during the month or (ii) 80 *per cent* of the highest demand established during the preceding 11 months or (iii) 75 *per cent* of the contract demand or (iv) not lower than 50 KW/60 KVA, whichever is the highest. The contract demand shall not be less than 80 *per cent* of the connected load.

A mention was made in Paragraph 8.4 of Report of the Comptroller and Auditor General of India – Government of Meghalaya for the year ended 31 March 2001 regarding avoidable liability of the Company towards demand charges of Rs.0.26 crore. The Company entered (May 2001) into a fresh agreement with the Board for reducing their contract demand from 8000 KVA to 7000 KVA with connected load of 6000 KVA with effect from June 2001.

It was noticed (April 2007) that the maximum demand of the Company never exceeded 5280 KVA (June 2002) during the period July 2001 to June 2007. Despite this being pointed out by Audit (December 2005), the Company did not analyse the actual consumption (peak demand) of power and reduce its contract demand from 7000 KVA to 4800 KVA i.e. 80 *per cent* of connected load of 6000 KVA. Instead, it continued to pay demand charges as per the contract demand of 7000 KVA which resulted in an extra expenditure of Rs.47.22 lakh during the period between April 2001 and June 2007 towards demand charges (considering contract demand of 6000 KVA).

The matter was referred (April 2007 and May 2007) to the Management/Government; their replies are awaited (February 2008).

MINING & GEOLOGY DEPARTMENT

MEGHALAYA MINERAL DEVELOPMENT CORPORATION LIMITED

7.6 Loss of Revenue

Injudicious selection of a party for leasing of a coal depot resulted in loss of revenue of Rs.96 lakh.

A reference is invited to Paragraph 8.4 of the Report of the Comptroller and Auditor General of India, Government of Meghalaya for the year 2001-02, wherein unfruitful expenditure of Rs.4.25 crore incurred on establishing (December 1999) of a coal depot in 12 acre of land at Mawsmai to undertake trading of coal produced by the miners of the State was pointed out.

In order to utilise the coal depot, the Company invited (April 2005) offers in two bid system for leasing of coal depot with infrastructure created thereon indicating Rs.30 lakh per annum (for 12 acres of land) as the minimum lease rent. In response, three tenderers submitted (May 2005) their offers of which annual lease rent of Rs.17.28 lakh per annum for four acres of land as offered by the Reliance Industries Limited (RIL), Guwahati was the highest. This was subsequently increased, during negotiations, to Rs.25.92 lakh per annum for six acres. The Company approached (December 2005) the State Government to approve the offer of RIL and the draft lease deed with RIL. As the Government approval for acceptance of the offer of RIL was not forthcoming, the Company cancelled (April 2006) the tender and called for fresh tenders during the same month.

Against this tender, the Company received seven offers, of which annual lease rent of Rs.32 lakh for four acres of land (i.e., Rs. eight lakh per acre per annum) offered by Assam Auto Agencies, Shillong was the highest. After negotiations, the firm agreed (May 2006) to take the entire 12 acres of land on lease at their quoted rate of Rs. eight lakh per acre per annum. Before execution of the lease deed with the firm, the Company sought (June 2006) approval of the State Government. The State Government, however, asked (October 2006) the Company to negotiate with eligible tribal bidders for allotment of coal depot at the quoted rate of the highest bidder. Accordingly, the Company negotiated (November 2006) with four tribal bidders and allotted (January 2007) the coal depot to a tribal bidder after receiving the approval of the State Government. But the concerned tribal bidder failed to pay the required security deposit of Rs.96 lakh and one month advance lease rent of Rs. eight lakh by the stipulated date (18 January 2007). Consequently, the earnest money of Rs. five lakh of the tribal bidder was forfeited (June 2007) and the tenderer was black listed by the Company. The coal depot has not been leased out and the same remained unutilised so far (October 2007).

Thus, when there was a possibility to earn revenue through leasing the unutilised coal depot to a private firm at a monthly rent of Rs. eight lakh per acre per annum, belated and injudicious selection of the tenderer for leasing of coal depot resulted in loss of revenue of Rs.96 lakh to the Company from July 2006 to June 2007.

The Company accepted (July 2007) the facts. The matter was referred (May and July 2007) to the Government; their reply is awaited (February 2008).

TRANSPORT DEPARTMENT

MEGHALAYA TRANSPORT CORPORATION

7.7 Avoidable liability

Avoidable liability for interest and damages of Rs.86.90 lakh due to non-deposit of employees Provident Fund dues in time.

The employees of the Corporation are covered by the Employees Provident Fund (EPF) scheme under the Employees Provident Funds and Miscellaneous Provisions Act, 1952. As per the scheme, it is the statutory responsibility of the employer to remit employees' contribution which is regularly deducted from the salary of the employee's along with their contribution and other administrative charges to the office of the Employees Provident Fund Organisation, (EPFO), NER, Shillong. In case of default in payment of dues, simple interest at the rate of 12 *per cent* per annum and penalty/ damages for default in payment of contributions to the EPFO are leviable under Section 7Q and 14B of the Act.

Scrutiny of records, (July 2007) revealed that the Corporation did not deposit the provident fund contributions deducted from the salaries of employees and their own contribution (Rs.7.60 crore) for the period between April 1997 to December 2004 in time. It was observed that out of the above amount, the Corporation deposited Rs.6.57 crore with EPFO late during April 1999 and March 2007 and the balance of Rs.1.03 crore was still to be paid. Due to non-payment of provident fund dues in time, the EPFO, NER, Shillong levied (September 2005) Rs.55.01 lakh as interest under section 7Q of the Act and damages of Rs.31.89 lakh under section 14 B of the Act, which have not been paid by the Corporation so far (July 2007). The Corporation would be liable to pay additional interest under section 7Q and damages under section 14 B of the Act till the clearance of the Provident Fund dues in full.

Thus, due to failure to deposit the provident fund dues in time, the Corporation had to bear avoidable liability for interest and damages of Rs.86.90 lakh.

The Government, while admitting the facts, stated (February 2008) that there was delay in remittance of CPF dues as the Corporation was running at a huge loss and the Department intend to file an appeal with the EPFO for waiver of the interest and penalty.

7.8 Avoidable extra liability

Avoidable extra expenditure of Rs.10.27 lakh was incurred on payment of delayed payment surcharge for non-payment of electricity bills in time.

As per tariff orders of Meghalaya State Electricity Board (MeSEB), delayed payment surcharge at the rate of two *per cent* per month for unpaid amount of energy charges was leviable if the consumer failed to pay the energy bills within 30 days from the date of billing. It was noticed in Audit that the Corporation failed to pay some of the energy bills by the due date as a result of which MeSEB levied delayed payment surcharge (DP Surcharge) of Rs.10.27 lakh between July 2000 and July 2007 on the outstanding balance. It was further observed that energy bills of Rs.14.95 lakh in respect of a Depot (Rs.6.44 lakh) and Headquarters office (Rs.8.51 lakh) were outstanding as on August 2007 for which the Corporation would be liable for payment of DP Surcharge.

The Government, while admitting the facts, stated (February 2008) that a petition would be submitted to MeSEB for waiver of delayed payment surcharge.

(RAJIB SHARMA)

Shillong Principal Accountant General (Audit)

The Meghalaya and Arunachal Pradesh

Countersigned

New Delhi **(VINOD RAI)**

The Comptroller and Auditor General of India