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 an overview of Government companies and Statutory corporations and Paragraphs 7.2 to 7.6 deal with other topics of interest.

7.1 Overview of Government companies and Statutory corporations

7.1.1 Introduction

As on 31 March 2008 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 2007. The accounts of the Government companies are audited by the Statutory Auditors, appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the Comptroller and Auditor General of India as per provisions of Section 619 of the Companies Act, 1956. The audit arrangement of the Statutory corporations are as follows:

Table 7.1

Sl. No.	Name of the Corporation	Authority for audit	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.	Sole audit by 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 CAG

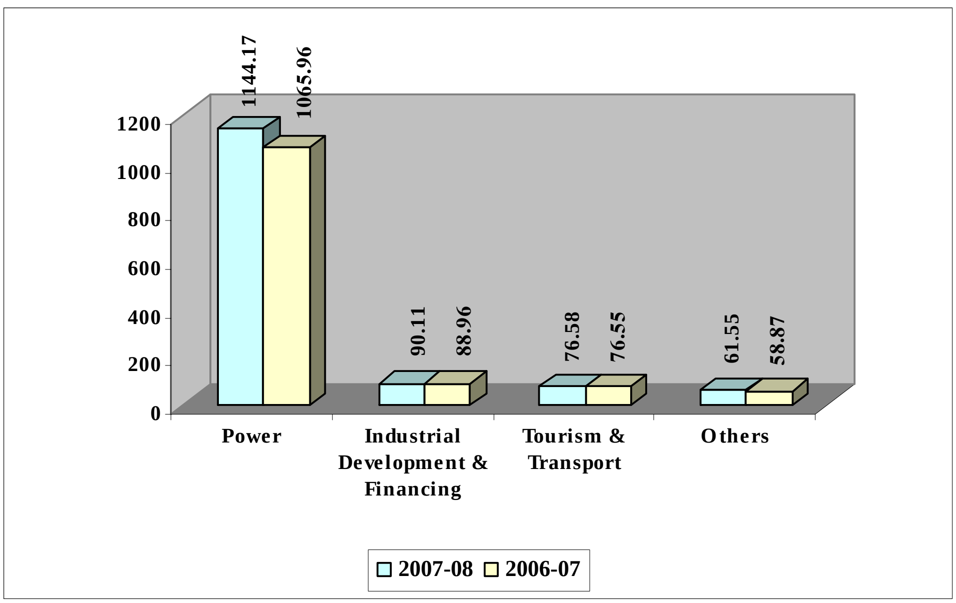
Working Public Sector Undertakings (PSUs)

7.1.2 Investment in working PSUs

As on 31 March 2008, the total investment in 13 working PSUs (10 Government companies and three Statutory corporations) was Rs. 1372.41 crore[1] (equity: Rs. 395.49 crore; long-term loans: Rs.968.28 crore[2] and share application money: Rs. 8.64 crore) against the total investment of Rs. 1290.34 crore (equity: Rs. 389.90 crore; long-term loans: Rs. 892.37 crore and share application money: Rs. 8.07 crore) as on 31 March 2007. 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 various sectors and percentage thereof at the end of 31 March 2008 and 31 March 2007 are indicated in the bar chart.



7.1.4 Working Government companies

The total investment in working Government companies at the end of March 2007 and March 2008 was as follows:

1 State Government's investment was Rs. 390.09 crore (others: Rs. 982.32 crore). Figures as per Finance Accounts 2007-08 is Rs. 142.93 crore. The difference is under reconciliation.

2 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.

Table 7.2

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2006-07	10	119.21	8.07	28.41	155.69
2007-08	10	124.65	8.64	26.11	159.40

Increase in the total investment was mainly due to increase in share capital of Mawmluh Cherra Cement Limited, Meghalaya Industrial Development Corporation Limited and Meghalaya Handloom and Handicrafts Development Corporation Limited.

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

As on 31 March 2008, the total investment in working Government companies comprised 83.62 *per cent* of equity capital and 16.38 *per cent* of loans as compared to 81.75 *per cent* and 18.25 *per cent* respectively as on 31 March 2007.

7.1.5 Working Statutory corporations

The total investment in three Statutory corporations at the end of March 2007 and March 2008 was as follows:

Table 7.3

(Rupees in crore)

Name of Corporation	2006-07		2007-08	
	Capital	Loan	Capital	Loan
Meghalaya State Electricity Board (MeSEB)	202.00	863.96	202.00	942.17
Meghalaya Transport Corporation (MTC)	66.03(3)	-	66.06(3)	-
Meghalaya State Warehousing Corporation (MSWC)	2.66(4)	-	2.78(4)	-
Total	**270.69**	**863.96**	**270.84**	**942.17**

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 2008, the total investment in working Statutory corporations comprised 22.33 *per cent* of equity capital and 77.67 *per cent* of loans as compared to 23.86 *per cent* and 76.14 *per cent* respectively as on 31 March 2007.

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 and 7.3.**

(3) Figures for 2006-07 and 2007-08 in respect of MTC are provisional.

(4) Figures for 2007-08 in respect of MSWC are provisional.

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 2008 are given below:

Table 7.4

(Rupees in crore)

	2005-06				2006-07				2007-08			
	Companies		Companies		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1.Equity	1	0.21	2	20.57	3	9.84	2	3.11	3	7.26	2	3.12
2. Loans	-	-	1	8.52	-	-	1	9.66	-	-	1	8.43
3. Grants	2	0.68	-	-	2	0.60	-	-	3	1.08	-	-
4. Subsidy	1	3.90	2	13.60	-	-	2	27.15	1	0.16	2	35.90
Total outgo	**4**(5)	**4.79**	**3**(5)	**42.69**	**5**	**10.44**	**3**(5)	**39.92**	**7**	**8.50**	**3**(5)	**47.45**

During 2007-08, 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. 501.23 crore against two working Government companies (Rs. 3.26 crore) and one working Statutory corporation (Rs. 497.97 crore) were outstanding.

Against guarantees given by the State Government in earlier years to one Company *viz.*, Meghalaya Mineral Development Corporation Limited amounting to Rs. 2.33 crore for obtaining loan from other sources, the default in repayment by the company at the end of 2007-08 amounted to Rs. 2.26 crore. At the end of 2007-08, guarantee commission amounting to Rs. 15.76 crore (including current year: Rs. 3.32 crore) was due for payment by Meghalaya State Electricity Board to the State Government.

7.1.7 Finalisation of accounts by working PSUs

Accounts of the 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 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 2007-08 within the stipulated period. During the period from October 2007 to September 2008, only two working Government companies finalised their accounts for the previous year (2006-07). Other six companies finalised their accounts relating to earlier years and the remaining two companies did not finalise any of the

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

accounts during this period. During this period two Statutory corporations *viz.*, Meghalaya State Warehousing Corporation and Meghalaya Transport Corporation finalised accounts for the years 2006-07 and 2002-03 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 2008 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	
	Government companies	Statutory corpora-tions			Government companies	Statutory corpora-tions
1.	2	1	2007-08	01	1&10	3
2.	2	-	2006-07 to 2007-08	02	4&9	-
3.	1	-	2004-05 to 2007-08	04	5	-
4.	-	1	2003-04 to 2007-08	05	-	2
5.	1	-	2002-03 to 2007-08	06	3	-
6.	1	-	2001-02 to 2007-08	07	2	-
7.	1	-	2000-01 to 2007-08	08	7	-
8.	1	-	1999-00 to 2007-08	09	6	-
9.	1	-	1993-94 to 2007-08	15	8	-

The State Government had invested[6] Rs. 75.91 crore and (equity: Rs. 57.79 crore; grants Rs. 3.16 crore and subsidy: Rs. 14.96 crore) in 12 working PSUs during the years for which accounts have not been finalised as detailed in **Appendix 7.4**. In the absence of timely finalisation of accounts and their audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of provisions of the Companies Act, 1956.

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments of the Government were apprised quarterly by Audit of 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 7.5** and **7.6** respectively.

[6] Information as provided by the companies.

According to latest finalised accounts of 10 working Government companies and three Statutory corporations, eight companies and one corporation had incurred an aggregate loss of Rs. 9.01 crore and Rs. 4.64 crore respectively and the remaining two companies and two corporations earned profit of Rs. 1.49 crore and Rs. 1.39 crore respectively.

Working Government companies

7.1.9 Profit earning working companies and dividend

Seven out of ten Government companies which have finalised their accounts for previous years, only two companies earned profit. The State Government has not formulated any policy for payment of minimum dividend.

7.1.10 Loss incurring working Government companies

Seven loss incurring working Government companies (Sl. Nos. A-3, 4, 5, 6, 7, 9 and A-10 of **Appendix 7.2**) had accumulated losses aggregating Rs. 70.86 crore which had exceeded their aggregate paid-up capital of Rs. 11.78 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to three of these companies (Sl. No. A-3 of **Appendix 7.1** and Sl. No. A-1 & 4 of **Appendix 7.3)** 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 2007-08 to these companies amounted to Rs. 0.87 crore.

Working Statutory corporations

7.1.11 Profit earning working Statutory corporations and dividend

Two Statutory corporations (Serial No. B-1 & 3 of **Appendix 7.2**) which finalised their accounts for the previous year earned a profit of Rs. 1.39 crore but did not declare any dividend during the year.

7.1.12 Loss incurring working Statutory corporations

One loss incurring Statutory corporation (Sl. Nos. B-2 of **Appendix 7.2**) had accumulated losses aggregating to Rs. 58.60 crore which exceeded its paid-up capital of Rs. 53.79 crore. Despite poor performance and complete erosion of the paid-up capital, the State Government continued to provide financial support to this Statutory corporation by way of equity (Rs. 3 crore) and subsidy/grant (Rs. 3.10 crore).

7.1.13 Operational performance of working Statutory corporations

The operational performance of the working Statutory corporations is given in **Appendix 7.7**. 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 marginally decreased to 33.34 *per cent* in 2007-08 from 36.84 *per cent* in 2006-07.

Meghalaya Transport Corporation

- Average kilometres covered per bus per day decreased to 130 Km in 2002-03 from 143 Km in 2001-02.

7.1.14 Return on capital employed

As per the latest annual accounts of PSUs, the capital employed[7] worked out to Rs. 92.05 crore as compared to Rs 82.38 crore in the previous year in 10 working companies and negative total return[8] thereon was Rs.(-)1.36 crore as compared to Rs.(-)1.95 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. 840.19 crore and Rs. 28.67 crore respectively against the capital employed of Rs. 726.97 crore and negative return of Rs.(-) 65.30 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.**

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

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

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	2005-06	2006-07	12 May 2008	Under printing
2.	Meghalaya Transport Corporation	1999-2000	2000-01 2001-02	22 September 2007 29 February 2008	Under printing
3.	Meghalaya State Warehousing Corporation	2004-05	2005-06	22 April 2008	Under printing

7 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).

8 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.

7.1.16 Disinvestments, Privatisation and Restructuring[9] of Public Sector Undertakings

During 2007-08 none of the Public Sector Undertakings has disinvested its 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 2007 to September 2008, the accounts of one Government working company and three Statutory corporations were selected for audit and non-review certificates were issued in respect of seven companies. The net impact of audit observations as a result of audit of 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	1		59.25	-
(ii) Increase in profit	-	-	-	-
(iii) Increase in loss	-	2	-	892.09
(iv) Decrease in loss	1	1	180.60	

Some of the major errors and omissions reported by Statutory Auditors and noticed during the course of supplementary/sole audit of annual accounts of some of the above Government companies and Statutory corporations are mentioned below:

7.1.18 Errors and omissions reported by the Statutory Auditors in the case of Government companies/corporations

Mawmluh Cherra Cements Limited (2006-07)

- Physical verification of inventory of stores and spares valued at Rs. 6.26 crore was not carried out.

Meghalaya Government Construction Corporation Limited (2005-06)

- An amount of Rs. 6.22 crore received as advance against works had been used by the corporation for its own expenses.

Meghalaya Industrial Development Corporation Limited (2000-01)

- Understatement of expenditure by Rs. 59.25 lakh as interest on borrowings under refinance scheme payable to SIDBI was not accounted for.

9 Restructuring includes merger and closure of PSUs.

Meghalaya State Warehousing Corporation (2006-07)

- The corporation has not complied with the stipulations applicable under section 205, 211, 349 and 350 of the Companies Act, 1956.

- The amount of accumulated depreciation as on 31 March 2007 stood at Rs. 43.93 lakh, whereas depreciation fund stood at Rs. 41.12 lakh and the depreciation fund investment account stood at Rs. 32.86 lakh. Differences had not been reconciled.

7.1.19 Errors and omissions noticed during sole audit, in the case of Statutory corporations

Meghalaya State Electricity Board (2006-07)

- Understatement of revenue by Rs. 1.55 crore due short booking of sale of power (UI sale).

- Understatement of expenditure by Rs. 3.17 crore due to not accounting of wheeling charges.

Meghalaya Transport Corporation (2002-03)

- Payment made to CPF authorities amounting to Rs. 61.29 lakh was credited to CPF account instead of debiting the same resulting in overstatement of Current assets and provisions and understatement of loss for the year by Rs. 1.23 crore.

- Understatement of expenditure by Rs. 61.80 lakh as penal interest payable on delayed remittance of Provident Fund dues was not accounted for.

- Understatement of loss by Rs. 4.52 crore since closing stock was valued at Rs. 4.77 crore in the books of accounts, whereas it was shown Rs. 0.25 crore in stock ledger.

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

Based on the audit assessment of the working results of MeSEB for the three years up to 2006-07 and taking into consideration the major irregularities and omissions pointed out in the 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	2004-05	2005-06	2006-07
1.	Net surplus (+)/deficit (-) as per books of accounts	10.95	(-) 57.07	(-) 86.42
2.	Subsidy from the State Government	10.80	10.80	24.15
3.	Net surplus (+)/deficit (-) before subsidy from the State Government (1-2)	0.15	(-) 67.87	(-) 110.57
4.	Net increase/decrease in net surplus (+)/deficit (-) on account of audit comments on the annual accounts of the MeSEB	(-) 16.27	(-) 13.62	(-) 1.74
5.	Net surplus (+)/deficit (-) after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-) 16.12	(-) 81.49	(-) 112.31
6.	Total return on capital employed	(-) 37.06	(-) 12.49	(-) 75.81
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 had been taken by these PSUs so far.

Meghalaya State Electricity Board

- Age-wise analysis of receivables had not been made.
- Subsidy registers for purchases, advances, *etc.* remained un-reconciled with the financial records.
- Stores ledger remained incomplete and Priced Stores Ledger had 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 method of valuation of above stocks and consumption were not 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 had not been maintained.
- Fixed assets and the land holding had 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 stated that in respect of five[10] companies either internal audit system did not exist or internal audit was 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, physical verification of monthly cash *etc*. in respect of four[11] companies**.**

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/Departments 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 2008 pertaining to 12 PSUs/Departments disclosed that 170 paragraphs relating to 39 inspection reports remained outstanding up to September 2008**.** Of these, 20 inspection reports containing 90 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 2008 is given in **Appendix 7.8.**

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-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Four draft paragraphs were forwarded to Power Department (three DPs issued in February/May 2008) and to Industries Department (one DP issued in April 2008). One Performance Audit Review was issued to Power Department in August 2008 (**Appendix 7.9**). Replies to all the draft paragraphs have not been received (November 2008).

It is recommended that the Government should (a) 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 is taken to recover loss/outstanding advances/overpayment as per a time bound schedule, and (c) the system of responding to audit observations is revamped.

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[10] Mawmluh Cherra Cement Limited, Meghalaya Industrial Development Corporation Limited, Meghalaya Handloom and Handicraft Corporation Limited, Meghalaya Tourism Development Corporation Limited and Meghalaya Government Construction Corporation Limited.

[11] Meghalaya Industrial Development Corporation Limited, Meghalaya Handloom and Handicraft Corporation Limited, Meghalaya Tourism Development Corporation Limited and Meghalaya Government Construction Corporation Limited.

7.1.24 Position of discussion 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 discussed by COPU by the end of 30 September 2008:

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	-	-
2006-07	1	6	-	-
Total	**29**	**93**	**8**	**16**

7.1.25 619-B Companies

There was one non-working company under 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 the latest available accounts.

Table 7.10

(Rupees in crore)

Name of Company	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[12]	0.75	…	0.54	0.21	(-) 0.66	(-) 2.20

[12] The Company is defunct and thus, in absence of management no accounts after 1984 (calendar year) have been prepared.

AUDIT OF TRANSACTIONS

INDUSTRIES DEPARTMENT

MEGHALAYA GOVERNMENT CONSTRUCTION CORPORATION LIMITED

7.2 Avoidable expenditure

The Company failed to deposit Employees Provident Fund dues in time and incurred avoidable expenditure of Rs. 38.81 lakh on account of interest/damages during 2004-05 to 2006-07.

The employees of the company 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 deducted from the salary of the employees along with the employer's contribution and other administrative charges to the office of the Employees Provident Fund Organisation (EPFO), North Eastern Region (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.

It was observed in audit that the Company failed to deposit the provident fund contributions deducted from the salaries of employees and its own contribution for the period from April 2003 to May 2006 in time. The EPFO, NER, Shillong levied Rs. 9.97 lakh as interest and Rs. 28.84 lakh as damages. The Company deposited the above amounts between November 2004 and March 2007 belatedly. Thus, due to failure to deposit the dues in time, the Company incurred avoidable expenditure of Rs. 38.81 lakh.

The Company, while accepting the facts, stated (April 2008) that the provident fund dues could not be paid in time due to acute financial crisis. However, the fact remains that the company is under a statutory obligation to deposit the provident fund dues with the EPFO in time. The matter was reported to the Government in April 2008; their reply had not been received (November 2008).

POWER DEPARTMENT

MEGHALAYA STATE ELECTRICITY BOARD

7.3 Implementation of Rural Electrification Schemes

In respect of Rural Electrification Schemes implemented by Meghalaya State Electricity Board (MeSEB) during the period April 2004 to March 2008, there was loss of interest amounting to Rs. 10.56 crore due to delayed release of funds by the State Government; additional expenditure of Rs. 5.23 crore on the procurement of major components at the higher rates. The Board could achieve only 66 *per cent* electrification as against the target of electrification of all villages by end of the Tenth Plan. Moreover, the declaration of 842 villages as electrified during the period April 2004 to March 2008 without obtaining certificates from Gram Panchayats, was not in accordance with the guidelines issued by Ministry of Power.

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

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

7.3.2 The records relating to implementation of Rural Electrification (RE) schemes were test checked in audit during June/July 2008 with a view to assess the performance of the Board in conceptualisation and implementation of RE programmes during 2003-04 to 2007-08 and its achievements with reference to the targets set out in the programme. The records of four[1] revenue

[1] Revenue districts of East Khasi Hills, Ri-Bhoi, West Khasi Hills and West Garo Hills at Executive Engineer (RE Construction) Divisions, Shillong, Nongstoin and Tura.

districts maintained in three divisions (estimated cost of Rs. 96.16 crore - 60 *per cent*) and six[2] sub-divisions out of seven revenue districts maintained in five divisions and ten sub-divisions were examined.

The Audit findings are discussed in the succeeding paragraphs.

Release of funds

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

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

- The State Government shall release funds to the Implementing Agency within one month of release of funds by MOF;

- Implementing Agency shall open a separate and single bank account for the funds received under the programme and shall not divert the funds for other purposes;

- The interest earned on this account will not be diverted to any other programme;

- The submission of utilisation certificate along with physical progress report for the previous year was necessary for release of the first instalment in the next financial year. For release of the second instalment, submission of audited accounts of scheme for the previous year was required.

The State Government approved a total outlay of Rs. 160.26 crore for nine schemes under RE (MNP)/PMGY during the period between 2001-02 and 2004-05 for electrification of 1682 villages in seven revenue districts in Meghalaya. MOF released funds to the tune of Rs. 122.82 crore to the State Government up to March 2005.

[2] Sub-Divisions, Shillong, Nongpoh, Nongstoin, Riangdo, Tura and Garobadha.

It was found in audit that:

Delayed release of funds by the State Government caused interest burden of Rs.10.56 crore to the Board and also adversely affected the progress of work.

- The State Government released funds to the tune of Rs**.** 122.82 crore to the Board during the period between March 2001 and June 2007 after delays of 3 to 37 months from the date of receipt of funds from MOF in violation of the terms and conditions of release of funds. Thus, the State Government diverted such funds for various other purposes and released funds at the fag end of the financial year. As a result, the Board had to incur avoidable payment of interest of Rs. 10.56 crore **(Appendix 7.10)** worked out at the rate of 10 *per cent* per annum as the Board borrowed short term loan from the bank for meeting its working capital requirement.

The Government admitted (November 2008) that the transfer of funds was delayed due to certain procedural formalities. The delayed release of funds by the State Government caused not only avoidable interest to the Board but also adversely affected timely completion of all schemes under RE (MNP)/PMGY.

- The Board had not opened a separate bank account on receipt of funds for RE works under RE(MNP)/PMGY. Therefore, the utilisation of funds, diversion of funds for other purposes and balance remaining unutilised was not susceptible for verification in audit.

The Government stated (November 2008) that though the Board did not open a separate bank account for all funds received through the State Government for RE(MNP)/PMGY works, it opened a separate bank account for the funds received from REC for implementing RGGVY scheme. The fact remains that the Board failed to open a separate bank account as per general terms and conditions issued by MOP for effect implementation of the PMGY schemes.

- The Board did not submit utilisation certificates in time as stipulated in the scheme and audited accounts of the scheme had not been submitted in respect of any scheme.

The Government stated (November 2008) that the Board was under process of closure of RE (MNP)/PMGY schemes and the actual expenditure would be finalised shortly. The reply is not convincing as utilisation certificates should have been submitted to GOI through the State Government to facilitate further release of funds. Further, accounts of the schemes were not finalised even after a lapse of three years.

7.3.4 Guidelines for PMGY and RGGVY schemes

The mandatory guidelines issued by MOP for PMGY and RGGVY schemes *inter alia* included the following:

- The State Government would constitute a State Level Monitoring Committee for monitoring electrification of villages under PMGY schemes and to ensure electrification of all villages in the State by the end of the Tenth Plan. The State Government would also constitute a State Monitoring Committee to oversee the implementation of RGGVY scheme.

- The State Government would also constitute a District Level Committee for coordinating and implementing the programme at the District level.

- The State and District Level Committees would evolve suitable mechanism for independent verification of works. The MOP would also get an independent verification done. This would include sample check.

- The list of villages/basties being electrified must be made available to the MP/MLA as well as District/Block/Village levels institutions and a certificate in confirmation thereof would be sent to the MOP along with the utilisation certificate.

- The management of rural distribution through franchisees should be undertaken under RGGVY scheme. Based on the consumer mix and the prevailing consumer tariff, likely load and the bulk supply tariff for the franchisee would be determined after ensuring commercial viability of the franchisee.

- The States/State Power Utilities were required to engage an independent agency, preferably Central Public Sector Undertakings (CPSUs) for project monitoring and supervision of quality of works approved under RGGVY scheme.

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

- The States Level Monitoring Committee constituted in June 2003 had not held any meeting so far (July 2008). Similarly, a State Monitoring Committee formed in October 2006 had also not held any meeting to oversee the implementation of RGGVY scheme. Thus, the purpose of the constitution of Committees was defeated.

- Only two meetings of the District Level Committee, one in 2006 and another in 2007, were held as against stipulated four meetings in a year.

- Independent verification of works and sample check was not carried out in respect of PMGY schemes. The management admitted the fact and stated that the Independent monitoring of works by third party would be done in all RGGVY projects.

- Lists of villages/basties were not furnished to MP/MLA as well as District/Block/Village levels institutions and a certificate in confirmation thereof was also not sent to the MOP along with the utilisation certificate. The Government stated (November 2008) that the action was being initiated to obtain certificates from competent authority regarding status of electrification of villages. However, the fact remains that the Board failed to obtain certificate of electrification of villages ever after lapse of three years of completion of all schemes.

- The Board was yet to evolve a suitable mechanism for handing over management of rural distribution to franchisees. The Government stated

(November 2008) that the scheme for management of rural electricity distribution by franchisees was being finalised by the Board.

- The Board had not engaged an independent agency for project monitoring and supervision of quality of works. The Government (November 2008) stated that the independent monitoring of works by third party would be done in all RGGVY projects. However, the Board had not engaged third party for effective monitoring and supervision of quality of works in respect of the works in progress under RGGVY schemes.

Implementation of the Programme

7.3.5 Schemes under RE (MNP)/PMGY

As per guidelines (September 2001), issued by GOI the plan for the programme shall contain district wise/block wise list of villages, which shall include at least one dalit/tribal basti village with latest census code number along with the total estimated investment in electrification of villages. The GOI further issued (February 2004) instructions to obtain certificate from Gram Panchayat regarding status of electrification of villages. Implementation of the scheme in seven revenue districts was to be done in each revenue district every year. Accordingly, the State Government approved a total outlay of Rs. 160.26 crore for nine schemes under RE (MNP)/PMGY for electrification of 1,682 villages in seven revenue districts in Meghalaya during the financial year 2001-02 to 2004-05. The Board electrified 1,548 villages during the period 2001-02 to 2007-08 at the cost of Rs. 135.91 crore as against receipt of funds of Rs. 122.82 crore from the State Government. The details of scheme wise physical achievement as well as corresponding financial expenditure under RE (MNP)/PMGY during 2001-02 to 2007-08 and release of funds there against by the State Government, are given in **Appendix 7.11.**

It was observed that there was abnormal delay in implementation of the programme and the completion of work spilled over to six years as against the scheduled period of two years. Though, the target for electrification of 1,682 villages was fixed for the period 2000-01 to 2004-05, only 1,548 villages were electrified (March 2008) and 134 villages were yet to be electrified (see **Appendix 7.11)**. The delay in completion of the schemes was attributed to the following factors:

- Delay in release of funds by the State Government; scheme estimates prepared without proper field survey; required materials were not made available at the site; delay in getting approval for revised estimates for substituted villages as the villages originally proposed were subsequently found either electrified or remote for tapping the power involving huge expenditure; delay in getting 'No Objection Certificate' from the Forest Department; delay in awarding work orders; and delay in execution of work by the contractors.

The Government admitted (November 2008) that electrification of villages could not be completed in time due to remoteness of the villages, difficult terrain and absence of road communication and delayed release of funds by the State Government.

7.3.6 Some of the other audit findings are discussed below:

- The State Government had approved project for Rs. 30 crore for rural electrification of 295 villages under PMGY-VI during 2004-05. The GOI, however, did not release the funds as the State Government was reluctant to take loan under MNP allocation for RE programmes. On being requested (May 2005) by the State Government, GOI advised (June 2005) the State Government to submit a proposal to the MOP through REC for consideration under the new RGGVY scheme so as to get the benefit of 90 *per cent* subsidy. The Board, however, had incurred expenditure of Rs. 23.58 crore for electrification of 178 villages under PMGY VI without scrapping the scheme and did not send the proposal to the MOP for inclusion under RGGVY for which there were no reasons on record.

The Government stated (November 2008) that since GOI did not release funds, the work was restricted to only 178 villages as against targeted 295 villages. The Board/the State Government failed to follow the GOI's advice to include these villages under RGGVY and, therefore, could not obtain subsidy to the extent of Rs. 21.22 crore.

- The Board spent Rs. 13.11 crore over and above the allocated funds and incurred avoidable interest of Rs. 1.31 crore at the rate of 10 *per cent* per annum as the Board borrowed short term loan from the bank for meeting its working capital requirements.

The Government admitted (November 2008) that generally schemes were sanctioned by MOP in the latter part of the financial year and stated that the work on the schemes was initiated in the beginning of the year in anticipation of funds from GOI in order to achieve the annual target of village electrification.

- In the absence of any specific guidelines for execution of work under turnkey contracts, the entire works were executed departmentally and thus, there was abnormal delay in implementing the programme. Consequently, the households in these villages remained deprived of electricity for over four to five years.

The Government admitted the fact that in the absence of specific guidelines for execution of work under turnkey contract there was delay in implementation of the programme.

- The Board electrified 3,817 villages (March 2008) out of 5,782 villages as per 2001 census. Thus, achievement of electrification of villages was only 66 *per cent* as against the target of *cent per* electrification of villages by end of the Tenth Plan (March 2007) as envisaged by the GOI. Further, the declaration of 842 villages as electrified during the period April 2004 to March 2008 without obtaining certificates from Gram Panchayats, was not in accordance with the guidelines issued (February 2004) by MOP.

The Government stated (November 2008) that *cent per cent* village electrification would be achieved by the end of Eleventh Plan and action was being initiated to obtain certificate from Gram Panchayats regarding status of electrification of villages. However, no efforts were made by the State Government for providing funds for electrification of all villages by March 2007 as envisaged by GOI. The Board failed to obtain certificate from Gram Panchayats for electrification of 842 villages as per instructions of GOI.

7.3.7 Formulation of PMGY schemes without proper survey

Electrification of 1,682 villages was proposed in nine MNP/PMGY schemes during the period between 2001 and 2005. While conducting field survey for preparation of estimates/technical sanction, 295 villages were substituted in place of originally proposed villages in the scheme due to duplication of villages, inclusion of already electrified villages, electrification of en-route villages, inclusion of already electrified villages under non-conventional energy scheme, proximity to existing 11 KV lines *etc.* This indicated that the schemes were formulated originally without proper survey. This has resulted in abnormal delay in execution of works.

The Government, while admitting the facts, stated (November 2008) that the main reason was shortage of time during formulation of schemes coupled with the absence of data bank in the Board.

Electrification of Saibul village in Jowai district of PMGY-VI scheme was originally estimated (July 2004) at Rs. 12.92 lakh involving distance of 5 KM of 11 KV line. The estimate was revised (June 2007) to Rs. 63.61 lakh involving distance of 19 KM after conducting field survey. As this involved huge cost, revised estimates were prepared to electrify initially enroute Malidor village involving distance of 7 KM at a cost of Rs. 21.61 lakh and to subsequently electrify Saibul village at an estimated cost of Rs. 26.78 lakh tapping power from existing 11 KV line at Thuruker. These estimates were yet to be approved and work to be commenced. This indicated that scheme estimates had not been prepared properly.

The Government stated (November 2008) that as huge expenditure was involved for the electrification of the above villages, it was decided that nearby villages were to be electrified under RGGVY scheme and electrification of the above villages would be taken later. The reply is not acceptable as the faulty formulation of scheme resulted in depriving these villages of electricity for more than four years.

The Department of Health and Family Welfare, Government of Meghalaya requested (August 2007) Power Department for electrification of Chekegre and Dolwarigre villages in East Garo Hills district and Darang Bodok and Badri Rongdong villages in South Garo Hills urgently as these villages were in dire need of electricity and the Department also agreed to supply transformers for these villages. The Board, however, included these villages under RGGVY scheme without undertaking work under PMGY even though surplus materials procured under PMGY scheme were available and cost involved was only Rs. 19.60 lakh.

The Government stated (November 2008) that the electrification of the above villages were included in RGGVY scheme. However, electrification of these villages would be taken up only after awarding of the contracts for East and South Garo Hills which was under process and completion of the work would take another two years. This indicated that the Board failed to identify villages where electrification was urgently required considering the importance of Public Health centre.

Procurement of material/equipment

7.3.8 Extra expenditure on procurement of steel poles

The Board incurred extra expenditure of Rs.55.44 lakh on account of cost and time overrun.

As per guidelines, the Implementing Agency was to ensure that the work done and all the material utilised conform to the prescribed specifications and the works identified were completed without time and cost overrun. The works under PMGY-III scheduled to be completed by March 2004 were, however, completed by the end of March 2007 with a delay of three years. The Board procured 10,944 steel poles of 7.5 metre and 9,852 steel poles of 8 metre at the rate of Rs. 2,291 and Rs. 3,777 respectively during the period between March and October 2003 and procured further quantity of 2,876 and 2,035 steel poles of 7.5 metre and 8 metre at higher rates of Rs. 3,221 and Rs. 5,187 respectively in July/August 2004. Thus, the Board incurred an extra expenditure of Rs. 55.44 lakh[3] on account of cost and time overrun. Had the Board procured entire quantity between March and October 2003 with staggered supply schedule, extra expenditure was avoidable.

The Government, while admitting (November 2008) the facts, stated that the procurement was done considering the progress of work and incurring extra expenditure could not be avoided.

7.3.9 Avoidable expenditure on procurement of channel and cross arms

It was proposed in the 33 Material Management Committee meeting (19 December 2003) by the then Chief Engineer(RE) that Y cross arm and 3 ½ core cables were not to be procured and were to be substituted by channel cross arms and single core cables, while considering the procurement of

[3] (Rs.3221- Rs.2291) = Rs.930x2876 poles + (Rs.5187-Rs.3777) = Rs.1410 x 2035 poles = Rs.55,44,030 or Rs.55.44 lakh.

material for PMGY-III scheme. He also suggested that 2800 mm cross arms of all sizes at channels and angles were to be substituted by channel cross arms 2,280 mm for pole mounted sub-station upto 63 KVA. The Board, however, continued to procure Y cross arms, 2,800 mm cross arms and 3 ½ core cables instead of channel cross arms 2,280 mm and single core cables for all subsequent works under PMGY III to VI schemes at higher rate than the rate of substituted items, as a result of which Board incurred avoidable expenditure of Rs. 42.61 lakh.

The Government, while admitting the facts, stated (November, 2008) that the then Chief Engineer (RE) proposed for the substitution of certain materials which was turned down by the committee and the then Chief Engineer was directed to consider the above proposal while formulating future schemes. The fact remains that subsequent schemes were also not formulated as suggested by the then CE.

7.3.10 Excess procurement of material

Board incurred avoidable interest of Rs. 24.05 lakh per annum on idle investment.

Based on the programme approved by the Board for each revenue district every year under PMGY, the Material Management Division of the Board initiated action from time to time for procurement of materials for nine schemes. The procured materials were issued to various divisions as and when the materials were requisitioned by the Divisions for execution of village electrification. The electrification of villages was almost completed (except in a few villages) under nine schemes. The physical verification report (as on 31 March 2008) of the divisions revealed that the Board was having surplus line erection material and transformers valued at Rs. 2.14 crore**.** Further, it was also noticed that 61 (25 KVA) transformers valuing Rs. 26.32 lakh procured (April/May 2006) for PMGY works had been diverted (between July 2007 and January 2008) to other works as these stock were lying idle for long time. This clearly indicated that the Board had not properly assessed the actual requirement for various works considering the site conditions and ground realities. The loss of interest on idle investment worked out to Rs. 24.05 lakh per annum**.**

The Government, while admitting (October 2008) the facts, stated that all excess materials would be utilised for O&M works after closure of all the schemes. The fact remains that the Board had not properly assessed the actual requirement of materials for various schemes and incurred avoidable interest on idle investment.

Deficiencies in execution of works

7.3.11 Non-adherence of REC guidelines in execution of work for getting quality of power

In the 33 Material Management Committee meeting held on 19 December 2003, then Chief Engineer (RE), while disapproving procurement of materials as proposed for earlier schemes, suggested slight modification in the specifications of a number of items which would improve the quality of the construction works and effect economy. To arrest further deterioration in voltage and technical and commercial losses, he suggested increase in 11 KV line, reduction in LT lines and erection of a number of small transformers. Accordingly, he worked out the requirement of materials for PMGY-III, IV and V and directed the SE (MM) for initiating action for procurement of the materials in the specifications as suggested by him. The Board, however, ignored his suggestion and continued to procure materials as contemplated in the original estimates for on-going as well as subsequent schemes. As a result, there were complaints from the consumers about quality power supply/poor voltage in tail end of households in the villages. It is pertinent to mention that the Board prepared DPRs under RGGVY scheme as per guidelines of REC for providing longer KV line with number of small transformers for connecting household through LT lines for getting quality power which was not followed under PGMY schemes.

The Government stated (November, 2008) that the works were carried out as per REC specification and the length of LT lines in the schemes was as per the capacity of the sub-station. However, the then CE suggested slight modification in the specifications with available capacity of the sub-station in order to improve the quality of the construction work to arrest deterioration in voltage and technical and commercial losses which was also followed in subsequent RGGVY scheme.

7.3.12 Schemes under RGGVY

The rural electrification works for 2005-06 onwards were to be taken up under RGGVY programme. Accordingly, the Board submitted (November/ December 2005) Detailed Project Reports (DPRs) at the estimated cost of Rs. 264.45 crore for seven districts under RGGVY scheme and REC approved (November 2006) the capital outlay of Rs. 61.71 crore[4] for three districts. Based on REC's observation (September 2006) that the parameters for 11 KV and LT lines provided in other four districts did not tally with the actual requirement, rather in most of the cases, the parameters were on the lower side compared to the actual requirement, the Board submitted (December 2006) revised DPRs at the revised estimated cost of Rs. 227.79 crore for four districts and REC approved (March 2008) the capital outlay. Thus, REC approved the total capital outlay of Rs. 289.50 crore for electrification of 1,573 virgin villages; electrification of 370 de-electrified villages and extension work in 3,536 villages in seven revenue districts as indicated below:

[4] East Khasi Hills –Rs.15.71 crore; Ri-Bhoi- Rs.19.89 crore and Jaintia Hills – Rs.26.11 crore = Rs.61.71 crore.

Table 7.11

District	Capital outlay (Rs. in crore) & date of sanction	Amount of Letter of Award and date of LOA (Rs in crore)	Scheduled Month of comple-tion	No of virgin villages	De-elec-trified villages	No. of habita-tions to be electrified	No. of electrified villages covered under the project for extension of work	Electrifica tion of house holds including BPL household	Progress of work
East Khasi Hills	15.71 (21.11.06)	17.25 (9.6.08)	December 2009	-	19	19	834	14,193	Work in progress
West Khasi Hills	34.67 (11.03.08)	Tender under process	-	224	20	-	506	26,477	Work not started
Ri-bhoi	19.89 (21.11.06)	19.74 (28.9.07)	September 2009	72	34	106	423	9,647	Work in progress
Jaintia Hills	26.11 (21.11.06)	29.01 (16.7.07)	July 2009	18	50	68	374	31,848	Work in progress
East Garo Hills	61.95 (11.03.08)	Tender under process	-	361	109	422	335	24,353	Work not started
West Garo Hills	81.43 (11.03.08)	Tender under process	-	534	123	1,677	816	67,026	Work not started
South Garo Hills	49.74 (11.03.08)	Tender under process	-	364	15	627	248	15,104	Work not started
Total	**289.50**			**1,573**	**370**	**2,919**	**3,536**	**1,88,648**	

Source: Data provided by the Board.

7.3.13 Award of turnkey contract at higher rates

The Board would have to incur additional expenditure of Rs. 5.23 crore due to its failure to negotiate the rates quoted in the turnkey contract to bring them at par with rates finalised during the same period for Ri-Bhoi district.

Tenders for execution of RGGVY scheme in Jaintia hills district were invited (January 2007) by the Board. Based on the Guaranteed Technical Parameters of the materials, the Tender Evaluation Committee recommended (May 2007) the acceptance of the sole qualified bidder, M/s Marbaniang Enterprises. The Board awarded (July 2007) the contract, on turnkey basis, to M/s Marbaniang Enterprise, Shillong, at the quoted rates, for supply and erection of 11 KV LT lines, Distribution Transformers and providing service connection to households in the district at a total contract price of Rs. 29.01 crore.

Tenders for execution of RGGVY scheme in Ri-Bhoi district were invited (December 2006) by the Board. As there were some anomalies in the technical specification of the materials in the bid documents, tenders were re-invited (April 2007). Based on the evaluation of technical and financial qualification and comparative statements of two qualified bidders, the Board awarded (September 2007) the contract, on turnkey basis, to M/s Dhar Brothers Construction Company Private Ltd, Shillong for supply and erection of 11 KV LT lines, Distribution Transformers and providing service connection to households in Ri-Bhoi district at a total contract price of Rs. 19.74 crore.

Scrutiny of records revealed that the prices finalised for Jaintia hills district were more than the ones for Ri-Bhoi district in respect of major components (*viz.* conductors, steel tubular poles, transformers, *etc*.). Compared to the prices of M/s Dhar Brothers Construction Company Private Ltd. for Ri-Bhoi district with the prices of M/s Marbaniang Enterprise for Jaintia hills district, the Board would have to incur additional expenditure of Rs. 5.23 crore on procurement of major items. This clearly indicated that the proper evaluation of the tenders was not made and efforts were not made to bring down the rates while finalising turnkey contract for Jaintia hills district**.**

The Government stated (November 2008) that the works were awarded after tendering process and the Board had no control over the prices quoted by the bidders. It was also stated that the Tender Evaluation Committee requested to reduce the price during the price bid opening meeting and the bidder offered a discount of two *per cent* on total freight and insurance. However, the Board should have negotiated with the bidder to bring down the rates at par with the rates finalised during the same period for Ri-Bhoi district in the best interest of the Board.

7.3.14 Internal Control and Audit

Internal control system is an essential pre-requisite for the efficient and effective management of the organisation. During the course of audit, it was noticed that the Board did not take adequate measures for effective internal control in execution of RE works as discussed below:

- Monitoring of implementation of RE schemes and declaration of village electrification under PMGY schemes was inadequate;
- No system was devised for timely execution of work by labour contractors and timely supply of material to labour contractor at work site;
- Lack of monitoring over the performance of the field officers towards supervision of RE works; and
- No system was evolved to account for scheme wise expenditure to ensure the utilisation of funds for the intended purpose.

The Board had its own Internal Audit Wing, which conducted audit in accordance with an annual programme. It was, however, noticed that despite substantial expenditure incurred on RE works, audit of these works was not covered under the annual programme during three years ending March 2008. It was observed that the Board incurred expenditure of Rs. 135.93 crore for RE works up to March 2008. Thus, the internal audit system was deficient and ineffective as a key control mechanism of the management.

Recommendations

In view of the foregoing, the State Government/Board should:

- **ensure electrification of all villages not covered in earlier schemes and electrification of RHHs in RGGVY scheme in a time bound manner so as to achieve prime objective of the scheme;**

- **strictly adhere to the plans, policy, rules and guidelines for optimising operational and financial performance;**

- **evolve a system to get the reimbursement of expenditure actually incurred for implementation of RE programmes to avoid financial loss;**

- **observe transparency in assessing the reasonableness of tender prices at the time of finalisation of rates under turnkey works at various schemes to avoid unreasonable expenditure;**

- **ensure accountability of its staff in monitoring the progress of departmental as well as turnkey work contracts; and**

- **strengthen Internal control and Internal audit by enlarging its scope and standardising its procedures.**

7.4 Infructuous expenditure and undue benefit to a contractor

The Board incurred infructuous expenditure of Rs. 3.19 crore and extended undue financial benefit of Rs. 2.17 crore to the contractor due to execution of an item of work during February 2006 to March 2008 without adequate study and for not providing recovery rate of excavated boulders, *etc.* in the agreement.

7.4.1 The work of construction of dam and appurtenant of Myntdu Leshka Hydro Electric Project (2X42 MW) including diversion channel and upstream and downstream coffer dam was awarded (March 2004) by the Board to M/s SEW Construction Limited, Hyderabad at a total cost of Rs. 87.81 crore. On the basis of specifications provided by the Central Water Commission (CWC), an additional item of work for construction of divide walls including reinforcement of buckets for discharging flood water was included (February 2006) at a cost of Rs. 10.51 crore.

It was found in audit that after partial execution of the divide wall and reinforcement of bucket at a cost of Rs. 3.19 crore, the Board approached

(September 2007) the CWC to reduce/ restrict the cost of some components of the project to limit the total cost of the project within the approved cost. Accordingly, CWC and the Board decided (October 2007) to omit the provision of the divide wall. Thus, the action of the Project Authorities to initiate construction of the divide wall without adequate study/cost analysis rendered the expenditure of Rs. 3.19 crore infructuous.

The Board stated (April 2008) that the decision for deletion of the divide wall from the scope of work was taken after assuring that flood water would be controlled by raising all the central gates at a time and that repairing/maintenance of downstream portion of dam would be undertaken during dry season. However, all these factors should have been examined before commencement of construction of the divide wall.

7.4.2 According to the agreement, stone/aggregates/boulders excavated from the dam site were to be utilised by the contractor for concrete work subject to the approval of the Engineer-in-charge. The recovery at the rate of Rs. 100 per cum of aggregate was communicated (October 2005) by the Chief Engineer (HC). Till March 2008, the contractor utilised 2.17 lakh cum of aggregates for concrete work.

It was found in audit that the cost of aggregates of Rs. 2.17 crore was not recovered from the contractor's bills on the ground of non-availability of recovery rate in the agreement. As a result, the contractor enjoyed undue financial benefit of Rs. 2.17 crore.

The Board stated (April 2008) that any move of the project authorities to recover the cost of boulders used for concrete work was unilateral and not in the spirit of the agreement. The fact remains that appropriate provision for recovery of the cost of boulders, *etc.* was not made in the agreement to safeguard the financial interest of the Board.

The matter was reported to the Government in May 2008; their reply had not been received (November 2008).

7.5 Undue financial benefit and loss of interest

The Board extended undue financial benefit of Rs. 4 crore to the Assam State Electricity Board due to execution of a faulty agreement besides loss of Rs. 70 lakh during December 2003 to November 2006.

The Board executed (November 2003) an agreement with the Assam State Electricity Board (ASEB) for construction of 132 KV Double Circuit Transmission Line, Umiam Stage IV–Sarusajai (Assam portion) and installation of 100 MVA 220/132 KV transformers with terminal at Sarusajai sub-station. The agreement *inter alia* provided for advance payment of

Rs. four crore to ASEB and completion of work within 16 months from the date of release of advance.

It was found in audit in January 2008 that advance payment for Rs. four crore was made to the ASEB in November 2003. The work was started by the ASEB in November 2004 after lapse of one year and was completed in November 2006. The Board could not claim any damages from the ASEB for delay in completion of work in the absence of enabling clause in the agreement. As a result, the ASEB enjoyed financial benefit of Rs. four crore for 20 months and the Board sustained loss of Rs. 70 lakh[5] in the form of interest. Besides, the anticipated benefits of the scheme could not reach the consumers for the delayed period of 20 months.

The matter was reported to the Government/Management in February 2008; their reply had not been received (November 2008).

7.6 Wasteful expenditure on construction of a double circuit line

The Board incurred wasteful expenditure of Rs. 28.13 lakh on design of the item of work which was in deviation from the approved estimate.

To evacuate power from the Myntdu-Leshka Hydro Electricity Project, the Board approved (June 2004) the construction work of 132 KV DC line on 132 KV tower at an estimated cost of Rs. 8.47 crore.

Audit scrutiny revealed that the Executive Engineer (EE), Transmission and Transformation Division, Shillong proposed (July 2005) the construction of the line on 220 KV tower instead of 132 KV tower. Pending consideration of the proposal by the Evaluation Committee (EC), the Chief Engineer (GT) entrusted (March 2006) Power Grid Corporation of India Limited (PGCIL) for providing tower and foundation design of 220 KV DC towers and paid (April 2006) Rs. 21.49 lakh for this work. In addition, the Division also incurred Rs. 6.64 lakh on inviting tenders for construction of 220 KV towers. The work, however, was ultimately taken up (May 2007) as per original design on 132 KV towers.

Thus, arbitrary action of the Chief Engineer for appointment of PGCIL for providing design as well as inviting tenders for execution of the works without waiting for the decision of the EC resulted in wasteful expenditure of Rs. 28.13 lakh. Responsibility for the lapse had not yet been fixed (November 2008).

[5] Calculated for 20 months at the borrowing rate of 10.5 *per cent* per annum, *i.e.* Rs. 4 crore x 10.5/100 x 20/12 = Rs. 70 lakh.

The matter was reported to the Government/Management in February 2008; their reply had not been received (November 2008).

(ONKAR NATH)

Shillong | Accountant General (Audit)
The | Meghalaya

Countersigned

New Delhi | **(VINOD RAI)**
The | Comptroller and Auditor General of India