CHAPTER – VIII : GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

This chapter deals with the results of audit of Government companies and Statutory corporations. Paragraph 8.1 deals with general view of Government companies and Statutory corporations. Paragraph 8.2 contains a review on the working of Meghalaya Industrial Development Corporation Limited, Paragraph 8.3 contains review on the working of Meghalaya Construction Corporation Limited and Paragraphs 8.4 to 8.7 deal with topics of other interests.

8.1 Overview of Government Companies and Statutory Corporations

Introduction

8.1.1 As on 31 March 2001 there were 10 Government companies (all working, including four subsidiaries) and three Statutory corporations (all workings) against the same number of Government companies (eight working and two under revival) and working Statutory corporations as on 31 March 2000 under the control of the State Government. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provision of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956. The audit of the Statutory corporations are conducted under the provisions of the respective Acts as detailed below :

Table 8.1

Sl. No.	Name of the Corporation	Authority for audit by the CAG	Audit arrangement
1.	Meghalaya State Electricity Board (MeSEB)	Section 69(2) of the Electricity (Supply) Act, 1948	Sole audit by CAG
2.	Meghalaya Transport Corporation (MTC)	Section 32(2) of Road Transport Corporations Act, 1950	Sole audit by CAG
3.	Meghalaya State Warehousing Corporation (MSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962	Chartered Accountants and supplementary audit by CAG

Working Public Sector Undertakings

Investment in Working Public Sector Undertakings

8.1.2 As on 31 March 2001, the total investment in 13 working Public Sector Undertakings (PSUs) (10 Government companies and three Statutory corporations) was Rs.531.12 crore (equity : Rs.108.70 crore; long-term loans* : Rs.402.22 crore and share application: Rs.20.20 crore) as against the same number of PSUs (eight working companies, two companies under revival and three Statutory Corporations) with a total investment of Rs.487.25 crore (equity : Rs.107.05 crore; long-term loans* : Rs.380.20 crore) as on 31 March 2000. The analysis of investment in PSUs is given in the following paragraphs.

Working Government Companies

8.1.3 Total investment in 10 working companies as on 31 March 2001 was Rs.122.77 crore (equity : Rs.71.70 crore; long-term loans : Rs.30.87 crore and share application money: Rs.20.20 crore) as against total investment of Rs.95.44 crore (equity : Rs.70.05 crore; long-term loans : Rs.25.39 crore) as on 31 March 2000 in 10 Government companies (eight working companies and two companies under revival).

8.1.4 The summarised financial results of working Government companies in the form of equity and loan are detailed in Appendix-XXIX.

8.1.5 Main reason for increase in total investment was induction of equity by the State Government amounting to Rs.20.49 crore in three sectors viz. cements, industrial development and financing and tourism.

8.1.6 As on 31 March 2001, the total investment of working Government companies comprised 74.86 **per cent** equity capital and 25.14 **per cent** loan as compared to 73.40 **per cent** and 26.60 **per cent** respectively as on 31 March 2000.

8.1.7 Due to significant increase in equity (79.96 **per cent**) compared to increase of loan (20.04 **per cent**) during 2000-01, the debt equity ratio has decreased from 0.36:1 in 1999-2000 to 0.34:1 in 2000-01.

Working Statutory Corporations

8.1.8 The total investment in three Statutory corporations at the end of March 2000 and March 2001 was as follows :-

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* Long term Loans mentioned in paragraphs 8.1.2 to 8.1.12 are excluding interest accrued and due on such loans.

Table 8.2

(Rupees in crore)

Name of Corporation	**1999-2000**		**2000-01**	
	Capital	**Loan**	**Capital**	**Loan**
Meghalaya State Electricity Board (MeSEB)	-	341.44	-	357.98
Meghalaya Transport Corporation (MTC)	34.67	13.37	34.67	13.37
Meghalaya State Warehousing Corporation (MSWC)	2.33	-	2.33	-
Total	**37.00**	**354.81**	**37.00**	**371.35**

8.1.9 The summarised financial statement of Government investment in working Statutory corporations in the form of equity and loan is detailed in Appendix-XXIX.

8.1.10 The increase in investment of working Statutory corporations during 2000-01 (compared to 1999-2000) represented further investment towards loan by the State Government to Meghalaya State Electricity Board.

8.1.11 As on 31 March 2001, the total investment of working Statutory corporations comprised 9.06 **per cent** equity and 90.94 **per cent** of loan as compared to 9.44 **per cent** and 90.56 **per cent** respectively as on 31 March 2000.

8.1.12 Due to significant increase of long term loan of Meghalaya State Electricity Board, the debt equity ratio has increased from 9.59:1 in 1999-2000 to 10.04:1 in 2000-01.

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

8.1.13 The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by State Government to working Government companies and working Statutory corporations are given in Appendices-XXIX and XXX.

8.1.14 The budgetary outgo (in the form of equity capital and loan) and grants/subsidies from the State Government to ten working Government companies and three working Statutory corporations for the three years up to 2000-01 in the form of equity capital, loans, grants and subsidy is given below:

Table 8.3

(Rupees in crore)

	1998-99				1999-2000				2000-01			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1.Equity	2	1.38	1	1.11	2	0.65	-	-	6	21.00	-	-
2. Loans	-	-	1	18.00	2	0.75	2	15.11	-	-	1	18.44
3. Grants	1	0.20	-	-	2	0.21	-	-	-	-	-	-
4. Subsidy	-	-	1	9.50	1	0.01	2	11.50	2	0.31	2 *	13.10 *
Total outgo	**3@**	**1.58**	**2@**	**28.61**	**6@**	**1.62**	**2@**	**26.61**	**6 @**	**21.31**	**2@**	**31.54**

8.1.15 During the year 2000-01, no fresh guarantee has been given by the State Government against loan raised by the PSUs. However, against the guarantees given by the State Government in earlier years, the guarantees outstanding and defaulted in repayment amounted to Rs.109.93 crore against two Government companies (Rs.2.62 crore) and one Statutory Corporation (Rs.107.21 crore). No guarantee commission was payable by the PSUs to the State Government.

Finalisation of accounts by PSUs

8.1.16 The accounts of the companies for every financial year are required to be finalised within six months from the end of relevant financial year under Section 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

8.1.17 However, as could be noticed from Appendix-XXXI, none of the 10 working Government companies and out of three Statutory corporations two Corporations had finalised their accounts for the year 2000-01 within the stipulated period.

8.1.18 During the period from October 2000 to September 2001, 9 working Government companies finalised 10 accounts for previous years. Similarly, during this period three working Statutory corporations finalised three accounts for previous years.

8.1.19 The accounts of all the 10 working Government companies and two Statutory corporations were in arrears for periods ranging from one year to 14 years as on 30 September 2001 as detailed below:-

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* Represents subsidy against Rural Electrification losses (Rs.10.25 crore) to Meghalaya State Electricity Board and subsidy to Meghalaya Transport Corporation (Rs.2.85 crore).

@ These are the actual number of Companies/Corporations which have received budgetary support in the form of equity, loans, grants and subsidy from the State Government during respective years.

Table 8.4

Sl. No.	Year from which accounts are in arrears	Number of years for which accounts are in arrears	Number of companies/ corporations		Reference to Serial No of Appendix-XXXI	
			Government companies	Statutory corporations	Government companies	Statutory corporations
1.	1999-2000	02	04	-	1,4,9 & 10	-
2.	1997-98	04	-	01	-	2
3.	1995-96	06	03	-	2,5 & 7	-
4.	1994-95	07	02	-	3 & 6	-
5.	1987-88	14	01	-	8	-

8.1.20 The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. Though the concerned administrative departments and officials of the Government were appraised quarterly by the Audit regarding arrears in finalisation of accounts, no effective measures had been taken by the Government. As a result, the investments made in these PSUs could not be assessed in audit.

Financial position and Working results of working PSUs

8.1.21 The summarised financial results of working PSUs (Government companies and statutory corporations) as per latest finalised accounts are given in Appendix-XXXI. Besides, statement showing financial position and working results of individual statutory corporations for the latest three years for which accounts are finalised are given in Appendices-XXXII & XXXIII respectively.

8.1.22 According to latest finalised accounts of 10 working Government companies and three Statutory corporations, 8 companies and 2 corporations had incurred an aggregate loss of Rs.4.62 crore and Rs.24.56 crore respectively and the remaining two companies and one corporation earned profit of Rs.2.34 crore and Rs.0.10 crore, respectively.

Working Government companies

Profit earning working companies and dividend

8.1.23 Out of 10 working Government companies none of the companies have finalised their accounts for 2000-01. Based on accounts finalised for previous years by September 2001, two companies earned an aggregate profit of Rs.2.34 crore and only two companies earned profit for two or more successive years. None of the profit earning working companies have declared dividend during the latest year's finalised accounts. The State Government has not formulated any dividend policy for payment of minimum dividend.

Loss incurring working Government companies

8.1.24 Of the eight loss incurring working Government companies, four Companies (Sl.No. 4,5,6 and 9 of Appendix-XXXI) had accumulated losses aggregating Rs.17.24 crore which had far exceeded their aggregate paid up capital of Rs.5.84 crore.

8.1.25 Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of contribution towards equity, etc. According to available information, the total financial support so provided by the State Government by way of equity during 2000-01 to one company whose accumulated losses had exceeded the paid up capital amounted to Rs.0.22 crore.

Working Statutory corporations

Profit earning working Statutory corporations and dividend

8.1.26 Only one Statutory corporation (Serial 3 of Appendix-XXXI) which finalised accounts for 2000-01 by September 2001 earned profit of Rs.0.10 crore but did not declare any dividend.

Loss incurring working Statutory corporations

8.1.27 The aggregate accumulated loss of two Statutory corporations (Sl. Nos. 1 & 2 of Appendix-XXXI) as per their latest finalised accounts was Rs.316.09 crore. As per available information, during 2000-01 the State Government had provided financial support aggregating Rs.31.54 crore to these Statutory corporations by way of loan (Rs.18.44 crore to one corporation) and subsidy (Rs.13.10 crore to two corporations).

Operational performance of working Statutory corporations

8.1.28 The operational performance of the working Statutory corporations is given in Appendix – XXXIV.

Return on Capital Employed

8.1.29 As per the latest finalised accounts (up to September 2001) the capital employed[#] worked out to Rs.79.85 crore in 10 working companies and total

[#] 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).

return[!] thereon was (-) Rs.0.58 crore as compared to total return of (-) Rs.0.32 crore in the previous year accounts (finalised up to September 2000). Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts (up to September 2001) worked out to Rs.392.21 crore and Rs.23.86 crore (6.08 **per cent**) respectively against the total return of Rs.14.36 crore (3.95 **per cent**) in previous year (accounts finalised up to September 2000). The details of capital employed and total return on capital employed in case of working Government companies and corporations are given in Appendix-XXXI.

Status of placement of Separate Audit Reports of Statutory Corporations in Legislature

8.1.30 The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by the Comptroller and Auditor General of India in the Legislature by the Government.

Table 8.5

Sl. No.	Name of Statutory corporations	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		Reasons for delay in placement in Legislature
			Year of SAR	Date of issue to the Government	
1.	MeSEB	1998-99	1999-2000	16 February 2001	In the process of presentation
2.	MTC	1994-95	1995-96	26 June 2000	-Do-
3.	MSWC	1998-99	1999-2000 & 2000-01	23 May 2001 04 December 2001	-Do-

Disinvestment, Privatisation and Restructuring of Public Sector Undertakings

8.1.31 None of the Public Sector Undertakings (PSU) shares has been disinvested nor has any PSU been privatised, restructured, merged or closed.

Results of audit by Comptroller and Auditor General of India

8.1.32 During the period from October 2000 to September 2001, the accounts of seven working companies and three corporations were selected for review. The net impact of audit observations as a result of review of PSUs was as follows:-

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

Table 8.6

Details	Number of accounts		Rupees in lakh	
	Government companies	Statutory corporation	Government companies	Statutory corporation
i) Decrease in profit	1	1	53.43	3.92
ii) Increase in profit	-	-		7.45
iii) Increase in loss	1	-	0.53	-
iv) Decrease in loss	-	-	-	-
v) Non-disclosure of material facts	1	-	6.53	-
vi) Errors of classification	-	-	-	-

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

Errors and omissions noticed in case of Government companies

(A) Mawmluh-Cherra Cements Limited (Accounts for 1998-99)

8.1.34 Re-activitation expenses of Rs.2.93 crore have been exhibited as net of the assets after provision for depreciation/write off, which should have been disclosed at cost (Rs.9.36 crore) less accumulated depreciation provided (Rs.6.43 crore) classifying under appropriate head of assets in terms of Part-I to Schedule VI of the Companies Act, 1956.

(B) Meghalaya Industrial Development Corporation Limited (Accounts for 1994-95)

8.1.35 The net profit for the year has been overstated by Rs.56.41 lakh due to short provision of interest payable on refinance loan (Rs.21.37 lakh) and non-provision of bad and doubtful assets (Rs.35.04 lakh).

8.1.36 Non-provision of bad and doubtful debts for non-performing assets has resulted in overstatement of accumulated profit (liabilities) and loans (assets) each by Rs.1.40 crore.

Errors and omissions noticed in case of Statutory corporations

(A) Meghalaya State Electricity Board (Accounts for 1999-2000)

8.1.37 The net loss for the year (Rs.20.65 crore) has been understated by Rs.3.98 crore due to excess provision of interest and interest tax (Rs.0.94 crore), excess accountal of revenue on sale of power including surcharge to ASEB (Rs.2.44 crore), short provision of interest on CSS, LIC,REC loans (Rs.1.10 crore), Non provision of full interest on GPF subscription and interest earned on fund’s investment (Rs.0.11 crore), non-provision of interest bills/delayed payment surcharge raised by NHPC, NEEPCO and PGCIL (Rs.1.13 crore) and short provision of interest (Rs.0.12 crore).

8.1.38 Inter Unit transfer (Rs.0.22 crore) under sundry receivable exhibited in accounts represents value of materials transferred from one unit to another but awaiting transfer to their proper heads of account for 10 to 15 years due to non-receipt of acknowledgements from the recipient unit. Due to abnormal delay in adjustment of the amounts to their final heads of accounts, cumulative loss/deficit, fixed assets, work-in-progress and stock accounts remained overstated.

(B) Meghalaya Warehousing Corporation (Accounts for 2000-01)

8.1.39 The net profit for the year (Rs. 0.10 crore) has been overstated by Rs.0.03 crore due to short provision of depreciation due to non-adoption of rates specified in Schedule XIV of the Companies Act, 1956.

Audit assessment of the working results of Meghalaya State Electricity Board

8.1.40 Based on the audit assessment of the working results of MeSEB for the three years up to 1999-2000[#] 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 given below :-

Table 8.7

(Rupees in crore)

Sl. No.	Particulars	1997-98	1998-99	1999-2000
1.	Net Surplus/(-)deficit as per books of accounts	(-) 42.99	(-) 23.29	(-) 20.65
2.	Subsidy from the State Government	9.00	9.50	9.30
3.	Net Surplus/(-)deficit before subsidy from the State Government(1-2)	(-) 51.99	(-) 32.79	(-) 29.95
4.	Net increase/decrease in net surplus/ (-)deficit on account of audit comments on the annual accounts of the MeSEB	(-) 1.73	(-) 2.95	(-) 3.98

[#] SAR for 2000-01 under process of finalisation.

Sl. No.	Particulars	1997-98	1998-99	1999-2000
5.	Net Surplus/(-)deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-) 53.72	(-) 35.74	(-) 33.93
6.	Total return on capital employed	(-) 13.16	5.86	6.34
7.	Percentage of total return on capital employed	-	1.72	1.79

Persistent irregularities and system deficiencies in financial matters of PSUs

8.1.41 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 the PSUs so far.

(a) Meghalaya State Electricity Board :

i) Age wise analysis of receivables has not been made.

ii) Subsidy Registers for Purchases, Advances etc. remained unreconciled with the Financial Books.

iii) Stores Ledger remains incomplete and not reconciled with the Financial Ledger. Most of the stock holding units have not maintained Priced Stores Ledger.

iv) Assets were not physically verified.

(b) Meghalaya Transport Corporation :

i) 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.

ii) The opening and closing balances of stationery and forms and tickets were not assessed and accounted for.

iii) Journal entries passed lack sufficient narrations of adjustments made.

iv) Party wise ledger for Sundry Creditors has not been maintained.

v) Fixed assets as exhibited in Schedule ‘E’ have not been physically verified by the Corporation.

Recommendations for closure of PSUs

8.1.42 Even after completion of 16 to 20 years of their existence, the turnover of 8 working companies and one working statutory corporation have been less than Rs.5 crore in each of the preceding five years of latest finalised accounts. Similarly six working companies had been incurring losses for five consecutive years (as per latest finalised accounts) leading to net negative net worth. In view of poor turnover and continuous losses, the Government may either improve performance of above six Government companies or consider their closure.

Response to Inspection Reports, Draft Paragraphs and Reviews

8.1.43 Audit observations noticed during audit and not settled on the spot are communicated to the head of PSUs and concerned departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2001 pertaining to 13 PSUs disclosed that 678 paragraphs relating to 205 Inspection reports remained outstanding up to September 2001. Of these, 53 Inspection reports containing 137 paragraphs had not been replied for more than 9 to 4 years. Department-wise break-up of Inspection reports and Audit observations outstanding as on 30 September 2001 is given in Appendix – XXXV.

8.1.44 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. It was however, observed that four draft paragraphs and two reviews were forwarded to the various departments during July 2001 to August 2001 as detailed in Appendix-XXXVI, which had not been replied to so far.

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

Position of discussions of Commercial Chapters of Audit Reports by the Committee on Public Undertakings

8.1.46 The status of discussion of reviews/paragraphs of Commercial chapter of Audit Reports pending discussion by COPU as on December 2001 are shown below:-

Table 8.8

Period of Audit Report	Total number of reviews and paragraphs appeared in Audit Report		Number of reviews and paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1984-85	3	3	1	1
1985-86	1	3	-	3
1986-87	1	3	1	2
1987-88	1	4	1	3
1988-89	1	4	-	3
1989-90	1	4	-	3
1990-91	2	4	2	3
1991-92	1	4	1	3
1992-93	1	4	1	4
1993-94	1	4	-	4
1994-95	2	4	2	4
1995-96	1	4	1	4
1996-97	1	4	1	4
1997-98	1	4	1	4
1998-99	1	2	1	2
1999-2000	2	7	2	7

8.1.47 Between July 1985 and April 1997, the COPU had presented 12 Reports (including three Action Taken Reports) before the State Legislature.

619-B Companies

8.1.48 Some non-Government companies are deemed to be Government companies under Section 619-B of the Companies Act, 1956 for the limited purpose of extending the provisions relating to audit of Government companies contained in Section 619 of the Companies Act, 1956.

8.1.49 There was one such company covered under 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 8.9

(Rupees in crore)

Name of Company	Year of accounts	Paid up Capital	Investment by			Profit (+)/ Loss (-)	Accumulated Profit (+)/ Loss (-)
			State Govern-ment	Govern-ment Compa-nies	Others		
Meghalaya Phyto Chemicals Limited	1984#	0.75	…	0.54	0.21	(-) 0.66	(-) 2.20

Calendar year

SECTION 'A' - REVIEWS

INDUSTRIES DEPARTMENT

8.2 Working of Meghalaya Industrial Development Corporation Limited

Highlights

Loans and advances have not been classified into standard, sub-standard, doubtful and loss assets and provision for Rs.6.43 crore has not been made in accounts.

(Paragraph 8.2.9.ii)

Action has not been initiated to recover bridge loan of Rs.2.25 crore and interest of Rs.0.74 crore from 7 private parties.

(Paragraphs 8.2.12 to 8.2.15)

Company disbursed working capital loan of Rs.6 crore to two Private Sector Companies without obtaining approval of the Board

(Paragraphs 8.2.16 to 8.2.27)

Inadequate project appraisal and abnormal delay in taking action for recovery of loan resulted into loss of Rs.0.50 crore.

(Paragraphs 8.2.31 to 8.2.35)

Loss of interest of Rs.1.79 crore due to wrong calculation of penal interest.

(Paragraphs 8.2.53 to 8.2.56)

Due to poor recovery performance, the overdue mounted to Rs.18.85 crore at the end of 2000-01

(Paragraphs 8.2.57 to 8.2.58)

The accumulated losses of Rs.14.88 crore in its three subsidiaries had eroded the Company's investment of Rs.5.55 crore

(Paragraph 8.2.63)

Delay in execution of a Cement Plant in Garo Hills District resulted in blockage of capital of Rs.1.26 crore.

(Paragraphs 8.2.74 & 8.2.75)

Introduction

8.2.1 The Meghalaya Industrial Development Corporation (MIDC) Limited was incorporated under the Companies Act, 1956 in April 1971 as a wholly owned Government company to promote industrial development in the State of Meghalaya.

Objectives

8.2.2 The main objectives of the company are :-

(i) to promote, establish and execute industries; (ii) to promote and operate schemes for industrial development; (iii) to aid, assist and finance industrial undertakings; and (iv) to promote and establish companies and associations for execution of industrial undertakings.

8.2.3 The present activities of the company are confined mainly to extending financial assistance to industrial units by way of Term and Bridge loan, working capital, loan and participation in equity share capital. The company also acts as an agent of the State Government for execution of various schemes sponsored by it for industrial development of the State. The impact of the Company's financing activities on industrial development of the State had not been assessed by the company till date (April 2001).

Organisational set up

8.2.4 The Management of the company is vested in a Board of Directors consisting of not less than two and not more than fourteen members. As on 31 March 2001, there were 12 Directors of which 10 Directors (including the Managing Director) were nominated by the State Government. One Director each was nominated by the Industrial Development Bank of India (IDBI) and the Small Industries Development Bank of India (SIDBI).

Scope of audit

8.2.5 The working of the company during the period of 3 years up to 31 March 1988 was last reviewed in paragraph 8.7 of the Report of the Comptroller and Auditor General of India for the year 1987-88. The recommendations of COPU thereon were awaited (April 2001). The present review on the working of the company for the period of five years ending 31 March 2001 was conducted during February-April 2001 and the findings are discussed in succeeding paragraphs.

Funding

Share Capital

8.2.6 The authorised share capital of the company was Rs.20 crore which was raised to Rs.50 crore from 1997-98 against which the paid-up share capital (including advance) amounted to Rs.50.70 crore as on 31 March 2001 wholly contributed by the State Government.

Borrowings

8.2.7 As at 31 March 2001, the borrowings of the company stood at Rs.13.54 crore received from the SIDBI.

Financial position and working results

8.2.8 The accounts of the company have been finalised up to 1994-95. However, provisional accounts (approved by the Board) were available for the year up to 2000-2001. Based on these provisional accounts, the financial position and working results for the five years up to 2000-2001 are tabulated in Appendices XXXVII and XXXVIII respectively.

8.2.9 It would be seen from Appendix-XXXVII that:-

(i) The company's investment (at cost) in equity share capital (un-quoted) of assisted units including subsidiary companies increased from Rs.6.63 crore in 1996-97 to Rs.8.06 crore in 2000-2001. Although there was inadequate return from these investments as discussed in paragraphs 8.2.60 to 8.2.73, the Company had not ascertained the actual worth of these investments and no provisions against decrease in value have been made in accounts.

(ii) The Company did not classify its loan and advances into four broad categories viz., standard, sub-standard, doubtful and loss assets. The sub-standard (overdue for a period of 1 year to 2 years) doubtful assets (overdue for more then 2 years and loss assets (irrecoverable) are Non-performing assets and for which provision has to be made at the rate of 10 **per cent**, 25 **per cent** and 50 **per cent** respectively. Based on the above, it has been worked out in Audit as on March 2001 the Company should have made a provision for Rs.6.43 crore in accordance with guidelines of Reserve Bank of India. Had this been done the accumulated losses as on 31 March 2001 would have been Rs.6.73 crore (instead of Rs.0.30 crore as per accounts) and the net worth would come down to Rs.45.25 crore thereby eroding the paid-up-capital by Rs.5.45 crore (Rs.50.70 crore - Rs.45.25 crore).

8.2.10 Appendix XXXVIII revealed that the company incurred operating losses every year varying from Rs.0.64 crore to Rs.1.55 crore. The main reason for the loss as analysed in audit was high expenditure on salary and wages. The total interest earned on Term loans during 1996-97 to 2000-2001 amounted to Rs.11.14 crore against which expenditure on salary accounted for Rs.5.78 crore which worked out to an average of 53.94 **per cent** of interest income.

Loan operations

Sanction of loans

Sanction and disbursement of Term loans

8.2.11 The company was carrying out Term lending operations since 1978-79. During 1996-97 to 2000-2001, the Company sanctioned term loans of Rs.31.25 crore to 420 units and disbursed a total amount of Rs.21.55 crore. As at 31 March 2001, the total Term loans outstanding amounted to Rs.25.83 crore against which Rs.8.13 crore was overdue.

Bridge Loans

8.2.12 Financial institutions sanction and disburse bridge loans for very short tenure to enable their assisted units to tide over ways and means problems pending receipt of admissible subsidies/incentives. The amount of such bridge loans along with interest accrued thereon @ 18.5 **per cent** are required to be recovered at the time of disbursement of such subsidies/incentives.

8.2.13 As per annual accounts of the Company (MIDC), the bridge loans to the tune of Rs.11.35 crore were outstanding for a period from 4 to 12 years from 8 units as on 31st March 2000, against the total disbursement of Rs.12.54 crore to 10 units as shown in Appendix-XXXIX. Out of these, 3 were subsidiaries (vide Sl. No.1,2&3 of the Appendix-XXXIX) of the Company, to whom loans were disbursed to the extent of Rs.10.29 crore based on directives of the State Government to meet salaries and wages payment to the employees of the subsidiaries.

8.2.14 In case of remaining 7 units, the Company neither realised principal or any interest nor initiated any action to realise the accrued interest of Rs.0.74 crore on bridge loan of Rs.2.25 crore except in one isolated case of M/S Hotel Centre Point (Sl. No.7 of Appendix-XXXIX) from whom interest of Rs.0.01 crore was realised in March 1990 and demand notices issued to the loanee unit from time to time. Reasons for inaction on the part of the Company in realisation of principal amount of bridge loans together with the interest accrued thereon in respect of remaining cases were not on record nor stated.

8.2.15 In this connection, the following observations are made :

(i) The company did not have any laid-down procedure for sanction and disbursement of bridge loans nor did it maintain party-wise ledger showing details of disbursement and recovery of principal and interest thereon. There was disbursement of bridge loans by the company which prima-facie showed that no scientific/financial/ commercial appraisals were made before such disbursements.

(ii) Bridge loans were disbursed without approval of the Board of Directors which was irregular and arbitrary.

Working Capital Loan

8.2.16 The company did not have any ongoing scheme for sanction and disbursement of working capital loans except as part of its Term loan operations. The assisted units were required to meet their Working capital requirement partly from promoters contribution/Term loan and partly by way of short Term borrowings from commercial banks. The company was required to ensure the availability of bank finance before sanction of Term loans as part of its pre-sanction appraisal of projects.

8.2.17 The company, without approval of its Board, requested (September 2000) the State Government for additional fund of Rs.10 crore for the purpose of (i) Equity participation in Projects (Rs.5 crore) and (ii) Financial Operation and Working capital loan (Rs.5 crore). The State Government (Industries Department) sanctioned the amount in December 2000 as share capital contribution to the company and the same was received by the company during the said month.

8.2.18 In the meantime, a Working Group constituted by the State Government (Industries Department) in their meeting (December 2000) sanctioned working capital loan of Rs.6 crore to two private sector companies as under :

(i)	M/s AMS Cement (P) Ltd (AMSCL)	Rs.2 crore
(ii)	M/s Greystone Ispath (P) Ltd (GSIPL)	Rs.4 crore
		Rs.6 crore

8.2.19 Consequent upon the approval accorded by the Core Group, the company in contravention of the provisions (Section 292) of the Companies Act, 1956 i.e., without first obtaining the approval from its own Board disbursed the loans during December 2000 to February 2001.

8.2.20 In this connection, the following further observations were made :

(i) M/s AMS Cement (P) Ltd.

8.2.21 M/s AMS Cement (P) Ltd (AMSCL) was disbursed (February 1997) a Term loan of Rs.1 crore for setting up of a 35-TPD Cement plant at Mawpdang Village, East Khasi Hills District at a total project cost of Rs.1.69 crore.

8.2.22 As per Project report on the basis of which Term loan was sanctioned, the total requirement for working capital for third year of operation was Rs.0.27 crore to be financed by promoters contribution (Rs.0.08 crore) and bank finance (Rs.0.19 crore) against which the unit had availed commercial loan of Rs.0.25 crore from the Central Bank of India, Shillong. In view of this, further disbursement of Rs.2 crore as working capital loan was not justified.

8.2.23 Further, at the time of disbursement (December 2000), the company recovered a total amount of Rs.1.45 crore by way of adjustment towards pre-mature recovery of term loan (Rs.1 crore), interest on term loan (Rs.0.15 crore), recovery of bridge loan (Rs.0.30 crore). Of the balance Rs.0.55 crore, Rs.0.20 crore was paid to M/s B.K. Construction for and on behalf of M/S AMS Cements (P) Ltd., and Rs.0.35 crore was paid to M/s AMSCL in December, 2000. This clearly indicated that the sanctioned loan was not required for working capital purpose. It may be pointed out that while the term loan carried interest at 19.75 **per cent** per annum, the working capital loan carried interest at 12 **per cent** per annum.

8.2.24 Reference is also invited to paragraph 8.2.62 regarding equity participation in excess of norms.

(ii) M/s Greystone Ispath (P) Ltd.

8.2.25 M/s GISPL was disbursed a Term loan of Rs.1 crore during February 2000 to October 2000 for setting up of a steel re-rolling Mill at Export Promotion Industrial Park (EPIP), Byrnihat at a total project cost of Rs.2.04 crore. As per 135th Board Meeting (February 2000) the actual project cost of Rs.2.54 crore represented an increase of 24 **per cent** over original estimate. This increase was financed by the company by way of Equity participation of Rs.0.50 crore. (Refer Paragraph 8.2.62 **supra**).

8.2.26 As per original project report on the basis of which Term loan was sanctioned, the total requirement for bank finance for working capital was Rs.0.95 crore during first year of Operation. Considering an approximate increase in prices (total project cost also increased by 24 **per cent**) by 24 **per cent**, the requirement for working capital worked out to Rs.1.19 crore only against which M/s GSIPL was sanctioned and paid Rs.4 crore which lacked justification.

8.2.27 It would be evident from the above that against the actual project cost of Rs.2.54 crore, M/s GSIPL availed loan and equity from the company totalling Rs.4.50 crore. The action of the Company was unjustified and showed that undue financial benefit had been bestowed on M/S GSIPL. There were no reasons on record for this action.

Commodity loan

8.2.28 Reference is invited to paragraph 8.7.11 of the Report of the Comptroller and Auditor General of India for the year 1987-88 wherein delay in recovery of commodity loan was pointed out.

8.2.29 The company could not furnish relevant records in respect of this loan during audit (April 2001). It was, however, seen from the annual accounts of the company that an outstanding amount of Rs.0.43 crore was awaiting recovery at the beginning of 1996-97. There being no transaction during 1996-97 to 1999-2000, the amount remained unrecovered (April 2000).

8.2.30 Names of borrowers along with reasons for non-recovery of the loan were not furnished to audit (April 2001).

Inadequate project appraisal

8.2.31 The company sanctioned (October 1983) and disbursed a Term loan of Rs.0.21 crore to M/s Rilum Match Splints (P) Ltd for setting up of a factory at Barapani to manufacture match splints. The loan carried interest at 12.50 **per cent** per annum, which was repayable in 9 annual instalments within January 1995.

8.2.32 The borrower, however, defaulted in repayment of loan and interest from the very beginning due to sickness arising out of lack of demand for its product contrary to assessments made in pre-sanction appraisal of the project. The company neither took any effective steps for its rehabilitation nor initiated timely action for recovery of overdues.

8.2.33 After more than two years of the entire loan becoming overdue, the company took over the assets of the unit on 19 May 97 under Section 29 of the State Financial Corporation (SFC) Act. The assets taken over were valued at Rs.0.15 crore (machineries : Rs.0.10 crore; Civil Construction : Rs.0.05 crore) against overdues of Rs.0.58 crore (Principal : Rs.0.21 crore; Interest : Rs.0.37 crore) while the civil structure had been retained by the company for earning rental income, the machineries were sold at Rs.0.02 crore (February 2000) after inviting tenders.

8.2.34 Thus, due to inadequate project appraisal and abnormal delay in taking action for recovery, the company incurred a total loss of Rs.0.50 crore (Rs.0.57 crore – Rs.0.02 crore – Rs.0.05 crore) besides loss of Rs.0.04 crore being investment made in equity capital of the assisted unit.

8.2.35 No action was taken against the Directors of the unit and the guarantors of the Term loan.

Trend in receipt and disposal of loan applications

8.2.36 The trend in receipt and disposal of loan applications in respect of Term loans during the five years up to 2000-2001 is given in Appendix – XL.

8.2.37 It would be seen that the percentage of undisburse commitment of loan to effective commitment varied from 55.11 to 75.08 during five years and undisbursed sanctioned loan at the end of March 2001 stood at Rs.11.29 crore. Due to poor recovery of overdue principal and interest from its loanees as discussed in succeeding paragraphs, the Company failed to recycle the refinance fund by extending loan to further beneficiaries to the tune of Rs.18.19 crore (undisbursed commitment Rs.11.29 crore and application pending sanction and disbursement to new beneficiaries Rs.6.90 crore).

Default analysis

8.2.38 Scrutiny of records revealed the following:-

8.2.39 The Management had not prepared age-wise break-up analysis of overdues of Rs.18.85 crore as at 31 March 2001.

8.2.40 The overdues include Rs.0.28 crore in respect of 9 loanees against whom title suits were filed in the Courts during March 1990 to October 1995. All these cases were pending before the Court of Law till date of audit (April 2001).

8.2.41 An amount of Rs.0.37 crore was outstanding against 14 loanees in respect of whom decree was received for total amount of Rs.0.36 crore prior to 1992 but the decrees were not executed (April 2001) and it has been observed in Audit that Company did not take any initiative to get the decrees executed.

8.2.42 As per provisions of State Financial Corporation Act, 1951 (SFC Act), the Company is empowered to take over the management or possession or both as to sell the Industrial unit (Section 29), apply to the District Judge for certain relief such as sale of the mortgaged property and enforcing the liability of surety (Section 31), and to make an application to the State Government for recovery of dues in the same manner as an arrear of land revenue under Revenue Recovery Act (Section 32). Review of loan cases revealed that the major portion of overdues remained unrecovered due to lack of timely action for recovery as required under SFC Act. In respect of 18 cases test-checked in audit, total overdues of Rs.7.40 crore (Principal : Rs.3.19 crore and Interest : Rs.4.21 crore) were outstanding for lack of effective action for recovery. In respect of one unit (M/s Garo Hills Tea Co.) inadequate project appraisal led to sickness, and overdues of Rs.0.32 crore remaining unrecovered.

8.2.43 Few specific cases of default are discussed below :

(i) M/s Bomber Cements (P) Ltd.

8.2.44 The company sanctioned and disbursed a Term loan of Rs.0.75 crore between October 1992 and July 1995 to set up 25 TPD cement plant at Sumer. The loan carried interest at 18 **per cent** per annum and was recoverable in 16 half-yearly instalments by end of March 2002. The borrower continuously defaulted on repayments, and the Company served legal notice on 27 March 1997 to take over the unit under section 29 of SFC Act. On receipt of Legal notice, the unit repaid only Rs.0.01 crore on 31 March 1997 as against overdue amount of Rs.0.86 crore. Thereafter, an amount of Rs.0.09 crore was paid up to March 1998 against total overdue amount of Rs.1.04 crore. No repayment has been made after March 1998 and the overdue amount stood at Rs.1.62 crore as on 31st March 2001 (Principal: Rs.0.67 crore; Interest: Rs.0.95 crore). No action has been taken after March 1997 to invoke the provisions of SFC Act for recovering the overdues.

(ii) M/s Lyngdoh Mining

8.2.45 The company sanctioned (December 1997) a Term loan of Rs.0.90 crore to M/s Lyngdoh Mining, for setting up a mechanised coal mining unit in West Khasi Hills District of Meghalaya.

8.2.46 The disbursement of sanctioned Term loan was subject to production of mining lease from the Department of Mining and Geology (Meghalaya) and No Objection Certificate (NOC) from State Pollution Control Board (PCB). Against a request for release of Rs.0.66 crore from the borrower, the entire sanctioned term loan of Rs.0.90 crore was disbursed (January 1998) to him before production of mining lease and the NOC as per decision of the Managing Director to indirectly help clearance of dues of promoter’s father’s company.

8.2.47 In the absence of Mining Lease and NOC from State PCB, the unit could not have been set up by the borrower and sanction of loan for the full amount in such a situation was not prudent. Total recovery outstanding against the unit as on 31 March 2001 was Rs.1.17 crore including overdue principal of Rs.0.13 crore and interest Rs.0.27 crore.

8.2.48 It was observed in Audit that decision for releasing the full amount was taken by the then Managing Director to help the promoter’s father to clear his outstanding dues/loan account.

(iii) M/s Garo Hills Tea Company

8.2.49 The Garo Hills Tea Company was sanctioned and disbursed a Term loan of Rs.0.27 crore between March 1996 and April 1998 for setting up a tea manufacturing factory with capacity to produce one lakh Kg. of made tea per annum. The loan carried interest at 17.75 **per cent** per annum and was repayable in 16 half yearly instalments starting from September 1997. The loanee required about 5 lakh Kg of green tea leaves to produce one lakh kg of made tea per annum but did not own any tea garden. It was, therefore, necessary to ensure availability of required green leaves by the Management before disbursement of loan, which was, however, not done.

8.2.50 The unit was commissioned in July 1999 after delay of three years. During the calendar year 2000, the loanee could produce 8499 Kg of made tea indicating a capacity utilisation of 8.5 **per cent** only.

8.2.51 The Assistant General Manager, Tura branch of the Company in his Inspection Report (Pre-sanction appraisal) of July 1995 stated that the green tea leaves would be available from about 115 small tea planters at Tura. However, in August, 1995 the Tea Growers Co-operative Society (the source of input) communicated their decision not to sell the green tea leaves to the promoter. In spite of this the management disbursed the term loan of Rs.0.27 crore between March 1996 to April 1998.

8.2.52 Inadequate pre-sanction appraisal, specially as to availability of raw-material made this unit sick and consequential non-recovery of overdues of Rs.0.32 crore (Principal : Rs.0.11 crore; Interest : Rs.0.21 crore) as at 31 March 2001.

Undercharge of interest and consequent loss of Rs.1.79 crore

8.2.53 The terms and conditions of sanction of all Term loans disbursed by the company included the following penal provision :

8.2.54 "A penal interest of 3 **per cent** over and above the rate of interest charged shall be levied on any overdue instalment or interest outstanding on the loan account".

8.2.55 It was seen during audit that the company was charging interest at 3 **per cent** in addition to normal rate of interest on defaulted principal but in respect of overdue interest only penal interest at 3 **per cent** was being charged without charging normal interest. This was contrary to the terms and conditions of sanction as indicated above. Due to the wrong application of rate of interest, there was undercharge of interest to the extent of Rs.1.79 crore in respect of 8 loanees selected for detailed check as under :

Table 8.10

Sl. No	Name of Loanee	Period	Amount undercharged (Rupees in crore)
1	M/s Bomber Cements (P) Ltd	October 1994 to March 2001	1.07
2	M/s Virgo Leather	October 1987 to March 2001	0.20
3	M/s Hill Star Hotel	December 1996 to March 2001	0.14
4	M/s Lyngdoh Mining	April 1999 to March 2001	0.11
5	M/s Ganapati Rolling Mill	October 1996 to March 2001	0.09
6.	M/s AM&Cement (P) Ltd	April 1998 to December, 2000	0.08
7	M/s Pawan Ispath (P) Ltd	November 1998 to March 2001	0.05
8	M/s Emu Chemicals	April 1992 to March 1999	0.05
Total			**1.79**

8.2.56 Thus, the company incurred a loss of Rs.1.79 crore in respect of 8 accounts alone. Reasons for application of lower rate of interest could not be stated to audit. Management may take corrective action on this account.

Recovery performance

Recovery of Term loans

8.2.57 The table below indicates the amount of overdues at the beginning of the year, amount falling due during the year, amount recovered, amount waived and the amount of overdues at the end of the year for the five years up to 2000-2001.

Table 8.11

(Amount in crore of rupees)

	Particulars	1996-97	1997-98	1998-99	1999-2000	2000-2001
1	2	3	4	5	6	7
(i)	Arrear at the beginning of the year :					
	Principal	9.45	8.94	9.45	9.79	8.74
	Interest	12.29	12.34	12.13	11.07	10.42
	Total	**21.74**	**21.28**	**21.58**	**20.86**	**19.16**
(ii)	Amount falling due during the year :					
	Principal	1.87	1.70	1.93	1.88	2.08
	Interest	1.77	1.32	1.90	2.35	3.10
	Total	**3.64**	**3.02**	**3.83**	**4.23**	**5.18**

1	2	3	4	5	6	7
(iii)	Total overdues :					
	Principal	11.32	10.63	11.38	11.67	10.82
	Interest	14.06	13.66	14.03	13.41	13.52
	Total	**25.38**	**24.29**	**25.41**	**25.08**	**24.34**
(iv)	Amount recovered :					
	Principal	2.38	1.18	1.59	2.92	2.70
	Interest	1.57	1.49	2.27	3.00	2.79
	Total	**3.95**	**2.67**	**3.86**	**5.92**	**5.49**
(v)	Amount waived :					
	Principal	-	-	-	-	-
	Interest	0.15	0.05	0.69	-	-
	Total	**0.15**	**0.05**	**0.69**	**-**	**-**
(vi)	Arrears at the end of the year :					
	Principal	8.94	9.45	9.79	8.74	8.12
	Interest	12.34	12.13	11.07	10.42	10.73
	Total	**21.28**	**21.58**	**20.86**	**19.16**	**18.85**
	Percentage of recovery to total dues	15.56	10.98	15.20	23.60	22.55

8.2.58 It would be seen from the table that the percentage of recovery to total overdues was very poor and varied from 10.98 (1997-98) to 23.60 (1999-2000) only. The recovery of Rs.2.67 crore in 1997-98 fell short of even the current overdues of Rs.3.02 crore. The low rate of recovery indicates the possibility of major portion of overdues ultimately turning out to be bad.

One Time Settlement (OTS)

8.2.59 The Company approved (September 1998) the scheme of One Time Settlement (OTS) of dues to improve its recovery performance. It provided for waiver of normal and penal interest up to a maximum of 50 **per cent** and 100 **per cent** respectively subject to approval of the Board. Audit examination of six cases (Appendix XLI) revealed that OTS was allowed before the scheme was approved by the Board. In respect of four loanees (serial 3 to 6) a special waiver of Rs.1 lakh each was allowed by the company contrary to the provision of the scheme; and normally, borrowers availing OTS are debarred from availing fresh loans. The company, however, sanctioned (June 1999) a fresh Term loan of Rs.1 crore to one borrower (Sl.3).

Investment in Equity shares

8.2.60 In pursuance to mandated functions, the company was extending financial support by way of share capital to its assisted units in the private sector including its own subsidiaries. During 1996-97 to 2000-2001, the company made fresh investments of Rs.1.29 crore in 4 private companies. As of 31 March 2001 the Company's investment in Equity and Preference shares (unquoted) amounted to Rs.8.06 crore as under :

Table 8.12

		Number of companies	**Amount invested (Rupees in crore)**
(i)	Private Sector	13	2.45
(ii)	Subsidiaries	3	5.56
(iii)	Government Company	1	0.05
Total		**17**	**8.06**

8.2.61 It was seen during audit that the subsidiaries and the Government company (Meghalaya Handloom & Handicrafts Development Corporation Ltd.) were not running profitably. Out of 12 Private Sector Companies, only one company (investment : Rs.0.23 crore) was paying dividend, 3 companies (investment : Rs.0.34 crore) were defunct, 3 companies (investment : Rs.1.24 crore) were under implementation stage, while financial position and working results in respect of 5 companies (investment : Rs.3.80 crore) were not available with the company.

8.2.62 The following further observations are made :

(i) The company does not have any laid down guidelines providing the basis for selection of companies for the purpose of equity participation. The investment made by the company could not be justified in the absence of such guidelines and were not based on financial and commercial prudence.

(ii) As per norms approved by the Board in their 122nd meeting (November 1996) equity participation in share capital of SSI Units in private sector was required to be restricted to 20 **per cent** subject to a maximum of Rs.0.20 crore. The company however invested Rs.0.50 crore in the share capital of an SSI unit M/s AMS Cements (P) Ltd. with authorised capital of Rs.0.60 crore only. This investment was made without approval of the Board in violation of section 292 of the Companies Act, 1956. The company's investment in M/s AMS corresponded to 83 **per cent** of authorised capital of the assisted unit. Similarly, the company invested Rs.0.50 crore in the share capital of another SSI Unit M/s Greystone Ispath (P) Ltd which had an authorised capital of Rs.0.05 crore only. Again, the company invested Rs.0.24 crore in a private sector company M/s J.G. Spices (P) Ltd. without ascertaining its share capital structure. The specific reasons for making investment in this company which was not an assisted unit could not be stated by the Management. The fate of these three SSI units are not known to audit as no record could be supplied by the management covering their activities.

Subsidiaries

8.2.63 As on 31st March 2001, the investment of the Company (MIDC) in its three subsidiary Companies stood at Rs.5.55 crore. The details of investment together with working results on the basis of latest available accounts are summarised below:-

Table 8.13

Name of the Subsidiary Company	Date of incorporation	Paid-up capital as on 31 March 2001	Loan outstanding as on 31 March 2001	Year for which accounts last finalised	Profit (+) Loss (-)	Accumulated Profit (+) Loss (-)
		(Rupees in crore)				
(1) Meghalaya Watches Limited	7th August 1979	0.36	3.09	1998-99	(-) 0.66	(-) 4.05
(2) Meghalaya Bamboo Chips Limited	14th September 1979	0.48	3.92	1994-95	(-) 0.52	(-) 2.99
(3) Meghalaya Electronics Development Corporation Limited	25th March 1986	4.71	9.15	1993-94	(-) 1.74	(-) 7.84
Total		**5.55**				**(-) 14.88**

8.2.64 As holding Company, no effective steps were taken for restructuring of these subsidiaries or to close down, if not viable.

(i) Meghalaya Watches Limited

8.2.65 The subsidiary was incorporated in August 1979 with the object to assemble watch components in its factory under licence from Hindustan Machine Tools Limited (HMT), with an installed capacity of 3 lakh watches per annum.

8.2.66 During the period under review (1996-97 to 2000-01) the factory of the Subsidiary remained inoperative from December 1995 to June 1999 due to non-supply of raw materials/components from HMT Limited. In order to revive the subsidiary, the Company disbursed Rs.0.41 crore (1999-2001) under diversification plan activities. The subsidiary started producing electronic wrist watches, wall clocks and engage in trading of Liquified Petroleum Gas (LPG) stove from July 1999 onwards. During the period between July 1999 and March 2001 the subsidiary could produce only 12,702 watches as against the targeted production of 73,000 and marketed only 5124 of watches (May 2001).

8.2.67 The shortfall in production was attributed (July 2001) by the Management to marketing constraints and non-appointment of dealers/distributors. The subsidiary, however discontinued its trading activities in LPG stove due to poor market demand.

8.2.68 The accumulated loss of the subsidiary as on 31 March 1999, based on its finalised accounts, was Rs.4.05 crore which had eaten-up the entire investment in equity made by MIDC, thus eroding the financial credibility of the subsidiary.

(ii) Meghalaya Bamboo Chips Limited

8.2.69 The subsidiary was incorporated in September 1979 with a view to manufacture bamboo chips for supplying to paper plants located in its vicinity. The subsidiary changed its activities (1998) into manufacturing of ceiling tiles and blockboards by utilising bamboo chips as raw-materials. The actual commercial production of the said products, commenced from April 2000 and during the year 2000-2001 the subsidiary produced 36,092 blockboard against the target of 2,16,000 . The reasons for shortfall in production were (a) that the Company operated in two shifts instead of projected three shifts (b) low utilisation of plant capacity for want of power driving motors and erratic power supply and (c) law and order problem.

8.2.70 The subsidiary entered into agreement (September 1992) with M/S Meghalaya Plywood Ltd (M/S MPL) for supplying of 450 ceiling tiles per day from 15 September 1992 to 31 July 1997 for which the subsidiary received Rs.0.32 crore as advance payment between 30 October 1992 and 21 March 1994. The subsidiary supplied 41044 ceiling tiles valuing Rs.0.21 crore between 05 September 1992 and 17 May 1994 and failed to supply 615047 ceiling tiles. The indenting firm served Legal Notice (August 1997) for non-execution of the agreement and demanded Rs.0.20 crore which included the unadjusted amount of Rs.0.10 crore and interest of Rs.0.10 crore on the balance amount. The subsidiary paid (December 1998) the above amount of Rs.0.20 crore to the firm. Thus, due to non-supplying of ceiling tiles within the stipulated period as per agreement and against advance payment resulted in avoidable expenditure of Rs.0.10 crore on account of interest payment.

8.2.71 The accumulated loss of the subsidiary as on 31 March 1995 was Rs.2.99 crore (based on its finalised accounts) which eroded the entire investment in equity made by MIDC.

(iii) Meghalaya Electronics Development Corporation Limited

8.2.72 The subsidiary was incorporated in March 1986 for manufacture of 30 lakh tantalum capacitors per annum. The subsidiary started commercial production from April 1989. During the period under review (1996-97 to 2000-2001) the total production of tantalum capacitors was 5,94,721 pieces which constitute only 3.9 **per cent** of the targeted production. The huge shortfall in production was attributable to inadequate demand of tantalum capacitors.

8.2.73 The accumulated loss of the subsidiary as on 31 March 1994 (based on its finalised accounts) was Rs.7.84 crore which eroded the entire investment in equity made by MIDC.

Other activities

Delay in execution and blockage of Capital

8.2.74 The Government of Meghalaya decided (1972) to set up a Cement Plant in Garo Hills District and appointed M/s Development Consultants (P) Ltd. (DCPL) for preparation of a detailed project report (DPR). The DPR prepared by M/s DCPL was updated twice by M/s Holte Engineers (P) Ltd in 1982 and 1988. During 1986-87 to 1993-94, the State Government paid a total amount of Rs.5.88 crore as share capital contribution for execution of the Project in the joint sector between the company and M/s Associated Cement Companies Limited (ACCL), a co-promoter from the private sector. The total expenditure incurred up to 1995-96 amounted to Rs.1.26 crore as under :-

(i)	Preparation of Project Reports	0.17 crore
(ii)	Survey Works	0.14 crore
(iii)	Drilling operations	0.44 crore
(iv)	Environment Management Plan	0.21 crore
(v)	Mine Planning	0.14 crore
(vi)	Others	0.16 crore
	Total :	**1.26 crore**

8.2.75 The project was ill conceived as is evident from the fact that the Company took sixteen years in finalising the Project Report (from the date when initial decision to set-up the Project was taken) and after spending Rs.1.26 crore during next six years, the Project was given to M/S ACCL in the Private Sector (March 1993) by the State Government, however, M/S ACCL have also withdrawn from the Project.

Agency work

8.2.76 The Company acts as an agent of State Government for execution of various plan schemes for overall development of the State. The terms and conditions of such agency work and details of the schemes were not made available to audit.

8.2.77 The details of fund received and expenditure incurred (scheme-wise) during five years up to 2000-01 are shown in Appendix-XLII. In this connections the following points were observed in Audit:

8.2.78 During the five years, the unspent balance of Government fund varying from Rs.8.86 crore to Rs.10.75 crore, helped the Company to derive benefit of earning interest varying from Rs.0.58 crore to Rs.0.90 crore by investing in term deposit. But for this source of income out of Government fund, the Net Loss of the Company during those years would be Rs.0.39 crore, Rs.1.34 crore, Rs. 0.63 crore, Rs. 0.77 crore and Rs.0.75 crore respectively.

Manpower Training

8.2.79 Out of the expenditure of Rs.0.42 crore under Manpower training Rs.0.15 crore was paid as stipend to students undergoing technical education by the Managing Director contrary to provisions of the Meghalaya Education Stipend Rules, 1980.

Growth Centre

8.2.80 The Government of Meghalaya decided (March 1991) to set up a growth centre in Mendhipathar, in East Garo Hills District, in order to develop and provide basic infrastructural facilities to the prospective entrepreneurs of the area. The scheme was also approved by the Government of India in November 1994.

8.2.81 The Company received a total amount of Rs.4.05 crore for the said purpose during the period from 1990-91 to 2000-01 and incurred only expenditure of Rs.0.30 crore towards preparation of study reports, project reports, survey works and purchase of vehicle. The Company had not yet acquired the required land, even though Rs.0.05 crore out of Rs.0.30 crore had been spent (January 1998) towards acquisition of the same. The further progress in implementation of the scheme is awaited.

Export Promotion Industrial Park (EPIP)

8.2.82 Export Promotion Industrial Park (EPIP), a Centrally sponsored Scheme (EPIP) was approved by the Cabinet on 16th August 1994 to encourage involvement of the State Government in the export efforts. As per scheme State Government would provide infrastructural facilities like Power, Water, Roads (including approach roads to the park) sewerage and drainage, telecommunication and all facilities for the Industries Department (Directorate) of the Government of Meghalaya through Meghalaya Industrial Development Corporation (MIDC) Limited, as Disbursement Authority and management of the scheme and Meghalaya State Electricity Board (MeSEB) as construction Agent.

8.2.83 The Government of India (GOI) provided fund for creation of infrastructural facilities up to 75 **per cent** of the cost. For North Eastern and special category States, this was increased to 100 **per cent** subject to a limitation of Rs.10 crore per Park. In Meghalaya, fund received from the GOI, are released to Director of Industries and the amount so released are placed with MIDC for disbursement to MeSEB for execution of development works. The expenditure of Rs.16.35 crore represents payment made by MIDC to MeSEB on the basis of claims raised by them. Detailed accounts thereof could not be produced to audit. The reasons for which the funds were routed through the Company were also not on record (April 2001).

Appropriation of repayment

Irregular appropriation of repayments and consequent loss of interest : Rs.0.15 crore

8.2.84 The Terms and conditions of sanction of Term loans by the company did not indicate the order of appropriation of repayments by the borrowers. However, the company was expected to follow the normal commercial practice of appropriation towards repayment of interest first and then repayment of principal. The Board of Directors of the Company in their 130th meeting (September 1998) approved a scheme for appropriation of payments received from borrowers in the ratio of 40:60 against principal and interest respectively. This was done with a view to give relief on the interest burden of the borrowers.

8.2.85 It was seen during audit that the company was adjusting payments received from borrowers against outstanding principal from August 1992 even when interest was overdue for repayment. Such irregular adjustment had resulted in loss of interest of Rs.0.15 crore in respect of 3 loanees selected for scrutiny. Details are given below :

Table 8.14

Sl. No	Name of loanee	Period of adjustment	Amount of interest lost (Rupees in crore)
1	Hotel Polo Towers	19 August 1992 to 16 June 1998	0.10
2	Hotel Pegasus	17 August 1995 to 6 May 1998	0.01
3	Hotel Centre Point	23 June 1995 to 31 August 1998	0.04
Total			**0.15**

Audit and Accounts

8.2.86 The company neither formulated any accounting manual nor have any internal audit wing of its own.

Conclusion

8.2.87 The Company was established with a view to promote and develop industries in the state. The Company also acts as an agent of the State Government for execution of various Schemes sponsored by it for industrial development of the State. Due to poor recovery of overdues arose out of deficiencies in appraisal, ineffective recovery drive etc., the overdues recoverable from the Loans under the main activity of Loan operation had mounted to Rs.18.85 crore. Beside this, the investment made in subsidiaries yielded negative results.

8.2.88 Company's recoverable dues have not been classified as per RBI guidelines and provision of Rs.6.43 crore for bad and doubtful debts has not been made. Had these been done Company's accumulated loss at the end of March 2001 would have been Rs.6.73 crore.

8.2.89 For its survival, the Company should strengthen its appraisal system; make concerted, continuous and effective monitoring of the assisted units; initiate timely and strict recovery action against defaulters; and, desist outside interference in its functioning.

8.2.90 The matters were reported to the Government and the Management (June 2001); replies are awaited (December 2001).

PUBLIC WORKS DEPARTMENT

8.3 Working of Meghalaya Government Construction Corporation Limited

Highlights

Meghalaya Government Construction Corporation Limited (MGCCL) was incorporated as a Company on 26th March 1979 with an authorised capital of Rs.2 crore (paid-up capital as on 31st March 2001 Rs.0.28 crore) to execute work expeditiously and to carry out business of builders, architects, etc. The Company had received a total advance of Rs.23.90 crore from different Departments of Government/autonomous bodies during the five years from 1995-96 to 1999-2000 for execution of 102 works. Against receipt of 303 work of estimated value of Rs.67.25 crore (Rs.36.17 crore received as advance) allotted up to 1999-2000, only 126 work valued Rs.19.36 crore were completed and 142 work were in progress (valued Rs.37.38 crore), while 35 works valued at Rs.10.51 crore had not been taken up. Rs.1.55 crore being the value of work done up to March 2000 was pending realisation from various Government Departments.

(Paragraphs 8.3.1, 8.3.9, 8.3.18 & 8.3.22)

The Company have been consistently incurring losses and the accumulated loss as on 31 March 2000 stood at Rs.2.63 crore. The net worth of the Company turned negative and stood at minus Rs.2.35 crore which indicates that the paid up capital of Rs.0.28 crore and advances received against work/other fund amounting to Rs.2.07 crore had been eroded.

(Paragraph 8.3.11)

The Company prepared its annual works budget only at the middle of each financial year indicating only the expenditure on works to be executed but no targets of physical achievement were indicated. The annual budget of the Company were thus unrealistic and inflated.

(Paragraph 8.3.12)

The Company gets all work done by contractors. Thus, contractor's profit element (Rs.2.29 crore) inflates the cost of the work (Rs.22.88 crore) as well as creates extra burden to the clients. Moreover, man-power of the unit offices were not commensurate with the value of work executed/to be executed. As a result unit-wise percentage of salary paid to agency charges were exorbitantly high.

(Paragraphs 8.3.16 to 8.3.20)

Advancement of loans to State Government in violation of its Memorandum and Articles of Association resulted in loss of interest (Rs.0.45 crore).

(Paragraph 8.3.21)

Undue financial benefit to the contractor led to extra expenditure of Rs.0.16 crore.

(Paragraphs 8.3.24 to 8.3.26)

Excess payment of escalation (Rs.0.10 crore) in execution of work

(Paragraphs 8.3.27 to 8.3.30)

Extra-avoidable expenditure (Rs.0.09 crore) on account of improper negotiation with contractor at higher rate.

(Paragraphs 8.3.31 to 8.3.35)

Blockage of fund (Rs.1.52 crore) due to non-completion of work consequent upon deviation from the original plan.

(Paragraphs 8.3.36 to 8.3.38)

Introduction

8.3.1 The Meghalaya Government Construction Corporation Limited (MGCCL) was incorporated as a wholly-owned Government Company on 26th March 1979 to execute works and to carry out business of builders, architects, etc. The company was mainly dealing with the Government Departments, Government Undertakings and Autonomous bodies, for which the Company receives advances from the respective Departments/ Undertakings/Bodies.

Objectives

8.3.2 Main objects as per object clause in the Memorandum of Association are "to construct, execute, carry out, improve, develop, administer, manage or control the works and conveniences of all kinds in Meghalaya/elsewhere, to carry on the business of metal works, to purchase for investment or resale and to traffic in land, houses or other property, to construct factories, railway siding, to maintain dam, barriage reservoirs", etc., etc.

8.3.3 Though the Company was established with manifold objectives, their activities confined to execution of construction works of Government Departments, Autonomous Bodies, Government Undertakings in the State of Meghalaya and Assam on cost plus agency charges (7.5 **per cent**).

Organisational set-up

8.3.4 The management of the company is vested in a Board of Directors consisting of not less than two and not more than nine Directors. As on 31 March 2001, there were six Directors (including a Chairman and a Managing Director) all nominated by the State Government. The day to day affairs of the Company are looked after by the Managing Director (MD), who is assisted by one Chief Engineer, two Project Superintendents, seven Project Engineers for execution of works and one Accounts Officer in the Registered office. There were also eight field Units headed each by one Project Engineer for execution of works.

8.3.5 During the five years up to March 2001 the Company had witnessed frequent change of its top executive (MD). In all, there were seven MDs and their tenures varied from 37 to 581 days.

Scope of Audit

8.3.6 The working of the Company was last reviewed in Paragraph 8.9 of the Report of the Comptroller and Auditor General of India for the year 1984-85 on which the Committee on Public Undertakings (COPU) made seven recommendations in its 4th Report placed in the Assembly on 24 April 1989 for acceptance by the State Government. COPU did not accept the replies/action taken report in respect of three recommendations vide its eleventh report presented to Assembly on 27 November 1990 and made the following fresh recommendations to Government for taking action :-

(a) Working of the Company should be reviewed regularly and drastic steps should be taken by the Government to achieve the objectives for which it was set-up;

(b) The Company should prepare project-wise accounts to have a control over expenditure as well as physical progress; and

(c) The Government Departments should make advance payments to the extent of 90 **per cent** of the value of work planned for execution in each year.

8.3.7 None of the above recommendations was followed up.

8.3.8 The present review on the workings of the Company for the period from 1995-96 to 2000-01 was conducted during March and April 2001 and the findings are set out below :

Capital Structure and Funding

8.3.9 The Company was registered with an authorised capital of Rs.2 crore. As on 31 March 2000, the paid-up capital of the Company was Rs.0.28 crore, wholly subscribed by the Government of Meghalaya. The Company had no borrowings. During the five years from 1995-96 to 1999-2000, the Company received a total advance of Rs.23.90 crore from Departments/Autonomous bodies for execution of works.

Financial position and working results

8.3.10 The Company had finalised its accounts up to 1998-99 and the provisional figures for 1999-2000 were available. Based on these, the financial position and working results of the Company for the five years up to 1999-2000 are shown in Appendices-XLIII and XLIV respectively.

8.3.11 The following Audit observations arise from their accounts:-

(a) In spite of deriving benefit of earning interest varying from Rs.0.12 crore to Rs.0.80 crore by investing unspent advances received against works, the Company had incurred losses every year varying from Rs.0.15 crore to Rs.1.69 crore. The accumulated loss of the Company as on 31 March 2000 stood at Rs.2.63 crore (Appendix-XLIV) as against paid-up capital of Rs.0.28 crore (Appendix-XLIII). The main reason for incurring losses as identified in audit was excess administrative overhead over the income towards agency charges on value of works executed as discussed in paragraph 8.3.20 infra.

(b) Due to heavy losses incurred, the net worth of the Company as on 31 March 2000 had become a negative figure of Rs.2.35 crore indicating that, besides paid-up capital (Rs.0.28 crore), advances received against works/other funds to the extent of Rs.2.07 crore had also been eroded.

Budgetary Control

8.3.12 The Company prepared its annual works budget at the middle of each financial year indicating only the expenditure on work to be executed during the year without analysing its capability of execution of the works. Further, no physical targets for achievement were fixed. The budgeted target and actual expenditure on works for the five years up to 1999-2000 is tabulated below :-

Table 8.15

Year	Date of approval of budget by the Board	Expenditure on works (Rupees in crore)			Percentage Shortfall to target
		Budget	Actual	Shortfall	
1995-96	30 June 1995	9.86	3.84	6.02	61.05
1996-97	19 June 1996	12.39	5.02	7.37	59.48
1997-98	16 June 1997	11.38	7.09	4.29	37.70
1998-99	06 July 1998	10.96	3.97	6.99	63.78
1999-00	10 September 1999	12.34	5.25	7.09	57.46
Total		**56.93**	**25.17**	**31.76**	

8.3.13 It is clear from the above that there was shortfall in expenditure on works ranging from 37.70 to 63.78 **per cent**, totalling Rs.31.76 crore for the five years since 1995-96. This shortfall in expenditure had resulted in loss of potential income from agency charges amounting to Rs.2.38 crore (@ 7.5 **per cent** on Rs.31.76 crore).

8.3.14 The reasons for shortfall in achieving the target, as stated by the management were :-

i) delay in selection of site;
ii) delay in receipt of drawing and design;
iii) non-receipt of 90 **per cent** advance;
iv) non-payment of bills by the clients; and
v) non-completion of electrification, water supply work, etc.

8.3.15 As the annual target was not prepared relating to the physical target of work considering readiness of site, drawings and designs etc., the annual budgets of the Company were unrealistic and inflated.

Activity performance

8.3.16 After allotment of work by a client department the Company prepares a preliminary estimate and submits the same to the department (client) for administrative approval and seek 90 **per cent** advance payment on total estimated value of the work as per directives of Government (April 1979). The estimates, however, do not indicate the quantum of work proposed to be executed by the Company during each year to enable the Departments to regulate the release of advances to the extent of work committed to be done during the year. As a result, 90 **per cent** advance payments are released by the Departments subject to the availability of fund. During the five years ending March 2000, the Company secured 193 works at an estimated cost of Rs.34.57 crore (Appendix XLVI) from Government Departments and Autonomous bodies on cost plus agency charges @ 7.5 **per cent** of cost of works to be done. Details of advance received from various Departments/Organisations vis-à-vis value of works executed during five years up to 1999-2000 and unspent balances at the close of each year are given in Appendix-XLV.

8.3.17 As shown in Appendix-XLV, the outstanding balance had increased to Rs.62.31 crore at the end of March 2000 from Rs.45.23 crore at the end of March 1996. The unspent balance at the end of each year being more than the expenditure on works (except in 1997-98) clearly showed low execution of works.

8.3.18 Even as on 31st March 2000, the Company could not start 35 works (estimated value of Rs.10.51 crore as shown in Appendix-XLVI) for which advance amounting to Rs.2.35 crore had been received since 1989-90

8.3.19 In the Eleventh Report dated 27 November 1990, COPU recommended that the Company should take immediate and effective steps for creation of the infrastructure facilities to take up works departmentally instead of awarding works to contractors to achieve cost reduction by eliminating contractor's profit. However, it was observed that the company failed in creating any infrastructure facility of it's own to take up work departmentally which not only had led to dependence on private contractors for execution and completion of jobs but also failure in achieving cost reduction by eliminating contractors profit margin of Rs.2.29 crore*.

8.3.20 The Company had not fixed any norms for its manpower in different Unit. It was observed (Appendix-XLVII) that the Company's expenditure on employee's salary was exorbitantly high as compared to agency charges receivable which varied from 216 **per cent** to 624 **per cent** for the Company as a whole during 1995-96 to 1999-2000. Company has to take steps to fix norms and deploy manpower on need basis.

Cash Management

Injudicious transfer of funds

8.3.21 The Company had transferred a total amount of Rs.9 crore to the State Government on five occasions during 1993-94 to 1996-97 to help the Government tide over it's adverse ways and means position with the RBI. The Company raised Bank loans against their fixed deposits. Government refunded the money and paid total interest of Rs.0.06 crore only to the Company but the Company had to pay interest amounting to Rs.0.51 crore to the banks for this loan received. Transfer of funds without safeguarding of its interest resulted in incurring loss amounting to Rs.0.45 crore.

Unrealised debts

8.3.22 It was also observed that the Company did not take effective steps to realise a substantial amount of Rs.1.55 crore being the value of work done up to 31 March 2000 by the Company from different departments of the State Government as shown in Appendix-XLVIII. Out of the above a total amount of Rs.0.29 crore (Sl. No.4 to 11) remained outstanding since 1995-96. Reasons for such inaction on the part of the management were not explained.

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* Total value of work done : Rs.25.17 crore (inclusive of 10 **per cent** as Contractor's profit in terms of schedule of rates) during the period 1995-96 to 1999-2000.

Hence (i). Contractor profit element : Rs.2.29 crore

Internal Audit

8.3.23 The Company had no internal audit arrangement but had got the work done by appointing a firm of Chartered Accountants only up to 1996-97 without specifying duties to be performed by the firm. Their report, however, had only dealt with the accounting irregularities excluding comments on the operation and day to day functioning of the Registered and unit offices.

Construction activities

Award/execution of contracts

Extra-expenditure by way of undue benefit to the contractor

8.3.24 Work for construction of new RCC building for Government Press at Shillong was completed in March 2000 at a total cost of Rs.3.81 crore. Scrutiny of records revealed that the Company had allowed escalation to the contractor to the extent of Rs.0.09 crore on cost of materials though the materials (cement and steel) were either issued by the Company or the excess price (i.e. market price over the recovery rate) paid by the contractor for bringing materials from open market were reimbursed by the Company. The payment of this escalation amounting to Rs.0.09 crore was undue and inadmissible to the contractor.

8.3.25 Further, the Company also paid (February 1993) compensation for loss of overheads amounting to Rs.0.07 crore pertaining to the period up to 13 July 1988 i.e. scheduled date of completion, which should not have been allowed as per clause of the agreement and in the absence of a claim by the contractor.

8.3.26 Thus, the Company had rendered undue financial benefit to the contractor thereby incurring on extra-expenditure to the tune of Rs.0.16 crore (Rs.0.09 crore + Rs.0.07 crore).

Excess payment of escalation besides non-imposition of penalty in execution of work

8.3.27 In June 1994 the Company had received administrative as well as financial sanction for Rs.0.87 crore (School building: Rs.0.71 crore; its development work Rs.0.16 crore) from Navodaya Vidyalaya Samiti (NVS) under Ministry of Human Resources Development, Department of Education, Government of India, for construction of JNV school building at Mukhla, Jowai based on Delhi Schedule of Rate (DSR) 1993. The Company invited (September 1994) tender based on DSR 1989 (as the DSR-1993 was not available with the Company) and awarded (February 1995) the work to a contractor at the rate of 98 **per cent** above DSR 1989 on lowest rate basis with the scheduled date of completion in February 1996.

8.3.28 The work could not be completed within the stipulated date of completion for want of drawings and designs from NVS. Accordingly, the Company granted several extensions in time (latest by December 2000). The work was in progress till April 2001.

8.3.29 Due to delay in completion of work, NVS conveyed (October 1999) their administrative approval on revised estimate for Rs.1.53 crore. Accordingly, the MGCCL revised the tender value to Rs.1.21 crore in May, 2000 on the basis of 98 **per cent** above DSR 1989 for the work up to February 1996 (scheduled date of completion) and thereafter at the rate of 188.74 **per cent** above DSR 1989. The Company made payment (up to March 2001) for the above work in the following manner :-

Table 8.16

Period	Original cost (Rupees in crore)	Escalation (Rupees in crore)	Rate
Up to February 1996	0.04	0.04	98 **per cent** above DSR 1989
After February 1996	0.14	0.26	188.74 **per cent** above DSR 1989

8.3.30 The Company, however, approved the escalated cost percentage rate of 7.7 **per cent** per annum from 1995-96 to 2000-01 in case of other works, which has not been considered in this case before making payment of escalation. The work of JNV/Jowai was awarded in 1995 at the rate of 98 **per cent** above DSR 1989. Hence considering the increase as zero for base year 1995-96 and subsequent cost increase at the rate of 7.7 **per cent** per annum the Company incurred an extra expenditure to the tune of Rs.0.10 crore as shown in Appendix-XLIX.

Extra-avoidable expenditure incurred for allowing high percentage negotiated rate to the contractor

8.3.31 The Company was allotted in June 1994 the work for construction of school building for Navadaya Vidyalaya Samiti (NVS) at Ramkrishnanagar, Karimganj, Assam at an estimated value of Rs.0.87 crore (Rs.0.71 crore for school building and Rs.0.16 crore for its development) based on DSR 1993. The Company invited tenders in September 1994 for school building based on DSR 1989 and awarded (February 1995) the work to a contractor (sixth lowest) but negotiated to the lowest quoted rate of 76 **per cent** above DSR 1989 with stipulated date of completion of 07 February 1996. The work was not completed in due time and the contractor claimed (November 1996) increase in rate on the grounds of price increase of materials and labour.

8.3.32 The Company negotiated and approved the following rate in April 1997 :-

Table 8.17

Value of work done	**Original value (76 per cent above DSR 1989) (Rupees in crore)**	**Escalated value (37 per cent above DSR 1993) (Rupees in crore)**	**Total (Rupees in crore)**
(a) Up to target date of completion i.e. 07 February 1996	0.16	-	0.16
(b) Work to be done after target date i.e. after 07 February 1996	0.60	0.22	0.82
(c) Supplementary bills	-	-	0.06
			1.04

8.3.33 It was observed that the Company had also awarded (August 1996) three other work for construction of dormitory buildings in the same compound at the lowest quoted rate of 17 **per cent**, 19 **per cent** and 22 **per cent** above DSR 1993 to different contractors.

8.3.34 Since all the works were executed by different contractors in the same site during the same period on item rate contract basis with respect to DSR 1993, the rate allowed on negotiation at 37 **per cent** above DSR 1993 was not justified, and the payment was excess to the extent as computed below taking into consideration of the lowest rate (22 **per cent**) accepted above the DSR 1993 in the case of construction of dormitory building in the same compound :

37 **per cent** above work value Rs.59.96 lakh	=	Rs.0.22 crore
22 **per cent** above work value Rs.59.96 lakh	=	Rs.0.13 crore
		Rs. 0.09 crore

8.3.35 Thus, there was an extra-expenditure of Rs.0.09 crore incurred by the Company on account of payment of escalation up to 19th Running Account Bill (October 1998), which should have been fixed with reference to the rate contracts awarded for other works in the same site.

Blockage of fund due to irregular deviation from original plan leading to non-completion of work

8.3.36 Education Department, Government of Meghalaya had entrusted (September 1994) MGCC the construction work of District Institute of

Education and Training (DIET) buildings (Centrally Sponsored Scheme) at three District Centres, namely Baghmara, Nongpoh and Nongstoin with a total sanction of Rs.1.50 crore (Rs.0.50 crore each) against which the Company received Rs.1.35 crore in November 1994 to construct (i) one school building, (ii) two hostel buildings and (iii) ten single storied staff quarters with CGI sheet roofing with specific plinth area as per the scheme.

8.3.37 The Company decided (September 1995) to construct one school building and one hostel building with multi-storied RCC structure by reducing the scope of work for keeping the expenditure within the sanctioned estimate by deviating from the original plan of the scheme. Though this deviation was made on verbal discussion only with Education Department, Government of Meghalaya, the final approval was neither obtained from Government of Meghalaya nor from Government of India (being Centrally Sponsored Scheme). The Company issued work orders to different contractors on lowest quoted rate basis, for one school building and one hostel building to be constructed at Baghmara (March 1996), Nongpoh (September 1996) and Nongstoin (May 1997). The Company revised the estimate at a total value of Rs.2.47 crore (Baghmara : Rs.0.85 crore, Nongpoh : Rs.0.86 crore and Nongstoin : Rs.0.76 crore) after deleting the construction of one hostel building and the staff quarters in each site and submitted the same to the Government of Meghalaya in May 1998 for sanction. Instead, the Government of Meghalaya paid Rs.0.15 crore (May 2000) being the balance of the original estimate (Rs.1.50 crore) after a lapse of two years without any hints of approval of the revised estimate being sanctioned either by them or by the Government of India. The works remained incomplete (March 2001) despite a total expenditure of Rs.1.52 crore (Rs.0.55 crore with 80 **per cent** completion in Baghmara, Rs.0.50 crore with 68 **per cent** completion in Nongpoh and Rs.0.47 crore with 70 & 90 **per cent** completion in Nongstoin) as reported by the Company. The balance scope of work i.e., one hostel and ten Nos. of staff quarters (deleted earlier) are to be constructed with further investment of fund, unless these are done, the purpose will remain unfulfilled.

8.3.38 Thus, due to deviation from original plan and estimate by the Company without prior approval of the competent authority an amount of Rs.1.52 crore remained locked up with no benefit to the local people for which the works were sanctioned.

Materials at Site

Idle damaged stock with resultant loss

8.3.39 As per physical verification report for the year 1998-99 and 1999-2000 there were some badly rusted and damaged idle stock of steel materials valuing Rs.0.05 crore procured during the period from 1993-94 to 1995-96. These were lying in the open air till date of audit (April 2001). Reasons for procurement and non-utilisation of these steel materials were not available on record. Thus, procurement of these steel materials without proper prior assessment was injudicious.

Conclusion

8.3.40 The works taken up by the company at different periods are lying incomplete (April 2001) due to slow execution of work. Unspent balances of advances received from the clients are more than the expenditure of works incurred each year. This coupled with high establishment and administrative cost, poor cash management has resulted into losses and led the Company into a state of negative net worth. Further, COPU's recommendations of November 1990 have not been implemented.

8.3.41 This proved the inefficient handling of the affairs by the Company. Steps need to be taken for more efficient and purposeful functioning of the Company.

8.3.42 The above matters were reported to Government in August 2001; Replies had not been received (December 2001).

SECTION 'B' : PARAGRAPHS

INDUSTRIES DEPARTMENT

MAWMLUH-CHERRA CEMENTS LIMITED

8.4 Avoidable extra liability towards Demand Charges

Improper assessment of contract demand in excess of actual requirement leading to avoidable extra-liability on demand charges to the extent of Rs.0.26 crore.

8.4.1 Mawmluh-Cherra Cements Limited (MCCL), a 'High Tension Industrial Power Consumer' (HTIPC) entered into an agreement (April 1996) with Meghalaya State Electricity Board (MeSEB), to draw power with a contract demand of 7000 KVA for the year 1996-97, 7500 KVA for 1997-98 and 8000 KVA from 1998-1999 to 2000-2001. Scrutiny of records, however, disclosed that their maximum demand during the entire period of contract had never exceeded 6480 KVA (March 1997). Therefore, based on the actual drawal of power by the Company, the increase of the load demand from year to year was found most unrealistic, so much so, the demand forecast of MCCL was not based on a time path demand study.

8.4.2 Under the tariff structure of MeSEB, billing demand for an HTIPC was 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.

8.4.3 MeSEB billed MCCL from April 1998 onwards at 75 **per cent** of the contract demand (being the highest demand established) at the applicable tariff rate of Rs.85 per KVA up to October 1999, and at Rs.100 per KVA from November 1999. The Company had thus incurred an extra liability of Rs.0.26 crore during April 1998 to May 2001 towards demand charges on the avoidable contract demand of 1000 KVA per month from April 1998 to May 2001 against the required demand of 7000 KVA per month as calculated below:-

Table 8.18

Period	Number of months	Contract demand per month (KVA)	75 per cent of the contract demand per month (KVA)	Applicable tariff rate per KVA per month (Rupees)	Avoidable liability (2) x (4) x (5) (Rupees in crore)
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
April 1998 to October 1999	19	8000	750 (75 **per cent** of 1000 KVA)	85	0.12
November 1999 to May 2001	19	8000	750 (75 **per cent** of 1000 KVA)	100	0.14
Total	**38**				**0.26**

8.4.4 Had the Contract Demand been restricted in a realistic way to 7000 KVA by MCCL right from April 1998 the extra liability of Rs.0.26 crore towards payment of Demand Charges could have been avoided.

8.4.5 On this being pointed out in audit (December 2000), the MCCL entered into a fresh agreement (May 2001) with MeSEB reducing the contract demand to 7000 KVA from June 2001.

8.4.6 The matter was reported to the Government in January and August 2001; Government had simply endorsed (October 2001) the replies of the Management without any comment to the contrary.

POWER DEPARTMENT

MEGHALAYA STATE ELECTRICITY BOARD

8.5 Idling of fund entailing avoidable interest liability

Excess drawal of funds from Board's principal account and their periodical transfer to the Current account of the field units disclosed blockage of funds of Rs.0.89 crore borrowed by the Board with an interest liability of Rs.0.11 crore at 12.5 per cent per annum.

8.5.1 Mention was made in paragraph 8.9 of the Report of the Comptroller and Auditor General of India, Government of Meghalaya for the year ended

31 March 2000 regarding blockage of Board's borrowed funds and consequent loss of interest in respect of two divisions of the Board.

8.5.2 Test check (January-February 2001) of records of three more Divisions disclosed similar irregularities as under:-

(i) The Executive Engineer (EE) Transmission and Transformation Division, Umiam by submitting requisitions in excess of immediate requirement during 1999-2000 had an average monthly bank balance of Rs.0.17 crore which was locked up in its drawing account for 1 year as a result of which the board had interest liability of Rs.0.02 crore.

(ii) The EE (Material Management) Shillong also retained an average bank balances of Rs.0.31 crore during 1998-99 and Rs.0.28 crore during 1999-2000 in its current account in excess of immediate requirement. This had led to further blockage of Rs.0.59 crore for 2 years with the interest liability of Rs.0.07 crore.

(iii) Similarly, the EE, East Khasi Hills (Distribution) Division Shillong held for 1 year an amount of Rs.0.13 crore (1997-98: Rs.0.06 crore; 1998-99: Rs.0.02 crore; 1999-2000: Rs.0.05 crore) locked up in its current account in excess of requirement having interest liability of amounting to Rs. 0.02 crore.

8.5.3 It is, therefore, clear from above that the 3 units drew a total sum of Rs. 0.89 crore in excess of their immediate requirements resulting in idling of funds, with consequential interest liability of Rs. 0.11 crore. This points to lack of financial discipline on the part of the management.

8.5.4 The matters were reported to the Board/Government in April and July 2001; replies had not been received (December 2001).

8.6 Non-maintenance of asset register and non-realisation of rent

Lack of proper initiative on the part of the Board had resulted in an accumulation of house rent to the tune of Rs.0.07 crore recoverable from the occupants of various units for which no asset (building) register was maintained.

8.6.1 Test check (September 2000) of records of the Executive Engineer (EE), Garo Hills Civil Division, Meghalaya State Electricity Board (MeSEB), Tura disclosed that the Board allotted 5 residential quarters constructed during 1965 under Nangwalbibra Sub-Division to various government/non-government units in which cases no rent was realised nor followed up. The details are shown below:-

Table 8.19

Sl. No.	Organisation/Units	Number (No). of Quarters	Area (m^2)	Period	Total months	Rate/ month (in rupees)	Amount of rent recoverable (in lakh)
1	Police	3	265.16	January 1983 to March 1992	111	700/ No.	2.33
			265.16	April 1992 to August 2001	112	10.78/ m^2	3.20
2	Telephone Exchange	1	43.22	January 1983 to March 1992	111	04.34/ m^2	0.21
				April 1992 to August 2001	112	10.78/ m^2	0.52
3	Post Office	1	52.17	January 1983 to March 1992	111	04.34/ m^2	0.25
				April 1992 to August 2001	112	10.78/ m^2	0.63
	Total	**5**					**7.14**

8.6.2 The Board did not maintain any asset (building) register nor were the assets physically verified by the Divisional authority for which the actual cost of construction was not available on records. However, as the quarters were allotted to the outside agencies it is implied that there was no necessity to invest on such construction by the Board.

8.6.3 On this being pointed out in audit, the EE in reply stated (January 2001) that Nangwalbibra is situated in a far flung area with no basic infrastructures/facilities available with the MeSEB employees. Since no employee of the Board occupied the quarters shown above, it was clear that the creation of the assets was not required at all. However, the fact remains that the rent of Rs.0.07 crore recoverable up to July 2001 had not been recovered from the occupants of these quarters.

8.6.4 The matters were reported to the Government in October 2000 and August 2001; reply has not been received (December 2001).

8.7 Unauthorised and infructuous expenditure

Unauthorised selection of consultants outside the approved panel of World Bank leading to abandonment of the consultancy work resulted in infructuous expenditure of Rs.0.36 crore and a liability of Rs.0.54 crore.

8.7.1 The Meghalaya State Electricity Board (MeSEB) proposed to restructure its operation with the overall objective of improving operational efficiency and commercial viability for attracting private investment in future for full exploitation of State's vast potentialities in Power. For this purpose, the MeSEB decided (September 1994 and June 1995) to avail World Bank (WB) loan as a part of WB's Technical Assistance Project (TAP) and Pre-Investment fund (PIF) to be channelised through Power Finance Corporation of India Limited (PFCIL) for (i) conducting Diagnostic study (DS) of present financial management, (ii) preparing a detailed project report (DPR) on new hydro-power projects in the State and (iii) assessing the assets/liabilities for restructuring the organisational, financial, technical and commercial activities of the Board.

8.7.2 Keeping this in view, the State Government constituted (September 1995) an Empowered Committee (EC) to deliberate on various issues relating to a proposed Memorandum of Understanding between State Government, MeSEB and a foreign consortium. The EC decided (October 1995) to engage Industrial Credit and Investment Corporation of India Limited (ICICIL) as consultants for Power Sector reforms and restructuring in 2 (two) modules, i.e., (i) Valuation Exercise and (ii) Formulation of regulatory framework, required for privatising the Power Sector in the State. The State Government directed (January 1996) the MeSEB to act immediately upon the decision of EC. Acting on this, MeSEB entered (February 1996) into an agreement with ICICIL at a contract value of Rs.1.25 crore as fee for consultancy services on (i) Valuation Exercise (Rs.0.60 crore) and (ii) Regulatory Framework (Rs.0.65 crore) besides which all visit expenses would be charged at actuals. It was also stipulated in the agreement that on cancellation, cost up to completed works to be paid subject to minimum 50 **per cent** of the contract value. The ICICIL was paid (February 1996) Rs.0.25 crore as advance in terms of the agreement.

8.7.3 In November 1996 the Chief Secretary observed that the engagement of the ICICIL as per the EC's decision should have been approved by the full house of the Board of Directors (BOD) of MeSEB because of its high contract value which, however, was not done. Hence, this engagement was neither approved by State Government nor by the BOD.

8.7.4 The MeSEB also engaged (August 1996) Credit Rating Information Services India Limited (CRISIL) for conducting a diagnostic study on Capital restructuring plan to improve the financial health of the Board. CRISIL submitted its report in September 1996 for which MeSEB spent Rs.0.11 crore. The ICICIL submitted its first report in January 1997 when the MeSEB came to know through the State Government that the ICICIL was not a consultant from the panel of WB which was the pre-requisite for such WB loan. Realising this, MeSEB asked (November 1997) ICICIL to submit its report on 'Regulatory Framework' if already prepared and not to proceed further.

8.7.5 In the meantime, ICICIL had already preferred a total outstanding claim of Rs.0.54 crore between June 1996 and September 1997 for their services rendered, in addition to Rs.0.25 crore since received (February 1996) as advance. MeSEB asked (April 1999) the State Government to release interest free fund of Rs.0.79 crore to the Board on the ground that ICICIL was engaged for these consultancy services based on the directives of the Government, but the Government till date has not provided the same to MeSEB.

8.7.6 Non-selection of consultants from the approved panel of WB for the purpose of availing WB loan through PFCIL without approval of BOD/State Government led to termination of the consultancy contract which defeated the very purpose of the restructuring decision and the entire amount of Rs.0.90 crore so paid (ICICIL: Rs.0.25 crore; CRISIL: Rs.0.11 crore) and payable (ICICIL: Rs.0.54 crore) had been rendered infructuous as the report of the consultants were not acceptable by the channelising agency (PFCIL).

8.7.7 The matter was reported to the Government September 1999 and July 2001; their reply had not been received (December 2001).

(E. R. SOLOMON)

Shillong — Accountant General (Audit)

The — Meghalaya, Arunachal Pradesh and Mizoram

Countersigned

New Delhi — **(V. K. SHUNGLU)**

The — Comptroller and Auditor General of India