CHAPTER VII : GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

This chapter deals with the results of audit of Government companies and Statutory corporations. Paragraph 7.1 deals with general view of Government companies and Statutory corporations. Paragraph 7.2 contains a review on the working of Mawmluh-Cherra Cements Limited and Paragraphs 7.3 to 7.6 deal with topics of other interest.

7.1 Overview of Government Companies and Statutory Corporations

7.1.1 Introduction

As on 31 March 2003 there were 10 Government companies (all working, including four subsidiaries) and three Statutory corporations (all working) against the same number of working Government companies and working Statutory corporations as on 31 March 2002 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 is conducted under the provisions of the respective Acts as detailed below:

Table 7.1

Sl. No.	Name of the Corporation	Authority for audit by the Comptroller and Auditor General of India	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

7.1.2 Investment in Working Public Sector Undertakings

As on 31 March 2003, the total investment in 13 working Public Sector

Undertakings (PSUs) (10 Government companies and three Statutory corporations) was Rs.701.94 crore (equity: Rs.113.14 crore; long-term loans*: Rs.557.71 crore and share application money: Rs.31.09 crore) as against a total investment of Rs.588.42 crore (equity: Rs.108.85 crore; long-term loans*: Rs.446.60 crore; and share application money: Rs.32.97 crore) in the same number of working PSUs as on 31 March 2002. The analysis of investment in PSUs is given in the following paragraphs.

7.1.3 Working Government Companies

Total investment in 10 working companies as on 31 March 2003 was Rs.141.63 crore (equity: Rs.103.99 crore; long-term loans: Rs.36.40 crore and share application money: Rs.1.24 crore) as against total investment of Rs.141.02 crore (equity: Rs.71.85 crore; long-term loans: Rs.36.20 crore and share application money: Rs.32.97 crore) as on 31 March 2002 in the same number of Government companies.

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

Main reason for increase in total investment (Rs.60.90 lakh) during 2002-03 was due to induction of equity by the State Government amounting to Rs.41 lakh in two sectors, *viz*. Handloom and Handicrafts and Construction and overall increase (net) of long term loans by Rs.19.90 lakh.

As on 31 March 2003, the total investment of working Government companies comprised 74.30 *per cent* equity capital and 25.70 *per cent* loan as compared to 74.33 *per cent* and 25.67 *per cent* respectively as on 31 March 2002.

During 2002-03, the equity and loan have increased marginally by 0.39 *per cent* and 0.55 *per cent* respectively compared to 2001-02. As a result the debt equity ratio was 0.35:1 in both the years without any change.

7.1.4 Working Statutory corporations

The total investment in three Statutory corporations at the end of March 2002 and 2003 was as follows:

* Long term Loans mentioned in paragraphs 7.1.2 to 7.1.5 are excluding interest accrued and due on such loans.

Table 7.2

(Rupees in crore)

Name of Corporation	2001-02		2002-03	
	Capital	Loan	Capital	Loan
Meghalaya State Electricity Board (MeSEB)	…	393.38	…	504.29
Meghalaya Transport Corporation (MTC)	34.67	17.02	36.67	17.02
Meghalaya State Warehousing Corporation (MSWC)	2.33	…	2.33	…
Total	**37.00**	**410.40**	**39.00**	**521.31**

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

The increase in investment of working Statutory corporations during 2002-03 (compared to 2001-02) represented further investment towards loan by the State Government to Meghalaya State Electricity Board (Rs.48.49 crore) and in equity to Meghalaya Transport Corporation (Rs.2 crore) and loans obtained by Meghalaya State Electricity Board from other sources (Rs.62.42 crore).

As on 31 March 2003, the total investment of working Statutory corporations comprised 6.96 *per cent* equity and 93.04 *per cent* of loan as compared to 8.27 *per cent* and 91.73 *per cent* respectively as on 31 March 2002.

Due to significant increase of long term loan of Meghalaya State Electricity Board and Meghalaya Transport Corporation, the debt equity ratio has increased from 11.09:1 in 2001-02 to 13.37:1 in 2002-03.

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

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 XXVII and XXIX.

The budgetary outgo (in the form of equity capital and loan) and grants/subsidies from the State Government to 10 working Government companies and three working Statutory corporations for the three years up to 2002-03 in the form of equity capital, loans, grants and subsidy is given below:

Table 7.3

(Rupees in crore)

	2000-01				2001-02				2002-03			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1.Equity	6	21.00	-	-	4	12.87	-	-	2	0.41	1	2.00
2. Loans	-	-	1	18.44	-	-	2	38.05	-	-	1	48.49
3. Grants	-	-	-	-	2	0.54	1	3.50*	1	0.20	1	2.70
4. Subsidy	2	0.31	2 *	13.10 *	1	0.01	1	11.00*	-	-	1	10.80
Total outgo	**6@**	**21.31**	**2@**	**31.54**	**6@**	**13.42**	**2@**	**52.55**	**3 @**	**0.61**	**2@**	**63.99**

During the year 2002-03, no fresh guarantee has been given by the State Government against loan raised by the PSUs. However, against the guarantee given by the State Government in earlier years, the default in repayment amounted to Rs.136.94 crore against one Government company (Rs.3.07 crore) and one Statutory Corporation (Rs.133.87 crore). Guarantee commission amounting to Rs.7.45 crore was due for payment by the concerned Government company (Rs.0.02 crore) and the Statutory corporation (Rs.7.43 crore) to the State Government.

7.1.6 Finalisation of accounts by PSUs

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 the respective Acts.

However, as could be noticed from Appendix XXVIII, none of the 10 working Government companies and out of three Statutory corporations, only one Corporation had finalised its accounts for the year 2002-03 within the stipulated period.

During the period from October 2002 to September 2003, 9 working Government companies finalised 12 accounts for previous years. During this period two Statutory corporations finalised accounts for previous years.

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 2003 as detailed below:

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* Represents subsidy against Rural Electrification losses to Meghalaya State Electricity Board and grants to Meghalaya Transport Corporation for operation of buses in uneconomic routes.

@ 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 7.4

Sl. No.	Number of companies/ corporations		Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Serial No of Appendix-XXVIII	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1.	03	01	2002-03	01	1, 4 & 10	3
2.	01	-	2001-02	02	9	-
3.	01	-	2000-01	03	5	-
4.	01	01	1998-99	05	2	2
5.	01	-	1997-98	06	3	-
6.	01	-	1996-97	07	7	-
7.	01	-	1995-96	08	6	-
8.	01	-	1989-90	14	8	-

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.

7.1.7 Financial position and Working results of working PSUs

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

According to latest finalised accounts of 10 working Government companies and three Statutory corporations, nine companies and two corporations had incurred an aggregate loss of Rs.6.45 crore and Rs.29.86 crore respectively and the remaining one company and one corporation earned profit of Rs.one crore and Rs.11.28 lakh, respectively.

Working Government companies

7.1.8 Profit earning working companies and dividend

Out of 10 working Government companies none of the companies have finalised their accounts for 2002-03. Based on accounts finalised for previous years by September 2003, one[*] company earned profit for two or more successive years but did not declare any dividend. The State Government has not formulated any dividend policy for payment of minimum dividend.

[*] Sl. No. A-1 of Appendix XXVIII.

7.1.9 Loss incurring working Government companies

Of the nine loss incurring working Government companies, five companies[(a)] had accumulated losses aggregating Rs.27.52 crore which had far exceeded their aggregate paid up capital of Rs.7.02 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to two of these companies[(b)] 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 2002-03 to these companies whose accumulated losses had exceeded the paid up capital amounted to Rs.41 lakh.

Working Statutory corporations

7.1.10 Profit earning working Statutory corporations and dividend

Only one Statutory corporation[(c)] which finalised accounts for 2001-02 by September 2003 and earned profit of Rs.11.28 lakh has declared dividend of Rs.0.59 lakh.

7.1.11 Loss incurring working Statutory corporations

The aggregate accumulated loss of two Statutory corporations[(d)] as per their latest finalised accounts was Rs.385.65 crore. As per available information, during 2002-03 the State Government had provided financial support aggregating Rs.63.99 crore to these Statutory corporations by way of equity (Rs.2 crore), loan (Rs.48.49 crore), and subsidy/grant (Rs.13.50 crore).

7.1.12 Operational performance of working Statutory corporations

The operational performance of the working Statutory corporations is given in Appendix XXXII. In Meghalaya Transport Corporation average kilometres covered per bus per day decreased from 163 in 1995-96 to 154 in 1997-98. Further, loss per kilometre increased from 1,036 paise in 1995-96 to 1,117 paise in 1997-98.

7.1.13 Return on Capital Employed

According to the latest finalised accounts (up to September 2003) the capital employed[(a)] worked out to Rs.59.74 crore in 10 working companies and total

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[(a)] Sl.No. 3,4,5,6 and 9 of Appendix XXVIII.
[(b)] Sl. No. 3 and 9 of Appendix XXVIII
[(c)] Serial B-3 of Appendix XXVIII.
[(d)] Sl. Nos. B- 1 & 2 of Appendix XXVIII.
[(a)] 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[(b)] thereon was (-) Rs.1.83 crore as compared to return of Rs.1.86 crore in the previous year (accounts finalised up to September 2002). Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts (up to September 2003) worked out to Rs.475.08 crore and Rs.5.11 crore (1.08 *per cent*), respectively against the total return of Rs.15.99 crore (4.14 *per cent*) respectively in previous year (accounts finalised up to September 2002). The details of capital employed and total return on capital employed in case of working Government companies and corporations are given in Appendix XXVIII.

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

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

Table 7.5

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.	Meghalaya State Electricity Board	2000-01	2001-02	05 June 2003	Under process for placement in Legislature
2.	Meghalaya Transport Corporation	1996-97	1997-98	29 April 2003	-do-
3.	Meghalaya State Warehousing Corporation	2000-01	2001-02	04 April 2003	-do-

7.1.15 Disinvestment, Privatisation and Restructuring of Public Sector Undertakings

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

7.1.16 Results of audit by Comptroller and Auditor General of India

During the period from October 2002 to September 2003, the accounts of eight 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:

(b) 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 7.6

Details	Number of accounts		Rupees in lakh	
	Government companies	Statutory corporation	Government companies	Statutory corporation
(i) Decrease in profit	1	-	73.58	-
(ii) Increase in loss	1	1	0.05	57.00
(iii) Decrease in loss	1	1	1.48	142.00
(iv) Non-disclosure of material facts	1	1	6.56	926.00

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

7.1.17 Errors and omissions noticed in case of Government companies

Mawmluh-Cherra Cements Limited (2001-02)

Net profit for the year has to be viewed in the context of:

Non-provision of gratuity liability in compliance to Accounting Standard - 15 estimated at Rs.1.58 crore, as disclosed vide item - I of Notes on accounts;

Increase in profit by Rs.59.20 lakh due to change in accounting policy for writing off re-activation expenses as disclosed vide Note No.10 of Notes on Accounts.

7.1.18 Errors and omissions noticed in case of Statutory corporations

(a) Meghalaya State Electricity Board (2001-02)

The net loss for the year (Rs.24.94 crore) has been understated by Rs.0.57 crore due to non-provision/short provision of expenses and depreciation by Rs.1.27 crore, excess provision of liabilities for expenses (Rs.0.65 crore) and short accounting of other income (Rs.0.05 crore)

Capital works-in-progress (Rs.56 crore) were understated by Rs.55.18 crore as a result of not giving effect to renovation and modernisation works of Umiam Stage I and Stage II Power Station in the accounts.

(b) Meghalaya Transport Corporation (Accounts for 1997-98)

The net loss for the year has been overstated by Rs.1.42 crore (net) due to short exhibition of income (Rs.14.59 lakh), excess exhibition of expenses (Rs.36.85 lakh), excess consumption of spare parts (Rs.1.13 crore), excess exhibition of income (Rs.11.97 lakh) and short provision of expenses (Rs.10.29 lakh).

Provision (Rs.10.09 crore) includes Rs.9.26 crore being Depreciation Renewal Reserve. In terms of Section 29 of Road Transport Corporation Act, 1950, the Corporation is required to deposit the fund under specific investment. No investment of fund has, however, been made. The statutory provision in this respect has not been complied with nor had the fact been disclosed.

7.1.19 Audit assessment of the working results of Meghalaya State Electricity Board

Based on the audit assessment of the working results of MeSEB for the three years up to 2001-02 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 7.7

(Rupees in crore)

Sl. No.	Particulars	1999-2000	2000-01	2001-02
1.	Net Surplus (+)/deficit (-) as per books of accounts	(-) 20.65	(-) 20.13	(-) 24.94
2.	Subsidy from the State Government	9.30	10.25	11.00
3.	Net Surplus (+)/deficit (-) before subsidy from the State Government (1-2)	(-) 29.95	(-) 30.38	(-) 35.94
4.	Net increase/decrease in net surplus (+)/deficit (-) on account of audit comments on the annual accounts of the MeSEB	(-) 3.98	(-) 2.53	(-) 0.57
5.	Net Surplus (+)/deficit (-) after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-) 33.93	(-) 32.91	(-) 36.51
6.	Total return on capital employed	6.34	12.56	20.32
7.	Percentage of total return on capital employed	1.79	3.52	5.24

7.1.20 Persistent irregularities and system deficiencies in financial matters of PSUs

The following persistent irregularities and system deficiencies in the financial matters of the two Statutory corporations had been repeatedly pointed out during the course of audit of their accounts but no corrective action has been taken by 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 lack sufficient narration of adjustments made.

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

(v) Fixed assets have not been physically verified by the Corporation.

7.1.21 Internal Audit/Internal Control

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

The Statutory Auditors in their reports qualified that in two Companies[(a)] there was no internal audit system.

7.1.22 Recommendations for closure of PSUs

Even after completion of 17 to 21 years of their existence, the turnover of eight working Government companies and one working Statutory corporation has been less than Rs.5 crore in each of the preceding five years of latest finalised accounts. Similarly five working Government companies had been incurring losses for five consecutive years (as per latest finalised accounts) leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve performance of above five working Government companies and one Statutory corporation or consider their closure.

7.1.23 Response to Inspection Reports, Draft Paragraphs and Reviews

Audit observations noticed during audit and not settled on the spot are communicated to the Heads 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

[(a)] Sl. Nos. 1 and 8 of Appendix-XXVIII.

March 2003 pertaining to 13 PSUs disclosed that 603 paragraphs relating to 162 Inspection Reports remained outstanding up to July 2003. Of these, 41 Inspection Reports containing 121 paragraphs had not been replied for more than 10 to 5 years. Department-wise break-up of Inspection Reports and Audit observations outstanding as on 30 September 2003 is given in Appendix XXXIII.

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. No reply to five draft paragraphs and one review forwarded to the various departments during May to July 2003, as detailed in Appendix XXXIV, had been received so far.

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 is taken in time bound schedule and (c) system of responding to the audit observations is revamped.

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

The status of discussion of reviews/paragraphs of commercial chapter of Audit Reports pending discussion by COPU as on September 2003 are shown at next page:

Table 7.8

Period of Audit Report	Total number of reviews and paragraphs featured 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
2000-01	2	4	2	4
2001-02	1	6	1	6

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

7.1.25 619-B Companies

There was one company 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 7.9

(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': REVIEW

INDUSTRIES DEPARTMENT

MAWMLUH-CHERRA CEMENTS LIMITED

7.2 Working of Mawmluh-Cherra Cements Limited (MCCL)

Highlights

The Company was established in May 1955 for production and marketing of cement. The authorised share capital was Rs.30 crore and paid up share capital Rs.22.21 crore as on 31 March 2002. As against rated capacity of 1.65 lakh tonnes the actual production varied from 1.05 lakh to 1.22 lakh tonnes during the last four years ending March 2002. The Company had incurred operating loss of Rs.65 lakh in 2001-02. The Company has not been preparing the budget.

(Paragraphs 7.2.1, 7.2.5, 7.2.6, 7.2.7 & 7.2.9)

The Company had incurred an extra expenditure of Rs.2.68 crore in consumption of electricity and Rs.4.19 crore in consumption of coal.

(Paragraph 7.2.10)

The Company had incurred an extra expenditure of Rs.11.21 lakh in consumption of limestone and Rs.24.49 lakh in consumption of gypsum.

(Paragraph 7.2.11)

Loss of machine hours varied between 47.88 and 61.44 *per cent*. There was increase in overtime allowance despite shortfall in production.

(Paragraphs 7.2.12 & 7.2.15)

Loss of man hours varied between 14.23 and 21.44 *per cent*.

(Paragraph 7.2.14)

Physical verification of stores and spares not carried out since 1998-99. Company purchased new spare parts without assessing the requirement

resulting in excess holding of spares and stores with carrying cost (interest burden) of Rs.17.33 lakh to Rs.23.16 lakh.

(Paragraph 7.2.16)

Sales in other States resulting in loss of revenue Rs.1.49 crore.

(Paragraph 7.2.18)

There was no justificatioin of offering incentives of Rs.1.36 crore.

(Paragraph 7.2.19)

Less realisation of sale proceeds of Rs.21.66 lakh.

(Paragraph 7.2.20)

Extra expenditure of Rs.11.20 lakh in procurement of HDPE bags.

(Paragraph 7.2.21)

7.2.1 Introduction

The Company was incorporated in May 1955 as Assam Cements Limited and became a Government company in January 1964 with the objective of manufacturing and dealing in cement, limestone, *etc.* The Company was renamed as Mawmluh-Cherra Cements Limited (Company) in May 1974. Reactivation of plant was undertaken during the period 1988-95 at a total cost of Rs.9.36 crore to increase the production by 1.75 lakh tonnes per annum. As mentioned in paragraph 8.7.9 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1990 the plant had an installed capacity of 4.04 lakh tonnes per annum and rated capacity of 2.97 lakh tonnes per annum. The rated capacity was reduced to 1.65 lakh tonnes per annum in 1996-97 without assignment of any reason therefor.

7.2.2 Objectives

The main objectives of the Company were as follows:

(i) to work mines or quarries and to find, acquire, work, crush, manufacture or otherwise deal with cement, lime, limestone,

(ii) to carry trade or business of stone quarries

(iii) to build, construct, remove or replace any building, factories, mining in all its branches.

(iv) to carry on business as carriers by land and water, *etc.*

7.2.3 Organisational set up

The Management of the Company is vested in a Board of Directors. As on March 2002 there were 13 Directors*; all nominated by the State Government including one Chairman, one Vice Chairman and one Managing Director. The day-to-day affairs of the Company were managed by the Managing Director (the same incumbent was holding charge during the entire period of review except for brief spells from 01 April 1998 to 16 June 1998, and 28 February 2002 to 31 March 2002) who in turn was assisted by one General Manager, one Chief Engineer, (Operations), one Mines Manager, one Accounts Officer and a Company Secretary with other supporting staff.

7.2.4 Scope of Audit

The review on the working of the Company was last incorporated in paragraph 8.7 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1990 on which the Committee on Public Undertakings (COPU) in its seventh report presented in April 1997 made recommendations for taking steps to increase capacity utilisation and to take up with MeSEB authorities at the highest level to ensure uninterrupted power supply, reducing quantum of overtime allowance and purchase of stores and strengthening market potential. To bring a pragmatic approach and share knowledge and experience about the review topic, the Comptroller and Auditor General of India decided to constitute a State Level Committee, i.e., Audit Review Committee for Comprehensive Appraisal of State Public Sector Enterprises (ARCPSE). So, the State Government was requested (December 2002) to nominate designated Government nominee members for taking part in the proceedings of the Review Committee before issue of the comprehensive appraisal to the State Government. But no such discussion could take place due to non-receipt of any response from the State Government (March 2003).

The Company has not framed any Action Taken Report (ATR) on the COPU's recommendations till date (February 2003).

The present review on the working of the Company for the period 1998-99 to 2001-02 was conducted during February and March 2003 to highlight the overall working of the Company particularly in respect of production, sales and overall efficiency and the findings are given at next page:

7.2.5 Budgetary Control

In spite of having been pointed out in the paragraph 8.7.14 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1990, the Company has not taken any step to introduce budgetary control system. Hence, Audit was unable to comment on whether the Company has been prudent in employing its resources and fund management. As no specific target was fixed, performance and efficiency of operation could not be verified, and control over abnormal variation could obviously not be exercised.

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* *out of 13, 11 are ex-officio Directors.*

Capital Structure and Borrowings

7.2.6 Capital Structure

As on 31 March 2002 the authorised share capital of the Company was Rs.30 crore. Paid up share capital was Rs.22.21 crore which was divided into Redeemable preference shares (6 *per cent* cubic metre) of Rs.2.38 crore wholly owned by Government of Meghalaya and equity shares of Rs.19.83 crore (Rs.19.72 crore by Government of Meghalaya and Rs.0.11 crore by individual).

7.2.7 Financial Position and Working Results

The financial position, the working results and cost per tonne of cement produced under each element of cost of the Company for the last four years ending 31 March 2002 are given in Appendices XXXV, XXXVI & XXXVII.

(i) The Company did not make any provision of gratuity liability in compliance to Accounting Standard 15 estimated at Rs.1.58 crore up to 2001-02.

(ii) The Company inflated profit by Rs.59.20 lakh due to change in accounting policy for writing off reactivation expenses in the year 2001-02.

(iii) Confirmation of the balances of the following accounts *viz.*, advances against sales, advances and sundry creditors of the Company as on 31 March 2002 were not available.

It would be observed from working results (Appendix XXXVI) that operational profit of Rs.2.19 crore (1999-2000) has turned into operational loss of Rs.65 lakh in the year 2001-02. The Company did not analyse the reasons for losses. Audit analysis revealed that the reasons for incurring loss during 2001-02 were attributable to low production, excess loss of man hours, increase in cost of raw materials and stores as discussed in succeeding paragraphs.

Feeding of limestone to lime crusher was reduced by 0.13 lakh tonnne in 2001-02 as compared to earlier year. On the other hand, removal of overburden (ROB) had increased abnormally in the last two years ending 31 March 2002.

7.2.8 Production process

The factory of the Company is situated at Cherrapunjee in the State of Meghalaya. The factory is designed for ‘Wet Process’. The following processes are involved in production of cement:

(i) Excavation and transport of limestone by truck departmentally and sometimes through contractor from their own limestone mines (within one Km).

(ii) The limestone is crushed in Jew crusher and clay is processed in the clay wash mill.

(iii) Raw materials like limestone, washed clay and iron ore (since lime is not used) are mixed into slurry in the Raw mill through grinding media using water.

(iv) Slurry is processed in the slurry basin and blended to the correct composition.

(v) Coal dried in the dryer and pulverised in the coal mill for use as fuel for the kiln.

(vi) The blended slurry is fed into the Rotary kiln to produce clinker.

(vii) The clinker is mixed with gypsum and final product *i.e.* cement is produced in cement mill.

(viii) The cement is drawn from the silos and packed in HDPE bags through billing machine as and when required.

The process-wise production for the last five years ending 31 March 2003 is tabulated below:

Table 7.10

(In lakh tonne)

Process	Installed/ Rated Capacity	1998-99	1999-2000	2000-01	2001-02
Removal of overburden (ROB) in lakh cum	…	0.24	0.62	0.75	1.86
Limestone	3.06	1.33	1.56	1.47	1.34
Slurry	3.36	1.58	1.82	1.87	1.60
Clinker	2.04	1.00	1.14	1.16	1.00
Cement	1.65	1.07	1.15	1.22	1.05

From the above it would be seen that production per annum in each process was far less than their installed capacity. The Management has fixed the norm of 1.15 tonne to 1.50 tonne of limestone for producing one tonne of cement. Considering the rated capacity of cement of 1.65 lakh tonnes, minimum of 1.90 lakh tonnes of limestone is required to be crushed. The maximum production of limestone in any year in last four years was 1.56 lakh tonnes in the year 1999-2000. This resulted in feeding of less limestone into the crusher house with consequent under-utilisation of subsequent processes.

7.2.9 Production Performance

The table below would indicate the actual production *vis-a-vis*, reactivation capacity and rated capacity during the four years up to 2001-02.

Table 7.11

Particulars	1998-99	1999-2000	2000-01	2001-02
Reactivation capacity (lakh tonne)	2.97	2.97	2.97	2.97
Rated capacity (lakh tonne)	1.65	1.65	1.65	1.65
Actual production (lakh tonne)	1.07	1.15	1.22	1.05
Percentage of actual production				
i) Reactivation capacity	36.03	38.72	41.08	35.35
ii) Rated capacity	64.85	69.70	73.94	63.64

The COPU in its Report - April 1997 recommended *vide* paragraph 8.7.8 and 8.7.9 that the Company should devise ways and means to optimise its production. It would, however, be seen from the above that during the four years up to 2001-02, the actual production ranged between 35.35 to 41.08 *per cent* of reactivation capacity and 63.64 to 73.94 *per cent* of rated capacity.

The Management in reply stated (July 2003) that low production was mainly due to power cut and low voltage which were discussed with MeSEB officials on a number of occasions. Audit analysis, however, disclosed that of the total machine hours lost, machine hours lost due to power cut represented only 6.29 to 17.16 *per cent* and ranged between 82.84 to 93.71 *per cent* on account of controllable factors like shortage of raw materials and break down of machinery as discussed in succeeding paragraphs.

The Company could not make available to Audit any record with regard to fixing of target for annual production of cement in spite of audit observation (27 February 2003 and 13 May 2003). The Management in reply stated (July 2003) that the target for production has been fixed every year after evaluating the conditions of machinery and quality of power from time to time. But the targets, if any, fixed were not furnished to Audit.

7.2.10 Consumption of Electricity and Fuel

Electricity

The norms for consumption of electricity for producing one tonne of cement according to Cement Manufacturers Association (CMA) circular of April 1982 varied between 115 and 120 units. Plant reactivation was carried out in the Company during 1988-95 at a total cost of Rs.9.36 crore. In spite of the reactivation the plant consumed 148.57 to 155.07 units of energy per tonnne of cement produced during the last four years ending 31 March 2002 resulting in an extra expenditure of Rs.2.68 crore for 147.02 lakh KWH of electricity. Management, in the statement pursuant to Section 217(1)(E) of the Companies Act, 1956 read with the Companies (disclosure of particulars in the report of the Board of Directors) Rules, 1988 annexed to the 45 Annual Report of 1999-2000 exhibited conservation of electricity taking 165 units as standard of consumption contrary to the above norm of CMA.

The Management stated (July 2003) that the figures computed by Audit were from the production of cement for each financial year from cement mill only and against the total energy consumed by all units of the plant for the respective years, whereas norms indicated by CMA of 115-120 units of energy consumption were based on weighted average energy consumed per tonne of cement. The reply of the Management was not tenable as the energy consumed in various units of the plant is for producing the cement only and Audit has correctly worked out the energy consumed per tonne of cement which is confirmed by cost Audit Report available for the year 1999-2000.

Coal

As mentioned in paragraph 8.7.10(b) of Report of the Comptroller and Auditor General of India for the year ended 31 March 1990, the Bureau of Industrial Costs and Prices has laid down a norm of consumption of 300 Kgs of coal for producing one tonne of clinker but the actual consumption in the Company ranged from 390 Kgs to 410 Kgs per tonne of clinker during the years 1998-99 to 2001-02. Thus, the Company had consumed excess coal of 42,795.90 tonnes valued at Rs.4.19 crore during those years. In the Company, the consumption increased despite the production for the year 2001-02 being the lowest so far. Similarly, the Management exhibited conservation of coal taking 400 Kg as standard consumption.

Management stated (July 2003) that the norms as mentioned above were for dry process, but at the same time they had not mentioned the norms for wet process.

7.2.11 Consumption of Raw Materials

The standard consumption of raw materials for production of one tonne of cement fixed by the Management (as per cost Audit Report) were as follows:

Table 7.12

	Minimum (tonnes)	Maximum (tonnes)	Percentage increase to the minimum
Limestone	1.15	1.50	30
Clay	0.10	0.45	350
Gypsum	0.01	0.04	300

The consumption standards with such wide variations cannot be considered as normal standards. The Management has contested its own norms in its reply to the paragraph.

The following table indicates the consumption of limestone per tonne of cement production during the last four years ending 31 March 2002.

Table 7.13

Particulars	1998-99	1999-2000	2000-01	2001-02
Production of Cement (in lakh tonne)	1.07	1.15	1.22	1.05
Consumption Lime Stone (in lakh tonne)	1.30	1.53	1.47	1.34
Consumption of lime stone per tonne of cement production	1.21	1.33	1.21	1.28

Considering the average consumption rate of 1.21 tonnes of limestone per tonne of cement produced (which is the main raw material) achieved during 1998-1999 and 2000-01, consumption of limestone in 2001-02 was in excess by 7,182 tonnes having value of Rs.11.21 lakh (rate per tonne: Rs.156.13). Management, has not analysed the reasons to take corrective measures.

The Company procured gypsum from Bhutan. The table below gives the consumption pattern of gypsum, another raw material, for the four years ending 2001-02:

Table 7.14

Particulars	1998-99	1999-2000	2000-01	2001-02
Consumption (tonne)	2155	3088	3263	3305
Production of cement (in lakh tonne)	1.07	1.15	1.22	1.05
Consumption of gypsum per tonne of cement	0.020	0.027	0.027	0.032

Considering the lowest consumption rate of 0.020 tonne per tonne of cement achieved in 1998-99 consumption of gypsum in 2001-02 (where production is lowest) was in excess by 1,205 tonnes (3,305 tonnes - 1.05 lakh tonnes x 0.020 tonne) having value of Rs.24.49 lakh (rate per tonne: Rs.2032.58).

The Company admittted that the reason for excess consumption was due to inconsistency in grade and phase formation. The Company should put proper quality control measures in place while procuring gypsum to obtain optimum output.

7.2.12 Machine Hour loss

The machine hours available (after excluding plant outage) and machine hours lost in respect of eight processing centres are given in Appendix XXXVIII.

From Appendix XXXVIII it would be seen that total machine hours lost to net machine hours available during the last four years ending 2001-02 varied from 47.88 to 61.44 *per cent*. The Management in their reply attributed (July 2003) wear and tear of old plant and machinery leading to frequent breakdowns and power cuts and low voltage as reasons for loss of man hours.

Audit analysis revealed that machine hours lost due to power failure varied from 6.29 to 17.16 *per cent* of total machine hours lost and the balance loss of machine hours (82.84 to 93.71 *per cent*) during the years 1998-99 to 2001-02 was attributable to controllable factors like shortage of raw materials, *etc.* and forced outage like breakdown, *etc.* The loss of machine hours due to different reasons could not be analysed further as detailed records for the same were not maintained by the Company.

Mining Activities

7.2.13 Avoidable expenditure due to non-adherence of stripping ratio

The Company, to get the required quantity of limestone, was required to remove overburden (ROB) in the ratio of 1:1.06 (limestone to overburden). The Company for removal of overburden engaged M/s Asian Mining Company at the rate of Rs.62 per cum and M/s Cement India Limited at the rate of Rs.58 per cum on the basis of tender. The table below indicates the required, proposed and executed quantity of overburden during the last four years ending 31 March 2002.

Table 7.15

Year	Limestone (cum)	Required quantity of overburden based on stripping ratio (cum)	Proposed (cum)	Executed (cum)	stripping ratio achieved
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) (2:5)**
1998-99	88352.67	93653.83	31776.980	24233.603	1:0.27
1999-2000	103844.00	110074.64	89675.965	61996.573	1:0.60
2000-01	98009.33	103889.89	183764.258	74759.174	1:0.76
2001-02	89568.67	94942.79	221460.237	186095.539	1:2.08
Total:	**379774.67**	**402561.15**	**526677.44**	**347084.889**	

It would be seen from the table above that the Company failed to achieve the required ROB during the three years from 1998-99 to 2000-01 leading to a situation where ROB had to be removed at a ratio of 1:2.08 instead of 1:1.06 to mine limestone in 2001-02. From the records made available to audit it was not clear whether any penalty was imposed on contractors for non-clearance of proposed quantity of overburden. M/s Cement India Limited left the site in June 2001. To remove the backlog of overburden the Company appointed (October 2001) another contractor M/s Ajit Construction Limited at the rate of Rs.74.50 per cum, (lowest tender) in spite of the fact that M/s Asian Mining Company was executing the same work at the same time in the same location at the rate of Rs.62 per cum. The loss due to the differential rate came to Rs.13.88 lakh.

The Management in their reply (July 2003) have stated that the actual execution of overburden work was low due to lower rate of work at which the contractors executed the work. The Company neither introduced timely measures to speed up the ROB nor took any penal measures against the contractors for the slow progress. For higher rate of Rs.74.50 per cum at which the work was awarded to M/s Ajit Construction Company, the Management has stated that this firm was the lowest in the tenders called for. The reply of the Management is not tenable as M/s Asian Mining Company was already working at a much lower rate in the same location at the same time.

Man power analysis

7.2.14 Loss of Man hour

The table below indicates the loss of man hours for the last four years ending 31 March 2002:

Table 7.16

(In lakh hours)

Particulars	1998-99	1999-2000	2000-01	2001-02
A. Man hours Available	15.27	15.18	15.22	14.97
B. Man hours Utilised	12.49	13.02	12.40	11.76
C. Man hours Lost				
(i) Authorised absence	2.22	1.61	2.03	2.43
(ii) Unauthorised absence	0.56	0.55	0.79	0.78
Total absence	2.78	2.16	2.82	3.21
Percentage of man hours lost to man hours available	18.21	14.23	18. 53	21.44

The Company had not fixed any norm for its staff requirement. The loss of man hours during the above four years ending 2001-02 varied from 14.23 to 21.44 *per cent* due to high absenteeism caused by imprudent decision of the Management (as replied in July 2003) *i.e.* allowing 15 days casual leave against Wage Board's norms of seven days and inclusion of Clause 16(6) in standing order where it was stated that absence without leave for not more than 10 consecutive days without sufficient cause is permissible. The Management, needs to take steps to amend the Standing Order in consultation with the labour union and the labour commission.

7.2.15 Payment of Overtime allowance

The Company does not have any laid down rules and regulations for authorisation of overtime work at the plant. As per practice followed, the departmental heads of the factory are allowed to requisition labour on overtime basis, which are subsequently got approved post-facto from the General Manager to facilitate payment of the allowance. The Company paid overtime allowance of Rs.2.20 crore to its employees during the last four years ending 31 March 2002. Out of this Rs.1.27 crore pertains to overtime wages due to unauthorised absence. The Company on the other hand allowed leave to employees and paid overtime allowance. The rising trend of overtime wages was last pointed out in paragraph 8.7.11(B) in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1990. The COPU recommended bringing this under control by filling up available vacancies, if any. The Company had taken penal measures by recovery of Rs.87.52 lakh from the employees for unauthorised absence during the above period. It was noticed in audit that there was shortfall in production in spite of increase in overtime allowance.

7.2.16 Material Management and Inventory Control

The table below indicates the comparative position of inventory and its distribution at the close of four years ending 31 March 2002:

Table 7.17

(Rupees in lakh)

Particulars		1998-99	1999-2000	2000-01	2001-02
Stores and Spares					
(i)	Consumption	258.60	231.10	191.41	266.18
(ii)	Average Consumption per month	21.55	19.26	15.95	22.18
(iii)	Closing stock	345.95	354.58	385.13	421.54
(iv)	Stock holding in terms of months' consumption	16.05	18.41	24.15	19.01
(v)	Excess stock holding in terms of number of months (Considering normal stock holding equipment to six months' consumption)	10.05	12.41	18.15	13.01
(vi)	Excess amount of stock holding	216.58	239.02	289.49	288.56
(vii)	Loss of interest at the rate of 8 *per cent* per annum (Rupees in lakh)	17.33	19.12	23.16	23.08
(viii)	Purchase of spare parts (Rupees in lakh)	220.79	239.73	221.96	302.59
(ix)	Consumption of spare parts per tonne of cement produced (Rupees)	241.68	200.96	156.89	253.50

(i) The Company has not fixed any norms for minimum and maximum level of stock holding in relation to material turnover in spite of recommendation by COPU (April 1997) on paragraph 8.7.8 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1990.

(ii) No analysis of fast moving, slow moving and non-moving items of stores was made.

(iii) Physical verification of stores and spares was not carried out since 1998-99. As per the report of the Statutory Auditors for these years, however, stock of finished goods, raw materials, stores and spares/components was verified by the Management for which Management had given a certificate to them. The Management failed to provide physical verification reports of stock of finished goods, raw materials, stores and spares/components though called for by audit. The Management now in their reply has stated (July 2003) that physical verification was completed till the financial year 1997-98 and physical verification of stores and spares for the period 1998-99 onwards had been started with effect from April 2003. Thus, Management gave incorrect certificate of physical verification of stock to the Statutory Auditors.

(iv) Instead of assessing requirement keeping in view the stock and store in hand, the Company purchased new spare parts, the costs per annum varying from Rs.2.21 crore to Rs.3.03 crore during the four years ending 2001-02. This resulted in excess holding of spares and stores with a carrying cost (interest burden) of Rs.17.33 lakh to Rs.23.16 lakh.

In reply Management stated (July 2003) that non-moving items in the stores were mainly spare parts of mining and quarry machinery which were disposed off. The reply is not convincing in view of fact that physical verification of stores and spares has not been carried out since 1998-99 which indicates the lapse on the part of the Management to control the excess holding of stores and spares.

Sales Performance

7.2.17 Pricing policy

The Company had not fixed the retailing market price of cement as the dealers/retailers are free to sell cement at their own rates depending on the market condition. Sale price of cement to the dealers was fixed by the Company considering the cost of production and market condition.

7.2.18 Sale in other States-Loss of revenue

With the objective of promoting sale of cement in the North East States *i.e.* Assam, Mizoram, Arunachal Pradesh and Tripura, the Company introduced (June 1998) concessional price for sale of cement in these States and appointed (December 1998) four consignment agents for the purpose. The approval of the scheme by the Board of Directors of the Company was not made available to audit. The Company and the consignment agents entered into agreements which embodied, *inter alia*, the following terms and conditions:

(a) The consignment agents should deposit the price in advance to lift cement.

(b) The consignment agent should establish his/her own network of retailers within the parameters of the area of operation allotted to him/her.

(c) The agent should produce the copies of Sales Tax *challan* monthly or quarterly.

It was observed in audit that the Company had stopped sale of cement to Arunachal Pradesh, Mizoram and Tripura based on the directives of Sales Sub-committee dated 9 June 1999 but the sale to Assam was continued. It was noticed in audit that the consignment agents did neither submit sufficient documents in support of sale of cement in the respective States nor did the Company insist for the same from the agents to ascertain the genuineness of the sales. This was contrary to the agreement and the resolution of the Sales Sub-committee. The entire sales to Assam were not transparent which resulted in loss of Rs.1.49 crore to the Company due to price difference between the rate applicable to Meghalaya and to Assam. Besides the purpose of promotional sale in other North East States was not fulfilled.

The Company replied (July 2003) that sales tax clearance certificates were regularly submitted by consignment agent (CA) but the Sales Sub-committee in its meeting (29 June 2002), *i.e.*, (after four years from the date of agreement) asked the consignment agent to produce all the sale tax returns, proof of sales, *etc.*, with effect from the date of appointment (December 1998). Moreover, there was no justification for sale of cement in other States as the Company could not fulfill the demand of Meghalaya since they did not conduct any market survey.

7.2.19 Unjustified incentives

The agreement with the consignment agent did not include any provision for incentives. The Sales Sub-committee in their meeting December 1998 and February 1999 had introduced this facility. Subsequently the Company allowed incentives to the consignment agent M/s. Purbanchal Business Promotion Limited for promotion of cement sale in Assam without any market survey regarding the local demand of cement (State of Meghalaya) where the price was more.

Year-wise sales of cement through consignment agent of Assam are tabulated below:

Table 7.18

Year	Agent	Lifted Quantity (tonne)	Amount of incentive (Rupees in lakh)	Total sale (tonne)	Percentage of lifting of cement by consignment agent of Assam to total sales
1998-99	Purbanchal Business Promotion Limited	7475	23.52	108661	6.88
1999-2000	- do -	11397	45.31	115446	9.87
2000-01	- do -	6633	26.53	121335	5.47
2001-02	- do -	3088.50	12.35	102638	3.01
Total			**107.71**		

From the above table, it would be seen that the lifting of cement by the agent was too low varying from 9.87 to 3.01 *per cent* during the period 1998-99 to 2001-02. The Company, despite low sale of cement, allowed incentive of Rs.1.08 crore to the agent due to the fact that the agreement made with agent did not stipulate minimum quantity to be lifted by the agent. Hence, there was no justification of offering incentives of Rs.1.08 crore to gain the market in Assam.

In reply (July 2003) the Company was silent about the justification for offering of incentives.

The Sales Sub-committee introduced (December 1998) special promotional incentives at the rate of Rs.200 per tonne of cement in case of Assam only and extended another incentive at the rate of Rs.200 per tonne (February 1999) for the same State. The above incentives were also extended to consignment agents of Arunachal Pradesh and Mizoram without the approval of the Sales Sub-committee. The Company had discontinued (09 June 1999) consignment sale to Mizoram and Arunachal Pradesh on the plea that the said sales might not have taken place in the respective States. Even then the Company extended promotional incentives of Rs.27.57 lakh (as detailed below) without obtaining any documentary evidence in support of sales having taken place in Mizoram and Arunachal Pradesh.

Table 7.19

Year	Agent	Lifted Quantity (tonne)	Amount of incentive (Rupees in lakh)
1998-99	M/s L.S Enterprise, Mizoram	3,932	14.76
1999-2000	- do -	1,827	7.31
1998-99	M/s Aruna Enterprise, Arunachal Pradesh	1,230	4.62
1999-2000	- do -	220	0.88
Total special incentives allowed			**27.57**

Thus, offering of above incentive was not transparent and hence irregular. The Management in their reply stated (July 2003) that the scheme was extended to consignment agents of Arunachal Pradesh and Mizoram with the approval of Sales Sub-committee and the incentive was paid after verification of sales tax documents. It was, however, seen in audit that at the time of discontinuing sale in the States of Arunachal Pradesh and Mizoram, Management themselves had expressed doubts about actual sales being made in these States and had called for sales tax returns. The Management could not produce the minutes of the meeting in which the Sales Sub-committee extended the scheme to the States of Arunachal Pradesh and Mizoram.

7.2.20 Less realisation of sale proceeds

The Sales Sub-committee of the Company revised the selling price of cement from time to time. Scrutiny of sale valuation statement/sheet maintained by the Company revealed that there was short realisation of Rs.21.66 lakh on account of price revision from the dealers and consignment agents for Meghalaya and outside Meghalaya. The Company is not raising any sales invoices for the sales it makes to the dealers. Delivery orders are issued by Head Office of the Company against deposit of cost of cement in advance. The Management in their reply stated (July 2003) that they had a foolproof system of cash realisation from customers *vis-a-vis* despatch of cement. The reply of the Management is not tenable as Company is having very unusual system of not raising sales invoices. The present procedure may result into Company issuing delivery orders for more quantity with less deposit or occurrence of price revision during the period of lifting.

7.2.21 Extra expenditure in procurement of HDPE Bag

Tenders were invited (May 1998) by the Company for supply of HDPE bags against which 13 parties offered their rates. M/s Kamrup Poly Pack Industries, Guwahati offered the lowest rate of Rs.581 per 100 bags. The Purchase Board in their meeting (01 August 1998) approved the lowest rate of Rs.581 per 100 bags and also another rate of Rs.615.74 per 100 bags FOR destinations (though there was no difference in specification and quality). During 1998-99 and 1999-2000 the Company procured 32,23,125 HDPE bags at higher rate of Rs.615.74 per hundred involving extra expenditure of Rs.11.20 lakh, *i.e.*, (32,23,125 ÷ 100 x Rs.34.74). The Management stated that local parties were given preference to ensure smooth supply of HDPE bags.

7.2.22 Internal Audit/Internal Control

The Company did not have any Internal Audit (IA) system during the period of review as required under Manufacturing and other Companies (Auditor's Report) Order 1978. Though this was pointed out in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1990, the Company did not take any action to have internal audit.

As per Section-233(B) of the Companies Act, 1956 cost audit for the year 1998-99 to 2000-01 was completed. It has not been carried out since 2001-02.

7.2.23 Conclusion

The Company should optimise the production by reducing consumption of raw materials and control of overtime allowances by deploying more skilled workers. The Company should monitor consumption of raw materials, electricity and fuel. For achieving better control, the Company should prepare budget by setting up standards and to compare actual cost. Further, the Company should also reduce purchase of stores and spares to the minimum by assessing requirement and stock in hand. The Company is also required to gain market potentiality.

The Company, arbitrarily reduced the installed capacity to 1.65 lakh tonnes per annum without sufficient justification. To increase the production, the Company should improve the quality control mechanism (raw materials), regularly conduct physical verification of stores and try to reduce unauthorised absenteeism. For better sales, the Company should fix the maximum retail price and conduct market survey.

7.2.24 The above matters were reported to the Management/Government (May and June 2003); replies of the Management had been received (July 2003) and incorporated against relevant paragraphs. The replies of the Government were awaited (October 2003).

SECTION `B' : PARAGRAPHS

INDUSTRIES DEPARTMENT

MEGHALAYA WATCHES LIMITED

7.3 Injudicious investment

Creating a unit with a short period agreement and implementation of revival scheme without ascertaining the commercial viability led to the erosion of entire investment of Rs.3.69 crore.

Meghalaya Watches Limited (MWL) was incorporated in August 1979 with authorised share capital of Rs.25 lakh by the Meghalaya Industrial Development Corporation Limited (MIDCL) as its subsidiary after entering into an agreement (July 1977) initially for a period of three years with Hindustan Machine Tools Limited (HMT), Ranibagh for assembly of watches. Under the agreement HMT was to supply mechanical watch components to MWL for assembly into complete watches and to despatch the same to HMT or to its agent. For the jobs done, MWL was to get charges at the rate of Rs.1.50 per watch for casing and at the rate of Rs.5.60 per watch for assembly.

MWL started commercial functioning from 1981 with capacity to assemble three lakh watches per annum. The agreement did not contain any clause to bind HMT to supply a fixed quantum of components for optimum annual capacity utilisation of MWL. The supply of components by HMT was erratic and consequently during the period from 1981-82 to 1995-96 the annual capacity remained largely under-utilised and capacity utilisation varied from 6 to 62 *per cent*. Consequently, MWL incurred operational losses every year varying from Rs.0.55 lakh to Rs.48.06 lakh. In spite of this, MIDCL/MWL did not take timely corrective measures either to revamp or to close down the unit and the MIDCL continued to invest in MWL though the agreement expired in June 1980 and no efforts were made to renew the same. As on 31 March 1996, the accumulated loss of MWL stood at Rs.2.72 crore and thus had eroded the entire investment of MIDCL amounting to Rs.1.62 crore (equity capital: Rs.35.98 lakh; term loan: Rs.18.46 lakh; bridging loan: Rs.1.08 crore).

The activities of MWL remained suspended from December 1995 after HMT had stopped supply of components. During the period from 1996-97 to 1998-99 the MWL remained totally inoperative and MIDCL paid Rs.81.85 lakh as bridging loan which was incurred towards ways and means expenses by MWL.

Belatedly in May 1998, MWL proposed (to MIDCL) to revive the unit by assembly and marketing of quartz analogue watches/clocks and LPG stoves under brand name 'WIMCO' within the existing set-up. MIDCL engaged (December 1998) a Chandigarh based firm, M/s Time Technologies, for creating/realigning the existing structure of the unit and MWL incurred expenditure of Rs.4.44 lakh towards TA/DA and other expenses of the firm in this regard. MWL did not accept (January 1999) the report of the firm as it did not consider the marketing aspect and appointed a consultant, M/s Anderson Consultant, of Shillong for market research of watches at a fee of Rs.3.72 lakh. The market survey report indicated that monthly demand for watches in Shillong market was only about 1,000. Out of these 40 *per cent* are met from grey market and for the remaining 60 *per cent* the brand name of the watch manufacture was the most important factor. MWL without ascertaining the commercial viability of this venture including marketing under its own brand name procured (July 1999 to May 2000) components from private parties costing Rs.33.38 lakh for watches/clock and Rs.6.66 lakh for LPG stoves. During 1999-2000 and 2000-01, MWL assembled 9,813 watches, 2,464 clocks and 1,225 LPG stoves. MWL could, however, market only 5,584 (57 *per cent*) watches, 1,177 (47.77 *per cent*) clocks and 550 (44.90 *per cent*) LPG stoves up to March 2002. MWL decided (20 December 2000) to stop further procurement of raw materials due to marketing problem of products. For the purpose of revival of the unit MIDCL pumped in further fund amounting to Rs.1.25 crore during the period 1999-2000 to 2001-02 in the form of bridging loan. Due to implementation of revival scheme without ascertaining its commercial viability MWL incurred losses amounting to Rs.91.25 lakh, Rs.86.80 lakh and Rs.84.58 lakh during the three years from 1999-2000 to 2001-02.

The Board of MWL in March 2002 proposed to implement voluntary retirement-cum-premature retirement to employees subject to decision of Government on the matter. Further development was awaited (May 2003) in this regard. The accumulated loss of MWL as on 31 March 2002 was Rs.6.69 crore which has eroded the entire investment of MIDCL amounting to Rs.3.69 crore (excluding interest of Rs.3.26 crore).

Thus, injudicious investments to create a separate commercially unviable unit for implementing short period agreement coupled with failure to incorporate suitable clause for supply of watch components for optimum capacity utilisation, stoppage of activities for over three and half years from December 1995 to June 1999 and implementation of an un-viable revival scheme, led to erosion of Rs.3.69 crore (excluding interest of Rs.3.26 crore) of MIDCL.

As such the continuance of the Company needs to be reviewed by the Government.

The above matters were reported to the Management/Government in June and July 2003; replies have not been received (October 2003).

POWER DEPARTMENT

MEGHALAYA STATE ELECTRICITY BOARD

7.4 Loss of revenue

Loss of revenue of Rs.5.55 crore due to failure to insert clause for levy of minimum monthly consumption charges in the tariff in respect of High Tension (HT) consumers whose meters were in order (Rs.5.29 crore) and due to incorrect billing (Rs.26.28 lakh).

7.4.1 Loss due to failure to insert appropriate clause in the tariff

In terms of Section 49 of Indian Electricity (Supply) Act, 1948, the Board is empowered to levy minimum monthly energy consumption charges for fair return of its outlay towards maintenance of supply of power to the consumers. Although there is a provision in the Board's Tariff (Clause 11C) effective from November 1999 for computation[(a)] of minimum monthly energy consumption charges for High Tension (HT) consumers where energy meters are not installed/remained defective, no such clause has been specified for consumers (HT) whose energy meters were in order.

Test-check (September 2002) of billings for November 1999 to March 2002 of three divisions of the Board (Jowai Revenue Division, Ri-Bhoi Distribution Division and Tura Revenue Division) disclosed that in different months the metered consumption billed for in respect of 15 HT consumers whose energy meters were in order fell short of minimum monthly consumption assessable in terms of Clause 11C of tariff. As computed in audit, the total shortfall of metered consumption compared to minimum assessable consumption in terms of Clause 11C was 277.29 lakh units (assessable minimum consumption: 586.86 lakh units less metered consumption billed: 309.57 lakh units) or Rs.5.29 crore in financial terms worked out at applicable tariff rate.

On this being pointed out in audit, the Member Finance and Chief Accounts Officer of the Board stated (July 2003) that the fixed cost was being realised through Demand Charge and the Board is not losing revenue by not invoking clause for monthly minimum energy charge. The reply is not tenable because (a) the Board incurred recurring working losses indicating shortfall of fair return, (b) in terms of Section 49 of the Act ibid the Board is empowered to impose monthly demand charges as well as minimum energy consumption

(a) Contract Demand x Demand Factor x Load Factor x Power Factor x Supply Hours.

charges, (c) other State and Central Power Sectors have inserted clauses in their tariff, for the minimum energy consumption charges, and (d) Clause 11C of Board's tariff itself prescribes the minimum monthly assessable energy consumption charges.

Thus, due to failure to insert appropriate clause (empowered by the statute) for levy of minimum monthly consumption charges in the tariff for HT consumers whose meters were in order, the Board incurred loss to the tune of Rs.5.29 crore.

7.4.2 Loss due to incorrect billing

In terms of Clause 11C of Board's tariff read with Circular of July 1999, the monthly energy consumption charges where meter is defective/stopped, were to be billed on assessment basis in the manner prescribed in the tariff.

During test-check (September 2002) of records of Tura Revenue Division, it was noticed that for the period from November 1999 to March 2003 the monthly energy consumption bills totalling 1.31 lakh units on average consumption basis were served to HT consumers having defective meters though these billings were to be done on assessment basis. The actual consumption on assessment basis as computed in Audit was found to be 15.21 lakh units. Thus, there was short billing for 13.90 lakh units (15.21 lakh units - 1.31 lakh units) and consequent loss of revenue amounting to Rs.26.28 lakh worked out at applicable tariff rate**.**

When this was pointed out in audit, the Executive Engineer of the Division stated (November 2002) that since the defective energy meters could not be replaced by the Board, the average bills were served to the consumers as per Clause 22.3.32 of Board's terms and conditions of supply.

The reply is not acceptable since Clause 22.3.32 of Board's terms and conditions of supply was superceded by the Board's Circular of July 1999 under which the monthly energy consumption charges where meter is defective/stopped, were to be billed on assessment basis. Thus, due to incorrect billing the Board had incurred loss of revenue amounting to Rs.26.28 lakh.

The above matters were reported to the Government in September and October 2002 and May and June 2003; reply had not been received (October 2003).

TRANSPORT DEPARTMENT

MEGHALAYA TRANSPORT CORPORATION

7.5 Gross system deficiencies in material management and inventory control

Due to gross system deficiencies, the correctness of accountal, payment of bills, actualities of issues and utilisation of spare parts worth Rs.3.83 crore procured from two local firms could not be vouchsafed.

Payment in excess of ordered quantity/value (Rs.1.40 crore), apparent shortage of stock (Rs.2.22 crore), short receipt of materials against advance payment (Rs.43.80 lakh), payment of fictitious bills (Rs.23.69 lakh) and payment against fictitious purchase order (Rs.29.59 lakh) were also noticed.

Mention was made in Paragraph 8.3 (Sub-paragraphs 8.3.7.4.1 and 8.3.8) of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 about the purchase of sub-standard quality of spare parts by Meghalaya Transport Corporation from local firms and non-maintenance of job cards for repairs.

During the period from 01 August 1996 to 27 September 2001, the Corporation procured spare parts worth Rs.3.83 crore (as per receipt *challans*) from two local firms of Shillong *viz*., M/s MB Automobiles (MBA) for Rs.2.94 crore and M/s Eastern Automobiles (EA) for Rs.89.38 lakh. None of these firms were authorised dealers of chassis manufacturer. The detailed verification of records conducted (October - November 2002) in Audit could not vouchsafe the correctness of procurement (accountal, payment of bills, receipt, issues and utilisation) of spare parts due to gross system deficiencies as mentioned at next page:

The stores ledger and job cards were not being maintained (01 August 1996 to 27 September 2001). The BIN cards were either not maintained or poorly maintained. Thus, the receipts were not accounted for and actual utilisation of spare parts was not on record.

The Road Transport Undertakings (RTUs) procure various items of stores and spares by (a) operating on rate contracts concluded by Association of Road Transport Undertakings with various supplying firms on behalf of the member RTCs, (b) direct purchase of proprietory items from original equipment manufacturers who supply the items to chassis manufacturers, or (c) inviting competitive quotations/tenders in the case of items not covered under (a) and (b).

Neither any system for assessment of requirement of each item of spare parts had been adopted nor the Corporation set out procedure for purchase from authorised dealers of equipment manufacturers who supply the items to chassis manufacturers. In absence of these, the Depot Managers/workshops (without prior approval) irregularly procured the spare parts from either of the two firms and sent receipt statements to the Assistant Engineer (Stores) at Sawlad (Shillong). The Assistant Engineer (Stores) further forwarded the same as indent to Purchase Section of Head office for obtaining *post-facto* approval of the Managing Director and issue of purchase order. These indicated lack of check and control over the purchase procedure.

Description, make of spare parts in receipt statements, indents and purchase orders were undecipherable and also did not contain part numbers. Further in the purchase orders even the rate and amount were not mentioned. The bills of the firms were, therefore, passed and paid without verification of rates and without supporting documents with regard to actual receipt of materials. Supporting *challan*s and receipt statements were not found attached in respect of 130 vouchers for payments totalling Rs.2.89 crore made to the firms. Nine vouchers for payment of Rs.18.27 lakh were not available and thus, could not be produced to Audit.

No records for receipt and utilisation of spare parts worth Rs.1.24 crore issued by Central Stores to SG Route Depot (Rs.0.82 crore) and SJK Route Depot (Rs.0.42 crore) were maintained by the Depots.

Cross verification of available supporting records revealed the following further points in Audit:

(a) Payment in excess of ordered value

The firms were found to be submitting invoices for payment and each bill on an average consisted of 3 to 10 pages. Fifty four purchase orders out of 102 (53 *per cent*) issued to firm MBA were correlated in Audit with 174 invoices. It was noticed that based on invoices an amount of Rs.2.02 crore was paid to the firm although the purchase orders were for Rs.0.62 crore. Circumstances under which the excess payment of Rs.1.40 crore (Rs.2.02 crore - Rs.0.62 crore) over the ordered value was made to the firm could not be explained to Audit.

(b) Shortage of stock

During the period from April 1996 to February 2002, no physical verification of stock was carried out. As per physical verification report of Assistant Engineer (Stores) the value of closing stock as on 31 March 2002 was Rs.0.18 crore. The excesses/shortages with value of stock records were not reconciliable for want of Stores Ledger. The value of closing stock of Central stores as on that date, as worked out in Audit from receipt *challans* and issue statements should have been worth Rs.2.40 crore (opening stock as on 01 April 1996: Rs.0.83 crore plus purchases during 1996-97 to 2001-02: Rs.3.83

crore, less issued during the period: Rs.2.26 crore). Thus, there was apparent shortage of stock worth Rs.2.22 crore (Rs.2.40 crore - Rs.0.18 crore). The reasons for shortages could not be explained.

(c) Short receipt of materials against advance payments

The Corporation made (August 2000 to October 2000) advance payments amounting to Rs.48.19 lakh to firm EA against seven proforma bills/purchase orders for supply of spare parts. The adjustment bills with supporting invoices/*challans*, *etc.* thereagainst were not available. Audit verification revealed that the firm actually supplied spare parts worth Rs.4.39 lakh only against these advance payments. The Head office of the Corporation after making advance payment did neither monitor the actual receipt of materials nor insisted for submission of adjustment bills. As a result advance payment amounting to Rs.43.80 lakh (Rs.48.19 lakh - Rs.4.39 lakh) remained unrealised/unadjusted for more than two and a half years.

(d) Payment of fictitious bills

Two bills amounting to Rs.23.69 lakh against purchase orders issued in December 1999 (Rs.3.84 lakh) and February 2000 (Rs.19.85 lakh) were paid to firm EA in February 2000 and August 2000 respectively but the payment vouchers were not made available to Audit.

Audit scrutiny revealed that the spare parts contained in the receipt statements were never actually received. This fact was also admitted (November 2002) by the Assistant Engineer (Stores). Thus, payment of Rs.23.69 lakh has been made on fictitious bills.

(e) Payment against fictitious purchase order

MBA submitted claims for Rs.29.59 lakh in 18 invoices quoting different purchase order numbers which were never issued. The Corporation, however, paid the entire amount during April 1998 to June 2000 without any attempt to link it with the purchase orders, if any. Thus, the payments were made against purchase orders which never existed.

The above matters were reported to the Management and to the Government in December 2002 and June 2003; their replies had not been received (October 2003).

7.6 Doubtful dues

Lack of timely action to realise rent and absence of security resulted in doubtful recovery of accumulated dues amounting to Rs.3.61 crore.

In 1997-98, Meghalaya Transport Corporation executed agreements to let out (at monthly rent based on rates varying from Rs.35 to Rs.294 per sq.m depending on location) its 'Shopping Arcade' in its building at Jail Road, Police Bazar, Shillong to 56 private parties and five Government departments/undertakings. The premises let out comprise of 46 rooms (total area about 1604.78 sq.m) and 15 open spaces (area 1604.78 sq.m). The agreements were made for an initial period of one year subject to renewal of tenancy period and revision of rent at the discretion of the Corporation. According to terms of agreement, the tenants were to pay monthly rent by 10th of each month failing which interest at the rate of 3 *per cent* per month on defaulted amount or at the rate of 5 *per cent* per month after consecutive default for three months was leviable.

Test-check (January 2002 and January 2003) of the accounts of the Civil Engineer of the Corporation (responsible for monitoring and collection of rent) disclosed that (a) realisation of rent was heavily in arrears from March 1996 but actions for eviction of the defaulting tenants/realisation of dues had not been initiated, (b) the agreements were not renewed after one year and (c) the Board's decision of September 2000 to revise rent periodically (once in two or three years) has not been complied with. In reply the Chief Engineer stated (July 2002) that legal actions against the defaulting tenants have been initiated by issuing pleader's notices in March 2002 and proposal for revision of rent would be submitted to Board.

Further verification (April 2003) of records revealed that dues amounting to Rs.3.64 crore (rent Rs.0.09 crore and interest Rs.3.55 crore) as against security deposit of Rs.0.03 crore awaited recovery from 11 parties since long (varying from March 1996 to May 2001). Of these, four parties with total dues of Rs.0.41 crore (rent Rs.0.04 crore and interest Rs.0.37 crore) from whom security deposit of Rs.0.01 crore was obtained have already vacated the premises. It was also observed that the agreements have not been renewed and rent has not been revised as was stated (April 2003) by the Civil Engineer. It is clear that corrective measures have not been taken by the Management to revise and collect rent in spite of the facts having been repeatedly pointed out in audit leading to doubtful recovery of Rs.3.61 crore.

Thus, lack of timely action to realise rent and absence of security had resulted in doubtful recovery of accumulated dues amounting to Rs.3.61 crore (Rs.3.64 crore less security deposit Rs.0.03 crore) besides loss (not quantifiable) due to inaction to revise rent.

The above matters were reported to Government in March 2002 and February and May 2003; replies had not been received (October 2003).