

OVERVIEW

This Report contains Civil and Commercial chapters comprising five performance reviews (including one on integrated audit of a Government department) and 25 audit paragraphs, based on the audit of certain selected programmes and activities and the financial transactions of the Government, audit of Government Companies and Statutory Corporations.

Copies of the audit paragraphs and performance reviews were sent to the concerned Secretaries to the State Government by the Accountant General (Audit) with a request to furnish replies within six weeks. In respect of four reviews and 15 audit paragraphs in this Report, no response was received from the concerned Secretaries to the State Government.

A synopsis of the important findings contained in this Report is presented in this overview.

PERFORMANCE REVIEWS

(i) Minor Irrigation Projects

Performance review on various minor irrigation projects in the State revealed that only 13 *per cent* of total irrigation potential in the State was covered under irrigation till March 2009. Even the irrigation potential created was not fully utilised, as a result, agriculture production in the State was almost stagnant. Large number of minor irrigation projects were not completed on time. Even the completed projects had not been fully utilised. Some of the completed projects became defunct due to various reasons like flash floods, drying up of source of water and heavy silting, *etc.* Against the irrigation coverage of 29,313.84 ha as of March 2009 as claimed by the Department, the actual coverage was only 22,849.03 ha, which was only 10.48 *per cent* of the total irrigation potential (2.18 lakh ha) in the State. Works under the projects were executed in an unplanned manner resulting in unproductive expenditure and wastage of resources. The objective of generating additional irrigation potential to increase the production of cultivable lands, thus, remained largely unachieved.

(Paragraph 1.1)

(ii) Implementation of Developmental Programmes in East Khasi Hills District

District East Khasi Hills was created in October 1976 consequent to the re-organisation of the State of Meghalaya. While the rate of literacy in the District is quite high at 76.1 *per cent* against the national average of 64.8 *per cent*, the district fared poorly on poverty alleviation front as 50,997 rural families in the District live below the poverty line. Health care in the district was far from satisfactory due to

inadequate facilities coupled with shortage of medical/para-medical staff. The supply of drinking water still remained a problem area in the District. Nearly 39 *per cent* rural habitations did not have water supply system. Under rural road works programmes, 35 *per cent* of works were yet to start though funds were made available. While the Indira Awas Yojana had been successful in providing houses to 4,789 below poverty line families, the employment generated under National Rural Employment Guarantee Scheme was only 19 *per cent* of the target.

(Paragraph 1.2)

(iii) Non Lapsable Central Pool of Resources

Non Lapsable Central Pool of Resources (NLCPR), created by the Government of India (GOI) in 1998 for speedy development of infrastructure in the North Eastern Region, revealed that the assets created out of scheme funds have helped the State to bridge the infrastructural gap to some extent. Programme objective of ensuring speedy development of infrastructure in the State by increasing the flow of financing for specific viable infrastructure projects in various sectors and reduce the critical gaps in the basic minimum services, such as roads and bridges, water supply, education and power, was, however, constrained as these gaps were not identified properly due to lapses in planning. There were cases of diversion of funds, undue favour to the contractors, excess expenditure in deviation from the sanctioned Detailed Project Reports, unauthorised revision of the structure of the work. There were delays in the completion of the projects, as a result, intended benefit could not accrue to the beneficiaries. Evaluation was never attempted to gauge the extent of development of infrastructure and reducing the gaps in basic minimum services.

(Paragraph 1.3)

AUDIT OF TRANSACTIONS

(i) Fraud/Misappropriation/Embezzlement

Weak internal control mechanism resulted in fraudulent payment of Travelling Allowance/Leave Travel Concession claims amounting to Rs. 70.23 lakh.

(Paragraph 2.1)

Payment of travelling allowance claims on the basis of fake documents and without supporting documents for expenditure resulted in inflated payment of Rs. 1.67 crore.

(Paragraph 2.2)

Government money amounting to Rs. 30.61 lakh was retained in personal savings accounts amounting to temporary misappropriation. Besides, absence of proper maintenance of assets created out of the State Exchequer resulted in unproductive expenditure of Rs. 23.85 lakh.

(Paragraph 2.4)

Expenditure of Rs. 26.78 lakh shown to have been incurred on procurement of corrugated galvanised iron sheets remained doubtful.

(Paragraph 2.5)

(ii) Excess Payment/Excess, Wasteful and Unauthorised Expenditure

The Meghalaya Legislative Assembly Secretariat made excess payment of Rs. 2.83 crore on execution of painting works and incurred excess/unauthorised and wasteful expenditure totalling Rs. 10.22 crore on renovation of quarters, shifting and re-installation of the sound system, construction of foundation stone and cleaning and levelling of the ground of the proposed Assembly complex at Upper Shillong and appointment of temporary staff in excess of sanctioned strength.

(Paragraphs 2.6, 2.7, 2.9, 2.10 & 2.18)

The Meghalaya Legislative Assembly Secretariat incurred exorbitant expenditure of Rs. 2.59 crore on supply of articles at the official residence of the Speaker, of which articles valued at Rs. 52.77 lakh were not returned even after one year and installed items valued Rs. 1.94 crore were not found installed on vacation of the residence by the Speaker.

(Paragraph 2.8)

(iii) Idle/Unfruitful/Unproductive Expenditure

Inordinate delay in acquiring land required for construction of Shillong Bye-Pass Road free from all encumbrances resulted in idle expenditure of Rs. 7.83 crore.

(Paragraph 2.14)

The Baljek airport constructed by the Transport Department remained non-functional rendering the expenditure of Rs. 12.77 crore unfruitful.

(Paragraph 2.15)

(iv) Undue favour to Contractors

The General Administration Department extended undue financial benefit of Rs. 4.42 crore to a firm engaged for construction of residential cum commercial complex at Kolkata in the shape of mobilisation advance and incurred extra expenditure of Rs. 65.27 lakh on payment for the work not actually executed.

(Paragraph 2.16)

(v) Regulatory Issues and Others

Calamity relief fund of Rs. 67.54 lakh meant for the flood affected people of West Garo Hills District remained undisbursed for four years thereby depriving the beneficiaries of the benefit of flood relief.

(Paragraph 2.19)

The Meghalaya Urban Development Authority incurred unauthorised expenditure of Rs. 2.89 crore on appointment of temporary staff in excess of sanctioned strength.

(Paragraph 2.20)

INTEGRATED AUDIT OF GOVERNMENT DEPARTMENTS

Border Areas Development

The objectives of the Border Areas Development Department to improve the economic condition of the border villages through implementation of various development schemes remained largely unachieved because of significant shortfall in completion of the targeted 139 schemes under the Border Areas Development Programme (BADP). The Department could not absorb the available funds provided by the GOI. There were cases of misrepresentation of facts about utilisation of central funds, retention of heavy cash balance and unfruitful expenditure due to non-utilisation of assets. Inadequate monitoring over implementation of schemes coupled with submission of incomplete physical progress reports adversely affected the programme. According to the evaluation study of implementation of BADP conducted by a University, the achievement of the programme did not appear noteworthy.

(Paragraph 3.1)

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Meghalaya had 13 working Public Sector Undertakings (PSUs) (10 companies and three Statutory corporations) and one non-working company, which employed 5,261 employees. The working PSUs registered a turnover of Rs. 386.20 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 4.02 *per cent* of State Gross Domestic Product indicating a moderate role played by State PSUs in the economy. However, the working PSUs incurred overall loss of Rs. 20.07 crore in 2008-09 and had accumulated losses of Rs. 516.16 crore.

Investments in PSUs

As on 31 March 2009, the investment (Capital and long term loans) in 14 PSUs was Rs. 1292.09 crore. It increased by over 127.65 *per cent* from Rs. 567.58 crore in 2003-04 mainly because of increase in investment in power sector. Power Sector accounted for 79.26 *per cent* of total investment in 2008-09. The Government contributed Rs. 48.42 crore towards equity, loans and grants/subsidies during 2008-09.

Performance of PSUs

During the year 2008-09, out of 13 working PSUs, four PSUs earned profit of Rs. 2.04 crore and nine PSUs incurred loss of Rs. 22.11 crore. The major contributors to profit were Meghalaya State Electricity Board (Rs. 1.48 crore) and Meghalaya Government Construction Corporation Limited (Rs. 0.54 crore). The heavy losses were incurred by Meghalaya Transport Corporation (Rs. 12.90 crore) Mawmluh Cherra Cements Limited (Rs. 3.10 crore) and Meghalaya Mineral Development Corporation Limited (Rs. 1.91 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of Rs. 66.98 crore and infructuous investments of Rs. 10.59 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning of PSUs and minimise losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Out of nine accounts finalised by working companies during October 2008 to September 2009, six accounts received qualified certificates. There were eight instances of non-compliance with Accounting Standards. All five accounts of Statutory Corporations finalised during October 2008 to September 2009 received qualified certificates. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts

Thirteen working PSUs had arrears of 61 accounts as of September 2009. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There was one non-working company. As no purpose was served by keeping this non-working company in existence, Government needs to expedite closure of this company.

Discussion of Audit Reports by COPU

The commercial chapters included in the Audit Reports (Civil) from 1984-85 onwards (except the commercial chapter for 2004-05) containing 95 paras and reviews are yet to be discussed fully by COPU.

Performance Review

Meghalaya Transport Corporation

The Meghalaya Transport Corporation provides public transport in the State through its seven depots. The Corporation had a fleet strength of 62 buses as on 31 March

2009 and carried an average of 1000 passengers per day during 2008-09. The performance audit of the Corporation for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.

Finances and Performance

The Corporation suffered a loss of Rs. 0.35 crore in 2008-09 without considering prior period adjustments. Its accumulated losses stood at Rs. 75.78 crore as at 31 March 2009. The Corporation earned Rs. 34.64 per kilometre and expended Rs. 35.91 per Kilometre in 2008-09. Audit noticed that with a right kind of policy measures and better management of its affairs, it is possible to increase revenue and reduce costs, so as to earn profit and serve its cause better.

Declining share

The percentage share of the Corporation in providing public transport declined marginally from 6 *per cent* in 2004-05 to 4.4 *per cent* 2008-09. The decline in share was mainly due to its operational inefficiency (leading to non-availability of adequate funds to replace old buses/add new buses) and lack of support from the State Government.

Vehicle profile and utilisation

Of its fleet strength of 62 buses, 48.39 *per cent* were overage, i.e, more than eight years old. The percentage of overage buses increased from 46.55 *per cent* in 2004-05 to 48.39 *per cent* during 2008-09.

Corporations' fleet utilization at 63 *per cent* in 2008-09 was below all India Average (AIA) of 90.1 *per cent* in hill area region category. Its vehicle productivity at 192 kms per day per bus (2008-09) was below the AIA of 196 kms for hilly regions. On the other hand, its load factor at 54 *per cent* (2008-09) remained higher than the AIA of 45.73 *per cent* in the category. The Corporation could not perform well on all operational parameters except load factor, and its schedule of buses was unprofitable due to high cost of operations and non-reimbursement of cost of free/concessional passes by the Government. The Corporation did not adhere to the preventive maintenance schedule prescribed by the OEMs.

Economy in operations

Manpower and fuel constituted 76.93 *per cent* of the total cost. Interest, depreciation and taxes accounted for 4.78 *per cent* and are not controllable in the short term. Thus, the controllable expenditure is to come from manpower and fuel.

The manpower per bus of the Corporation decreased from 6.59 in 2004-05 to 5.32 in 2008-09. The expenditure on repairs and maintenance was Rs. 0.42 lakh (per bus) in 2008-09. The Corporation did not fix targets for fuel consumption.

Revenue maximization

The Corporation did not claim from the State Government reimbursement of free/concessional passes issued to teachers and students. Further, the Corporation has about 0.96 lakh square meters of land. As it mainly utilises ground floor land for its operations, the space above can be developed on PPP basis to earn steady income which can be used to cross-subsidize its operations. The Corporation has not framed any policy in this regard.

Need for a regulator

The fare per km stood at Rs. 0.76 (2008-09). Though the Government approves the fare increase, there is no scientific basis for its calculations. The Corporation has also not formed norms for providing services on uneconomical routes. Thus, it would be desirable to have an independent regulatory body (like SERC) to fix the fares, specify operations on uneconomical routes and address grievance of commuters.

Inadequate monitoring

The fixation of targets for various operational parameters and an effective management information system (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. The shortfall in operations is required to be deliberated upon in the Board of Directors meetings with suitable remedial actions to be taken by the Depots. However, the Corporation lacked in these aspects and could not control the cost and increase the revenue.

Conclusion and recommendations

Though the Corporation is incurring losses, it is mainly due to its high cost of operation and not due to low fare structure. The Corporation can control the losses by resorting to hiring of buses and tapping non-conventional sources of revenue. This review contains six recommendations to improve the Corporation's performance. Carrying out preventive maintenance as planned, creating a regulator to regulate fare and services and tapping non-conventional sources of revenue by undertaking PPP projects are some of the recommendations.

(Paragraph 4.2)

Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Failure to ensure execution of the project without any hindrance and procurement of the Turbine and Generation set before completion of the civil works as well as delivery of the same at a site other than the work site resulted in extra expenditure of Rs. 37.48 lakh to Meghalaya State Electricity Board, besides idle expenditure of Rs. 3.08 crore.

(Paragraph 4.3)

Procurement of Turbine Generator set by Meghalaya State Electricity Board, without having a clear site for its installation same resulted in idle expenditure of Rs. 2.18 crore.

(Paragraph 4.4)

Extension of undue financial benefits of Rs. 32.23 lakh by Meghalaya State Electricity Board, to the suppliers due to unjustified increase in price on procurement of disc insulators against firm price supply orders, besides non-imposition of penalty of Rs. 3.46 lakh for delayed supplies.

(Paragraph 4.5)

Inordinate delay in repairing the defects of the two units of Meghalaya State Electricity Board, Umiam Stage-I Power plant resulted in loss of generation of 412.93 MU of power.

(Paragraph 4.6)

The Meghalaya Transport Corporation sustained loss of Rs. 47.44 lakh on operation of helicopter service.

(Paragraph 4.7)