CHAPTER – V

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

5.1 Overview of State Public Sector Undertakings

Introduction

5.1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Mizoram, the State PSUs occupy insignificant place in the state economy. The State PSUs registered a turnover of ₹ 1.45 crore for 2009-10 as per their latest finalised accounts as of September 2010. This turnover was equal to 0.03 *per cent* of State Gross Domestic Product (GDP) for 2009-10. The State PSUs incurred a loss of ₹ 3.59 crore in the aggregate for 2009-10 as per their latest finalised accounts. They had employed 274[1] employees as of 31 March 2010. The State PSUs do not include two prominent Departments, which carry out commercial operations. Audit findings of these Departments are incorporated in the separate Report on State Finances.

5.1.2 As on 31 March 2010, there were five Government Companies (all working) and no statutory corporation in the State of Mizoram.

Audit Mandate

5.1.3 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act.

5.1.4 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956.

[1] As per the details provided by five PSUs.

Investment in State PSUs

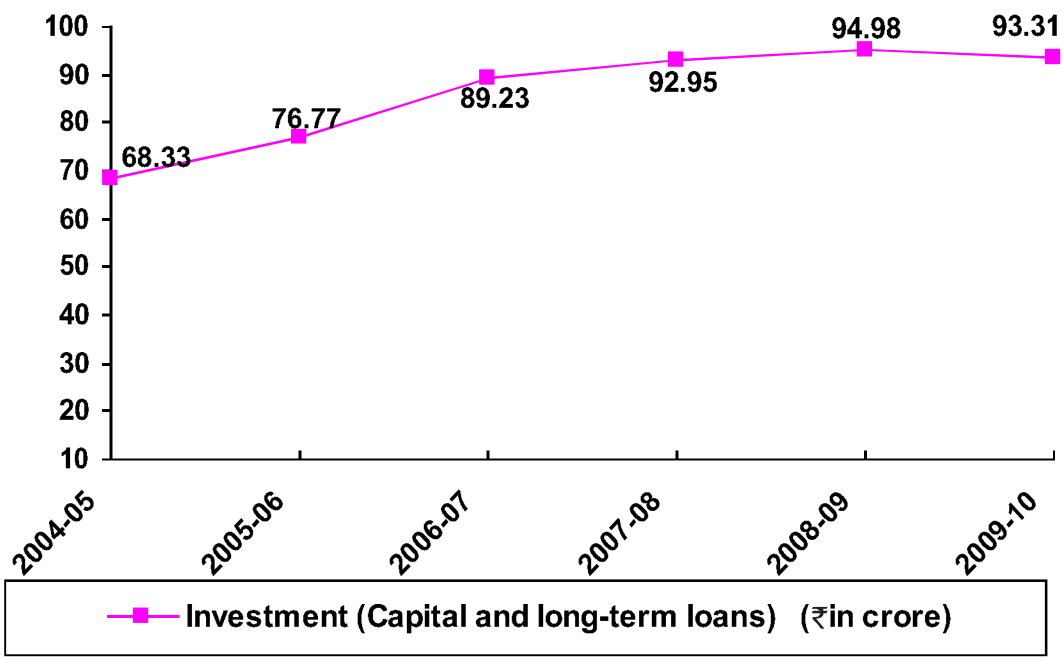
5.1.5 As on 31 March 2010, the investment (capital and long-term loans) in five PSUs was ₹ 93.31 crore as per details given below:

(₹ in crore)

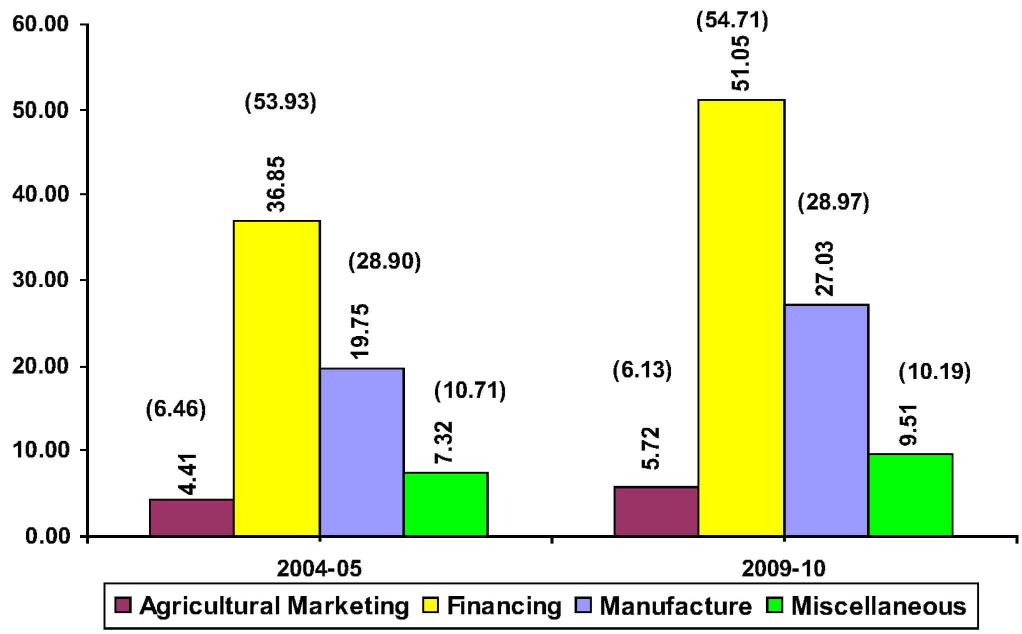
Type of PSUs	Government Companies		
	Capital	Long Term Loans	Total
Working PSUs	62.35	30.96	93.31

A summarised position of Government investment in State PSUs is detailed in **Appendix - 5.1.**

5.1.6 As on 31 March 2010, the total investment in five working PSUs was ₹ 93.31 crore. This total investment consisted of 66.82 *per cent* towards capital and 33.18 *per cent* in long term loans. The investment has grown by 36.56 *per cent* from ₹ 68.33 crore in 2004-05 to ₹ 93.31 crore in 2009-10 as shown in the graph below.



5.1.7 The total investment in various sectors and percentage thereof at the end of 31 March 2005 and 31 March 2010 are indicated below in the bar chart.



(Figures in brackets show the percentage of total investment) (₹ in crore)

5.1.8 The increase in total investment was mainly due to increase in equity (₹ 4.06 crore) and loan (₹ 10.14 crore) in Financing Sector and increase in equity in Manufacturing sector (₹ 7.28 crore).

Budgetary outgo, grants/subsidies, guarantees and loans

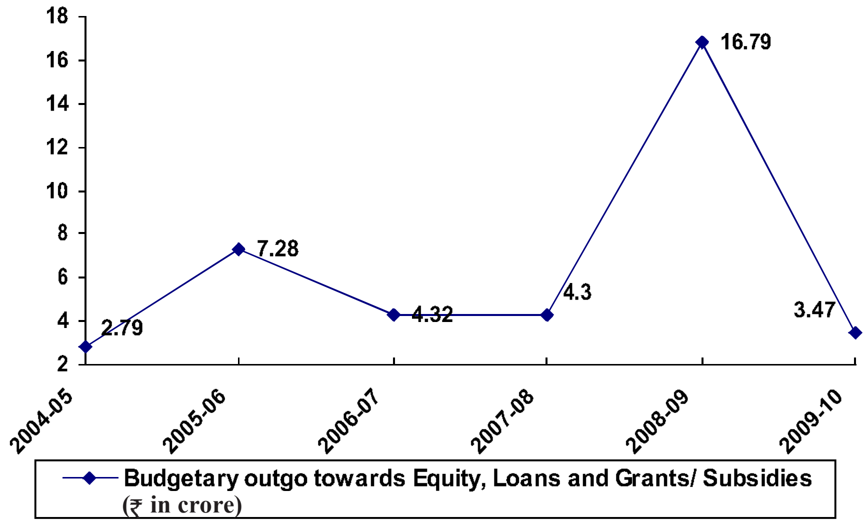
5.1.9 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued in respect of State PSUs are given in **Appendix - 5.2**. The summarised details are given below for three years ended 31 March 2010.

(Amount ₹ in crore)

Sl. No.	Particulars	2007-08		2008-09		2009-10	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	4	2.80	4	2.88	4	1.26
2.	Loans given from budget	-	-	1	8.72	-	-
3.	Grants/Subsidy received	2	1.50	3	5.19	2	2.21
4.	Total Outgo	4*	4.30	4*	16.79	4*	3.47
5.	Guarantees issued	1	32.43	-	-	-	-
6.	Guarantee Commitment	2	32.79	2	20.56	2	15.02

5.1.10 The details regarding budgetary outgo towards equity, loans and grants/subsidies for past six years are given in the graph below:

* These are the actual number of companies which have received budgetary support in form of equity, loans and grants from the State Government during the respective years



5.1.11 As on 31 March 2010, guarantees amounting to ₹ 14.75 crore and ₹ 0.26 crore were outstanding against Zoram Industrial Development Corporation Limited and Mizoram Food and Allied Industries Corporation Limited respectively. No guarantee commission was payable to the State Government by the Government Companies. There was no case of conversion of Government loan into equity, moratorium in repayment of loan and waiver of interest.

Reconciliation with Finance Accounts

5.1.12 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2010 is stated below.

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	2.76	62.35	59.59
Loans	----	30.96	30.96
Guarantees	18.29	15.02	3.27

5.1.13 Audit observed that the differences occurred in respect of all PSUs and the differences were pending reconciliation over the period of more than ten years. **The matter has been taken up with the Chief Secretary, Government of Mizoram, Administrative Department of respective PSUs and the Managing Directors of PSUs periodically to reconcile figures. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.**

Performance of PSUs

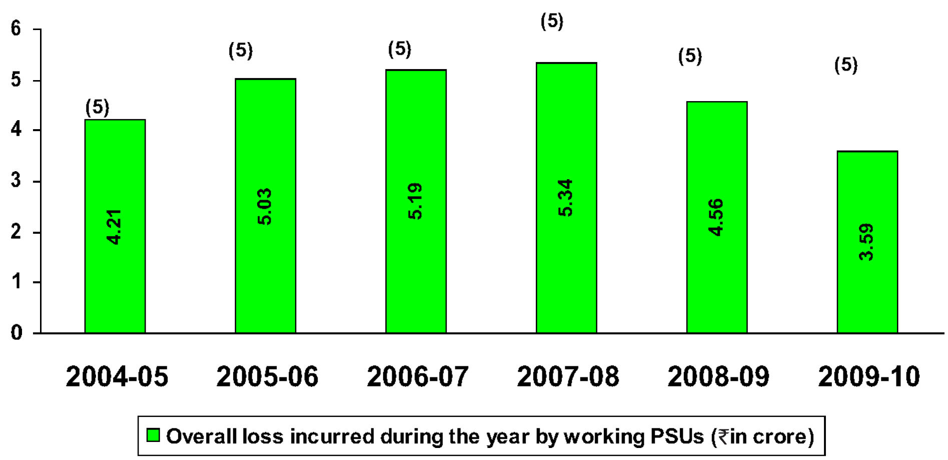
5.1.14 The financial results of PSUs are detailed in **Appendix - 5.3.** A ratio of PSUs turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSUs turnover and State GDP for the period 2004-05 to 2009-10.

(₹ in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Turnover[2]	1.51	0.97	0.99	1.79	2.41	1.45
State GDP[3]	2670.61	2957.91	3276.18	3802.42	4647.55	5619.41
Percentage of Turnover to State GDP	0.06	0.03	0.03	0.05	0.05	0.03

5.1.15 The percentage of turnover to State GDP indicating the varying trend declined from 0.06 *per cent* in 2004-05 to 0.03 *per cent* in 2009-10 due to decrease in turnover. However, there was increase in State GDP over the years.

5.1.16 Losses incurred by State working PSUs during 2004-05 to 2009-10 are given below in the bar chart.



(Figures in brackets show the number of working PSUs in respective years)

All five State PSUs were incurring losses continuously during the period between 2004-05 and 2009-10. Zoram Industrial Development Corporation Limited incurred heavy loss in all the years ranging between ₹ 1.76 crore in 2004-05 and ₹ 1.38 crore in 2009-10.

5.1.17 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of

[2] Turnover as per the latest finalised accounts as of 30 September 2010.

[3] The final figures of State GDP, provided by the Economic & Statistics Deptt. of State Government has been adopted.

three latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of ₹ 9.72 crore and infructuous investment of ₹ 3.87 crore which were controllable. Year wise details from Audit Reports are stated below.

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	Total
Net loss of working PSUs	5.34	4.56	3.59	13.49
Controllable losses as per CAG's Audit Report	9.72	---	1.00	10.72
Infructuous Investment	2.78	---	1.09	3.87

5.1.18 The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimized. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

5.1.19 Some other key parameters pertaining to State PSUs are given below.

(₹ in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Return on Capital Employed (*per cent*)	NIL	NIL	NIL	NIL	NIL	NIL
Debt	20.82	22.86	33.47	34.53	33.65	30.96
Turnover[4]	1.51	0.97	0.99	1.79	2.41	1.45
Debt/ Turnover Ratio	13.79:1	23.57:1	33.81:1	19.29:1	13.96:1	21.35:1
Interest Payments	1.35	1.34	1.34	2.14	2.18	2.18
Accumulated losses	24.88	28.38	31.14	33.30	40.23	43.45

5.1.20 As per the latest finalized accounts as of 30 September 2010, of five working companies, the capital employed worked out to ₹ 75.78 crore and total negative return thereon amounted to ₹ 1.40 crore in 2009-10 as compared to capital employed of ₹ 49.65 crore and total negative return on capital employed of ₹ 2.85 crore in 2004-05. Despite increase in capital employed, return on capital employed has not shown any improvement. All PSUs were incurring losses continuously over the years which resulted in increase in accumulated losses from ₹ 24.88 crore in 2004-05 to ₹ 43.45 crore in 2009-10.

5.1.21 The State Government has not formulated (September 2010) any dividend policy.

[4] Turnover of working PSUs as per the latest finalised accounts as of 30 September 2010.

Arrears in finalisation of accounts

5.1.22 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2010.

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Number of Working PSUs	5	5	5	5	5
2.	Number of accounts finalised during the year	4	3	1	6	11
3.	Number of accounts in arrears	24	26	30	29	27
4.	Average arrears per PSU (3/1)	4.80	5.20	6.00	5.80	5.40
5.	Number of Working PSUs with arrears in accounts	4	5	5	5	5
6.	Extent of arrears in years	5 to 7	1 to 8	1 to 9	1 to 10	1 to 10

5.1.23 The reasons for delay in finalization of accounts are attributable to (i) lack of required control over the companies by Government, (ii) abnormal delay in compilation/approval of the accounts and delayed submission of the same to the Statutory Auditors by the management and (iii) delay in adoption of accounts in Annual General Meeting.

5.1.24 The State Government had invested ₹ 12.26 crore (Equity: ₹ 8.97 crore and grants: ₹ 3.29 crore in four PSUs) during the years for which accounts have not been finalised as detailed in **Appendix - 5.4.** In the absence of accounts and their subsequent audit, it can not be ensured whether the income and expenditure have been properly accounted for and the purpose for which the amount was invested by the State Government has been achieved or not. Thus, the State Government investment in such PSUs remains outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

5.1.25 The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed by Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up with the Chief Secretary/Finance Secretary periodically to expedite the backlog of arrears in accounts in a time bound manner.

5.1.26 In view of above state of arrears, it is recommended that the Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise and impress upon the respective PSUs to expedite the process of finalisation of accounts and bring them up to date at the earliest.

Accounts Comments and Internal Audit

5.1.27 Five working companies forwarded their audited accounts (eleven) to CAG during the year 2009-10. They were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount ₹ in crore)

Sl. No.	Particulars	2007-08		2008-09		2009-10	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	-	---	-	---	-	---
2.	Increase in loss	1	3.32	2	4.40	6	2.05
3.	Non-disclosure of material facts	1	35.12	1	49.87	1	15.78
4.	Errors of classification	1	7.88	1	0.56	2	9.48

5.1.28 During the year 2009-10 eleven accounts of five PSUs were finalised. Out of which, the Statutory auditors had given qualified certificates in all eleven accounts. The compliance of companies with the Accounting Standards remained poor as there were 21 instances of non-compliance in 7 accounts during the year.

5.1.29 Some of the important comments in respect of accounts of companies are stated below.

Zoram Industrial Development Corporation Limited (2008-09)

- The Company received and spent ₹ One crore from the Industries Department, Government of Mizoram as grants for development of call centre and creation of infrastructure and procurement of equipments for call centre and ITES Training centre in Aizawl during 2008-09. As infrastructure has been created, the amount should have been shown under Fixed Assets and not as Investment.

Mizoram Food & Allied Industries Corporation Ltd (2003-04 to 2006-07)

- The company had not deposited provident fund dues for the period upto 31 March 2004 aggregating to ₹ 19.33 lakh with the appropriate authority till 31 March 2004 and no liability provided for in the accounts.

- During the years 2004-05 to 2006-07, administrative expenditure of ₹ 1.52 crore was transferred to the pre-operative expenses of the ongoing projects which was not admissible as per sanction orders issued by the Government of India as well as State Government of Mizoram.

Mizoram Agricultural Marketing Corporation Ltd (2004-05)

- The Company received ₹ 8.41 crore from Government of India through State Small Farmers' Agri Business Consortium, Mizoram for construction of six wholesale and 46 rural markets in Mizoram under centrally sponsored scheme on Technology Mission for integrated development of Horticulture in North Eastern States under Mini Mission – III Scheme. Out of which, four wholesale and 18 rural markets valued ₹ 3.35 crore have been completed and handed over (August 2004) to the Department of Trade & Commerce leaving balance work amounting to ₹ 5.06 crore. Since the amount has been released as advance for deposit work, this amount should have been shown as "other loan and advances" instead of Reserve and Surplus.

- The Company clubbed together the value of land and building and provided depreciation on both the value of the assets leaving a net fixed assets of ₹ 1.25 crore. As the Company has not maintained fixed assets register, depreciation provided on land could not be quantified by audit.

Mizoram Handlooms and Handicrafts Development Corporation Ltd (1999-2000)

- Central Government investment in the Share Capital of the Company amounting to ₹ 18 lakh was received but not accounted for during the year 1999-2000.

- Current liability included ₹ 25.99 lakh for which the Company had neither the party-wise details nor any claims from the parties were received by the Company even after a decade indicating that there exist no liability on the Company.

5.1.30 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect the five companies for the year 2009-10 are given below:

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix - 5. 2
1.	Absence of physical verification of cash despite repeated reporting that the average cash balance was on higher side and cash embezzlement	2	Sl. No.3 & 4
2.	Absence of internal audit system commensurate with the nature and size of business of the company	4	Sl. No.1, 2, 3&5
3.	Physical verification of stock is not reasonable and adequate in relation to the size of the company and nature of its business.	2	Sl. No.1 & 5
4.	Non maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	2	Sl. No.1 & 5

Reforms in Power Sector

5.1.31 The Governments of Manipur and Mizoram entered (September 2005) into a Memorandum of Agreement (MoA) with Ministry of Power authorizing it to constitute a Joint Electricity Regulatory Commission (JERC) for Manipur and Mizoram under the provisions of Section 83 of the Electricity Act 2003. Government of India has also committed in the MOA that it would be providing financial assistance to the JERC during the first five years from its initial operations subject to the condition that the States of Manipur and Mizoram would complete the process of restructuring and corporatisation of their electricity departments immediately. Joint Electricity Regulatory Commission (JERC) for the States of Manipur and Mizoram was formed (February 2008) under Section 83(5) of the Electricity Act 2003 with the objective of rationalization of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licenses. The Annual Revenue Return (ARR) for Tariff 2009-10 was filed in May 2010 to the JERC, however the JERC asked the Power & Electricity Department of Mizoram to file the petition for 2010-11 since the financial 2009-10 was already over. Accordingly the tariff petition for financial year 2010-11 comprising ARR has been filed to JERC which was under examination.

5.1.32 Memorandum of Agreement (MoA) was signed in (July 2002) between the Union Ministry of Power and the State Government with a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below.

Sl. No.	Milestone	Achievement as at March 2010
1.	State Government will corporatise the Electricity Department by 2006-07.	Power & Electricity Department (P&E) is not yet corporatised. The recommendations (August 2006) of the Administrative Staff College of India (ASCI), Hyderabad, consultant for corporatising P&E Department, are under examination by the State Government.
2	State Government will set up State Electricity Reforms Commission (SERC)/Joint Electricity Reforms Commission (JERC) by December 2003 and file tariff petition.	Joint Electricity Reforms Commission for the States of Manipur and Mizoram was constituted in February 2008. The Annual Revenue Return (ARR) for Tariff 2009-10 was filed, however as financial 2009-10 was already over, JERC directed the Department to file ARR of 2010-11. The ARR for 2010-11 was submitted (August 2010) to JERC and was under examination.
3	State Government will ensure timely payment of subsidies required in pursuance of orders on the tariff determined by JERC.	Not applicable in view of position above against Sl. No. 2.
4	State Government will achieve 100 *per cent* electrification of villages by 2003.	570 number of villages out of 707 villages have been electrified.
5	Suitable policy provisions shall be formulated by the State Government by July 2004 for handing over parts of distribution system on management contract or on lease to local bodies.	Policy provision for handing over parts of distribution system on management contract or on lease to local bodies are yet to be formulated by the State Government.
6.	The process of setting up of computerized billing centres shall be done by July 2003.	Computerised billing centres had been set up in Aizawl city, covering the entire city along with its suburbs. Computerised billing centres in rural areas remained to be set up.

5.1.33 The operational performance of the Power and Electricity Department for the last three years upto 2009-10 is given in **Appendix - 5.5**.

The total expenditure on power sold during three years from 2007-08, 2008-09 and 2009-10 was ₹ 114.05 crore, ₹ 136.32 crore and ₹ 169.88 crore as against the revenue of ₹ 81.22 crore, ₹ 83.92 crore and ₹ 67.62 crore respectively.

The percentage of transmission and distribution (T&D) losses varied from 26.64 *per cent* in 2007-08 to 36.99 *per cent* in 2009-10 as against the norm of 15.50 *per cent* fixed by the Central Electricity Authority. During the year 2009-10, the excess T&D losses over the norms were 78.311 million units costing ₹ 23.02 crore (worked out at average revenue of ₹ 2.94 per unit).

AUDIT OF TRANSACTIONS

POWER AND ELECTRICITY DEPARTMENT

5.2 Execution of Serlui 'B' Hydro Project

Deficient execution of the Serlui 'B' Hydro Project resulted in time and cost overrun of 34 months and ₹.91.17 crore respectively.

The Techno Economic clearance of Serlui 'B' Hydro Project (2 x 4.5 MW) was accorded (July 1990) by the Central Electricity Authority (CEA) and the forest clearance and environmental clearance were accorded (March & May 1991) by the Ministry of Environment and Forest (MoEF). Tenders were floated (October 1992) by the Power and Electricity Department (Department) but the project could not be taken up due to litigation by one of the unsuccessful tenderer and the project was abandoned (March 1997). The Project was again approved (February 1999) by the Government of Mizoram with an enhanced installed capacity of 12 MW (3X4 MW). The CEA's approval for revised installed capacity and necessary clearance from MoEF were not available on record.

The Department and the Works Advisory Board of the Government of Mizoram selected (September 2003) a consortium of Central PSUs (M/s BHEL and MECON) for executing the project at a cost of ₹ 99.95 crore. The electro-mechanical works (₹ 36.03 crore) were to be executed by BHEL whereas the civil and hydro-mechanical works (₹ 63.92 crore) was awarded to MECON.

The Letter of Intent (LOI) was issued (September 2003) to the Contractors and the agreement was entered (December 2003). The scheduled date of commissioning of the project as per the agreement was December 2007. The Contractors sub-contracted the civil and hydro-mechanical works to M/s Patel Engineering Limited (Sub-contractors).The work was actually taken up only from November 2004 and due to delay in execution, the project cost was revised (October 2005) to ₹ 135.20 crore which was further revised (October 2007) to ₹ 191.12 crore. The commissioning of the project was also re-scheduled to June 2008.The project was to be executed with MNES Subsidy (₹ 22.50 crore), REC Loan (₹ 136.82 crore) and balance (₹ 31.80 crore) through budgetary support from the Government of Mizoram. The cost of generation was projected at ₹ 3.89 per unit at the revised estimated cost of ₹ 191.12 crore.

The audit findings are discussed below:

Delay in receipt of Capital subsidy from MNES due to award of contract on selection basis.

The Ministry of Non-conventional Energy Sources (MNES) had agreed to provide capital subsidy of ₹ 22.50 crore, out of which ₹ 2.25 crore was released (November 2000). Since the project was awarded to the consortium of Central PSUs on a turn-key basis by the Department without conforming to the competitive bidding procedure the same was objected to by the MNES and had stalled subsequent capital subsidy releases. The subsequent instalments were released from August 2005 to December 2007.This had adversely impacted execution of the project.

Appointment of Consultants for the Project

The Department selected (November 2001) a private firm M/s Erinco (India) Private Limited, New Delhi for consultancy services at a lump sum fee of ₹ 1.25 crore. The scope of the work of the Consultant *interalia* included review of tender documents, cost estimates, ascertaining the geological characters of the Dam site, finalise hydraulic and structural design, issue construction drawings, monitoring construction schedule and to supervise the construction activities till commissioning. The stated scope of consultancy became redundant since the work was eventually awarded to the two PSUs on turn-key basis. Accordingly, the Department did not redefine the scope of consultancy and made payments as per the original terms of agreement which was not justified.

Price Escalation

Price escalation bills of ₹ 13.80 crore were paid to contractors without subjecting to any check.

The Deed of Agreement (Clause 45) provides for payment of Price Adjustment/Variation to the Contractor for work done for increase or decrease in cost of labour, materials and Petrol, Diesel, Oil and Lubricant (P.O.L) according to the stipulated formula in the agreement, with the base month as September of the relevant year, with every increase or decrease in the "All India Consumer Price Index". The Department paid ₹ 13.80 crore towards price variation to MECON and the balance bills payable to MECON were to the tune of ₹ 7.80 crore. The Power and Electricity Department has however, not paid the price variation bills of ₹ 8.01 crore to BHEL till date (July 2010). The work was delayed by the Contractors citing reasons such as bad roads and bad climatic conditions etc., however, the Department extended the completion date on the request of the Contractors upto June 2008, without imposing Liquidated damages for the delay. Payment of Price variation bills when the delay was on account of the Contractors was not justified. We noticed that the Price Variation Claims were paid without subjecting to any check at any level regarding the correctness of the claims.

Delay in payment of bills

Delay in payment of bills resulted in interest claim of ₹ 5.72 crore by contractor.

The Deed of Agreement (Clause 41.1) states that Payment shall be adjusted for deductions for advance payments, retention and other recoveries in terms of the contract and deduction at source of taxes as applicable under the law. The employer shall pay the contractor the amounts certified and approved by the Engineer-in-Charge within 45 days of submission of Contractor's bills. In case full payment against certified bills submitted by Contractor is not made by the department for more than 120 days in one stretch, then the Contractor will be allowed to demobilize from site and cost of demobilization as mutually agreed will be paid by the Department. Where the Contractors running Bill or part thereof is based on estimated quantities of the work performed then 75 *per cent* of estimated value of the work shall be released within 45 days against the Running Bill. Full payment for such work will be released when the measurement for the work are accepted by the Engineer-in-Charge.

The Department could not arrange payments against the bills submitted by the Contractor (MECON) and the delays in payment ranged from 5 days to 611 days. Accordingly MECON claimed

(March 2010) interest of ₹ 5.72 crore for payments released beyond the stipulated dates as per the contract agreement. The Contractor (MECON) claimed interest at 18 *per cent*. The Department has neither accepted nor refuted the claim. As the Department had delayed the payments for unreasonable long periods, the interest liability would further add to the project cost. The Power and Electricity Department has not paid (October 2010) ₹ 15.39 crore pending bills to BHEL, which would attract interest charges as the bills are payable after 45 days of their receipt.

Non-claiming of concessional Sales Tax

CST of ₹ 3.20 crore was foregone due to non-furnishing of Form C/D to Contractors.

The rates quoted by the consortium partners for the civil/hydro mechanical works and electrical works were inclusive of all taxes. Central Sales Tax (CST) at concessional rates ruling at the time of dispatch of equipment would be charged only if Form 'C'/'D' was furnished by the Department to the contractor well in advance, or else sales tax would be applicable at full rates. The Department did not provide Form 'C'/'D' to the Contractor for claiming concession in sales tax. The amount of concession in sales tax which could not be availed was not ascertained by the Department. As calculated in Audit on the basis of 'Scheduled Prices' to the agreements, CST foregone worked out to ₹ 3.20 crore.

Non levy of penalty and liquidated damages

As per the Deed of Agreement, Liquidated damages are payable by the Contractors for delay up to five *per cent* of the delayed goods or services. The Power and Electricity Department granted extension of time upto June 2008 however the project is yet to be fully commissioned till date (October 2010). We observed that the Department did not levy any liquidated damages or penalty on the contractors.

Thus, effective steps needs to be taken to expedite the execution and commissioning of the project to avoid further cost overrun and time overrun and loss of generation.

The matter was reported to the Government in September 2010; the reply was awaited (October 2010).

INDUSTRIES DEPARTMENT

ZORAM INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

5.3 Infructuous expenditure on setting up a call centre and ITES Training Centre

Setting up of Call and Training Centre without safeguarding its financial interest resulting in closure of the Call and Training Centre and infructuous expenditure of ₹ One crore.

A Memorandum of Understanding (MoU) was entered (September 2008) between Zoram Industrial Development Corporation Limited (ZIDCO) and M/s. Public Soft Corporation (PSC), for setting up and running of Call Centre and Information Technology Enabled Services

(ITES) Training Centre (Call and Training Centre) at Aizawl, Mizoram with the purpose of creating a centre of core competence in IT segment in State and to impart skills amongst the educated youth to grow in this industrial segment with a view to generate employment opportunities besides creating marketing of local Agro & Forest based products, Handloom & Handicraft and other allied products to other parts of the country and abroad.

According to MoU, PSC was to provide its expert services, technology, hardware, software, training, consulting and other support for setting up and running of call centre & ITES Training centre, which would be under the supervision, management and control of PSC. In addition, PSC would bear the working capital cost and maintain all the equipment (software and hardware) including normal wear and tear of call centre facilities. ZIDCO's obligations were to provide suitable space for setting up the Call and Training Centre, assist in selecting the trainees and to provide for the capital cost of ₹ 1.09 crore of the project. While PSC was responsible for running the Call and Training Centre, ZIDCO would receive a sum of ₹ One lakh per month after one year of successful operation of the centre and also 20 *per cent* of the membership fees collected. ZIDCO would not have any control over the operation management and supervision of the Training Centre. The MoU could be terminated by a mutual agreement in writing by both the parties and would remain in force for a period of 10 years unless extended by agreement in writing between the parties.

Government of Mizoram sanctioned (November, 2008) ₹ One crore to ZIDCO for setting up the Call and Training Centre which was released by ZIDCO to PSC during September 2008 to January 2009.

Audit scrutiny (January 2010) revealed that the MoU executed by ZIDCO with PSC did not safeguard the interest of ZIDCO as it gave full control of the finances and the assets created from the funds received from ZIDCO. ZIDCO had no control over the management or assets created to ensure that the objectives for which the Call and Training Centre was to be established, would be implemented by PSC. Further, in the absence of the specifications and configurations of the Hardware and Software to be supplied as per MoU, which were most essential were not specified in the MoU the justification of arriving at the Capital cost of ₹ 1.09 crore for these items listed was absent. The MoU also did not incorporate any suitable clause for levy of penalty/or to forestall PSC from abandoning the operations within the period of agreement.

The Call and Training Centre started operations in October 2008 and was closed down during July 2009 after being in operation for only about nine months due to reasons such as strike by employees and financial constraints of PSC. The Call and Training Centre has not re-opened till now (December 2010).

A joint verification to assess the feasibility of re-opening the Call and Training Centre was carried out (December 2009) by a team consisting of high level officers of State Government and officials from ZIDCO. The verification report suggested termination of the contract with PSC.

Audit scrutiny further revealed that the project of setting up the Call and Training Centre was taken up by ZIDCO/Government of Mizoram without conducting a feasibility study or preparing a project report. The basis of offer and selection of PSC was subject to appropriate scrutiny which was not available on record. Further there were no records/information available regarding the infrastructure created, trainees enrolled and training fees and membership fees collected. The MoU was drafted without financial vetting. PSC also did not pay its 20 *per cent* share out of the membership fees collected to ZIDCO. The failure to conduct joint review of operations as provided for in the MoU led to closure of the operations by PSC within a period of nine months from the start of operations.

Thus, this investment of ₹ One crore as a result of flawed decision of setting up the centre, based on a MoU which failed to safeguard the interest of the Company and that of the centres' employees turned out to be infructuous.

The Government replied (July 2010) that the PSC was selected as it was most suited for the project and since it appeared to meet the requirement of the State. It was also mentioned that basic formalities were complied with by inviting tenders and the MoU was vetted by the law and judicial department of the State Government. The reply further stated that the Government was aware of the unsatisfactory MoU and appropriate action was underway to ensure resumption of the functioning of the Centre.

We suggest that action may be taken to close the agreement with PSC and legal action initiated for abandoning the operations midway without termination of the MoU. Action may also be taken to examine reopening the Call Centre and Training Centre to ensure commencement/resumption of training as contemplated in the original MoU.

Aizawl	**(L. Tochhawng)**
The 4 March 2011	**Accountant General (Audit), Mizoram**

Countersigned

New Delhi	**(Vinod Rai)**
The 8 March 2011	**Comptroller and Auditor General of India**