

CHAPTER-V: GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

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 the people. In Arunachal Pradesh, there were seven PSUs (all Government companies including two non-working companies). None of these companies was listed on stock exchange.

5.1.2 The State working PSUs registered a turnover of ₹ 6.37 crore for 2010-11 as per their latest finalised accounts as of September 2011. This turnover was equal to 0.08 *per cent* of State Gross Domestic Product (GDP) ♦ Thus the State PSUs occupy an insignificant place in the State economy. Major activities of Arunachal Pradesh State PSUs are concentrated in Finance and Power sectors. The working PSUs incurred an overall loss of ₹ 3.41 crore in the aggregate for 2010-11 as per their latest finalized accounts as on 30 September 2011. They had employed 165 nos* of employees as of 31 March 2011. The State PSUs do not include prominent Departments such as Power, Hydro Power Development, Transport and Transport & Supply which are performing commercial nature of activities. The audit findings of these Government Departments are, however, incorporated in this chapter.

5.1.3 During the year 2009-10, assets of the two non-working PSUs viz., Parasuram Cements Limited and Arunachal Horticulture Processing Industries Limited, were transferred to “Arunachal Pradesh Infrastructure Development Company Limited” a Joint Venture Company created by Arunachal Pradesh Industrial Development & Finance Corporation.

Audit Mandate

5.1.4 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 not less than 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, 1956.

♦ The GDP figures in respect of 2010-11 as depicted in VMW Analytic Services site

* As per the details provided by five PSUs.

5.1.5 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 the Comptroller and Auditor General of India (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.

Investment in State PSUs

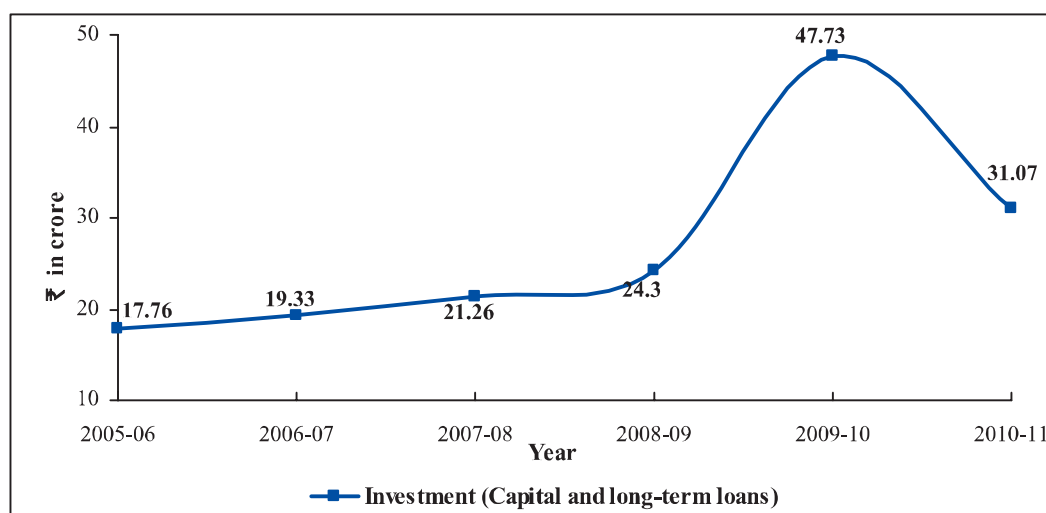
5.1.6 As on 31 March 2011, the investment (capital and long-term loans) in seven PSUs[#] was ₹ 31.07 crore as *per* details given below.

(₹ in crore)

| Type of PSUs | Government companies | | |
|------------------|----------------------|-----------------|--------------|
| | Capital | Long Term Loans | Grand Total |
| Working PSUs | 19.05 | 8.96 | 28.01 |
| Non-working PSUs | 0.33 | 2.73 | 3.06 |
| Total | 19.38 | 11.69 | 31.07 |

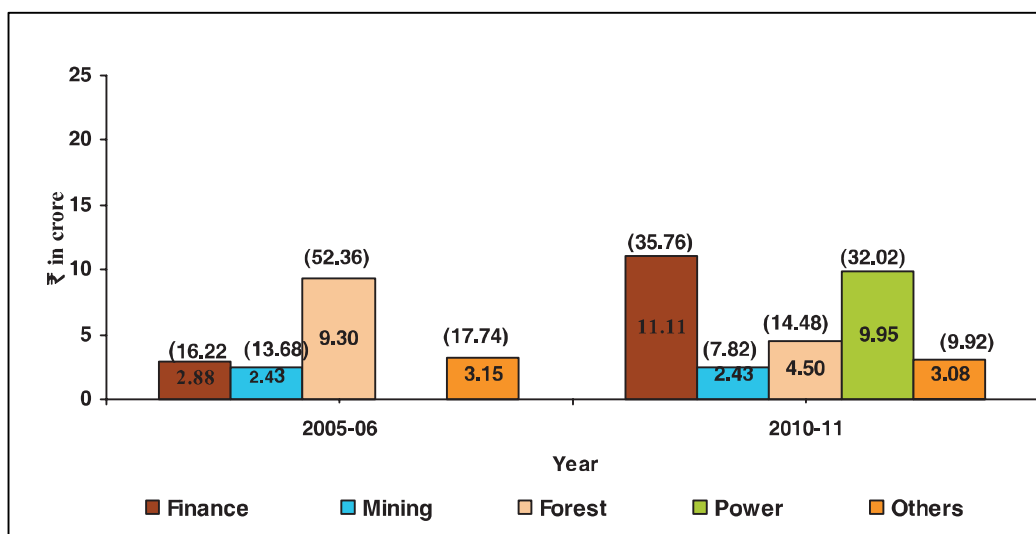
A summarised position of Government investment in State PSUs is detailed in **Appendix-5.1**.

5.1.7 As on 31 March 2011, of the total investment in State PSUs, 90.15 *per cent* was in working PSUs and the remaining 9.85 *per cent* in non-working PSUs. This total investment consisted of 62.38 *per cent* towards capital and 37.62 *per cent* in long-term loans. The investment had increased by 74.94 *per cent* from ₹ 17.76 crore in 2005-06 to ₹ 31.07 crore in 2010-11 as shown in the graph below.



[#] The State had no 619.B company

5.1.8 The investment in various important sectors and percentage thereof at the end of 31 March 2006 and 31 March 2011 are indicated below in the bar chart. The thrust of PSU investment was mainly in Finance and Power sectors during five years which registered rise in their percentage share from 16.22 to 35.76 *per cent* (Finance sector) and from 'nil' to 32.02 *per cent* (Power sector) respectively. The entire investment of ₹ 21.06 crore of two PSUs* in Finance and Power sectors belonged to the State Government.



(Figures in brackets show the percentage of total investment)

Budgetary outgo, grants/subsidies, guarantees and loans

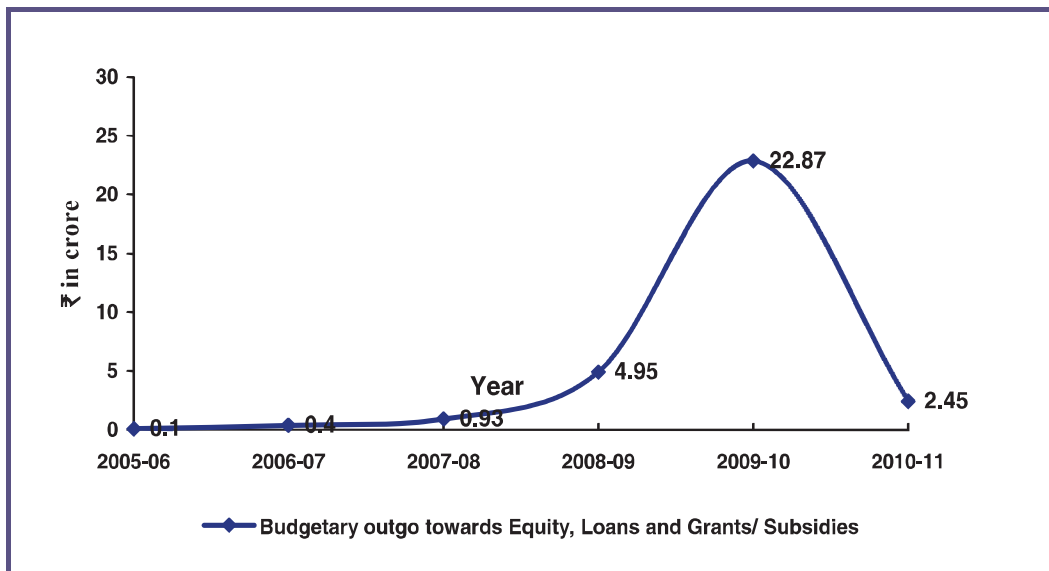
5.1.9 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued in respect of State PSUs are given in **Appendix-5.3**. The summarised details are given below for three years ended 2010-11.

(Amount ₹ in crore)

| Sl. No. | Particulars | 2008-09 | | 2009-10 | | 2010-11 | |
|---------|----------------------------------|-------------|--------|-------------|--------|-------------|--------|
| | | No. of PSUs | Amount | No. of PSUs | Amount | No. of PSUs | Amount |
| 1 | Equity Capital outgo from budget | 1 | 4.95 | 1 | 2.50 | - | - |
| 2 | Loans given from budget | - | - | 1 | 20.37 | - | - |
| 3 | Grants/Subsidy received | - | - | - | - | 1 | 2.45 |
| 4 | Total Outgo (1+2+3) | - | 4.95 | - | 22.87 | - | 2.45 |
| 5 | Guarantees issued | 2 | 0.77 | - | - | - | - |
| 6 | Guarantee Commitment | - | - | 1 | 2.00 | 1 | 2.00 |

* Arunachal Pradesh Industrial Development and Financial Corporation Limited and Hydro Power Development Corporation of Arunachal Pradesh Limited.

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



5.1.11 As can be noticed from above, the budgetary outgo during 2009-10 was all time high at ₹ 22.87 crore in past six years. As against this, during 2010-11 the budgetary outgo was restricted to ₹ 2.45 crore extended to one PSU (Hydro Power Development Corporation of Arunachal Pradesh Limited) by way of grants. As on 31 March 2011, a guarantee commitment of ₹ 2.00 crore was pending against one PSU (viz. Arunachal Pradesh Industrial Development & Financial Corporation Limited). 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 and loans as per records of State PSUs should agree with that of 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 2011 is stated below.

| (₹ in crore) | | | |
|---------------------------|--------------------------------|-------------------------------|------------|
| Outstanding in respect of | Amount as per Finance Accounts | Amount as per records of PSUs | Difference |
| Equity | 9.04 | 19.38 | 10.34 |
| Loans | - | 11.69 | 11.69 |

5.1.13 We observed that the differences occurred in respect of all six PSUs and the differences were pending reconciliation over the period of more than ten years. The Accountant General (AG) had taken up (October 2011) the matter with the

Secretary, Finance Department, Government of Arunachal Pradesh, Administrative Departments of respective PSUs and the Managing Directors of PSUs from time to time to reconcile figures. No significant progress in this direction was, however, noticed. The Government and the PSUs needed to take concrete steps to reconcile the differences in a time-bound manner.

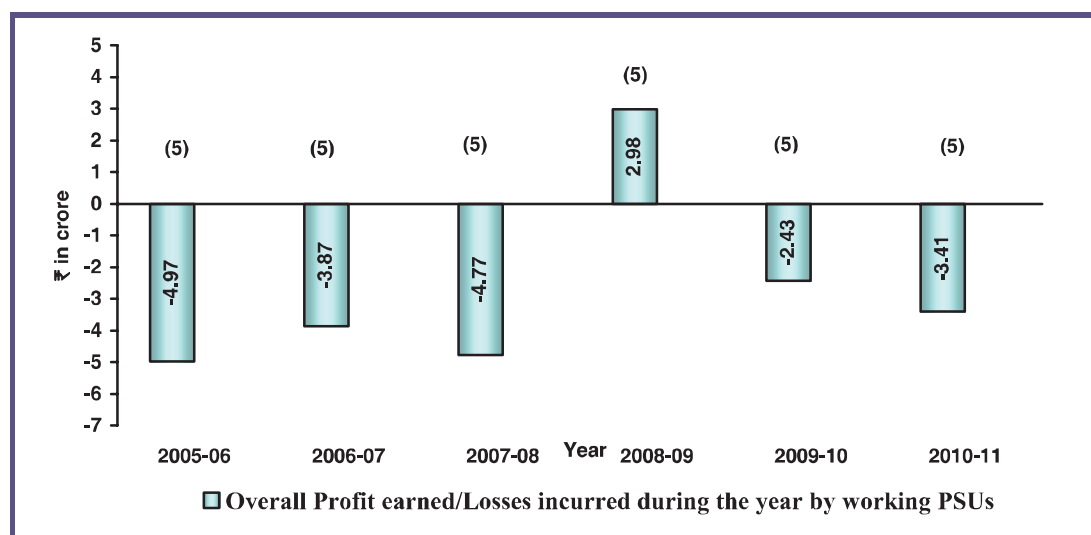
Performance of PSUs

5.1.14 The financial results of PSUs are detailed in **Appendix 5.2**. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2005-06 to 2010-11

| (₹ in crore) | | | | | | |
|-------------------------------------|---------|---------|---------|---------|---------|----------------------|
| Particulars | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
| Turnover [∞] | 5.91 | 5.94 | 5.72 | 5.57 | 7.79 | 6.37 |
| State GDP | 2918 | 3413 | 3888 | 4547 | 6258 | 8350.16 [†] |
| Percentage of Turnover to State GDP | 0.20 | 0.17 | 0.15 | 0.12 | 0.12 | 0.08 |

It can be noticed that the percentage of turnover to State GDP was on declining trend and reduced from 0.20 in 2005-06 to 0.08 in 2010-11, which was indicative of the fact that annual increase in turnover was inadequate and not commensurate with the annual growth in the State GDP.

5.1.15 Profit (losses) earned (incurred) by State working PSUs during 2005-06 to 2010-11 are given below in a bar chart.



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

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

[†] Figures were provisional as furnished by the Government of Arunachal Pradesh.

5.1.16 During the year 2010-11, out of five working PSUs, two PSUs[^] earned profit of ₹ 1.64 crore and three PSUs incurred loss of ₹ 5.05 crore. The major contributor to profit was 'Arunachal Police Housing and Welfare Corporation Limited' (₹ 1.63 crore) while heavy loss was incurred by 'Arunachal Pradesh Forest Corporation Limited' (₹ 4.29 crore).

5.1.17 The State PSUs and State Government Departments incurred losses, as highlighted in the Audit Reports of CAG each year, mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the working State PSUs and Government Departments (Power, Transport and Supply & Transport) incurred losses to the tune of ₹ 32.23 crore and infructuous investment of ₹2.03 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(₹ in crore)

| Particulars | 2008-09 | 2009-10 | 2010-11 | Total |
|--|---------|---------|---------|-------|
| Controllable losses as per Audit Report | 5.93 | 15.72 | 10.58 | 32.23 |
| Infructuous Investment | - | - | 2.03 | 2.03 |

5.1.18 The above losses pointed out by Audit Reports of CAG were based on test check of records of PSUs/ Government Departments (Power, Transport and Supply & Transport). The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimized (or eliminated or the profits can be enhanced substantially). The PSUs/Government Departments 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/ Government Departments.

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

(₹ in crore)

| Particulars | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---------|----------|----------|---------|---------|----------|
| Return on Capital Employed (per cent)* | -- | -- | -- | 6.09 | - | - |
| Debt | 8.29 | 9.87 | 11.76 | 9.87 | 10.33 | 11.69 |
| Turnover^Y | 5.91 | 5.94 | 5.72 | 5.57 | 7.79 | 6.37 |
| Debt/ Turnover Ratio | 1.40:1 | 1.66:1 | 2.06:1 | 1.77:1 | 1.32:1 | 1.84:1 |
| Interest Payments | 0.95 | 0.03 | 0.03 | 0.39 | 0.78 | 0.25 |
| Accumulated Profits (losses) | 0.49 | (-) 1.62 | (-) 3.19 | 2.64 | 4.06 | (-) 3.73 |

[^] Including one company (serial no. A-5 of Appendix 5.2), which earned a profit of ₹77,667.00 only

^Y Turnover of working PSUs as per the latest finalised accounts as of 30 September.

* Nil figures represent negative return on capital employed.

5.1.20 As per the latest finalised accounts of five working companies as on 30 September 2011, the Capital Employed was ₹ 38.51 crore and total return thereon amounted to ₹ (-) 3.26 crore in 2010-11 as compared to capital employed of ₹ 53.69 crore and total return on Capital Employed of ₹ (-) 1.74 crore in 2009-10.

5.1.21 The State Government had not formulated (November 2011) any dividend policy to make it mandatory for the PSUs to pay a minimum return on the paid up share capital contributed by the State Government.

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 2011.

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---------|---------|---------|---------|---------|
| Number of Working PSUs | 4 | 5 | 5 | 5 | 5 |
| Number of accounts finalised during the year | 1 | 1 | 1 | 5 | 7 |
| Number of accounts in arrears | 23 | 27 | 31 | 31 | 29 |
| Average arrears <i>per</i> PSU (3/1) | 5.75 | 5.40 | 6.2 | 6.2 | 5.8 |
| Number of Working PSUs with arrears in accounts | 3 | 5 | 5 | 5 | 5 |
| Extent of arrears in years | 1 to 13 | 1 to 14 | 1 to 15 | 1 to 16 | 1 to 15 |

5.1.23 It may be noticed that average number of accounts in arrears per PSU was very high in all five years and ranged between 6.2 and 5.4 accounts per working PSU. The delays in finalization of accounts were mainly attributable to inadequacy of manpower and abnormal delays in compilation/approval of the Annual Accounts by the PSUs.

5.1.24 The State Government had invested an aggregate amount of ₹ 57.15 crore in five PSUs (Equity: ₹ 3.35 crore, loans: ₹ 29.02 crore, grant/subsidy ₹ 9.45 crore and others ₹ 15.33 crore) during the years for which accounts had not been finalised as detailed in *Appendix-5.4*. Delay in finalisation of accounts might 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. The attention of the concerned administrative departments and officials of the Government on the issue of the arrears in finalization of accounts was regularly drawn by the Accountant General on

quarterly basis emphasising on the need of clearing the arrears. The AG had also taken up the issue with the Chief Secretary/ Finance Secretary, Government of Arunachal Pradesh periodically to expedite the backlog of accounts in a time bound manner. No significant progress was, however, noticed in the matter. As a result, the net-worth of these PSUs could not be assessed in audit.

In view of above state of arrears, it is recommended that the Government should monitor and ensure timely finalization of accounts by the State PSUs in conformity with the provisions of the Companies Act, 1956.

Winding up of non-working PSUs

5.1.26 There were two non-working PSUs in the State as on 31 March 2011. None of the two PSUs had however, commenced the liquidation process. The numbers of non-working companies remained the same during past five years.

5.1.27 Both the non-working PSUs viz. Parasuram Cement Limited and Arunachal Pradesh Horticultural Processing Industries Limited were needed to be closed down as their existence was not going to serve any purpose.

Accounts Comments and Internal Audit

5.1.28 Five working companies forwarded their seven audited accounts to AG during the year 2010-11 of which two accounts of two companies 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 needed to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and CAG are given below.

| | | (₹ 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 | 1 | 2.18 | 1 | 0.02 | 1 | 2.80 |
| 2 | Increase in loss | - | - | - | - | 1 | 4.17 |
| 3 | Increase in profit | - | - | 1 | 0.05 | - | - |
| 4 | Non-disclosure of material facts | 1 | - | 2 | - | 1 | 1.53 |
| 5 | Errors of classification | - | - | - | - | - | - |
| 6 | General | - | - | 2 | - | 1 | - |

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

Arunachal Pradesh Forest Corporation Ltd (2000-01)

- The Committee, consisting of the DFO, Deomali Forest Division, DFO, Southern Resources Survey Division and Divisional Manager, Khonsa Project Division, reported 100% deterioration of round timber. However, no provision was made in the accounts for the round timber, valued at ₹ 58.05 lakh. No provision was also made for the deteriorated stock of Veneer amounting to ₹ 1.74 lakh. This resulted in overstatement of Stock in Trade and understatement of loss by ₹ 59.79 lakh each.
- Sundry Debtors included ₹ 3.57 crore dues from various parties towards un-lifted timber after imposition of the ban by the Hon'ble Supreme Court of India. Further, Note No. 14 of the Notes forming part of account, states that there was least possibility for realization of the said amount. However, no provision in this regard was made in the accounts, which resulted in overstatement of Sundry Debtors and accumulated profit by ₹ 3.57 crore each.

Arunachal Police Housing & Welfare Corporation Ltd (2009-10)

- Due to wrong recognition of interest of ₹ 2.80 crore (including ₹ 1.10 crore for current year) on unspent Government Grants not belonging to the Company, the 'Accumulated Profits' were overstated by ₹ 2.80 crore with corresponding understatement of 'Current Liabilities' by ₹ 2.80 crore.

5.1.30 The Statutory Auditors (Chartered Accountants) were 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 of one company (Hydro Power Development Corporation Arunachal Pradesh Limited) during the year 2010-11 is given below.

| Sl. No. | Nature of comments made by Statutory Auditors |
|---------|---|
| 1 | Non-existence of system of Physical Verification of Cash and Imprest balances |
| 2 | Absence of internal audit system commensurate with the nature and size of business of the company |
| 3 | Non maintenance of cost records |

Recoveries at the instance of audit

5.1.31 During the course of propriety audit in 2009-10, recoveries of ₹ 22.72 crore were pointed out to the Management of various PSUs and Departmental Undertakings, of which, recoveries of ₹ 0.58 crore were admitted by PSUs. No amount was, however, recovered during the year 2010-11.

Reforms in Power Sector

5.1.32 Arunachal Pradesh had formed a Single Member Electricity Regulatory Commission (February 2011) under the provisions of Section 82 of the Electricity Act 2003 with the objective of rationalisation of Electricity Tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licenses.

5.1.33 Memorandum of Agreement (MoA) was signed (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 2011 |
|---------|--|--|
| 1 | Corporatisation of the Electricity Department by 2006-07. | Department of Power (DOP) and Department of Hydro Power Development (DHPD) were not yet Corporatised (November 2011) |
| 2 | Setting up of State Electricity Reforms Commission (SERC)/Joint Electricity Reforms Commission (JERC) by December 2003 and file tariff petition. | Single Member Arunachal Pradesh Electricity Regulatory Commission (APERC) took charge in February 2011 and is yet to start functioning (November 2011) |
| 3 | State Government will ensure timely payment of subsidies required in pursuance of orders on the tariff determined by JERC. | APERC was yet to start functioning (November 2011) |
| 4 | State Government will achieve 100 <i>per cent</i> electrification of villages by 2007. | 3231 out of 4593 villages (70.35 <i>per cent</i>) have been electrified |

AUDIT OF TRANSACTIONS

DEPARTMENT OF POWER

5.2 Implementation of Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)

Implementation of RGGVY in the State could not achieve the desired results due to deficiencies in award of works and utilization of scheme funds by the Department

The National Electricity Policy stipulated that the key objective of development of the power sector was to supply electricity to all areas including rural areas for which the Government of India (GOI) and the State Governments would jointly endeavor to achieve this objective. Accordingly, the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), which aimed at providing access to electricity for all households in five years with 90 *per cent* capital subsidy, was launched by GOI in April 2005. The Department of Power, Government of Arunachal Pradesh (Department) commenced the implementation of RGGVY in the State by inviting tenders in December 2006.

5.2.1 We observed that for implementation of Rural Electricity Infrastructure and Household Electrification in all the sixteen Districts, contracts were awarded during different periods from April 2008 to July 2009 to be completed within 24 months from the date of agreement (i.e. upto June 2011). The scheme envisaged electrification of 2129 un-electrified villages, including 331 de-electrified¹, intensification² of 1756 electrified villages and provision of electricity to 76407 out of 1,84,515 Rural House Holds (RHHs) (41.41 per cent) and 40810 Below Poverty Line House Holds (BPL) out of 42730 (95.51 per cent). Though the entire works under the scheme were to be completed before 30 June 2011, the actual status of completion of works as on 30 September 2011 was not satisfactory as detailed below:

| | Un-electrified Village Incl. De-electrified | Intensification of Electrified Villages | RHHs (Incl. BPL) | BPL House Holds |
|--|---|---|---------------------|--------------------|
| Sanctioned Coverage | 2129 | 1756 | 76407 | 40810 |
| Achievement as on 30 September 2011 | 936 | 651 | 17719 | 17905 |
| <i>Achievement in per cent</i> | <i>44</i> | <i>37</i> | <i>23</i> | <i>44</i> |

We observed that the completion of the schemes were delayed due to frequent revisions of Detailed Project Reports (DPR), delay in award of works, and inordinate delays in execution of works by the turnkey contractors etc.

¹ De-electrified villages represent those villages electrified during earlier years but later on supply of power to them were discontinued due to damage/loss of infrastructure on account of natural calamities, flood, theft of materials, absence of connectivity to the distribution system etc.

² Intensification of electrified villages by providing additional distribution transformers, supply lines and service connections.

The Department stated (November 2011) that the progress was slow due to non-availability of skilled/unskilled labour in the State, inadequate manufacturing of goods ordered in the region forces the contractor to outsource materials from far-off places etc. Reply was not acceptable as at the time of preparing DPRs and fixing target dates for completion of works under works contracts, all the said constraints were known to the Department and accordingly, should have factored the same in planning. Thus, the delay in completion of works was indicative of deficient planning of the Department.

5.2.2 Funds utilization

The Department received funds under RGGVY for Rural Electrification through Arunachal Pradesh Development Agency (APDA), a nodal agency for implementation of RGGVY. To avail financial assistance for implementation of the scheme, a tripartite agreement was entered between Rural Electrification Corporation (REC)³, Department of Power (Department) of Government of Arunachal Pradesh and APDA for availing financial assistance. Of the total project cost, 90 *per cent* of the cost was to be provided in the form of subsidy and remaining 10 *per cent* as loan carrying interest at the rate of 10.40 *per cent*. As per the conditions of the agreement, the project should be executed within a period of two years from the release of the first installment. In the event of non-completion of scheme works within two years, the amount of capital subsidy would be converted into interest bearing loan.

We observed that though the Department received funds to the extent of ₹ 646.07 crore for implementation of the scheme during 2007-11, they could utilize ₹ 429.53 crore (66.48 *per cent*) only up to the end of March 2011.

The Department stated (November 2011) that the funds were obtained from REC based on the achievement of the progress and the interest earned on the unutilized funds would be returned to REC/Ministry of Power, GOI as per the terms of RGGVY guidelines. The Government also endorsed (November 2011) the views of the Department. The reply, however, did not address the reasons for non-utilization of scheme funds to the full extent within the scheduled period of implementation of the RGGVY defeating the intended objectives of the scheme.

5.2.3 Adverse impact on implementation of RGGVY scheme due to non-compliance with the directions of the Central Vigilance Commission

As per the Central Vigilance Commission (CVC) Guidelines, in case the L-1 bidder backed out, there should be a re-tendering. The Department invited (February 2007) tenders for implementation of RGGVY in Papumpare district, wherein three packages with an estimated amount of ₹ 5.18 crore pertaining to Balijan block under Capital

³ REC is a Central Government owned Public Sector Undertaking

Electrical Division (CED) of the Department were included. The bids were opened in June 2007. Of the three bidders participated in the tender, one (Firm A) was disqualified on grounds of infirmity in the Bank Guarantees, while the other was disqualified on technical grounds. The third bidder (Firm B) had quoted ₹ 11.67 crore for the above work. After prolonged negotiations for price discounts, Firm B agreed (March 2008) to undertake the work for ₹ 8.41 crore and accordingly a Notice of Acceptance of bids was issued (April 2008) after expiry of 11 months from the date of opening of tender. Subsequently, the firm expressed (May 2008) its inability to accept the offer on the grounds of steep increase in the market price of material due to abnormal delay in placement of orders. In July 2009, the Department on the plea to save time and avoid probable cost escalation in re-tendering entrusted the work to another firm M/s Reniya Enterprises, Itanagar (Firm C), at the same rate with the same terms and conditions as contained in the Letter of Award issued to Firm B. An amount of ₹ 2.03 crore was paid to Firm C towards advance payments against which material valuing ₹ 1.15 crore was also supplied by Firm C at work site. Meanwhile, based on the writ petition filed (February 2010) by Firm A who was earlier disqualified on the ground of infirmity in the Bank Guarantees, the Honourable Guwahati High Court adjudged (January 2011) that the impugned process leading to issuance of work orders in July 2009 was unauthorized and illegal and quashed the same. Thus, due to award of work by the Department to Firm C without following the tendering process, which was contrary to CVC Guidelines, resulted in blockage of ₹ 2.03 crore with Firm B besides the non implementation of projects under RGGVY Scheme in Balijan Block (November 2011).

Though the issue was reported to the Government/Department (October 2011), no specific reply was offered by them in the matter.

5.2.4 Non-recovery of interest on Mobilization Advance

The Central Vigilance Commission (CVC) suggested (April 2007) that the recovery of Mobilization Advance should be time based and not linked with progress of work. This would ensure that even if the contractor was not executing the work or executing at a slow pace, the recovery of advance could commence and scope for misuse of such advance could be reduced. Further, the CVC circular also suggested that there should be a clear stipulation of interest to be charged on delayed recoveries either due to late submission of bills by the contractor or any other reason. On a review of terms & conditions of contracts and tender documents relating to RGGVY works, we observed that there were no clauses for time based recovery of the Mobilization Advance and recovery of interest thereon. Thus, failure of the Department to include clauses regarding time based recovery of the Mobilization Advance and recovery of interest thereon had resulted in substantial losses of interest to the Department.

During the test check of 8 out of 60 projects in 4 out of 17 Divisions, we noticed that out of ₹ 12.57 crore paid to the contractors towards Mobilization Advance an amount of ₹ 4.27 crore was pending for recovery from the contractors as on 31 March 2011 and the delays in those cases ranged from 20 to 36 months as on that date. In the absence of the enabling clause for recovery of penal interest on the unrecovered Mobilization Advances, the funds to the extent of ₹ 4.27 crore were locked up with the contractors, during that period thereby causing interest loss of ₹ 1.14 crore⁴ to the Department.

The Government/Department replied (November 2011) that non-inclusion of condition regarding recovery of interest on mobilisation advance was in lines with REC Guidelines on procurement of Goods and Services. The reply was not acceptable as exclusion of said clause for recovery of penal interest on mobilisation advance was in violation to the directions of CVC and was also against the financial interests of the Department.

5.2.5 Loss on purchase of materials of same specification

On a test check of purchase of materials for RGGVY scheme in Ziro Electrical Division, we observed that the Department entered (May to June 2008) into separate agreements with Huma Enterprises, Guwahati (Firm H) and Electrokings, Jorhat (Firm E) for supply and Erection of materials in two Blocks (Ziro I&II) and one Block (Raga Block) respectively. We observed that though the specifications of most of the materials required under three contracts were same, the Letter of Awards for procurement of these materials on the above two suppliers were issued at different rates. The extra expenditure on purchase of seven such materials worked out to ₹ 4.36 crore as detailed in **Appendix 5.5**.

The Department stated (November 2011) that the award of works for RGGVY have been on turnkey basis as per the guidelines provided by Rural Electrification Corporation (REC). Accordingly the works were awarded to the technically qualified, competent and experienced contractor through the widely published and transparent bidding process on turnkey basis. It was further contented that the item rates might vary from place to place and package to package depending on the costing price adopted by the bidder. The Government also endorsed (November 2011) the views of the Department. The reply was not acceptable as the loss pointed out by us related to the price difference of materials of same specification falling within the jurisdiction of same Division, which was indicative of Department's failure in taking reasonable care and prudence in finalizing the rate of materials under supply orders.

⁴Interest worked at the rate of six per cent which was received on deposit of unutilized portion of funds.

5.2.6 Diversion of funds for purchase of Assets

The cost of purchase of assets for the Department were met from the annual plan outlay through the Annual Operating Plan (AOP) submitted to the Government. We observed that an amount of ₹ 5.13 crore was diverted by the Department from the funds allotted for implementation of RGGVY Scheme for purchase of various assets like vehicles, computers, camera, photocopiers, fax machine etc.

The Government/Department replied (November 2011) that the assets were purchased from the contingencies/overhead provisions of sanctioned DPRs and were being used for inspection/monitoring and supervision of the project. The reply was not acceptable since the RGGVY funds were provided with the specific aim to achieve the envisaged objectives through execution of approved projects. Thus, the Department should have purchased assets only through its AOP and diversion of RGGVY funds should have been strictly avoided.

5.2.7 Non-Utilisation of infrastructure available in de-electrified villages

Several villages, which were electrified during earlier years, were subsequently de-electrified due to damage/loss of infrastructure on account of natural calamities, flood, theft of materials, absence of connectivity to the distribution system etc. We observed that 331 of such villages were planned for re-electrification under the RGGVY Scheme. However, materials such as lines, poles, transformers etc. installed during earlier electrification and available in these villages were not considered while finalising the DPRs and awarding the work for re-electrification. The Department also did not take any action either to dispose of or utilise these materials kept idle in these villages. Though the Government/Department stated (November 2011) that the DPRs have been prepared after taking into account the usable materials, no supporting documents/evidences were provided for verification so as to substantiate their stand.

5.2.8 Hilly and inaccessible terrain

Because of hilly and inaccessible terrain, the Department did not have a full fledged inter connected grid in the State. Power supply to some of the villages like Kamengbari, Doimara and Tato was being met by stand alone Diesel Generating sets. RGGVY scheme provided for De-centralised Distributed Generation (DDG) facilities to remote villages where grid connectivity was either not feasible or not cost effective so that every household could get access to electricity. We observed that the Department did not consider these villages for DDG facilities under RGGVY and thereby these villages were deprived of availing the benefits of the scheme.

The Department stated (November 2011) that DDG programme came into existence after the onset of RGGVY works; hence no scheme could be taken up. The Government also endorsed (November 2011) the views of the Department. The reply

was not acceptable since the RGGVY had envisaged for the provision of centralised DDG facilities to remote villages and therefore, it was the responsibility of the Department to initiate timely steps in this direction for achieving the scheme objectives.

To sum up-

The RGGVY was launched in the State with the primary aim of providing electricity to all households including rural areas. Achievement of the Department against RGGVY schemes objectives was not satisfactory with regard to the following-

- *poor utilisation of scheme funds;*
- *deficiencies in award of scheme work contracts;*
- *diversion of scheme funds.*

DEPARTMENT OF POWER

5.3 Billing Efficiency

The billing operations of the Department were deficient due to absence of proper metering of 46.86 per cent consumers and incorrect application of tariff provisions

The efficiency of the Department of Power (Department) in billing of energy lies in timely realisation of the revenue against sale of energy to consumers. As per procedure prescribed in the Schedule of Tariff 2006 issued by the Department, the billing cycle should be on monthly basis for all consumers. After obtaining the meter readings, bills would be raised on consumers against the energy consumed by at sub-division/section office level. We observed that out of 1.75 lakh consumers of various categories existing as on 31 March 2011, 0.55 lakh consumers (31.43 per cent) utilise energy without energy meters. Though meters were provided to the remaining 1.19 lakh consumers, 0.27 lakh (22.68 per cent) of them were defective. Hence 0.82 lakh consumers i.e. 46.86 per cent of the total consumers were utilizing energy without meters or through defective meters as on 31 March 2011. Thus the Department could issue bills on consumption of 34 to 45 per cent of energy available for sale within the State during the period from 2006-07 to 2010-11. We observed various deficiencies in billing of energy by the Department, which have been discussed in succeeding paragraphs.

5.3.1 Incorrect application of tariff

As per tariff order 2006, the Public Sector Undertakings (PSUs) were to be billed under the category of Commercial Consumers (Non-Industrial). However, from the records of Daporijo and Bomdila Electrical Divisions we observed that the Central

PSUs and State PSUs such as Bharat Sanchar Nigam Limited, Food Corporation of India, Assam State Tourism Corporation, Commercial banks etc. were billed at lower tariff applicable to Non-Commercial Consumers (Domestic) category. This led to revenue loss of ₹ 0.48 crore during 2006-11 in these Divisions. We further, observed that in Daporijo Electrical Division services to Street Light were wrongly classified and billed as Non-Commercial Consumers (Domestic) instead of under Public Lighting & Water Supply Consumers, whose rates were higher than the rates charged for Domestic Consumers. Thus, wrong classification of Street Light services by the Divisions resulted in a revenue loss of ₹ 0.18 crore during the period 2006-11.

5.3.2 Un-assessed revenue

We observed that the Daporijo and Ziro Electrical Divisions of the Department did not install energy meters on 1186 services provided for Street Lights. As a result, the consumption against these connections remained unaccounted. We further noticed that both the Divisions did not raise any bills towards recovery of energy charges, interest on outstanding dues etc. against the said connections. This had resulted in revenue un-assessed and loss to the Department to the extent of ₹ 0.20 crore⁵ during 2006-11.

5.3.3 Non-recovery of monthly minimum charges

The Schedule of Tariff 2006, which was effective from October 2006 fixed (September 2006) separate monthly minimum charges for each category of consumers based on their connected load. Accordingly the monthly minimum charges for the domestic consumers was recoverable based on connected load ranging from ₹ 25/KW to ₹ 29/KW between October 2006 and March 2011. We observed from the records of the Daporijo Electrical Division that the domestic consumers were billed on point basis⁶ instead of on the basis of monthly minimum charges as per the connected load in violation to the extant tariff provision. The actual loss on this account however, could not be worked out due to veracity of service connections.

5.3.4 Belated implementation of revision of tariff

The revised tariff based on Schedule of Tariff 2006 was to be implemented with effect from 1 October 2006 and with an Automatic Annual Increment of five *per cent* with effect from 1st day of April each year following the year of notification (2006). Accordingly, energy charges and miscellaneous charges were automatically revised four times in April each year during 2007 to 2011. We observed that the Daporijo and Seppa Electrical Divisions did not implement the revision of tariffs till October 2010 and thereby incurred a loss of revenue to the Department to the extent of ₹ 0.82 crore.

⁵ worked out based on the monthly minimum charges of the tariff

⁶ at the rate of ₹18 per point per month up to May 2009, at the rate of ₹19 per point per month (June 2009 to June 2010) and ₹20 per point per month (w.e.f. July 2010), worked out based on energy provided five hours a day for 30 days to one point with 40 watt bulb

Though the said two Divisions started revising the tariff as per the requirement after October 2010, the loss of ₹ 0.82 crore pertaining to April 2007 to October 2010 remained unrecovered (November 2011).

Though the issue was reported to the Government/Department, no specific replies were offered by them (November 2011).

5.3.5 Non Billing of penalty on outstanding Dues

As per the General Conditions of Supply in Schedule of Tariff 2006, if the payment was not received within last date of the payment the bill was to be treated as invalid and the amount outstanding was to be carried over to the next month's bill as arrear. Interest at the rate of two *per cent* was to be charged as penalty on outstanding amount for each 30 days successive period or part thereof until the amount was paid in full. We, however, observed that the Seppa and Daporijo Electrical Divisions did not add penalty at the rate of two *per cent* on the accumulated outstanding amounts to the subsequent bills issued to the defaulted consumers and thereby incurred a loss of ₹ 3.40 crore towards revenue against penal charges.

Though the issue was reported to the Government/Department, no specific replies were offered by them (November 2011).

To sum up-

Though the efficiency of the Department in billing of energy lies in timely realisation of the revenue against sale of energy to consumers, we observed that the Department failed in proper billing of energy supplied to consumers by not providing proper energy meters to 46.86 per cent of consumers existing as on 31 March 2011. The Department also failed in timely implementation of the tariff orders in its letter and spirit, which led to recurring revenue losses.

DEPARTMENT OF POWER

5.4 Short collection of Security Deposit

Department failed to collect Security Deposit as per revised rates leading to short collection of ₹ 10.60 crore in two cases test checked

In order to safeguard the financial interests of the Department of Power (Department) against possible default in payment of electricity dues by the consumers, the extant Tariff provisions stipulated for collection of interest-free Security Deposit (SD) by the Department at the rates prescribed from time to time for each category of consumers. The Schedule of Tariff, 2006 (Schedule) notified in September 2006, besides prescribing routine revision in the rates of SD with effect from 1 October 2006, also

provided for automatic progressive hike of five percent per year in the prescribed rate of SD for all categories of consumers on 1 April each year. The first hike was to be made from 1 April 2007. Thus, after notification of the Schedule, total six revisions should have been effected in the SD rate till April 2011. While communicating the Government Notification on the Schedule of Tariff 2006, the Chief Engineer (P) Eastern Electrical Zone, specifically instructed that SD as per Clause 9 of Miscellaneous Charges to be leveled up after adjustment with the existing accounts of each and every consumer as per the provisions of the Tariff. We, however, observed that though the Department had 1.38 lakh consumers in 2006-07, which increased to 1.75 lakh consumers as on 31 March 2011, SD from none of these consumers were leveled up during all the six revisions made during the period from 1 October 2006 to 1 April 2011.

During test audit to verify the collection of SD by the Department as per tariff requirement, we examined two cases as under-

Case I: SMS Smelters Limited, Naharlagun (SMS) was sanctioned a load of 35 MW under Bulk Industrial Power supply and accordingly SD of ₹ 1.75 crore was collected by the Department at the applicable rate of ₹ 500 per KW (equivalent to ₹ 5.00 lakh per MW). We observed that since 2004, no revisions were made in the amount of SD for the consumer. As per the rate of SD applicable with effect from 1 April 2011, the Department was required to collect total SD of ₹ 11.17 crore (i.e. SD at the rate of ₹ 0.3191 crore per MW for 35 MW). Hence, there was short collection of SD from SMS to the extent of ₹ 9.42 crore by the Department.

Case II: Similarly, the Department sanctioned (August 2009) the load of 2 MW in favour of North Eastern Electric Power Corporation Limited (NEEPCO) under Bulk Supply category and also collected the SD of ₹ 10.00 lakh as per the applicable rate of ₹ 5.00 lakh per MW. Subsequently, the sanctioned load of NEEPCO was enhanced (September 2009) to 4 MW. Further, the per MW rate of SD for Bulk Supply category was also revised to ₹ 0.3191 crore per MW of sanctioned load with effect from 1 April 2011. Accordingly, the Department was required to collect total SD of ₹ 1.28 crore against enhanced sanctioned load of 4 MW. Thus, there was short collection of SD from NEEPCO to the extent of ₹ 1.18 crore.

Thus, the Department failed to level up the SD amount as per the revised rates leading to short collection of SD by ₹ 10.60 crore in two cases.

We, however, could not work out the actual financial impact in the cases of the rest of the consumers due to non-maintenance of consolidated data on collection of security deposit by the Department.

The above issues were reported (August 2011) to the Government/Department; their replies had not been received (November 2011).

DEPARTMENT OF FINANCE

5.5 Non-compliance with the provisions of the Companies Act

Non compliance with the Provisions of the Companies Act, 1956 by the State Government companies in holding minimum number of Board's meetings, placement of audited accounts in Annual General Meetings, etc.

The primary duty of the Board of Directors (BOD) of Companies is to ensure compliance to the provisions of law, accountability and the transparency expected by stakeholders. For this purpose, every Company should hold BOD meetings at regular intervals. Section 285 of the Companies Act, 1956, (Act) provided that a BOD meeting should be held at least once in three calendar months and at least four such meetings should be held every year. We observed that one working Company* had conducted only eight BOD meetings during the last five years from 2006-07 to 2010-11 with a time gap of 1 to 46 months and the time gap in the case of the other four† working Companies varied from 1 to 10 months.

Section 166 of the Act provided for every Company to hold an Annual General Meeting (AGM) and not more than fifteen months should elapse between the date of one AGM and the next AGM. Section 210 of the Act also required the BOD to lay the audited accounts of the company along with their Statutory Auditors' Report thereon and comments of the Comptroller and Auditor General of India and other specified documents in the AGM within six months from the close of the financial year i.e. by 30 September. Default in holding a meeting was punishable under Section 168 of the Act. We noticed as of September 2011, accounts of all the five working Companies were in arrears from 1 to 15 years. Further, the time gap in holding the AGM by these Companies varied from 1 to 73 months during the last five years from 2006-07 to 2010-11 as shown in the **Appendix 5.6**.

By not following the provisions Section 166 of the Act, we observed that the BOD of the State Government companies were not reporting to the shareholders about maintenance of adequate accounting records in accordance with the provisions of the

* *Arunachal Pradesh Mineral Development and Trading Corp. Ltd.*

† *Hydro Power Development Corporation of Arunachal Pradesh Ltd, Arunachal Pradesh Forest Corp. Ltd., Arunachal Pradesh Industrial Development & Financial Corp. Ltd., Arunachal Police Housing & Welfare Corp. Ltd.*

Act for safeguarding the assets of the Company, prevention and detection of fraud and other irregularities by way of Board's Report and Director's Responsibility Statement required to be attached with the audited accounts under Section 217 and 217(2AA) of the Act for placement in the AGM.

The matter was reported (November 2011) to the Government/Management of the concerned PSUs; their replies had not been received.

**Itanagar
The**



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Accountant General
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The**



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