CHAPTER-IV

ECONOMIC SECTOR
(STATE PUBLIC SECTOR UNDERTAKINGS)

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

4.1 Overview of State Public Sector Undertakings (SPSUs)

Audit of Government Companies is governed by Section 619 of the Companies Act, 1956. The accounts of the State Government Companies are audited by Statutory Auditors appointed by Comptroller and Auditor General (CAG) of India. These accounts are also subject to Supplementary Audit conducted by CAG. As on 31 March 2013, the State of Mizoram had six working SPSUs (all Companies), employing 265[1] employees.

These SPSUs registered a turnover of ₹ five crore for 2012-13 as per the latest finalised accounts. This turnover was equal to 0.06 *per cent* of State GDP indicating insignificant place in the State economy. The SPSUs incurred a loss of ₹ 3.67 crore and had accumulated losses of ₹ 51.34 crore as per their latest finalised accounts.

Investment in SPSUs

The Investment (Capital and Long Term Loans) in six SPSUs had increased from ₹ 92.96 crore (2007-08) to ₹ 94.07 crore (2012-13), *i.e.* an increase of 1.20 *per cent*.

Performance of SPSUs

Five SPSUs were incurring losses continuously during the period between 2007-08 and 2012-13. Zoram Industrial Development Corporation Limited (ZIDCO) ranked first among the SPSUs in incurring losses followed by Mizoram Food and Allied Industries Corporation Limited (MIFCO) during this period.

The losses of SPSUs are mainly attributable to the deficiencies in financial management, planning, implementation and monitoring of projects. A review of two latest Audit Reports of CAG shows that the SPSUs incurred losses to the tune of ₹ 38.16 crore which were avoidable. There was tremendous scope to improve the functioning of SPSUs and reduce the losses. The SPSUs can discharge their role efficiently if they are financially self-reliant. There was a need for professionalism and accountability in the functioning of SPSUs.

Arrears in Accounts

Six working SPSUs had 30 accounts in arrears as of September 2013.

[1] Affairs of one Company *viz.* Mizoram Mineral Development Corporation Limited are being managed by Zoram Industrial Development Corporation Limited

Introduction

4.1.1 The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Mizoram, the SPSUs occupy insignificant place in the State economy. The SPSUs registered a turnover of ₹ five crore for 2012-13 as per their latest finalised accounts as of September 2013. This turnover was equal to 0.06 *per cent* of State Gross Domestic Product (GDP) for 2012-13. The SPSUs incurred an overall loss of ₹ 3.67 crore during 2012-13 as per their latest finalised accounts as of 30 September 2013. They had employed 265 employees as of 31 March 2013. The SPSUs do not include three Departments[2] of the State Government, which carry out operations of commercial nature.

4.1.2 As on 31 March 2013, there were six Government Companies (Five working with one[3] yet to start commercial operation) and no Statutory Corporation in the State of Mizoram. No Company was listed in the stock exchange(s).

Audit Mandate

4.1.3 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. A Government 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.

4.1.4 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 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.

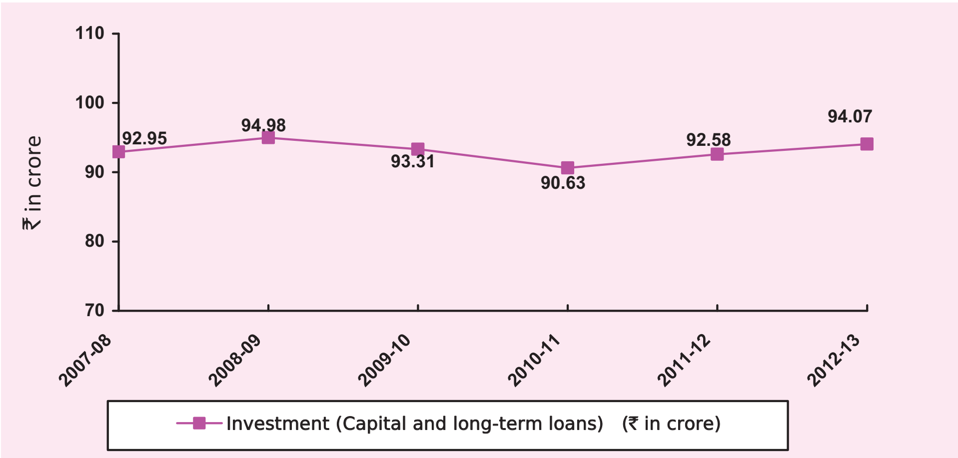
Investment in SPSUs

4.1.5 As on 31 March 2013, the Investment (Capital and long-term loans) in the six SPSUs was ₹ 94.07 crore – Capital ₹ 63.14 crore and Long term Loans ₹ 30.93 crore.

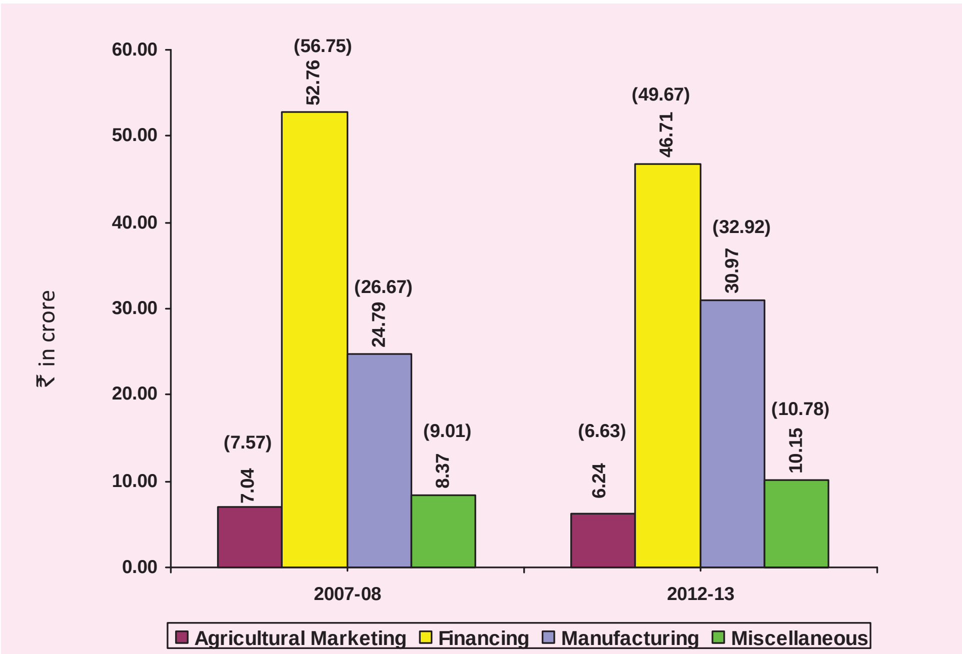
A summarised position of Government investments in SPSUs is detailed in **Appendix-4.1.1.**

[2] (i) Power & Electricity, (ii) Food, Civil Supplies & Consumer Affairs and (iii) Transport
[3] Mizoram Mineral Development Corporation Limited

4.1.6 As on 31 March 2013, the total investment in the six working SPSUs was ₹ 94.07 crore. This total Investment consisted of 67.12 *per cent* towards capital and 32.88 *per cent* in long term loans. The investment has increased by 1.20 *per cent* from ₹ 92.95 crore in 2007-08 to ₹ 94.07 crore in 2012-13 as shown in the graph below:



4.1.7 The total investment in various sectors and percentage thereof at the end of 31 March 2008 and 31 March 2013 are indicated below in the bar chart:



(Figures in brackets show the percentage of sector investment to total investment)

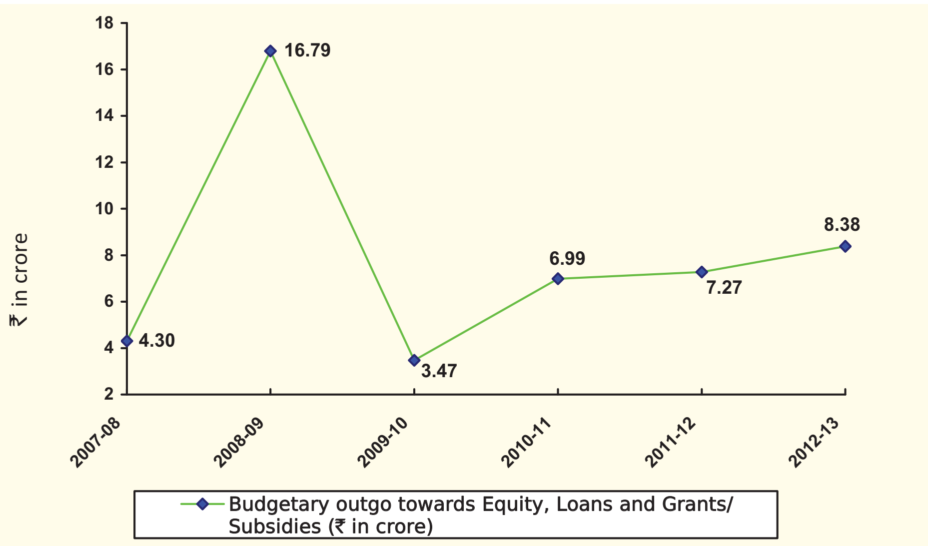
4.1.8 The increase in total Investment was mainly due to increase in Equity in Manufacturing (₹ 6.18 crore) and in Miscellaneous (₹ 1.78 crore) sectors.

Budgetary outgo, Grants/Subsidies, Guarantees and Loans

4.1.9 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued in respect of SPSUs are given in **Appendix-4.1.2**. The summarised details for three years ended 31 March 2013 are given below:

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of SPSUs	Amount (₹ in crore)	No. of SPSUs	Amount (₹ in crore)	No. of SPSUs	Amount (₹ in crore)
1.	Equity Capital outgo from budget	3	1.67	2	1.40	1	1.27
2.	Loans given from budget	1	0.63	-	-	-	-
3.	Grants/Subsidy received	3	4.69	3	5.87	2	7.11
4.	Total Outgo	5	6.99	5	7.27	6	8.38
5.	Guarantee Commitment	2	15.13	1	19.40	1	23.08

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



As on 31 March 2013, Guarantees amounting to ₹ 23.08 crore were outstanding against Zoram Industrial Development Corporation Limited. No Guarantee fee/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 during this year.

Reconciliation with Finance Accounts

4.1.11 The figures in respect of equity, loans and guarantees outstanding as *per* records of SPSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned SPSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2013 is stated below.

(₹ in crore)

Outstanding in respect of	Amount as *per* Finance Accounts	Amount as *per* records of SPSUs	Difference
Equity	4.13	63.14	(-) 59.01
Loans	Nil	30.93	(-) 30.93
Guarantees	Nil	23.08	(-) 23.08

4.1.12 Audit observed that the differences occurred in respect of all SPSUs for which reconciliation have been pending for more than ten years. The Principal Accountant General appraised the matter to the Chief Secretary, Government of Mizoram, Administrative Departments of respective SPSUs and the Managing Directors of SPSUs periodically and had drawn their attention to the need to reconcile figures as appearing in Finance Accounts and in their respective accounts. However, no significant progress was noticed in this regard. As such, the Government and the SPSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of SPSUs

4.1.13 The financial results of SPSUs for the latest year in which the accounts were finalised are detailed in **Appendix-4.1.3.** A ratio of SPSUs turnover to State GDP shows the extent of SPSU activities in the State economy. Table below provides the details of working SPSUs turnover and State GDP for the period 2007-08 to 2012-13.

(₹ in crore)

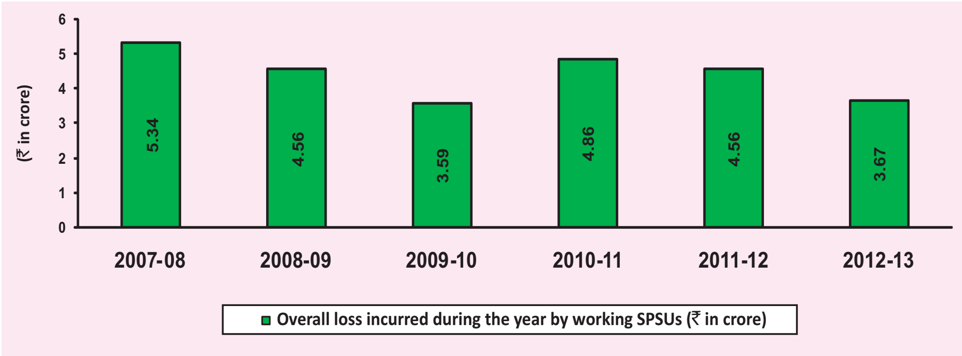
Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Turnover[4]	1.79	2.41	1.45	1.72	1.57	5.00
State GDP[5]	3815.51	4577.11	5283.93	6057.70	6991.40	8053.09
Percentage of Turnover to State GDP	0.05	0.05	0.03	0.03	0.02	0.06

4.1.14 It can be seen from the above Table that the percentage of turnover to State GDP had progressively declined from 0.05 *per cent* in 2008-09 to 0.02 *per cent* in 2011-12. However, the same had increased to 0.06 in 2012-13.

4.1.15 Losses incurred by SPSUs (all working) during 2007-08 to 2012-13 are given below in the bar chart.

4 Turnover as per the latest finalised accounts as of 30 September 2013

5 The final figure of State GDP was provided by the Economic and Statistics Department of State Government has been adopted



The five SPSUs were incurring losses continuously during the period between 2007-08 and 2012-13. Zoram Industrial Development Corporation Limited (ZIDCO) was on the top of the list of SPSUs incurring losses followed by Mizoram Food and Allied Industries Corporation Limited (MIFCO) during this period.

The Losses of SPSUs are mainly attributable to deficiencies in financial management, planning, implementation and monitoring of projects. A review of two latest Audit Reports of CAG shows that the SPSUs incurred controllable losses to the tune of ₹ 36.47 crore and Infructuous Investment of ₹ 1.69 crore. Year-wise details from Audit Reports are stated below:

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	Total
Net loss of working SPSUs	4.86	4.56	3.67	13.09
Controllable losses as per CAG's Audit Report	26.27	10.20	-[6]	36.47
Infructuous Investment	-	1.69	-	1.69

4.1.16 The above losses pointed out in Audit Reports of CAG are based on test check of records of SPSUs. The actual controllable losses would be much more. The above Table shows that with better management, the losses can be minimised. The SPSUs cannot discharge their role efficiently as they are not financially self-reliant. The above situation also points towards a need for professionalism and accountability in the functioning of SPSUs.

4.1.17 Some other key parameters pertaining to SPSUs are given below:

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Return on Capital Employed (*per cent*)	NIL	NIL	NIL	NIL	NIL	NIL
Debt	34.53	33.65	30.30	30.93	30.93	30.93
Turnover[7]	1.79	2.41	1.45	1.72	1.57	5.00
Debt/Turnover Ratio	19.29:1	13.96:1	20.90:1	17.98:1	19.70:1	6.19:1
Interest Payments	2.14	2.18	2.18	0.30	0.30	0.30
Accumulated losses	33.30	40.23	43.45	49.20	50.58	51.34

6 No Performance Audit of any SPSU was conducted during the year

7 Turnover of working SPSUs as per the latest finalised accounts as of 30 September 2013

4.1.18 As per the latest finalised accounts as of 30 September 2013, the capital employed in six working companies in the State worked out to ₹ 117.74 crore. Despite increase in capital employed[8], Return on Capital Employed had not shown any significant improvement. Five SPSUs were incurring losses continuously over the years. Consequently, accumulated losses steadily increased from ₹ 33.30 crore in 2007-08 to ₹ 51.34 crore in 2012-13.

4.1.19 None of the SPSUs had declared any dividend during the year.

Arrears in finalisation of accounts

4.1.20 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 SPSUs in finalisation of Accounts by September 2013.

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Number of Working SPSUs	5	5	5	6	6
2.	Number of Accounts finalised during the year	6	11	8	1	2
3.	Number of Accounts in arrears	29	27	24	26	30
4.	Average arrears *per* SPSU (3/1)	5.80	5.40	4.8	4.33	5
5.	Number of Working SPSUs with arrears in Accounts	5	5	5	6	6
6.	Extent of arrears in years	1 to 10	1 to 10	1 to 11	1 to 12	1 to 11

4.1.21 The reasons for delay in finalisation of Accounts are attributable to (i) lack of required control over the Companies by Government and (ii) abnormal delay in compilation/ approval of the accounts and delayed submission of the same to the Statutory Auditors by the Management.

4.1.22 The State Government had invested ₹ 27.33 crore (Equity: ₹ 11.07 crore, Loans: ₹ 0.63 crore and Grants: ₹ 15.63 crore in six SPSUs) during the years[9] for which accounts have not been finalised as detailed in **Appendix-4.1.4.** In the absence of finalisation of accounts and their subsequent audit, it cannot 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 SPSUs remained 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.

[8] ₹ 79.47 crore as on 31 March 2012

[9] From 2002-03 to 2012-13

4.1.23 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 SPSUs within the prescribed period. Though the Principal Accountant General (PAG) had brought the position of arrears of Accounts to the notice of the concerned Administrative Departments and officials of the Government periodically, no remedial measures were taken. As a result of this, the Net Worth of these SPSUs could not be assessed in audit. The PAG had raised these concerns with the Chief Secretary/Finance Secretary periodically to expedite the clearance of arrears in finalisation of Accounts in a time bound manner.

4.1.24 ***In view of the above state of arrears, it is recommended that the Government should monitor and ensure timely finalisation of the accounts with special focus on liquidation of arrears and comply with the provisions of the Companies Act, 1956.***

Accounts Comments and Internal Audit

4.1.25 *Two* working Companies forwarded their four audited Accounts to PAG during the year 2012-13. They were selected for Supplementary Audit. The audit reports of Statutory Auditors, appointed by the 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	2010-11		2011-12		2012-13	
		No. of accounts	Amount (₹ in crore)	No. of accounts	Amount (₹ in crore)	No. of accounts	Amount (₹ in crore)
1.	Increase in loss	2	0.23	-	-	-	-
2.	Decrease in loss	4	1.83	4	2.36	1	1.80
3.	Non-disclosure of material facts	1	4.55	-	-	1	0.63
4.	Errors of classification	5	9.07	1	0.17	1	0.27
5.	General	8	61.25	4	9.02	1	0.01

4.1.26 During the year 2012-13, the Statutory Auditors had given qualified certificates for the accounts of the two companies. The compliance Accounting Standards (AS) by the companies remained poor. There were four instances of non-compliance of AS in the two accounts during the year.

Reforms in Power Sector

4.1.27 ***A 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 2013
1.	Corporatisation of the Electricity Department by 2006-07	Power & Electricity Department (P&ED) is not yet corporatised
2.	State Government to set up State Electricity Regulatory Commission (SERC)/Joint Electricity Regulatory Commission (JERC) by December 2003 and file tariff petition	JERC was constituted in February 2008 with the objective of realisation of electricity tariff, advising in matters relating to electricity generation, transmission, distribution and issue of licenses The Department filed ARR and Tariff Petition for the year 2013-14 in March 2013 and due to late filing, JERC decided that the prevailing tariff be followed and the ARR and Tariff Petition for FY 2013-14 be retained for future reference only
3.	State Government to ensure timely payment of subsidies required in pursuance of orders on the tariff determined by JERC	The State Government had not released subsidy amounting to ₹ 115 crore and ₹ 187.66 crore payable by it as per Tariff Orders for the years 2010-11 and 2012-13 respectively issued by JERC
4.	100 *per cent* electrification of villages by 2003	100 *per cent* electrification of villages was not achieved till 31 March 2013
5.	Suitable policy provisions to 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 for handing over parts of distribution system on management contract or on lease to local bodies was yet (March 2013) to be formulated by the State Government
6.	Setting up of computerised billing centre by July 2003	Computerised billing systems have been set up in 7 divisions out of 20 divisions

4.1.28 The operational performance of the Power and Electricity Department during the last three years upto 2012-13 is given in **Appendix-4.1.5**.

The total expenditure on power purchase during the three years 2010-11, 2011-12 and 2012-13 was ₹ 230.79 crore, ₹ 370.26 crore and ₹ 305.80 crore as against the revenue of ₹ 72.36 crore, ₹ 112.06 crore and ₹ 92.61 respectively.

The percentage of transmission and distribution (T&D) losses were as high as 27.24 *per cent* in 2010-11, 31.74 *per cent* in 2011-12 and 26.73 *per cent* in 2012-13 as against the norm of 15.50 *per cent* fixed by the Central Electricity Authority. During the year 2012-13, the excess T&D losses over the norms were 52.16 million units costing ₹ 10.43 crore (worked out at average revenue realisation rate of ₹ two *per* unit for the year 2012-13).

State Trading Scheme

4.1.29 During the year 2012-13, no Proforma Accounts relating to the arrear years (2005-06 to 2012-13) were finalised by the Department.

Mizoram State Transport

4.1.30 The operational performance of Mizoram State Transport (MST) for the three years ended 31 March 2013 is given in **Appendix-4.1.6.**

PERFORMANCE AUDIT

POWER & ELECTRICITY DEPARTMENT

4.2 Implementation of Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)

Highlights

The Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched in April 2005 which aimed at providing access to electricity to all rural households (RHHs) and improving the rural electricity infrastructure in the country in five years. The Government of India (GoI) provides 90 per cent capital subsidy under the Scheme and the remaining 10 per cent is contributed by the State Governments. In Mizoram, the Scheme is being executed (since September 2008) on turnkey basis and was targeted to be completed by March 2010. A performance audit of the Scheme brought out the following significant audit findings:

Frequent revisions of estimates in preparation of DPR resulted in delay in execution of the Scheme.

Paragraph 4.2.8

Award of consultancy work on a nomination basis and in proportion to the contract value resulted in avoidable consultancy charges of ₹ 5.35 crore.

Paragraph 4.2.10.2

Cases of delay in rectification of defects by Turnkey Contractors were noticed, which resulted in delay in implementation of the scheme.

Paragraph 4.2.10.5

Materials valuing ₹ 4.86 crore claimed to have been dispatched by Turnkey Contractors were not received.

Paragraph 4.2.10.7

4.2.1 Introduction

The National Electricity Policy, was formulated (February 2005) by the Government of India (GoI), with the key objective to provide access of electricity to all households in the next five years as mandated in Section 6 of the Electricity Act, 2003. Accordingly, the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched by the Government of India in April 2005 to provide access to electricity to all rural households in five years. Under the Scheme, target was to electrify 1.25 lakh unelectrified villages (as *per* new definition) and to give electricity connection free of cost to 2.34 crore BPL households by 2009.

The Scheme was to be implemented during 2005-2009 (by March 2009) under the 10th and 11th plan periods (2002-07 and 2007-12 respectively).

The then ongoing Schemes for rural electrification *viz.* Kutir Jyoti Programme and Accelerated Rural Electrification Programme were, therefore, merged with RGGVY. Under the Scheme, 90 *per cent* of the cost of projects was to be provided by GoI as capital subsidy and the remaining 10 *per cent* was to be contributed by the States through their own resources/loan.

The main objectives of RGGVY were to:

- Electrify all villages and habitations;
- Provide electricity to all households;
- Give electricity connection to Below Poverty Line (BPL) households free of charge;
- Accelerate rural development, generate employment and eliminate poverty through irrigation, small scale industries, cold chains, healthcare, education and IT; and
- Bridge the urban-rural gap and provide reliable and quality power supply to rural areas.

GoI designated Rural Electrification Corporation Limited (REC) (a GoI undertaking) as the nodal agency for implementation of RGGVY and financing the projects. Besides financing the projects by way of subsidy/loans, REC had the prime responsibility for implementation, meeting the Scheme related expenditure, appraisal and evaluation of projects both at pre-award and post-award stages, monitoring and complete supervision for quality control of the projects. In the State of Mizoram, Power and Electricity Department (P&ED) was responsible for implementation of the RGGVY.

The approved (August 2008) RGGVY Scheme in the State aimed at electrification of 707 villages during 10th and 11th Five Year Plan periods covering 44,334 RHHs (including 27,417 BPL households) at a cost of ₹ 267.95 crore. Additional quantity variation to the tune of ₹ 48.61 crore was also approved (March 2013) by REC. Thus, the total cost of the Scheme was ₹ 316.56 crore as on March 2013.

The position of the RGGVY as on 31 March 2013 was as under:

District	Total No. of Villages	Total No. of Villages targeted for electrification upto 31 March 2013			Total No of villages electrified under RGGVY upto 31 March 2013			Percentage of electrified villages
		UEV*	DEV* & IEV*	Total	UEV*	DEV* & IEV*	Total	
1	2	3	4	5	6	7	8	9
South Package								
Saiha	68	7	61	68	5	19	24	35
Lawngtlai	139	19	120	139	46	58	104	75
Lunglei	160	5	155	160	17	97	114	71
Serchhip	32	0	32	32	0	27	27	84
North Package								
Champhai	85	2	83	85	9	22	31	36
Aizawl	109	3	106	109	6	46	52	48
Mamit	82	1	81	82	6	52	58	71
Kolasib	32	5	27	32	5	25	30	94
Total	**707**	**42**	**665**	**707**	**94**	**346**	**440**	

Source: Departmental records

* *UEV: Un-Electrified Villages; DEV: De-Electrified Villages; IEV: Intensive Electrified Villages*

It could be seen from the above Table that against the target of electrification in 707 villages under the RGGVY, the Department was able to cover electrification in 440 villages as on 31 March 2013. The District-wise achievement of the targets of electrification under RGGVY in the State ranged between 35 *per cent* (Saiha District) and 94 *per cent* (Kolasib District). However, out of 440 villages where electrification was completed, the contractors had handed over only 200 villages to the Department.

Further, out of targeted electrification of 44,334 RHHs (including 27,417 BPL households) in 707 villages, the Department had completed electrification of only 15,144 BPL HHs. The Department had not been able to electrify any of the non-BPL HHs as on 31 March 2013.

4.2.2 Organizational Set-Up

The RGGVY is implemented by Power and Electricity Department (P&ED), Government of Mizoram (GoM) which is under the Administrative control of the Commissioner/Secretary of the P&ED. The Department is headed by the Engineer-in-Chief as functional head who is assisted by the Chief Engineer (Rural Electrification) as nodal officer to implement the Scheme. The Chief Engineer (Rural Electrification) is assisted by one Superintending Engineer and two Executive Engineers.

4.2.3 Scope of Audit

The Performance Audit on RGGVY was conducted during July-August 2013, with a view to assess the performance of P&ED in implementation of the Scheme during the period 2008-09 to 2012-13. The audit examination involved scrutiny of records of the Administrative Head of the Department, the Engineer-in-Chief and the Chief Engineer (Rural Electrification). Out of eight Districts, three Districts *viz.* Aizawl, Lunglei and Saiha were selected for beneficiary survey. In these three Districts, two Blocks each were selected covering five villages with five households in each village.

4.2.4 Audit objectives

The Performance Audit was undertaken to ascertain that:

- an efficient and effective plan for implementation of RGGVY Scheme was devised and implemented;
- the funds were sanctioned/received and were put to effective use in time;
- effective monitoring and supervising mechanism was in place; and
- the intended objectives of RGGVY were achieved and evaluation was done to find out how far rural populace was benefited.

4.2.5 Audit criteria

Audit adopted the following criteria derived from the following sources for assessing the performance of Scheme:

- Instructions/circulars/orders issued by MoP.
- Records relating to the further releases by REC.
- Approved Detailed Project Reports.
- Bipartite agreement among REC and GoM.

4.2.6 Audit methodology

The audit objectives, audit criteria and scope of the performance audit and audit methodology were discussed in the Entry Conference (August 2012) with the Under Secretary, Chief Engineer (Rural Electrification) and Superintending Engineer (Rural Electrification) of Power & Electricity Department, Government of Mizoram. Audit findings were discussed in the exit conference (October 2013) which was attended by Commissioner/Secretary, Engineer-in-Chief, Chief Engineer (Rural Electrification), Superintending Engineer (Rural Electrification) of Power & Electricity Department. The replies of the Government are suitably incorporated in the report at appropriate places.

4.2.7 Audit findings

The important points noticed during the Audit are discussed in the following paragraphs.

Audit Objective: An efficient and effective plan for implementation of RGGVY Scheme was devised and implemented.

4.2.8 Planning

Power and Electricity Department (P&ED), Government of Mizoram entered into a bipartite agreement with Rural Electrification Corporation Limited (REC) (August 2005) to implement the projects in the State under RGGVY. As per the Scheme, REC had to finance the sanctioned projects and release funds on the specific request from the Department. P&ED was responsible for project formulation, their development and implementation in the identified areas involving system planning, design, engineering and procurement. P&ED was to ensure that the following would be put in position before the project is completed:

- Deployment of Franchisees for the management of rural distribution in projects financed under the Scheme.
- Ensuring commercial viability of the franchisees by determining bulk supply tariff (BST) for the franchisees and providing requisite revenue subsidy as per the Electricity Act, 2003.
- Adequate supply of electricity without any discrimination in the hours of supply between rural and urban households.

4.2.8.1 Delay in notification of State Level Rural Electrification Plan

The Ministry of Power (MoP), GoI notified (August 2006) the Rural Electrification Policy with the aim of providing access to electricity to all households by the year 2009. As per the Rural Electrification Policy, the State Governments were to prepare and notify a Rural Electrification Plan (RE Plan) within six months of notification of the Rural Electrification Policy (*viz.* by February 2007). The requirement of notifying the RE plan by State Governments in consultation with MoP was reiterated in the Office Memorandum (OM) issued (February 2008) by MoP, GoI on sanction of continuation of RGGVY in the 11th Five year plan. The RE Plan was to be the roadmap for generation, transmission, sub-transmission and distribution of electricity in a State so as to ensure achievement of the objectives of the Scheme within the stipulated time frame. As per the said OM of MoP, in case the RE plan of any State is not notified within the stipulated period, the capital subsidy provided under the Scheme was to be converted into interest bearing loan. MoP issued (April 2008) draft template for RE plan which included plans to energize villages being electrified under RGGVY and strengthening of sub-transmission system to cater to additional load after electrification of villages.

It was observed that although the P&ED submitted the RE plan for the State in April 2007, the Government of Mizoram (GoM) notified the same in June 2008 *i.e.* after a delay of 15 months.

Thus, due to delay in notifying RE plan of the State, sanction of projects by REC got delayed which ultimately resulted in non-completion of the RGGVY within the scheduled period (March 2010).

While accepting the facts, the Government stated (November 2013) that due to postal delays in receipt of policy instructions from GoI and revised sample for RE plan from GoI, notification was delayed.

4.2.8.2 Frequent revisions of estimate for preparation of DPR

The P&ED submitted (June 2005) request for sanction of financial assistance of ₹ 561.06 crore for Rural Electrification Projects, covering all the eight Districts in the State, under RGGVY to the REC. REC, however, requested (August 2005) for revision and preparation of the DPRs District-wise as the proposals were not in accordance with the RGGVY Guidelines, and, accordingly P&ED submitted (September 2005) District-wise DPRs with a revised cost estimate of ₹ 539.14 crore.

Against the above estimate, REC accorded (January 2006) sanction of ₹ 38.20 crore for two Districts[10] under 10th Five Year Plan and ₹ 64.24 crore (December 2006) for the balance six Districts[11] under 11th Five Year Plan. The total sanctioned Project Cost worked out to ₹ 102.44 crore as against the original estimated cost (as *per* DPRs) of ₹ 539.14 crore since several works estimated at ₹ 178.12 crore *viz.* seven Nos. of Small Hydel Projects intended for Decentralised Distributed Generation, five Nos. of 33/11 KV Sub-Stations, Computerisation, Reconductoring of 33 and 11 KV Lines *etc.* included in the DPRs were dropped by REC.

The Department again revised (March 2008) Project Cost Estimate to ₹ 232.10 crore taking into account price escalation, extra cost required for execution of the projects on turnkey basis as suggested by REC, liability towards Service Tax & Mizoram Value Added Tax, Consultancy Service Charges, Permissible Overhead Expenses *etc.* The estimate was again (August 2008) enhanced to ₹ 267.95 crore incorporating cost of consultancy charges. REC accorded approval to the project cost of ₹ 267.95 crore in August 2008.

After 21 months from the date of award (September 2008) of the works, the project estimate was again revised (June 2010), to ₹ 353.27 crore due to quantity variation. Against this estimate, REC approved (March 2013), the project estimate at ₹ 316.56 crore.

It was observed that inspite of clear guidelines for RGGVY, the Department frequently made changes in the estimate of works in the DPRs. The non-adherence to the RGGVY guidelines for framing up the DPRs for the Scheme resulted in curtailment of various items in the DPRs by REC which necessitated frequent changes before final approval by

[10] Saiha District - ₹ 13.13 crore and Lawngtlai District - ₹ 25.07 crore

[11] Kolasib District - ₹ 3.98 crore, Serchhip District - ₹ 2.19 crore, Champhai District - ₹ 9.74 crore, Aizawl District - ₹ 19.93 crore, Lunglei District - ₹ 16.68 crore and Mamit District - ₹ 11.72 crore

the nodal agency *viz.* REC. This had consequently delayed the execution of RGGVY in the State.

In reply, the Department stated that fresh guidelines/new instructions for the manner of preparing the DPR were issued by the Ministry of Power, GoI and REC necessitating the need for recasting the DPRs.

While fresh instructions were issued after notifying the RGGVY Scheme for minor changes, the fact remained that REC had issued detailed guidelines regarding project formulation, specification and construction standards, franchise development, standard bidding documents *etc.* regarding the Scheme in April 2005. Non-adherence to these guidelines had resulted in drastic reduction in estimates from ₹ 539.14 crore to ₹ 316.56 crore.

Thus, non-adherence to the RGGVY guidelines for project implementation resulted in frequent changes in the DPRs which led to delay in completion of the project.

4.2.8.3 DPR prepared without field survey

As per the Ministry of Finance directions, it is essential that a base-line survey be undertaken in case of large, beneficiary-oriented projects. Such survey would assist in proper planning and formulation of DPRs prior to implementation. The guidelines issued by REC for the implementation of the Scheme also provided that the State Governments should assess the quantum of work required to achieve the objective of the Scheme. REC prescribed a model DPR to ensure technical justification and financial viability of each project. The DPRs were to indicate the 'present' status of village/habitation electrification, BPL household electrification, and public places *etc.* Such data would have been available only from a field survey.

Audit observed that no such survey was conducted prior to preparation of DPR (June 2005). As a result, the number of BPL connections as considered in the original DPR underwent a substantial change. This was reflected from the fact that as against the 10,413 BPL households proposed for electrification in the original DPR, the BPL households targeted for electrification as on 31 March 2013 was revised to 27,414. Similarly, as against 44,334 RHHs targeted for electrification under the Scheme, the original DPR had included only 18,462 RHHs for electrification.

Audit Objective: Funds were sanctioned/received and were put to effective use in time.

4.2.9 Financial Performance

4.2.9.1 Release and Utilisation of Funds

The position of funds received under the Scheme for rural electrification *vis-à-vis* their utilisation during the five years ending 31 March 2013 is depicted in **Table-4.2.1:**

Table-4.2.1

(₹ in crore)

Year	Opening balance as on 1 April	Funds received during the year	Total available fund	Funds Utilised	Closing balance as on 31 March of respective year
2008-09	NIL	78.31	78.31	43.81	34.50
2009-10	34.50	81.03	115.53	85.23	30.30
2010-11	30.30	70.28	100.58	61.39	39.19
2011-12	39.19	7.99	47.18	37.01	10.17
2012-13	10.17	0.01	10.18	6.65	3.53
Total		**237.62**		**234.09**	

Source: Departmental records

As seen from the Table above, as against the total Scheme funds aggregating ₹ 237.62 crore received during the period from 2008-09 to 2012-13, the P&ED utilised an amount of ₹ 234.09 crore as on 31 March 2013.

Audit Objective: Intended objectives of RGGVY were achieved and evaluation was done to find out how far rural populace was benefited

4.2.10 Project and Contract Management

4.2.10.1 Overview

Projects under RGGVY have been formulated district-wise covering all the eight Districts in the State. The work was divided into two packages – North (Districts of Mamit, Kolasib, Aizawl & Champhai) and South (Districts of Lunglei, Lawngtlai, Serchip, & Saiha) and awarded to two contractors (September 2008) on turnkey basis at a total contract price of ₹ 248.21 crore to be completed within 18 months from the date of Letters of Award (LoA) *i.e.* by March 2010. The scope of the works included (i) Design, Engineering, Manufacture, Assembly, Inspection, Supply & Delivery of material & equipment at site and (ii) Erection, Testing & Commissioning of material & equipment at site. The targets and achievements of electrification under RGGVY as on 31 March 2013 were as follows:

Table-4.2.2

Sl. No.	District	Electrification of un-electrified villages		Intensive electrification of electrified villages		No. of connections to BPL households	
		Coverage	Achieved	Coverage	Achieved	Coverage	Achieved
South Package							
1.	Saiha	15	5	53	19	2607	852
2.	Lawngtlai	68	46	71	58	3300	2353
3.	Lunglei	22	17	138	97	5318	4206
4.	Serchhip	0	0	32	27	300	285
North Package							
5.	Champhai	9	9	76	22	7096	1434
6.	Aizawl	11	6	98	46	3173	1965
7.	Mamit	7	6	75	52	4008	2535
8.	Kolasib	5	5	27	25	1615	1514
Total		**137**	**94**	**570**	**346**	**27417**	**15144**
Percentage of achievement			**68.61**		**60.70**		**55.23**

From the above Table, it is clear that the achievement against the target of providing intensive electrification of villages was to the extent of 60.70 *per cent* while the achievement against the objective of providing connection to BPL households was 55.23 *per cent* only. Though the entire project was to be completed by March 2010, the progress of work on project was not as desired. The achievement is likely to be further delayed as P&ED had extended the contract period of the turnkey contractors for RGGVY in the State twice. After non-achievement of the first target date for completion of RGGVY in the State (December 2012), the P&ED has extended the scheduled date of completion of the turnkey contracts for the Scheme upto March 2014.

Some of the reasons for non-achievement of 100 *per cent* electrification of the villages by March 2010 were: delay in preparation of DPRs and filing application for sanction of projects and financial assistance, delay in completing re-survey and getting quantity variation proposal sanctioned by REC, delay in finalsation of BPL list *etc.*

Audit observed that with better planning and management of the Scheme in the State, these factors could have been controlled and delay in the completion of the Scheme in the State could have been avoided.

While accepting the facts, the State Government stated (November 2013) that the REC has taken more than two years to sanction the Quantity Variation proposal which was the main reason for not being able to complete the works as *per* schedule.

4.2.10.2 Contract for Consultancy Services without following due procedures

Rule 149 of the General Financial Rules (2005) and Central Vigilance Commission's (CVC) guidelines (July 2007) provide that tendering process was a basic requirement for award of contract by any Government agency as any other method, especially award of contract on nomination basis would amount to breach of Article 14 of the Constitution of India guaranteeing right to equality to all interested parties.

P&ED appointed (March 2007) Mecon Limited (Mecon) as consultant to implement the RGGVY in the State in response to Mecon's request (letter dated 28 August 2006) for award of the consultancy work to it. The consultancy work was awarded to Mecon for a fee of six *per cent* of the project cost (₹ 102.44 crore at the time of award of consultancy work).

It was observed that though the scope of work of Mecon included consultancy services for preparation of technical specifications, tender documents, techno-commercial recommendation, draft contract documents, master PERT Network, monthly progress report, assisting in issue of work order/LOI and preparation of Project Completion Report for each package for all eight districts of the State, the award of work on nomination basis and in proportion to the project cost was not justified. As a result, when project cost was subsequently revised from ₹ 102.44 crore to ₹ 267.95 crore, the consultancy charge had increased drastically, from ₹ 6.15 crore to ₹ 16.10 crore, although the increase in project cost did not result in extra work load on the consultant.

The substantial increase in consultancy charge forced the Department to negotiate the rates with the consultant and finally Mecon agreed to forego 3.5 *per cent* of the consultancy fee on increased project cost.

Thus, as a result of awarding the tender on nomination basis and faulty rate agreement with the consultant, the Department is likely to incur an avoidable expenditure of ₹ 5.35 crore (₹ 316.56 crore - ₹ 102.44 crore x 2.5[12] *per cent*).

While accepting the facts, the State Government stated (November 2013) that lump sum consultancy could have been better option.

4.2.10.3 Inclusion of Price Variation Clause after Finalization of tender

P&ED invited (June 2007) Expression of Interest (EoI) for execution of RGGVY Projects in the State under two Packages - North and -South Package. Out of offer of six parties, the price bid of ₹ 253.73 crore submitted by the Consortium of T&T Projects Limited and Satnam Global Infra Projects Limited was the lowest.

Accordingly, the Department awarded (September 2008) the work for execution of the RGGVY Projects in the State to the Consortium Members (Package North to Satnam Global Infra Projects Limited and Package South to T&T Projects Limited) for ₹ 245.21 crore (less by ₹ 8.52 crore than the offer). The Department had awarded the contract at reduced cost as the Consortium had offered higher cost of providing free connection to BPL families by ₹ 8.52 crore in their tender. As per the letter of award, the above price for the projects was firm and price variations were allowed for line items only *viz.* AAAC Line Conductors only.

However, the contractors objected to award of the work for ₹ 245.21 crore instead of ₹ 253.73 crore as quoted by them in their tender. This compelled the Department to negotiate with the contractors' post-award of the work. After post-award negotiations, the parties accepted the reduced price of ₹ 248.21 crore on the condition that P&ED would allow Price Variation claims in respect of Letters of Award for both Supply and Erection.

Audit observed that the rate of standard cost of providing free connections to the BPL households as per RGGVY guidelines was mentioned in the tender documents. Therefore, the Department should have negotiated with the parties about the rate of providing free connections to the BPL households and in case of their non-acceptance, should have gone for re-tendering. Nothing was found on record to indicate that an effort was made to negotiate for Standard cost of providing free connections to BPL families before award of the work.

This had resulted in award of the work at a rate which was higher than the desirable rate by ₹ three crore. This lapse of the Department at the time of finalisation of tender compelled

[12] Agreed rate of six *per cent* minus forgone rate of 3.5 *per cent* on increased project cost

it to accept the inclusion of price variation clauses in Letters of Award/Agreements, after award of the work, the financial implication of which could exceed the price reduction extended by the parties.

The Government stated (November 2013), that as there was no claim of price variation from the contractors beyond the scheduled contract period (September 2010), the Department would treat price variation as 'closed'. The reply of the Department was not convincing as the Department had already extended the scheduled contract period and therefore the possibility of the Contractors raising the claims cannot ruled out. Moreover, the Department had already settled for rates which were higher than the Standard rates.

4.2.10.4 Delay in Appointment of TPIA

The RGGVY stipulated that a third party inspection agency (TPIA) shall be appointed by the Project Implementing Agency for inspection and evaluation of the work done under the Scheme. The TPIA would be responsible for ensuring that all the materials to be utilised and the workmanship conformed to the prescribed specifications.

P&ED appointed M/s Telecommunications Consultants of India Limited (TCIL) as the Third Party Inspection Agency (TPIA) for the RGGVY Projects in October 2009 *i.e.* after 12 months of issue (September 2008) of LoA to the Turnkey Contractors for the Projects. Thus, the works executed during the period from October 2009 to September 2009 were not monitored as per RGGVY guidelines.

4.2.10.5 Delay in rectification of defects by the Turnkey Contractors

The TPIA was also responsible for inspection of completed works as per REC quality control manual. Further, they were required to notify the defects and shortcomings in the works done by the Turnkey Contractors to P&ED after carrying out the specified inspection/quality checks and to conduct verification of rectification works carried out by the Turnkey Contractors and submit their reports thereon.

During the period September 2010 to March 2013, TPIA has conducted inspection of 270 villages and pointed out 1,751 defects/shortcomings. The Turnkey Contractors furnished Compliance Report (between August 2011 and November 2012) showing rectification of 1,435 such defects/shortcomings which was forwarded to the TPIA. However, the TPIA has not verified the rectification works in 115 villages carried out by the Turnkey Contractors and have not furnished their reports to P&ED till date (November 2013).

Audit also noticed instances where Turnkey Contractors had delayed (one to eleven months) rectification of defects/shortcomings pointed out in TPIA's Inspection.

While admitting the fact, the State Government stated (November 2013) that the matter was being pursued by the Department to solve the problem.

4.2.10.6 Delay in handing over of Villages where works have been declared as completed

A review of the progress of the completed works for the period ending March 2013 revealed that works in 440 villages (UEV/DEV – 94 and IEV – 346) out of 707 villages were completed. However, out of the 440 villages where works have been completed, 200 villages (UEV/DEV – 45 and IEV – 155) only have been handed over (November 2013) to the Department by the contractors. Reasons for delay in handing over the remaining villages were:

(i) Delay in rectification of defects pointed out by the TPIA by the Turnkey Contractors.

(ii) Delay in verification of compliance (rectification of defects/shortcomings) by the TPIA.

(iii) Work declared as completed by the Turnkey Contractors before it was actually completed.

(iv) Delay in inspection by the Electrical Inspectorate.

While accepting the facts, the State Government stated (November 2013) that this was an on-going process and more and more completed villages will be taken over after completing the necessary formalities.

4.2.10.7 Non-receipt of materials valuing ₹ 4.86 crore claimed to have been dispatched by Turnkey Contractors

As per Clause 7.3 of the Letters of Award (September 2008) issued to the Suppliers (i) Satnam Global Infraprojects Limited and (ii) T&T Project Limited, an interim payment of 70 *per cent* of the Ex-works price of materials/equipments shall be paid along with Freight and Insurance charges in full on storage at site and physical verification by the Engineer-in-Charge on submission of the following:

(i) Materials dispatch instruction issued by the Engineer-in-charge

(ii) Storage receipt voucher (SRV) issued by an officer not below the rank of Assistant Engineer or Junior Manager (Stores)

The Department, however, amended (May 2009) the above Letter of Award and deleted the important stipulations (i) & (ii) which provided for ascertaining the status of delivery of material at site.

Scrutiny of records revealed that the Contractors (Satnam Global Infraprojects Limited and T&T Project Limited) had submitted invoices for ₹ 143.22 crore being 70 *per cent* of ₹ 204.60 crore worth of materials stated to have been dispatched by them. The P&ED without ensuring whether the above material was received at site released (July 2011 & March 2012) an amount of ₹ 143.22 crore to the contractors.

However, materials worth ₹ 4.86 crore for which payments were released in March 2012, had not been received at site till date (November 2013).

Thus, lack of internal control coupled with injudicious amendment of the Letter of Award had resulted in release of payment amounting to ₹ 4.86 crore against the supply material which had not been received at site.

While accepting the facts, the State Government stated (November 2013) that the Department was pursuing the matter vigorously and is expected to settle it soon.

Audit objective: Effective Monitoring and Supervising mechanism was in place.

4.2.10.8 Non-Reconciliation of Accounts

As per Clause 50 of the General Conditions of Contract with the contractors "the contractor shall prepare and submit every three months a statement covering payments claimed and the payments received *vis-à-vis* the works executed for reconciliation of accounts with P&ED". The Contractors were also required to prepare and submit detailed accounts of owner issued materials received and utilised by them as a part of reconciliation exercise in a format to be discussed and finalised with the owner before the award of the contract.

Scrutiny of records revealed that no such reconciliation was being carried out by the Department. There was no system in place to ensure that (i) payments made for supplies, (ii) materials/equipments supplied, (iii) materials/equipments already utilised for project works and (iv) balance materials held, were duly reconciled.

The Government stated (November 2013) that availability of materials are checked from the reports submitted by the contractors and reconciliation will be done thoroughly at the time of closure of the projects. The reply of the Government is not acceptable as periodic reconciliation ensures that no excess payments have been made to the contractors. The settlement at the time of closure of projects becomes difficult in case the payments already exceed the cost of the project.

4.2.10.9 Deployment of Franchisees

The RGGVY Projects are eligible for Capital Subsidy under the Scheme, if State Government/Project Implementing Agency (PIA) comply with the following conditions:

(i) Deployment of Franchisees (which was not mandatory) for management of power distribution in rural areas covered under projects financed under the Scheme, and

(ii) Provision of requisite revenue subsidies to the State Utilities as required under Electricity Act, 2003.

The capital subsidy, however, will be converted into interest bearing loans if the PIA fails to comply with the above conditions.

To facilitate deployment of franchisees for management of power distribution in rural areas, REC (May 2006) had formulated detailed guidelines for franchisee management and the Ministry of Power, GoI (January 2008) had launched a 'National Programme' on Franchisee Capacity Building to impart training to franchisees and also to build a capable cadre of trainees within the Utilities/Departments to supplement this initiative.

P&ED conducted a Training Programme for prospective franchisees from different NGOs during March 2012. Other than this, P&ED had not taken any initiative for deployment of franchisees so far (November 2013).

While accepting the facts, the State Government stated (November 2013) that the commitment of the Department to establish and develop Franchisee system is firm and determined. As a matter of fact, it will take some more time to bring the system in place fully.

4.2.11 Impact Assessment

4.2.11.1 Significant observations made during beneficiary Survey

Audit conducted Beneficiary Survey covering 150 BPL households in three Districts *viz.* Aizawl, Lunglei and Saiha. The following were the significant observations made during the survey:

- 146 BPL beneficiaries were not aware about RGGVY Scheme.
- No awareness programme was conducted in 25 villages out of 30 villages.
- Fencing was not done for three Distribution Transformers.
- In three cases, plants growing on distribution transformers/poles indicated poor maintenance.
- Two Distribution Transformers were damaged but not repaired.

4.2.11.2 Evaluation of achievement of intended benefits

One of the objectives of RGGVY was to facilitate overall rural development, employment generation and poverty alleviation by catering to the needs of agriculture and other activities like healthcare, education & IT *etc.* The P&ED, however, had not evolved any mechanism for evaluating whether intended benefits of the Scheme were achieved or not.

4.2.12 Monitoring

4.2.12.1 Inadequate number of Committees meetings

As per directions from MoP, GoI, the following Committees have been constituted by the State Government in September 2005 for efficient implementation of the Scheme:

- Monitoring Committee at State Utility Level;
- Co-ordination Committee at State Utility Level;
- District Committees; and
- Monitoring Committees at Panchayat Level.

The following Table shows the district wise meetings held to review progress of RGGVY work:

Table-4.2.3

Name of District	Date of formation of committee	No. of meetings held so far	No. of meetings required to be held	Shortfall in achievement of meeting
Aizawl	25.04.2006	10	12	2
Lunglei	25.04.2006	3	12	9
Saiha	25.04.2006	1	12	11
Champai	25.04.2006	3	12	9
Kolasib	25.04.2006	7	12	5
Serchip	25.04.2006	4	12	8
Lawngtlai	25.04.2006	1	12	11
Mamit	25.04.2006	0	12	12

Source: Departmental records

From the above Table, it is clear that meetings of District Committees in most of the district were far below the minimum requirement. The District Committee did not meet to review the progress of work of the Scheme during the last seven years. In Saiha and Lawngtlai Districts, the District Committees met only once. The overall shortfall in number of meetings held ranged between two (Aizawl District) and twelve (Mamit District).

Similar trend was noticed in State Level Monitoring of the Scheme. The State Level committees met after a gap of long periods. The gap between State level meetings ranged between seven and twelve months.

Till January 2010, the Monitoring Committees at Village Council (Panchayat) Levels had not held any meetings.

Failure to conduct Monitoring Committee meetings at regular intervals is fraught with the risk of delay in taking important policy/major decisions to resolve bottlenecks of implementation of RGGVY Scheme. It also reflects poorly on the monitoring efficiency by the State Government.

While accepting the facts, the State Government stated (November 2013) that audit observation has been noted for future compliance.

4.2.13 Conclusion

The Performance Audit revealed:

- Delay in notification of State Level Rural Electrification Plan.
- Delays in preparation of Detailed Project Reports/Revised Cost Estimates leading to delays in completion of the projects under the Scheme.
- Slow and tardy implementation of projects.
- Absence of mechanism for evaluating achievement of intended benefits.
- Ineffective functioning of committees at various levels constituted for monitoring.

4.2.14 Recommendations

- Detailed Project Reports should be prepared on the basis of adequate, reliable and verifiable data.
- List of BPL households in the State should be identified and updated regularly
- Guidelines issued by funding agencies should be strictly adhered to while preparing DPRs.
- Mechanism for assessing achievement of goals of the Scheme should be put in place.
- Prompt handling over of villages after being electrified should be ensured.
- Monitoring Committees constituted at various levels should hold regular meetings for effective monitoring of the Scheme.

COMPLIANCE AUDIT PARAGRAPHS

TRANSPORT DEPARTMENT

4.3 Operations of Fleet of Buses of Mizoram State Transport

4.3.1 Introduction

The Transport Department, Government of Mizoram has been functioning as an independent Department *w.e.f.* 20 December 1987 after its bifurcation from the erstwhile combined Supplies and Transport Department. It is mandated to provide an efficient, adequate, economical and properly co-ordinated road transport and to facilitate movement of passengers and goods within the State as well as to operate inter-state services to various destinations.

The fleet position[13] (number of buses) of the Mizoram State Transport (MST) as of August 2008 was 53 buses, which reduced to 33 buses on 31 March 2013.

4.3.2 Organisational set-up

The Commissioner/Secretary, Transport Department, Government of Mizoram, is the head of the Administrative Department as well as the Chairman of the State Transport Authority. The Transport Department is managed by the Director. He is assisted by one Joint Director (Operation) who is responsible for smooth operation and functioning of MST fleets in the State. Besides, one Depot-cum-Workshop and one Central Workshop are functioning in the Department under two Works Managers.

4.3.3 Scope & Audit Objectives

The Audit on "Operations of fleet of buses of (MST)", covering the period from 2008-09 to 2012-13 through a test-check of records of the Joint Director of Transport (Operations) and the Depot-cum-Workshops and Central Workshop, Aizawl, was conducted during the period from June 2013 to August 2013.

The main objective of audit was to assess the physical and financial performance of operation of buses by MST.

AUDIT FINDINGS

The important points noticed during audit are discussed in following paragraphs.

4.3.4 Financial performance

During the period from 2008-09 to 2012-13, the fleet of buses of MST included 53 buses (2008-09) which declined to 33 buses (2012-13). The fleet of buses operated 53.90 lakh gross kms during this period.

[13] The number of buses as per website of MST was 59 as on August 2008. However, the number of buses held and operated has been taken as per details furnished by the Director of Transport in January 2014

The details of revenue realised, expenditure incurred and loss suffered by the MST during 2008-13 are given in the following Table:

Table-4.3.1

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	Total
(A) Revenue						
Traffic Revenue	190.65	182.29	168.00	165.76	171.00	**877.70**
Other Receipts	17.58	16.13	64.00	50.00	31.08	**178.79**
Total	**208.23**	**198.42**	**232.00**	**215.76**	**202.08**	**1056.49**
(B) Expenditure						
Operating Expenditure	1046.00	1085.00	1412.00	1959.00	1600.00	**7102.00**
Non-operating Expenditure	262.00	204.00	684.00	669.00	373.00	**2192.00**
Total Expenditure	**1308.00**	**1289.00**	**2096.00**	**2628.00**	**1973.00**	**9294.00**
Manpower cost	876.00	916.00	1079.00	1690.00	1403.00	**5964.00**
(C) Loss						
Operating Loss	855.00	903.00	1206.00	1793.24	1429.00	**6186.24**
Total Loss	**1099.77**	**1090.58**	**1864.00**	**2412.24**	**1770.92**	**8237.51**
Gross kms operated	1297000	1221000	1054000	1085000	733000	**5390000**
Revenue *per* km (in ₹)	16.05	16.25	22.01	19.89	27.57	**20.35**[14]
Expenditure *per* km (in ₹)	100.85	105.57	198.86	242.21	269.17	**183.33**
Loss per km (in ₹)	**84.80**	**89.32**	**176.85**	**222.32**	**241.60**	**161.83**

Source: Departmental records

It would be seen from the above Table that there was steady and sharp increase in loss per km of the operations of the fleet during the five years from 2008-09 to 2012-13 as the same increased from ₹ 84.80 *per* km to ₹ 241.60 *per* km *i.e.* an increase of 185 *per cent*. This was mainly due to increase in the cost of engaging manpower which increased from ₹ 876 lakh in 2008-09 to ₹ 1,403 lakh in 2012-13. The average manpower cost of the operation of buses was 64 *per cent* of the total expenditure.

In order to control the high cost of operation, a number of decisions[15] like introduction of a policy of privatisation and gradual phasing out of vehicles and improving the on-going MST services by replacing old and over-aged buses were taken by the Department. It was, however, noticed in audit that none of these decisions were implemented by the Department. As a result, the increasing losses could not be controlled by the Department.

[14] Average figure
[15] Reflected in Annual Action Plan for 2011-12

While accepting the facts, the State Government added (November 2013) that a number of measures like restructuring, gradual phasing out of old vehicles in place of new vehicles, rationalisation of routes and reduction of manpower under Voluntary Retirement Scheme were being taken up.

4.3.5 Physical performance

The physical performance of the MST during the period from 2008-13 is given in the following Table:

Table-4.3.2

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Average no. of buses held	53	54	54	33	33
Average no. of buses operated daily	30	32	27	19	19
Passenger kms offered (in lakh)	415	384	326	239	199
Passenger kms performed (in lakh)	184	215	190	150	144
No. of passenger carried (in lakh)	1.20	1.13	2.28	0.69	0.51
No. of passengers carried *per* day *per* bus#	13	12	28	12	9

Source: Departmental records

It has been assumed that each bus operates for 300 days in a year

It could be seen from the above Table that:

- The average number of passengers carried per day per bus had decreased from 13 in 2008-09 to 9 in 2012-13.
- There was no improvement in the average daily bus operations of MST as the average number of buses operated daily had gradually decreased from 30 buses (2008-09) to 19 buses (2011-12).
- The number of passengers carried by the MST decreased from 1.20 lakh passengers (2008-09) to 0.51 lakh (2012-13).

While accepting the facts, the State Government stated (November 2013) that most of the profitable routes have now been taken over by private operators. The routes allotted to MST are now mostly sub-standard and unprofitable where private operators are reluctant to operate.

Although, the Government had taken 13 profitable routes from MST which are now being operated by the private operators, but the fact remained that the even on the routes operated by MST, it was not preferred mode of transportation as average passengers carried per bus per day had declined during the period under review. Clearly, there was a huge scope for improvement in operating and managing the fleet of MST which needs to be tapped by the Department.

4.3.6 Manpower

Manpower is an important element of cost which constituted 64 *per cent* of the total expenditure of the MST during 2008-13. Therefore, it is imperative that this cost is kept under control and the deployment of manpower is done optimally to achieve higher productivity. The Table below provides the details of manpower, its cost and productivity:

Table-4.3.3

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Manpower (Traffic) (in No.)	400	395	395	395	395
2.	Manpower (Workshop) (in No.)	135	133	133	133	133
3.	Manpower (accounts/ establishment) (in No.)	145	122	122	122	122
4.	Total Manpower (in No.)	680	650	650	650	650
5.	Manpower cost (in lakh)	876.00	916.00	1079.00	1690.00	1403.00
6.	Gross kms operation (in lakh)	12.97	12.21	10.54	10.85	7.33
7.	Manpower cost *per* kms (in ₹)	67.54	75.02	102.37	155.76	191.41
8.	Productivity *per* day *per* person (in kms)	5.22	5.14	4.44	4.57	3.09
9.	No. of buses	53	54	54	33	33
10.	Average manpower *per* bus (in No.)	13	12	12	20	20

Source: Departmental records

It would be seen from the above Table that:

- During the period under review, the average manpower *per* bus had increased from 13 (2008-09) to 20 (2012-13). Reasons for this increase could be attributed to reduction in number of buses operated by the Department during the period. As a result, the Department had excess manpower for operation of its fleet of buses. For example, the Department had engaged 128 drivers for its fleet of 33 buses. Out of these, 32 drivers have been declared as 'unfit'. Thus, the Department had engaged about three drivers *per* bus.

- Productivity *per* day *per* person had reduced from 5.22 kms (2008-09) to 3.09 kms (2012-13).

- The manpower cost of MST has steeply increased from ₹ 67.54 *per* kms (2008-09) to ₹ 191.41 *per* kms (2012-13). Due to this huge manpower cost, the

State Planning Board requested (October 2009) the MST to take suitable steps for reducing manpower cost. But no steps had been taken by the Department so far (January 2014).

The Government while accepting the facts stated (November 2013) that with a view to reducing the cost of manpower in the MST section, the Department started restructuring of the Department in 2008 by which many staff in the MST section were shifted to the other sections in the Department.

4.3.7 Fuel Management by the MST

4.3.7.1 Operation of own Consumer Petrol Pump (CPP)

Transport Department had installed two Consumer Petrol Pumps (CPPs) (Aizawl and Lunglei Districts) for smooth and undisrupted operation of passenger bus services, of which, the CPPs at Aizawl was revamped into revenue earning asset of the Department. The CPPs were also installed for providing cheap fuel for consumption of vehicles in the Department. During 2009-13, the Department had procured 1,345.20 Kilolitres (kl) HSD for operation of its fleet of 33 to 53 buses, from Indian Oil Corporation Limited (IOCL). The performance of CPPs in procurement of diesel and its disposal during the period from 2009-10 to 2012-13 is given below:

Table-4.3.4

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	Total
1.	HSD procured (in kl) as *per* CPP	366.71	436.00	300.00	242.49	**1345.20**
2.	Average purchase cost in ₹ *per* litre	31	36	40	45	**38**
3.	Total Purchase cost (₹ in lakh)	113.68	156.96	120.00	109.12	**499.76**
4.	CPP salary cost (₹ in lakh)	27.74	30.52	33.57	36.92	**128.75**
5..	Salary cost *per* litre (in ₹)	7.56	7.00	11.20	15.23	**9.57**
6.	Total expenditure on fuel (Sl. 3 + Sl. 4) (₹ in lakh)	141.42	187.48	153.57	146.04	**628.51**
7.	Average cost *per* litre (Sl. 4/Sl. 1) (in ₹)	38.56	42.99	51.19	60.22	**48.24**
8.	Average market price (in ₹)	33	38	43.5	45	**39.88**
9.	Excess cost per litre (Sl.7 - Sl.8) (in ₹)	5.56	4.98	7.69	15.22	**8.36**
10.	Excess expenditure (Sl.9 * 1) (₹ in lakh)	20.39	21.71	23.07	36.91	**102.08**

Source: Departmental records

During 2009-13, the Department procured 1,345.20 kl HSD at a cost of ₹ 628.51 lakh with an average procurement price ranging between ₹ 31 and ₹ 45 *per* litre as against the market cost which ranged between ₹ 33 and ₹ 45. Thus, the procurement cost was marginally less than the market cost during the period from 2009-10 to 2012-13.

However, the Department incurred an establishment cost which ranged between ₹ 7 *per* litre to ₹ 15.23 *per* litre during the same period. This indicated that the cost advantage of procuring the fuel at marginally cheaper rate than the market rates was forgone due to very high establishment costs of maintaining CPPs. Thus, the Department incurred excess expenditure of ₹ 102.08 lakh as compared to market rates during the above period.

The State Government in its reply stated (November 2013) that inclusion of the establishment cost towards the cost of fuel is rather impractical in view of the fact that no separate recruitment of staff was made exclusively for the CPPs. All the staff deployed for the operation of CPPs are regular staff who are required to be maintained by the Department even if the CPPs is operated or not. The reply of the Department is not acceptable, since CPPs ware installed with a view that it would serve as revenue earning asset for the Department. The Department should have considered the manpower cost at the time of establishing the CPPs. Moreover, after de-control of HSD and MS prices, the Department had stopped (August 2013[16]) supplying fuel to its buses from CPPs.

4.3.8 Tyre performance

Tyre consumption is an important element of cost in the operation of buses. The MST with the operation of average 19 to 30 buses used 920 new tyres for achieving 53.90 lakh gross kms and incurred a total expenditure of ₹ 187.87 lakh on tyre including retreading expenditure during 2008-13. The year-wise tyre performance and the related expenditure during 2008-13 are detailed in **Appendix-4.3.1**.

The average tyre cost in MST buses ranged between ₹ 2.27 *per km* (2011-12) and ₹ 4.94 *per km* (2012-13) as against ASRTU[17] norm (2008-09) of ₹ 0.47 *per km*. The Department had not reviewed the tyre performance during the period from 2008-09 to 2012-13 nor had it fixed any target/norm for tyre performance of its buses.

Audit noticed an excess consumption of tyres in case of some test-checked vehicles *viz*. (i) in two buses put into service in January 2011 the Department used 104 tyres (33 new and 71 Pre-Tread tyres) during May 2011 to July 2013 by operating 1.47 lakh gross kms and (ii) in another two vehicles put into service in April 2008, the Department used 195 tyres (96 new and 99 Pre-Tread tyres) during January 2010 to July 2013 by operating 1.65 lakh gross kms.

While accepting the facts, the State Government in its reply stated (November 2013) that the excessive poor tyre performance in the operation of MST is mainly attributed to bad road conditions.

[16] As stated by the Management

[17] Association of State Road Transport Undertakings

4.3.9 Miscellaneous

The following other deficiencies were also noticed in audit:

- Proper records were not maintained for disposal of unserviceable materials.
- Physical verification of the stores and stocks was not conducted at regular intervals.

The State Government stated (November 2013) that the Department has already taken some action to address these deficiencies.