CHAPTER-V

ECONOMIC SECTOR

(State Public Sector Undertakings)

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GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

5.1 Overview of State Public Sector Undertakings

Introduction

5.1.1 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 ₹ 15.26 crore for 2013-14 as per their latest finalized/audited accounts as of September 2014 and provisional figures furnished by the Company. This Turnover was equal to 0.15 *per cent* of State Gross Domestic Product (₹ 10,296.98 crore) for 2013-14. The State PSUs incurred a loss of ₹ 1.70 crore in the aggregate for 2013-14 as per their latest finalised and audited accounts as on 30 September 2014. They had employed 269 employees as of 31 March 2014. The SPSUs do not include three Department[1] of the State Government which carry out operations of commercial nature but are not regular in submission of their Proforma Accounts for audit.

5.1.2 As on 31 March 2014, there were six SPSUs (all working Government Companies) in the State of Mizoram. No Company was listed in the stock exchange(s).

Audit Mandate

5.1.3 Audit of Government Companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the Paid-up Capital is held by Government(s). A Government company includes a subsidiary of a Government Company. 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.

5.1.4 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by 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 (4) of the Companies Act, 1956.

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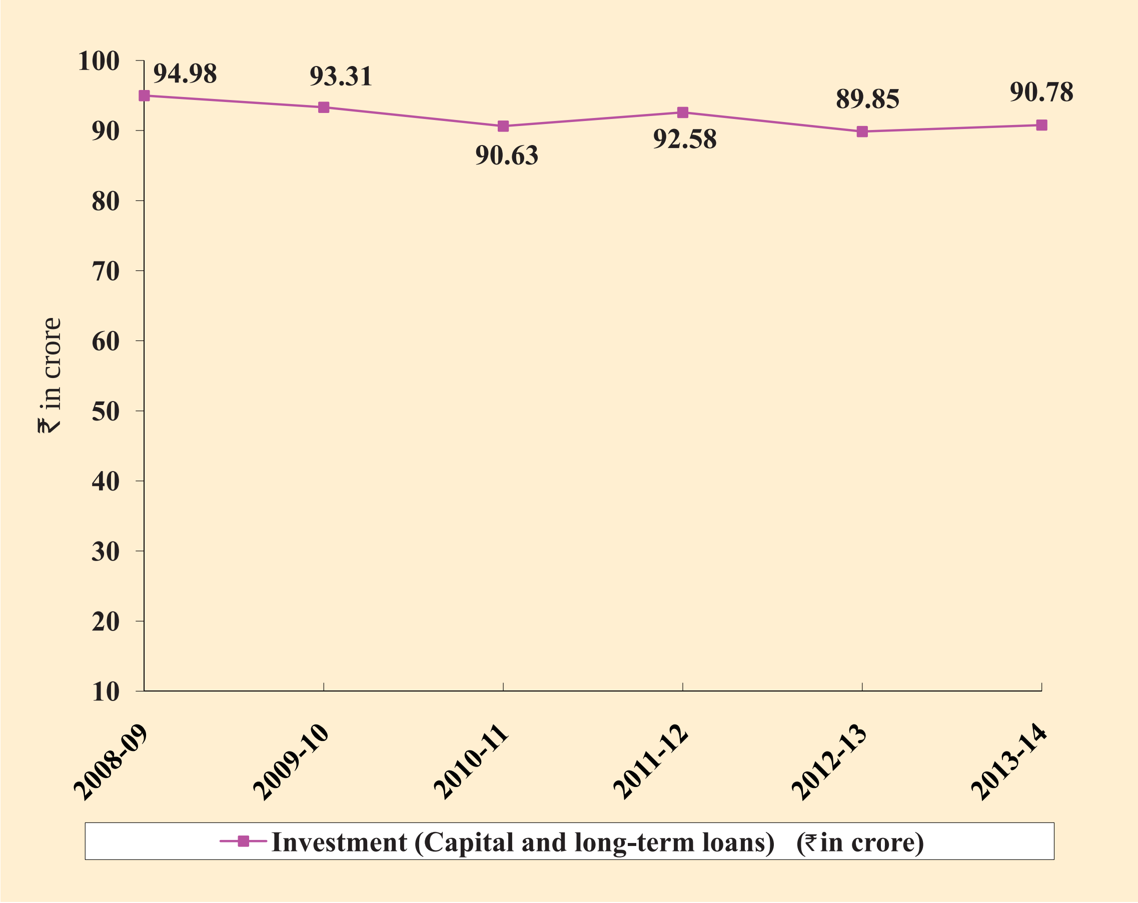
[1] (i) Power & Electricity, (ii) Food, Civil Supplies & Consumer Affairs and (iii) Transport

5.1.5 The Government of India, Ministry/Department of Company Affairs has notified (September 2013) the Companies Act, 2013. However, the provisions of the new Act shall be applicable on Government Companies from the next accounting year 2014-15 (*viz.* from the accounting periods commencing on or after 1 April 2014) and audit of the accounts of Government companies pertaining to the periods prior to 1 April 2014 shall continue to be governed by the Companies Act, 1956.

Investment in State SPSUs

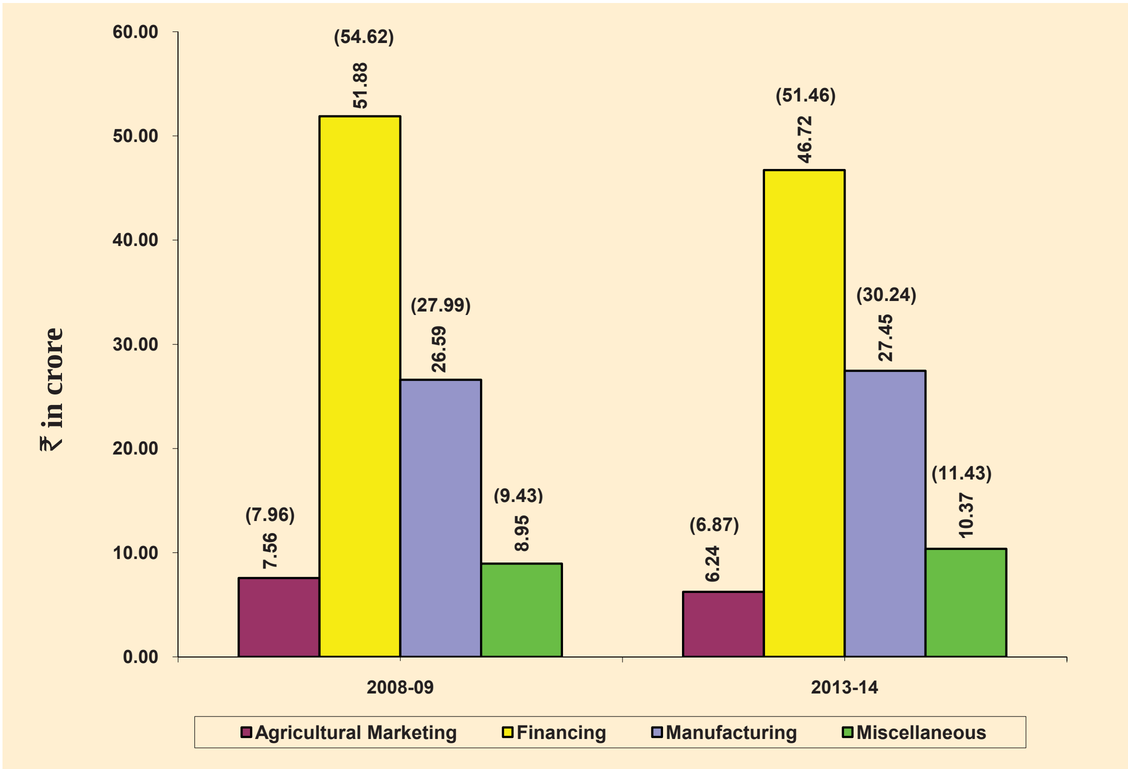
5.1.6 A summarized position of Government investments in SPSUs is detailed in **Appendix-5.1.1.** As on 31 March 2014, the total Investment (Capital and Long-term loans) in the six SPSUs was ₹ 90.78 crore. This total Investment consisted of 65.93 *per cent* towards Capital and 34.07 *per cent* in Long-term loans. The Investment has decreased by 4.42 *per cent* from ₹ 94.98 crore in 2008-09 to ₹ 90.78 crore in 2013-14 as shown in the graph below:

Graph No.-5.1.1



5.1.7 The total Investment in various sectors and percentage thereof at the end of 31 March 2009 and 31 March 2014 are indicated below in the bar chart.

Chart No.-5.1.1



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

5.1.8 From the bar chart above, it may be noticed that during the years from 2008-09 to 2013-14, the investment in Agricultural Marketing and Financing Sector had decreased by ₹ 1.32 crore and ₹ 5.16 crore respectively. The investment in Manufacturing and Miscellaneous Sectors, however, increased by ₹ 0.86 crore and ₹ 1.42 crore respectively during the said period.

Budgetary outgo, Grants/Subsidies, Guarantees and Loans

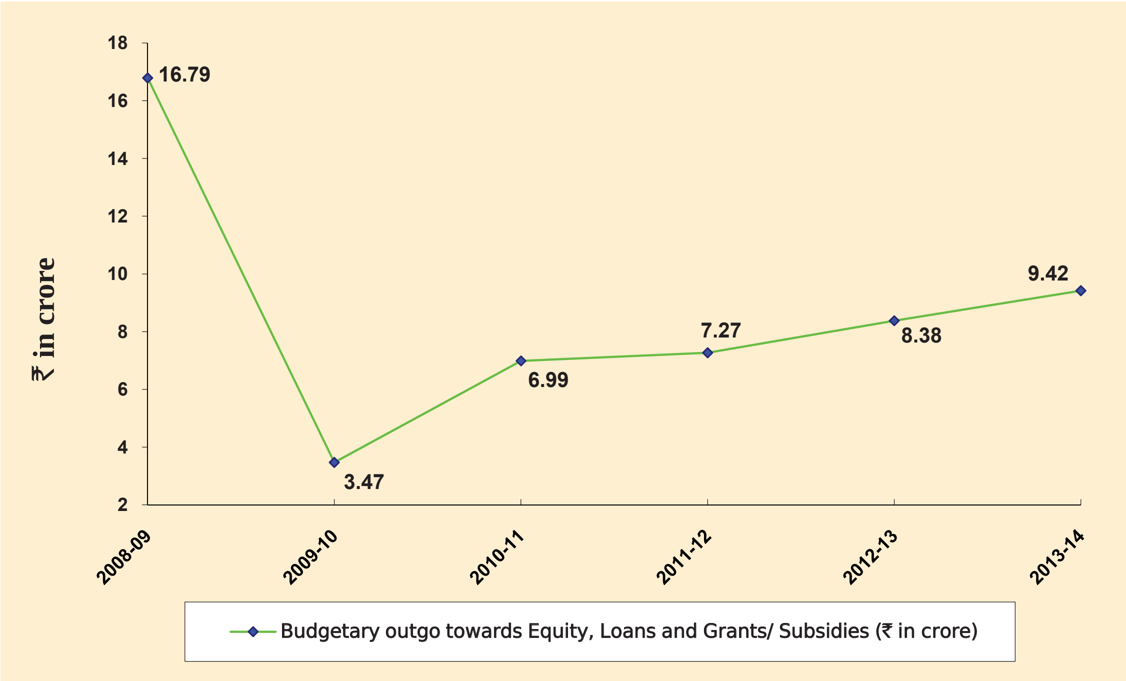
5.1.9 The details regarding budgetary outgo towards Equity, Loans, Grants/Subsidies, Guarantees issued in respect of SPSUs are given in **Appendix-5.1.2**. The summarised details for three years ended 31 March 2014 are given below:

Table-5.1.1

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount	No. of PSUs	Amount (₹ in crore)
1.	Equity Capital outgo from budget	2	1.40	1	1.27	1	1.22
2.	Loans given from budget	-	-	-	-	-	-
3.	Grants/Subsidy received	3	5.87	2	7.11	3	8.20
4.	Total Outgo	5	7.27	6	8.38	4	9.42
5.	Guarantee Commitment	1	19.40	1	23.07	1	18.61

5.1.10 The details regarding budgetary outgo towards Equity, Loans and Grants/ Subsidies for past six years are given in the graph below.

Graph No.-5.1.2



5.1.11 As on 31 March 2014, guarantees amounting to ₹ 18.61 crore were outstanding against one SPSU (*viz.* Zoram Industrial Development 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 during this year.

Reconciliation with Finance Accounts

5.1.12 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 at 31 March 2014 is stated below:

Table-5.1.2

(₹ in crore)

Outstanding in respect of	Amount as *per* Finance Accounts	Amount as *per* records of SPSUs	Difference
Equity	4.13	54.06	(-) 49.93
Loans	-	30.93	(-) 30.93
Guarantees	-	18.61	(-) 18.61

5.1.13 Audit observed that the differences occurred in respect of all SPSUs and the differences were pending reconciliation 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

5.1.14 The financial results of SPSUs are detailed in **Appendix-5.1.3.** 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 2008-09 to 2013-14.

Table-5.1.3

(₹ in crore)

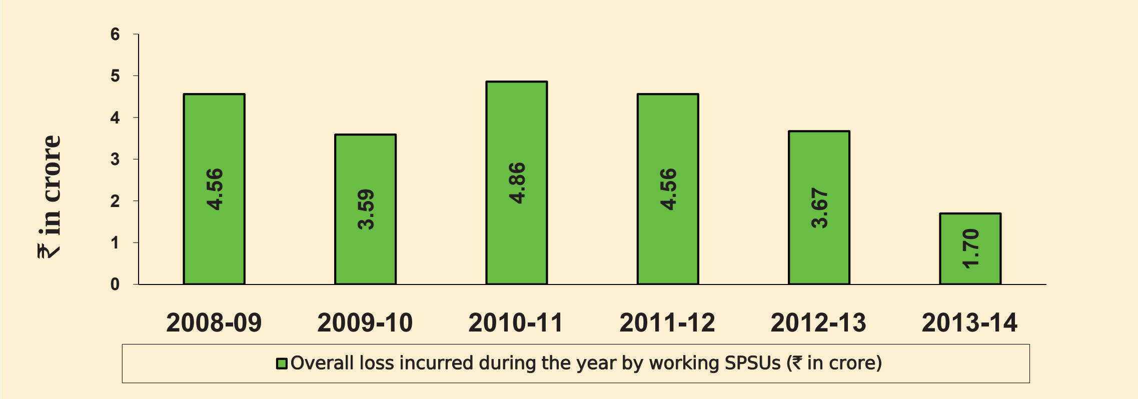
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Turnover[2]	2.41	1.45	1.72	1.57	5.00	15.26
State GDP[3]	4577.11	5283.93	6057.70	6991.40	8053.09(P)	10296.98(PF)
Percentage of Turnover to State GDP	0.05	0.03	0.03	0.02	0.06	0.15

NB: P-Provisional Estimate, PF-Projected Figure.

5.1.15 It can be seen from the above Table that the percentage of turnover to State GDP declined from 0.05 *per cent* in 2008-09 to 0.02 *per cent* in 2011-12; however, the same had increased to 0.15 *per cent* in 2013-14.

5.1.16 Losses incurred by six SPSUs (all working) during 2008-09 to 2013-14 are given below in the bar chart.

Chart No.-5.1.2



2 Turnover as per the latest audited accounts as of 30 September of respective year

3 Figures as provided by Economic and Statistics Department, Government of Mizoram

The five SPSUs were incurring losses continuously during the period between 2008-09 and 2013-14. As per their latest audited accounts, five SPSUs incurred net loss amounting to ₹ 3.06 crore whereas one SPSU (Zoram Industrial Development Corporation Limited) had made a profit ₹ 1.36 crore. Mizoram Agricultural Marketing Corporation Limited (MAMCO) ranked first among the SPSUs in incurring losses followed by Mizoram Handloom and Handicraft Development Corporation Limited (ZOHANDCO) and Mizoram Food and Allied Industries Corporation Limited (MIFCO) during this period.

The losses of SPSUs are mainly attributable to deficiencies in financial management, planning, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred controllable losses to the tune of ₹ 10.20 crore and Infructuous Investment of ₹ 1.69 crore. Year-wise details from Audit Reports are stated below:

Table-5.1.4

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	Total
Net loss of working PSUs	4.56	3.67	1.70	9.93
Controllable losses as *per* CAG's Audit Report	10.20	-	-	10.20
Infructuous Investment	1.69	-	-	1.69

5.1.17 The above losses pointed out by 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 minimized. The SPSUs cannot discharge their role efficiently as they are not financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of SPSUs.

5.1.18 Some other key parameters pertaining to State PSUs are given below:

Table-5.1.5

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Return on Capital Employed (*per cent*)[4]	-	-	-	-	-	-
Debt	33.65	30.30	30.93	30.93	30.93	30.93
Turnover[5]	2.41	1.45	1.72	1.57	5.00	15.26
Debt/Turnover Ratio	13.96:1	20.90:1	17.98:1	19.70:1	6.19:1	2.03:1
Interest Payments	2.18	2.18	0.30	0.30	0.30	0.06
Accumulated losses	40.23	43.45	49.20	50.58	51.34	58.03

5.1.19 As per the latest finalised accounts as of 30 September 2014, the Capital Employed of six working SPSUs in the state worked out to ₹ 65.56 crore and had shown negative Return on Capital Employed. Four SPSUs were incurring losses continuously over the years. Consequently, accumulated losses steadily increased from ₹ 40.23 crore in 2008-09 to ₹ 58.03 crore in 2013-14.

4 Negative returns in all six year
5 As per the latest finalised accounts as of 30 September 2014

5.1.20 There was no information available regarding existence of any specific policy of the State Government on payment of minimum dividend by the SPSUs. As per their latest finalised accounts as on 30 September 2014, one SPSU (Zoram Industrial Development Corporation Limited) earned a profit of ₹ 1.36 crore. The SPSU, however, had not declared any dividend during the year.

Arrears in finalisation of accounts

5.1.21 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 2014.

Table-5.1.6

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
1.	Number of Working SPSUs	5	5	6	6	6
2.	Number of Accounts arrears with the SPSUs	27	24	26	30	17
3	Number of Accounts audited during the year	11	8	1	2	16
4.	Average arrears *per* SPSU (2/1)	5.40	4.8	4.33	5.00	2.83
5.	Number of Working SPSUs with arrears in Accounts	5	5	6	6	6
6.	Extent of arrears in years	1 to 10	1 to 11	1 to 12	1 to11	1 to 8

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

5.1.23 The State Government had invested ₹ 24.82 crore (Equity: ₹ 2.43 crore, and Grants: ₹ 22.39 crore) in five SPSUs during the years for which the accounts have not been finalised as detailed in **Appendix-5.1.4.** In the absence of finalisation of the accounts and their subsequent audit, true and fairness of the accounts could not be ensured. Further, delay in finalisation of Accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

5.1.24 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 also addressed the Chief Secretary/Finance Secretary periodically to expedite the clearance of arrears in finalisation of Accounts in a time bound manner.

5.1.25 ***In view of above state of arrears, there is a need to evolve an appropriate strategy by the SPSUs and the concerned administrative departments of the State Government for preparation of accounts as per the statutory requirements with special focus on clearance of arrears in a time bound manner.***

Accounts Comments and Internal Audit

5.1.26 Two working Government Companies forwarded their 16 audited Accounts to the PAG during the year 2013-14. They were selected for Supplementary Audit. The audit reports of Statutory Auditors appointed by CAG and the Supplementary Audit of CAG indicate that the quality of maintenance of accounts needed to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and CAG are given below:

Table-5.1.7

(₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of accounts	Amount (₹ in crore)	No. of accounts	Amount (₹ in crore)	No. of accounts	Amount (₹ in crore)
1.	Increase in loss	-	-	-	-	-	-
2.	Decrease in loss	4	2.36	1	1.80	1	9.32
3.	Non-disclosure of material facts	-	-	1	0.63	1	3.57
4.	Errors of classification	1	0.17	1	0.27	-	-
5.	General	4	9.02	1	0.01	-	-

5.1.27 During the year 2013-14, the Statutory Auditors had given qualified certificates in all 16 accounts. The compliance of companies with the Accounting Standards (AS) remained poor. There were 4 instances of non-compliance of AS in the 16 accounts during the year.

State Trading Scheme

5.1.28 The activities Food, Civil Supplies and Consumer Affairs Department though commercial in nature with no profit and no loss basis, the Department is required to submit Proforma Accounts of its commercial activities for audit which are in arrears from the year 2005-06 onwards. The financial position and working results of the Department for the three years ended 31 March 2014 is given in **Appendix-5.1.5**.

Mizoram State Transport

5.1.29 The working results and operational performance of Mizoram State Transport (MST) for the three years ended 31 March 2014 is given in **Appendix-5.1.6**. The activities of MST though commercial in nature, the Proforma Accounts of its commercial activities were not submitted for audit since 2001-02. Hence, audit of the Proforma Accounts of MST was pending since 2001-02.

PERFORMANCE AUDIT

POWER AND ELECTRICITY DEPARTMENT

5.2 Management of Power through generation and procurement

Highlights

Power and Electricity Department (P&ED), Mizoram was created in the year 1975 for promotion, development and maintenance of Power Distribution Network including provision of adequate and reliable power supply in Mizoram. The Department is functioning as an integrated utility and responsible for generation, transmission, distribution and dispatching of electric power supply within the state of Mizoram. It is also responsible for the promotion, development and maintenance of Power Distribution Network including provision of adequate and reliable power supply in Mizoram.The Performance Audit on 'Management of Power through generation and procurement' brought out some significant audit findings as given below:

The Department paid, Unscheduled Interchange charges amounting to ₹ 7,446.81 lakh due to over drawl of 237.68 MU of energy during 2008-09 to 2013-14.

(Paragraph 5.2.13.2)

The Department failed to tie up for purchase of minimum prescribed solar energy which led to obligation to buy Solar Renewable Energy Certificates of ₹ 3.62 crore.

(Paragraph 5.2.13.4)

Disproportionate increase in the expenditure had resulted in increase of 159 *per cent* in the deficits of the Department during 2008-09 to 2013-14.

(Paragraph 5.2.14)

During the period from 2008-09 to 2013-14, the Department paid ₹ 18.19 crore as surcharge to the Generating Stations and Central Transmission Unit due to delayed payment of bills.

(Paragraph 5.2.15.1)

The Department could not avail rebate of ₹ 6.92 crore in payment of power purchase bills during 2009-14 due to non-replenishment of LC account within the time specified in the PPAs.

(Paragraph 5.2.15.2)

5.2.1 Introduction

Electricity is an essential requirement and in fact a necessity in all walks of life. It has become part of modern day life and is essential for transportation, communication and industry *etc*. The availability of reliable and adequate power at competitive rates is crucial to sustain growth in all sectors of the economy. Electricity is in the concurrent list in the Constitution; however primary responsibility for ensuring availability or reliable and adequate electricity/ power/energy lies with the States. The Government of India (GoI) liberalized its economy in 1991, opening up the power sector to private sector. Due to resource limitations of public sector utilities, GoI offers incentives for Independent Power Producers (IPPs) to enter into the power generation sector. Despite the stated desire for reform and the initial measures that have been implemented, serious problems still persist in power sector. Power and Electricity Department (P&ED), Mizoram was created in the year 1975 and is responsible for generation, transmission and distribution activities within the State of Mizoram.

As on 31 March 2014, the State had about two lakh consumers of various categories. The total energy requirement for the year ended 31 March 2014 was 608 MU against which the total internal generation of the State was 55.34 MU (comprising mostly of hydel power). The other generating stations[6] were mostly kept on standby mode owing to their high operational cost. Due to insufficient internal generation, the State depends on outside sources to meet the generation and demand gap. The outside sources of power mainly include Central Sector Generating Stations (CGS) of North Eastern Power Corporation Limited (NEEPCO), National Hydroelectric Power Corporation Limited (NHPC), and National Thermal Power Corporation Limited (NTPC) *etc*.

5.2.2 Legal framework

The Electricity Supply Act, 1948 established the Central Electricity Authority (CEA) for coordinated development of power sector in the country. The Electricity Act, 2003 (Act) provided the framework to develop the power sector and to promote competition and protect the interest of the consumer. Under the Act, tariff for supply of power by a generating company to a distribution licensee through long term Power Purchase Agreement (PPA) is to be determined by the Regulatory Commission.

The Regulatory Commissions both at the Centre and State level introduced various regulations to provide a legal framework for the stakeholders. The Joint Electricity Regulatory Commission (JERC) for Manipur and Mizoram has since been established and has started functioning with effect from 24 January 2008.

5.2.3 Organisational set up

The Secretary, Power and Electricity Department (P&ED), Government of Mizoram (GoM) is the Administrative Head of the Department. The Engineer-in-Chief, P&ED is the functional head of the Department who is assisted by four Chief Engineers. Day-to-day activities of the Department are managed by the 8 Circles, 20 Divisions and 51 Sub-Divisions.

[6] The other generating stations (non-hydel) include Heavy Furnace Oil (HFO) based Power Generating Plant at Bairabi (22.92 MW) and one Diesel Generating set at Lengpui (0.50 MW)

5.2.4 Scope of Audit

The Performance Audit was conducted during April 2014 to September 2014 to assess the performance of the Department *vis-à-vis* management of power procurement and generation during the period from 2008-09 to 2013-14. The audit examination involved scrutiny of records at Administrative Department, Engineer-in-Chief Office and State Load Despatch Centre (SLDC).

5.2.5 Audit Objectives

The objective of the Performance Audit was to ascertain whether:

- The planning process for generation of electricity was efficient;
- The power purchased through Power Purchase Agreement was managed efficiently;
- The financial management for power utilities was efficient;
- The system for clearance of power purchase bills was efficient and effective;
- Human Resource Management was efficient; and
- Monitoring mechanisms were in place and were effective.

5.2.6 Audit Criteria

The audit criteria adopted for assessing the achievements of the audit objectives were derived mainly from the following sources:

1. Annual Revenue Requirements and retail tariff petitions submitted by the Department;
2. Electricity Act, 2003 and Rules, Regulations and Policies issued there under National Electricity Plan/Policy;
3. Tariff orders for generating stations issued by JERC;
4. Regulations issued from time to time by JERC regarding power purchase and adjudication orders issued by JERC on matters of dispute;
5. PPAs entered into by the Department with various generators;
6. Perspective plan, Annual Budgets, Annual Reports;
7. Letter of Intent (LoI) issued to suppliers; and
8. Related guidelines/regulations of the State/Central Government/JERC/ CERC/CEA *etc.* with regard to procurement and sale of power from time to time.

5.2.7 Audit Methodology

The audit objectives, audit criteria, scope and audit methodologies of the Performance Audit were discussed with the Secretary, Engineer-in-Chief, Chief Engineer and Superintending Engineer of Power and Electricity Department, GoM in the Entry Conference (May 2014). Audit findings were reported (September 2014) to the Department as well as to GoM (Secretary, Power) in the form of Draft Performance Audit Report. Audit findings were also discussed with the representatives of the Department and the GoM in the Exit Conference held on 10 December 2014. The formal replies (January 2015) of the Government as well as the views expressed by the representatives of the Government and the Department in the Exit Conference have been taken into consideration while finalising the Report.

5.2.8 Acknowledgement

The Indian Audit and Accounts Department acknowledges and appreciates the co-operation rendered by the Engineer-in-Chief, Chief Engineer and Superintending Engineers and other functionaries of Power and Electricity Department during the conduct of this Performance Audit.

Audit Findings

Significant audit findings noticed during the audit are discussed in the succeeding paragraphs.

Audit Objective: To assess the efficiency of the planning process for generation of electricity

5.2.9 Power Scenario of the State

At the end of the 10th Five year plan (2002-07), peak power demand of the State was 63.30 MW against the State's own generation capacity of 13.85 MW from eight Small Hydel Projects (SHPs). Due to rapid load growth, the unrestricted power requirement at the end of 11th Five year plan (2007-12) increased to 160 MW and subsequently to 201 MW as of March 2014. As against this, the availability of power as of March 2014 was 155.87 MW, which included State's share (103.10 MW) allocated under six[7] Power Purchase Agreements (PPAs) as well as increased own generation capacity (52.77 MW). During 2008-14, the State own generation capacity was increased against three new SHPs (15.50 MW), one Heavy Furnace Oil (HFO) based Power Generating Plant at Bairabi (22.92 MW) and one Diesel Generating set at Lengpui (0.50 MW). The HFO based power generating plant at Bairabi (22.92 MW) was mostly kept as back-up for contingencies due to high generation costs excepting the meagre generation of 8.36 MUs of energy during 2008-11. The actual internal generation of power from 11 SHPs and other generating units (*viz*. HFO based power plant and Diesel Generating set) during the above period had increased from 10.31 MU (2008-09) to 55.34 MU (2013-14) as detailed in **Appendix-5.2.1**. However, the total availability of power during 2008-14 through own generation as well as outside purchase was inadequate to meet the State's demand of power as discussed in the latter part of the Performance Audit. Details of energy drawl from outside sources through six PPAs during the period are given in **Appendix-5.2.2**.

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[7] Out of 12 PPAs signed by the Department, the Department was drawing power from six PPAs only as the five of the remaining power projects were ongoing while one power project was under damaged condition

5.2.10 Planning process

The GoM, while framing the "Hydel Electric Power Policy, 2010" (Hydel Policy) had assessed the hydel power potential of about 4500 MW[8] in the State. The Hydel Electric Power Policy also provided that the hydel projects would be levied royalty at the rate of 13 *per cent* of the deliverable energy during the period from date of synchronization of the first generating unit. The State's hydel power potential of 4,500 MW identified under the Hydel Policy included 78 small/mini/micro hydel projects. As on March 2014, only 11 projects with installed capacities of 29.35 MW had been set-up.

Of the remaining, 67 potential projects with installed capacity of 4,470.65 MW, only five projects with installed capacity of 68.70 MW were under construction. No work had been started in respect of the balance 62 projects having potential installed capacity of about 4,401.95 MW (March 2014). The Department had neither fixed any target nor had it invited private power producers to the State for their development of these potential sites in the State so far (March 2014).

Thus, despite having huge power potential and capacity to eliminate power deficiency in the State, the GoM had not taken adequate action to ensure that the power potential in the State is harnessed optimally.

The Government did not offer any comment on this issue.

5.2.11 Irregular filing of ARR and Retail Tariff petition

The Power and Electricity Department is required[9] to file a tariff application with the JERC along with statements containing the expected revenues from the tariff and the charges including miscellaneous charges in the ensuing financial year by 30 November every year. Accordingly, tariff petitions for the years 2010-11, 2011-12, 2012-13 and 2013-14 were due for submission to JERC by 30 November 2009, 30 November 2010, 30 November 2011 and 30 November 2012 respectively. The Department, however, filed tariff petitions for the financial years 2010-11, 2012-13 and 2013-14 on 13 September 2010, 21 February 2012 and 28 March 2013 respectively. The Department did not file petition for 2011-12. Accordingly, JERC issued tariff orders for 2010-11 (12 January 2011) and 2012-13 (23 July 2012) and did not issue tariff order for 2011-12 due to non-filing of tariff petition. Further, JERC did not issue tariff order for 2013-14 as well due to late submission of the petition.

Thus, the quantum and cost of power purchase *inter alia* for the years 2011-12 and 2013-14 were without any approval due to non/late filing of Retail Tariff petition and Aggregate Revenue Requirement (ARR) with JERC. During the financial years 2011-12 and 2013-14, the

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8 As per the details provided in the State's Hydel Policy document, the Hydel power potential worked out at 3760.84 MW only

9 In terms of Clause 4(1) of Joint Electricity Regulatory Commission for Manipur and Mizoram (JERC) Terms and Conditions for Determination of Tariff Regulations, 2010

consumers were billed as per the rates approved for previous years which were lower compared to actual cost of power purchased. This eventually increased the burden on State exchequer on account of additional tariff support/subsidy provided by the Government for meeting the said revenue deficit. The increased burden on the State exchequer on this account, however, could not be quantified as the complete details were not provided to audit.

The Government replied (January 2015) that it had submitted ARR and Tariff Petition for financial year 2010-11 soon after JERC become functional in 2008 based on which Tariff Order for FY 2010-11 was notified. It also stated that Tariff Order for the financial years 2011-12 and 2013-14 were not notified by JERC despite filing of petition and payment of prescribed fees.

The reply of the Government is not tenable as the tariff petition for 2011-12 was not filed while the petition for 2013-14 was not filed within the stipulated time.

Audit Objective: To assess whether the power purchased through Power Purchase Agreement was managed efficiently

5.2.12 Background

The Department procures power from the Central Generating Stations (CGS) and State Power Generating Stations (SGS) through Power Purchase Agreements (PPAs) due to State's limited own generation capacity as well as short/non-generation of power from the existing 11 SHPs and other two non-hydel generating units[10]. The Department had signed 12 Power Purchase Agreements for 241.10 MW[11] of power (excluding the State's share against 3 ongoing Projects[12] which were pending for allocation) as detailed in **Appendix-5.2.3.**The State's shares from these Central Sector Generating Stations consist of hydro/ thermal power from NEEPCO, NHPC and NTPC and also from other State Generating Stations. The year-wise demand and availability/procurement of power during the period 2008-09 to 2013-14 is given in Table-5.2.1 below:

[10] HFO based Power Generating Plant at Bairabi (22.92 MW) and one Diesel Generating set at Lengpui (0.50 MW)

[11] Including 2 ongoing Projects-NEEPCO's (1) Tuirial HEP and (2) Tapaimukh HEP and TSECL's Rokhia GBPP- II (Damaged since 2007)

[12] (1) Agartala Gas Turbine Power Project-Combined Cycle Extension Project, (2) Bongaigaon Thermal Power Project and (3) Subansiri Lower HEP

Table-5.2.1

Sl. No.	Year	Demand		Own Generation (SHPs & Others)		Purchases		Total purchases (MU)	Total Availability (MU)	Net Power Available (MU) after T&D losses	Shortfall (MU)
		MW	MU	Installed Capacity (MW)	Actual (MU)	From CGSs (MU)	From other SGs & others (MU)				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) {(7)+(8)}	(10) {(6)+(9)}	(11)	(12) {(4)-(11)}
1.	2008-09	92	306	52.77	10.31	321.64	36.08	357.72	368.03	246.58	59.42
2.	2009-10	122	326	52.77	17.53	268.50	41.08	309.58	327.11	191.62	134.38
3.	2010-11	130	357	52.77	23.96	302.27	45.98	348.25	372.21	270.82	86.18
4.	2011-12	160	455	52.77	22.79	322.94	66.57	389.51	412.20	281.64	173.36
5.	2012-13	178	520	52.77	58.62	302.99	74.67	377.66	436.28	319.62	200.38
6.	2013-14	201	608	52.77	55.34	309.14	82.87	392.01	447.35	294.94	313.06
Total			**2572**	**52.77**	**188.55**	**1827.48**	**347.25**	**2174.73**	**2363.28**	**1605.22**	**966.78**

Source: Departmental records

From the above, it could be seen that the demand of power had steadily increased from 306 MU (2008-09) to 608 MU (2013-14). Even though the own generation had registered 437 *per cent* increase from 10.31 MU in 2008-09 to 55.34 MU in 2013-14, the short fall had also increased by 427 *per cent* from 59.42 MU in 2008-09 to 313.06 MU in 2013-14.

5.2.13 Power Purchase Agreement (PPAs)

To ensure availability of reliable and affordable power, the Department had signed (September 2004 to January 2012) 12 Power Purchase Agreements (PPAs) with the power producers-cum-suppliers (eight with Central Sector, three with State Sector and one with Joint Sector Power utilities). Besides, four Memorandum of Understandings (MoUs) were also signed (December 2008 to December 2011) with Central and State sector power utilities which included one MOU with one Central Transmission Utility for transmission of energy. The details of the PPAs and MoUs are given in **Appendix-5.2.3** and **Appendix-5.2.4.**

5.2.13.1 Inadequate Capacity Addition

As on March 2014, the Department had signed 12 PPAs with the Central/State Power Generating Utilities. Out of 12 PPAs, the total allocated share of the State was 241.10 MW from nine PPAs. The State's share in remaining three PPAs/projects[13] was, however, yet to be allocated. Further, out of the nine PPAs under which State's share had been allocated, the Department was drawing power from six PPAs only as two power projects under the remaining PPAs were pending completion and one[14] was lying damaged since 2007.

It was observed that there were no recorded reasons for non-allotment of State's shares in three out of 12 PPAs. The Department had also not pursued the issue with the respective Generating

[13] NEEPCO's Agartala Gas Turbine Power Project-Combined Cycle Extension Project (40 MW), NTPC's Bongaigaon Thermal Power Project (750 MW) and NHPC's Subansiri Lower HEP (2000 MW)

[14] Rokhia GBPP-II (State's share-8 MW)

Utilities for allocation of State's shares in the said three PPAs despite having significant shortfall of power in the State.

The Government did not offer any comment on the issue.

5.2.13.2 Unscheduled Interchange Charges

Unscheduled Interchange (UI) is the mechanism developed to improve grid efficiency, grid discipline, accountability and responsibility by imposing charges on those consumers/buyers who deviate from their scheduled generation or drawl. Unscheduled generation and drawl of electricity puts the whole grid and many other electrical equipment in danger by creating large fluctuations in frequencies. The Unscheduled Interchange (UI) charges are payable/receivable to/from the pool for the Over-drawl/Under-drawl of energy in variation from the pre-committed weekly schedules.

The gap in demand supply position also leads to variation between actual drawl and scheduled drawl which is accounted through Unscheduled Interchange (UI). For the North Eastern Region, North Eastern Regional Load Dispatch Centre based in Shillong, known as NERLDC monitors UI in each 15 minutes block and works out the charges to be levied on the power utilities. Due to over-drawl of 237.68 MU energy, UI charges paid by the Department during the last six years ending 31 March 2014 worked out to ₹ 7,446.81 lakh as given below**:**

Table-5.2.2

(₹ in lakh)

Sl. No.	Year	Schedule Energy (MU)	Actual Drawl (MU)	Over-Drawl (MU)	Under-Drawl (MU)	UI charges payable	UI charges paid[15]
1.	2008-09	315.13	272.15	18.97	61.96	992.85	234.00
2.	2009-10	290.50	296.89	34.35	27.96	1315.22	1466.02
3.	2010-11	298.39	317.92	42.90	23.37	1191.44	1021.20
4.	2011-12	318.64	370.10	62.08	10.62	2232.30	2873.08
5.	2012-13	345.71	346.58	30.58	29.72	703.39	688.36
6.	2013-14	371.64	404.75	48.80	15.69	988.01	1164.15
Total		**1940.01**	**2008.39**	**237.68**	**169.32**	**7422.21**	**7446.81**

Source: Departmental records

Further, additional UI charges are payable for over-drawl of energy when the system frequency is below 49.7 Hz and on Under-drawl of scheduled quantity when the system frequency is above 50.10 Hz. The levying of Additional UI charges acts as a commercial deterrent to curb over-drawls/under-drawls compared to weekly plans during low/high frequency conditions.

During examination of records of the Department, it was observed that additional UI charges amounting to ₹ 295.52 lakh were also payable by the Department during the period from 2008-2014 as detailed below:

[15] Include Additional UI Charges
Note: Bills for Week 39-52 of 2012-13 and Week 1-5 & Week 26-46 of 2013-14 is pending payment as on 10 June 2014

Table-5.2.3

(₹ in lakh)

Year	UI charges payable	Additional UI charges payable	Total Payable
2008-09	992.85	NA	992.85
2009-10	1315.22	49.46	1363.68
2010-11	1191.44	65.22	1255.66
2011-12	2232.3	156.00	2388.30
2012-13	703.39	17.03	720.42
2013-14	988.01	8.81	996.82
Total	**7422.21**	**295.52**	**7717.73**

Source: Departmental records

Since the rates for energy procured through UI were substantially higher than the rate at which energy was procured from Central Generating Stations, the Department should have minimised drawl of power through UI.

The Government stated (January 2015) that it was incorrect to classify this over-drawl as loss to the Department as the energy was passed on to the consumer who in turn had paid for it. It was further stated that the over-drawl of power is monitored by the Department so that the energy cost does not exceed the average sale rate to the consumers.

The reply is not tenable in view of the fact that the expenditure paid against UI/additional UI charges are indicative of ineffective monitoring and inefficiency in maintaining the grid efficiency/discipline by the Department. Hence, passing on the additional financial burden on this account to the consumer is not a fair practice.

5.2.13.3 Non-formalising of PPAs facilitated by Government of India

Ministry of Power, Government of India (GoI), from time to time calls for projected requirement of the States from the Power Projects notified by it. As on March 2014, GoI had called for projected requirement of power by GoM from six such projects at different locations. Project wise allocations made by the Ministry of Power, GoI are as under:

Table-5.2.4

Sl. No.	Name of Project	Installed Capacity (MW)	Share of Allocation (MW)	Share of Allocation (*per cent*)
1.	Kameng HEP	600	8.90	1.49
2.	Pare HEP	110	4.94	4.49
3.	Punatsangchhu-I	1200	-	-
4.	Punatsangchhu-II	990	-	-
5.	Mangdechhu	720	-	-
6.	Vishnugad Pipalkoti HEP	444	-	-

Source: Departmental records

Audit observed that though the Ministry of Power, GoI had allocated shares of 13.84 MW of power in respect of Kameng HEP (scheduled for commissioning in March 2017) and Pare HEP (scheduled for commissioning in September 2014) to the GoM, the Department had not entered into formal PPAs/MoUs with the respective power generating utilities for its share of power.

Thus, due to non-entering into appropriate PPAs with the above two Power Generators, the State had forgone an opportunity to ensure availability of 13.84 MW of power to the State.

Records relating to allotment of shares of remaining four projects were not made available to audit. Therefore, audit could not ascertain reasons for non-allotment of shares of energy from these four power projects.

The Government stated (January 2015) that except for Kameng HEP and Pare HEP, MoP had not allocated the share of power for the State.

The reply of the Government was silent on reasons for non-entering of PPAs with the respective power generating utilities against said two projects for which allocations for State's share have already been made.

5.2.13.4 Non-fulfillment of Renewable Purchase Obligation (RPO)

In accordance with the provisions of the Electricity Act, 2003 (refer Section 61, 66, 86(1)(e) and 181), JERC framed (May 2010) JERC (Renewable Purchase Obligation and its Compliance) Regulations, 2010 (Regulation). As per the Regulation, the Department was under obligation to purchase five, six, seven and nine *per cent* of the total consumption in the State from renewable and co-generation sources for the years 2010-11, 2011-12 2012-13 and 2013-14 respectively. Out of above, the Department had the obligation to purchase solar energy to the extent of 0.25 *per cent* of its total energy consumption each year. The Regulation further provide that in case of any shortfall in meeting the obligation in purchase of energy from renewable sources, the entity (Department) was under obligation to compensate the said shortfall by purchase of Renewable Energy Certificates[16] (REC). Further, any shortfall in purchase of solar energy was to be compensated through purchase of solar certificates (REC) only.

Details for procurement of various forms of renewable energy (solar power and non-solar power including bio-mass and small hydro power) and power from co-generation and short fall therein during the years from 2010-11 to 2013-14 are given in the following Table:

[16] What is Renewable Energy Certificate (REC)?

Renewable Energy Certificate is a tradable, intangible energy commodities which represent the attributes of electricity generated from renewable resources.

Central Electricity Regulatory Commission introduced REC mechanism to ease the purchase of renewable energy by the state utilities and obligated entities, including the states which are not well endowed with RE sources. REC framework seeks to -create a national level market for renewable generators to recover their cost. One REC (Renewable Energy Certificate) represents one Mwh of energy generated from renewable sources.

Under the REC mechanism, a generator can generate electricity through the renewable resources in any part of the country. For the electricity part, the generator receives the cost equivalent to that from any conventional source while the environment attribute is sold through the exchanges at the market determined price. The obligated entity from any part of the country can purchase these RECs to meet its RPO compliance.

Table-5.2.5

Year	Total Consumption (MU)	RPO (%)	RPO (MU)		Actual procurement (MU)		Shortfall (MU)	Amount[17] of REC to be procured for shortfall (₹ in crore)[18]
			Non-Solar	Solar	Non-Solar	Solar		
2010-11	237.56	5	11.28	0.59	22.23	Nil	0.59	0.80
2011-12	252.29	6	14.50	0.63	22.78	Nil	0.63	0.85
2012-13	286.6	7	19.35	0.72	58.86	Nil	0.72	0.96
2013-14	302.8	9	26.50	0.76	55.32	Nil	0.76	1.01
Total	**1079.25**	**27**	**71.63**	**2.70**	**159.19**	**Nil**	**2.70**	**3.62**

Source: Departmental records

From the above, it is clear that although the Department fulfilled its obligation for procurement of power through non-solar sources, it failed to ensure its purchase obligation from solar energy source at the prescribed rate of 0.25 *per cent* of its annual total energy consumption during all the four years under reference. Thus, the shortfall in purchase of energy from solar energy source as of March 2014 had accumulated to 2.697 MU. As a result, the Department was under obligation to purchase solar certificates (REC) valuing ₹ 3.62 crore (worked out at Forbearance rate of IEX[19]) to compensate the shortfall in purchase of power from solar sources.

The Government replied (January 2015) that it could not fulfill its Renewable Purchase Obligation (RPO) on solar energy due to their inability to tie up with Solar Energy Generator. The Department also accepted obligation of purchasing solar REC valuing ₹ 0.22 crore only which was worked out based on the 'average rate' of solar REC.

The reply is not acceptable as failure in purchasing power from solar energy sources at prescribed rate brings the Department under obligation to purchase solar REC. Further, as *per* the provisions of the Regulations, the value of solar REC to be purchased had to be worked out based on the 'Forbearance rate' and not on the 'average rate' as claimed by the Department.

5.2.13.5 Payment of Reactive Energy Charges: ₹ 89.01 lakh

Reactive Power is required to maintain the voltage to deliver active power (Watts) through transmission lines and when there is not enough reactive power, the voltage goes down and it is not possible to push the power demanded by loads through the line. Motor loads and other loads also require reactive power to convert the flow of electrons into useful work.

The charge for Volt-Amperes reactive-hour (VArh) is governed by Clause 6.6 (2) of IEGC[20]-April 2010. The rate of reactive charge with effect from 01 April 2014 is 12 paise/KVArh which was applicable between the Regional Entity and the Regional Pool Account for VAr

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17 Shortfall (MU)*1000*forbearance price for solar energy

18 2012 to 2017 (IEX :1REC=1Mwh)
Floor Price: Solar - ₹ 9,300/Mwh, Non-Solar - ₹ 1,500/Mwh
Forbearance price: Solar - ₹ 13,400/Mwh, Non-Solar - ₹ 3,300/Mwh

19 Indian Energy Exchange

20 IEGC= Indian Electricity Grid Code

interchanges. The rate was subject to upward revision by 0.5 paise/KVArh *per* year, unless otherwise revised by the CERC.

Audit of the Reactive Energy Account sent by NERPC showed that during the period 2008-09 to 2013-14, the Department had incurred a net expenditure of ₹ 89.01 lakh as Reactive Energy Charges as detailed below:

Table-5.2.6

(₹ in lakh)

Year	Amount payable	Amount receivable	Net Amount payable
2008-09	4.17	0.01	4.16
2009-10	1.60	0.03	1.57
2010-11	12.79	0.08	12.71
2011-12	22.18	0.04	22.14
2012-13	24.87	0.00	24.87
2013-14	23.56	0.00	23.56
Total	**89.17**	**0.16**	**89.01**

Source: Departmental records

On year to year basis, payment of Reactive Energy Charges reflected an upward trend. This had been attributed to non-installation of suitable reactors/shunt capacitors. The Department however, had not taken any steps to address the situation.

Audit Objective: To assess the efficiency of the financial management

5.2.14 Financial Management

Detailed financial position of the Department for the period from 2008-09 to 2013-14 is given in the **Appendix-5.2.5**. Analysis of the financial position given in **Appendix-5.2.5** revealed that the expenditure of the Department (including cost of power purchase) during the period of five years had increased by 112 *per cent* from ₹ 141.37 crore (2008-09) to ₹ 300.15 crore (2013-14). As against this, the growth in the revenues of the Department during the corresponding period was to the extent of 29 *per cent* only from ₹ 87.09 crore (2008-09) to ₹ 112.22 crore (2013-14). Thus, disproportionate increase in the expenditure had resulted in increase of 159 *per cent* in the deficits of the Department from ₹ 74.02 crore (2008-09) to ₹ 191.90 crore (2013-14).

The steep increase in revenue deficit was indicative of the inefficient financial management which had put heavy burden on the State exchequer in the form of Government subsidy[21] provided to meet the said deficit.

The Terms and Conditions for Determination of Tariff Regulations, 2010 as well as Tariff Order, 2010-11 issued by JERC emphasised on the need for preparation of proper books of accounts suitable for power sector utilities. This was necessitated with a view to assess the self-sustainability of the power sector on commercial basis without Government support and to

[21] The Department did not provide details of subsidy. However as per Tariff orders for FYs 2010-11 and 2012-13, the approved subsidy was ₹ 115 crore and ₹ 187.66 crore respectively

lessen burden of Government subsidy on State exchequer in a phased manner. Audit observed that the Department was following the practice of maintaining its accounts as per Central Public Works Account Code. The monthly accounts were being prepared division-wise and the monthly accounts so prepared were not consolidated into Annual Financial Statement. The Department is publishing a booklet titled 'Assessment of Financial Resources for the Annual Plan' showing activities and transactions of the Department.

The Government stated (January 2015) that though the nature of its business was similar to that of a Corporation, the entity still functions as a Government Department and maintains accounts as per Public Works Department Accounts Code rather than as per Companies Act, 1956. It was further stated that the State Government had not given any directions in this regard.

As per the directions (January 2011) of JERC, the Department was required to submit the Accounting Statement including Balance Sheet, Profit & Loss Account, Report of the Auditors, Cost Record as well as all supporting statement/Schedules, *etc.* along with the next Annual Revenue Requirement and Tariff Petition. The Department submitted (2012) a proposal to the Government for engagement of consultant for preparation of books of Accounts and Assets Register of the Department for sanction of financial commitment. The proposal was stated to be under process (March 2014). No action, however, had been taken by the Department to prepare the Accounting Statement and other records as per directions of the JERC.

Audit Objective: To assess the efficiency and effectiveness of the system for clearance of power purchase bills

5.2.15 System for clearance of power purchase bills

Sound and efficient system for clearance of power purchase bills is necessary to ensure timely payment of outstanding bills and maintaining prudent financial management. The Power and Electricity Department follows a complex procedure for payment of outstanding bills to different power utilities. In the existing system, bills raised by power suppliers are first received and processed by Superintending Engineer's (Commercial) office and then sent to Government Secretariat for obtaining concurrence of Finance Department. After getting the concurrence, the Executive Engineer (SLDC) processes the bills for obtaining final clearance from the Finance Department. The bills are then finally cleared by the Finance Department. Thus, the system for clearance of power purchase bills was not only cumbersome but also causes unnecessary delay in payment of bills.

As a result, the Department acted only as an intermediary between, the suppliers/service providers, Treasury and Finance Department. Consequently, clearance of outstanding Bills in the present Power Procurement Billing system takes a long time ranging between two and twelve months. This delay in clearance of Bills routinely attracted surcharge and additional interest as specified in Power Purchase Agreements (PPAs).

The few instances of such deficiencies are discussed below:

5.2.15.1 Avoidable loss due to Surcharge Payment

The terms and conditions of CERC's Tariff, Regulations for 2009-14 stipulates, that *"in case the payment of any bill for charges payable under these regulations is delayed by a beneficiary beyond a period of 60 days from the date of billing, a late payment surcharge at the rate of 1.25 per cent per month shall be levied by the generating company or the transmission licensee, as the case may be"*.

During the period from 2008-09 to 2013-14, the Department paid ₹ 18.19 crore as surcharge to the Generating Stations and CTU due to delayed payment of bills. Among the power suppliers, highest amount of surcharge was paid to NEEPCO followed by TSECL. Details of the surcharge paid during the period are given below in the Table:

Table-5.2.7

Sl. No.	Generating Stations/ CTU	Surcharge Paid (₹ in lakh)
1.	NEEPCO	1614.06
2.	NERLDC	4.85
3.	PGCIL	48.27
4.	NHPC	46.61
5.	TSECL	105.52
Total		**1819.31**

Source: Departmental records

The Government stated (January 2015) that the issue had been brought to the notice of the Finance Department of the State Government. The Department, however, agreed that timely sanction of payment could not be attained till date (January 2015).

5.2.15.2 Rebate against payment of bills through Letter of Credit

As per clause 34 of the CERC guidelines, a rebate of two *per cent* shall be allowed if the payment of bills is made through the Letter of Credit (LC).

Accordingly, the PPAs with the Power Generators provided for the rebate of two *per cent* against payment of bills through LC. Audit observed that the Department had defaulted in payment of bills due to non-replenishment of LC account within the time specified in the PPAs. Consequently, the Department could not avail the rebate of ₹ 692.24 lakh offered by the Power Suppliers during 2009-10 to 2013-14 as *per* details given below:

Table-5.2.8

(₹ in lakh)

Sl. No.	Year	Bill amount	Amount eligible for rebate[22]	Rebate Forfeited (two *per cent* of eligible amount)
1.	2009-10	6,520.61	3,741.65	74.83
2.	2010-11	8,464.70	5,417.77	108.36
3.	2011-12	12,297.00	7,929.99	158.60
4.	2012-13	12,901.77	8,372.93	167.46
5.	2013-14	13,600.32	9,149.42	182.99
Total		**53,784.40**	**34,611.76**	**692.24**

Source: Departmental records

Audit further observed that the Department did not enter into agreement with NTPC for availing their offer (March 2013) for availing the rebate of two *per cent* on clearance of power purchase bill by 6th day of a calendar month.

Government replied (January 2015) that the incentive policy in the form of rebate was also brought to the notice of Finance Department of State Government and accepted that regular payment could not be made.

Audit Objective: To assess the efficiency of Human Resource Management

5.2.16 Human resource management

5.2.16.1 Excessive number of employees

As on 31 March 2014, the Department had 4,618 employees on its rolls. The JERC, in their Tariff Orders (2010-11) had noted that the total number of employees was very high and the employee cost was alarming. The year-wise position during 2009-10 to 2013-14 is given below:

Table-5.2.9

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14 (P)
1.	No. of Employees	4597	4589	4575	4625	4618
2.	Establishment/Administrative[23] Cost (₹ in crore)	60.42	65.85	64.47	75.40	72.99
3	Total expenditure (₹ in crore)	158.62	217.20	260.32	310.22	300.15
4.	Percentage of employee cost to total cost	38.09	30.31	24.77	24.31	24.32

Source: Departmental records

From the above table it could be seen that establishment/administrative cost had increased from ₹ 60.42 crore in 2009-10 to ₹ 72.99 crore in 2013-14. However, the percentage of

[22] Amount eligible for rebate includes energy charges only
[23] Administrative costs have not been provided and are included in Establishment cost

employee cost during 2009-10 to 2013-14 indicated a decreasing trend mainly because of disproportionate increase in the total expenditure of the Department during the said years. Audit observed that even though the employee cost was 24.32 *per cent* in 2013-14, yet it was higher when compared with all India average of 11.55 *per cent*.

The Government stated (January 2015) that its set-up is not commercial in nature and was like other Government Department in the State and therefore, the Department could not make any change in this respect. The Government further stated that employee cost cannot be reduced as of now.

The reply is not acceptable as considering the significantly high establishment costs, the Government need to explore the possibilities of restricting the employees cost at least within the national average.

Audit Objective: To assess the effectiveness of the monitoring mechanism of the Department

5.2.17 Monitoring mechanism

5.2.17.1 Unbundling of the Power & Electricity Department

As per Section 131 of Indian Electricity Act, 2003 *"Any property, interest in property, rights and liabilities vested in the State Government under sub-section (1) shall be re-vested by the State Government in a Government company or in a company or companies"*. However, the Government of Mizoram had not undertaken any action for unbundling the Power and Electricity Department into Transmission, Generation and Distribution utilities keeping in mind the commercial aspect and to promote efficiency of the Management.

5.2.17.2 State Load Despatch Centre

Clause 5.3.7 of National Electricity Policy, 2005 states *"The spirit of the provisions of the Act is to ensure independent system operation through National Load Despatch Centre (NLDC), Regional Load Despatch Centre (RLDC) and State Load Despatch Centre (SLDC). These despatch centers, as per the provisions of the Act, are to be operated by a Government company or authority as notified by the appropriate Government. However, till such time these agencies/ authorities are established, the Act mandates that the Central Transmission Unit (CTU) or State Transmission Unit, as the case may be, shall operate the RLDCs or SLDC. The arrangement of CTU operating the RLDCs would be reviewed by the Central Government based on experience of working with the existing arrangement. A view on this aspect would be taken by the Central Government by December 2005."*

The functional autonomy of the State Load Despatch Centre (SLDC) is essential for efficient maintenance of scheduled drawl and dispatch of electricity within the State. Further, installation of an appropriate SCADA/RTU[24] system in SLDC facilitates effective supervision and control

[24] SCADA/RTU - Supervisory Control and Data Acquisition/Remote Terminal Unit

over the intra State transmission system as well as monitoring of real time grid operations. In North-East States of Assam, Tripura and Meghalaya, SCADA/RTU system is used to reduce costs through eased work force requirements and enhance overall Quality of Service.

During examination of records of the Department, it was observed that the SLDC in Mizoram was functioning under the Department as one of its 8 Circles. Thus, the functional autonomy of SLDC as envisaged in the Act was being totally neglected, which undermined the very purpose of its existence.

It was further observed that the SLDC was not equipped with an appropriate SCADA/ RTU system. Due to non-availability of SCADA/RTU system the grid operations and power situation in different Power Stations and Sub-stations etc. could not be monitored on real time basis. Further, in the absence of SCADA/ RTU system in the SLDC, no ready and real-time data was available for efficient bidding in the course of power trading. Trading of power in Indian Energy Exchange (IEX) is done on the basis of data compiled with projection of energy drawn from outside source instead of real time data.

Thus, absence of a full-fledged SLDC equipped with an appropriate SCADA/RTU system had adversely affected the overall power management of the State including voltage and reactive power management.

5.2.17.3 Internal Control

Internal control system is an essential part of the management control system. An efficient and effective internal control system helps the management to achieve the organisational objectives efficiently and effectively. The following deficiencies were noticed in the internal control system being followed by the Company:

- The Department signed PPAs with IPPs without correlation to supply-demand gap;
- The Department did not submit Aggregate Revenue Requirement (ARR) and Retail Tariff petition on time and periodically. The Department submitted its petition for 2009-10 after the financial year was over which therefore was not considered. Since then only three petitions were submitted by the Department against JERC's Directives of yearly submission before 30 November for next ARR. Moreover data submitted were inadequate;
- The Department did not prepare any Financial Statements nor did it maintain necessary Registers like Asset Registers *etc.*

5.2.17.4 Internal audit

The Power and Electricity Department did not have its own Internal Audit Wing nor did it take assistance of outside support such as engagement of Chartered Accountants for examination of records and verification of activities of the Department. All the financial transactions along with operational activities of the Department were made without any cross verification, scrutiny and further examination.

5.2.18 Conclusion

The GoM had identified huge potential and capacity in the State under Hydel Electric Power Policy, 2010.The Department, however, could not harness the power potential of the State in absence of appropriate and timely action. The Department could not ensure availability of its share of power allocated in respect of Kameng and Pare Hydel Electric Power Projects (HEPs) due to non-formalising of the Power Purchase Agreements with power generators. The Department also failed to effectively pursue with the power generators for allocation of State share against other three power projects. There was steep increase of 159 *per cent* in the revenue deficit of the Department during 2009-10 to 2013-14. This was indicative of the inefficient financial management which had put heavy financial burden on State exchequer in the form of subsidy provided to meet the said deficit. The process of clearing the power purchase bills was cumbersome. As a result, there were delay in payment of power purchase bills attracting payment of surcharge and non-availing of rebate for prompt payment. The Department did not take effective steps to restrict the employee costs despite its establishment cost being higher than the national average. The power management system of the Department was weak in absence of a full-fledged State Load Despatch Centre (SLDC) equipped with an appropriate Supervisory Control and Data Acquisition and Remote Terminal Unit (SCADA/RTU) system.

5.2.19 Recommendations

The Government may consider ensuring:

- making concrete plan for development of potential sites in the State and harness energy from the existing units on commercial basis.
- capacity addition through existing PPAs or from new sources of supply to fill the gap between demand and supply of power.
- moving towards achieving the self-sustainability of the power sector without Government support and maintaining the Annual Accounts and other records on commercial lines as prescribed under the applicable Rules.
- an efficient system for clearance of power purchase bills to avoid payment of surcharge for delay in payment of bills.
- functional autonomy to SLDC with installation of an appropriate SCADA/RTU system.

PERFORMANCE AUDIT

Information and Communication Technology Department

5.3 Working of the Zoram Electronics Development Corporation Limited

Highlights

Zoram Electronics Development Corporation Limited (ZENICS) was formed (March 1991) with the main objectives of developing Electronics/Information Technology and allied industries in the State of Mizoram. A Performance Audit on the workings of ZENICS was conducted covering the period 2009-10 to 2013-14. During the period of audit ZENICS had undertaken various schemes/projects which mainly included setting up of Common Service Centre (CSC) and Rural Information Kiosks (RIK), implementation of IT Education Programme as well as Mizoram State Wide Area Network (MSWAN), *etc.*

The Audit has come out with the following significant findings:

ZENICS had neither evolved a system to assess viability of its operations nor introduced a system of business planning and resource forecasting for sustainability of the organisation in long run. The accumulated loss of ZENICS had eroded 94 per cent of the paid-up capital.

(Paragraph 5.3.8.1)

The capacity utilisation of the Computer Training Centre of ZENICS was to the extent of 21 per cent only.

(Paragraph 5.3.9)

The Information & Communication Technology Department (ICTD), Government of Mizoram (GoM) submitted the Utilisation Certificates for an amount of ₹ 2.20 crore to the North Eastern Council before its actual utilisation and even before their release to the implementing agency i.e. ZENICS.

(Paragraph 5.3.10.1.1)

ZENICS could not complete the selection of 59 out of 300 Village Level Entrepreneurs (VLEs) under Rural Information Kiosk project even after a lapse of one year from the extended date (September 2013) of project completion.

(Paragraph 5.3.10.1.2)

The installation of VSAT equipment meant for Government to Citizens (G2C) services under Common Service Centre (CSC) programme was pending in 35 out of 136 locations (September 2014).

(Paragraph 5.3.10.2.1.1)

An amount of ₹ 1.80 crore released under MSWAN project was diverted by ZENICS towards salaries of its employees (₹ 1.62 crore) and purchase of vehicles (₹ 0.18 crore).

(Paragraph 5.3.10.3.1)

GoM submitted Utilisation Certificate for ₹ 3.44 crore against site preparation works for all 42 Points of Presence (PoPs) under MSWAN project which included 13 PoPs which were to function from existing Government buildings.

(Paragraph 5.3.10.3.3)

5.3.1 Introduction

Zoram Electronics Development Corporation Limited (ZENICS) is a company incorporated (20 March 1991) under the Companies Act, 1956 with the main objectives to develop Electronics and Information Technology and allied industries through establishment of manufacturing, research and development units and such other means as may be conducive to the growth of Electronics and Information Technology and its allied technology in the State of Mizoram.

The activities of ZENICS at present are:

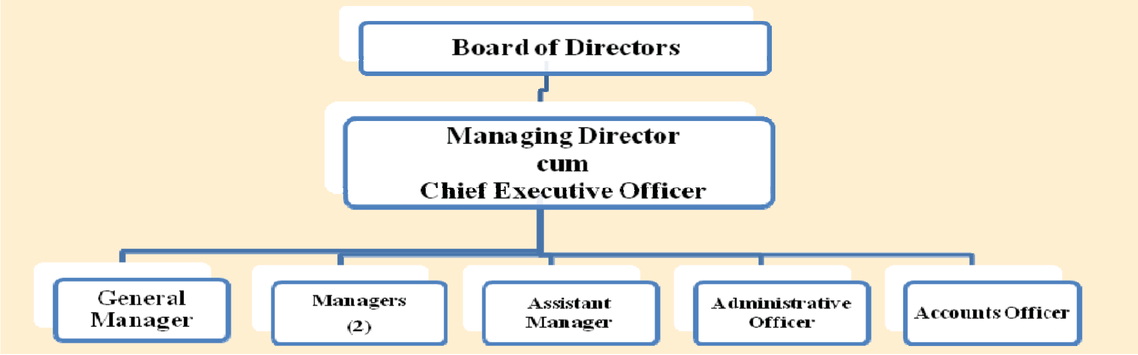
- Setting up of Common Service Centre (CSC);
- Providing IT Education Programme;
- Setting up of Rural Information Kiosks (RIK); and
- Implementation of Mizoram State Wide Area Network (MSWAN).

5.3.2 Organisational set-up

The management of the ZENICS is vested with the Board of Directors headed by the Managing Director (MD) who is also the Chief Executive Officer (CEO) of the ZENICS. The MD-cum-CEO is assisted by one General Manager, two Managers, one Assistant manager, Administrative Officer and Accounts Officer. At present, the Secretary, Information and Communication Technology (ICT) Department was looking after the charge of MD cum CEO of the Company.

An organogram of ZENICS is given below:

Chart-5.3.1



5.3.3 Scope of Audit

The Performance Audit was conducted during June-August 2014 covering the working of ZENICS for the period 2009-10 to 2013-14. The audit examined the performance of ZENICS with regard to implementation of various schemes during 2009-14 *viz.* setting up of Common Service Centre (CSC), Providing IT Education Programme, setting up of Rural Information Kiosks (RIK), Implementation of Mizoram State Wide Area Network (MSWAN) under GoI.

5.3.4 Audit Objectives

The objectives of the Performance Audit were to assess whether:

- to assess the soundness of the Financial Management of ZENICS;
- capacity utilisation of the Computer Training Centre was attained to the maximum extent;
- objectives of the schemes/projects undertaken were achieved and the scheme/project funds were utilised economically and efficiently; and
- an effective Corporate Governance existed in ZENICS.

5.3.5 Audit Criteria

The audit criteria adopted for the Performance Audit were derived from the following sources:

- Scheme guidelines and instructions issued by Government of Mizoram (GoM)/ Government of India (GoI);
- Agenda & Minutes of the Board of Directors (BoD), executive instructions and circulars; and
- Draft Project Reports (DPR), Agreements and Memorandum of Understanding (MoU).

5.3.6 Audit Methodology

The methodology adopted for attaining the audit objectives consisted of explaining audit objectives to top management in the Entry Conference (16 May 2014), analysis of data/ records with reference to audit criteria, examination of annual reports of ZENICS as well as Agenda/Minutes of the BoD, interaction with the ZENICS officials, raising of audit queries, issuing of draft audit report to the Management/GoM for comments. The draft audit report was also discussed (9 December 2014) with the representatives of the ZENICS/GoM in the Exit Conference. The formal replies (5 December 2014) of the GoM as well as the views expressed by the representatives of ZENICS/GoM in the Exit Conference have been taken into consideration while finalising the Report.

5.3.7 Acknowledgement

The Indian Audit and Accounts Department acknowledges and appreciates the co-operation rendered by the Secretary ICT Department, Managing Director and the Administrative/

Accounts Officer of ZENICS, including Field Level Functionaries of the selected Districts and Blocks during this Performance Audit.

Audit Findings

Audit findings are discussed in the succeeding paragraphs:

Audit Objective: To assess the soundness of the Financial Management of ZENICS

5.3.8 Capital Structure

As against the authorised capital of ₹ 10 crore, the paid up capital of ZENICS stood at ₹ 7.45 crore (including pending allotment of ₹ 2.68 crore) as on 31 March 2014 which was contributed and wholly subscribed by Government of Mizoram.

5.3.8.1 Financial Performance

The summarised financial position and working results of ZENICS for five years period ending 31 March 2014 are shown in Table-5.3.1 and Table-5.3.2 below:

Table-5.3.1

(₹ in crore)

Assets and Liabilities		2009-10	2010-11	2011-12	2012-13	2013-14
A.	**Liabilities:**					
(i)	Paid up capital	7.23	7.45	7.45	7.45	7.45
(ii)	Reserves & Surplus	-	-	-	-	-
(iii)	Current Liabilities & Provisions	0.06	0.06	0.75	0.58	0.25
Total		**7.29**	**7.51**	**8.20**	**8.03**	**7.70**
B.	**Assets:**					
(i)	Gross Block	1.37	1.36	1.36	1.36	1.36
(ii)	Less. Depreciation	0.90	0.94	0.98	1.01	1.04
(iii)	Net Block	0.47	0.42	0.38	0.35	0.32
(iv)	Capital Work in Progress	0.08	0.08	0.08	0.08	0.08
(v)	Current Assets	0.15	0.47	1.21	0.92	0.29
(vi)	Accumulated loss	6.59	6.54	6.53	6.68	7.01
Total		**7.29**	**7.51**	**8.20**	**8.03**	**7.70**
Capital employed[25]		0.64	0.91	0.92	0.77	0.44
Working capital[26]		0.09	0.41	0.46	0.34	0.04

Source: Provisional Annual Accounts of ZENICS

[25] Capital employed = Shareholders' Fund + Long Term Borrowings
[26] Working Capital = Current Assets – Current Liabilities

Table-5.3.2

(₹ in crore)

Working Results		2009-10	2010-11	2011-12	2012-13	2013-14
A.	**Income:**					
(i)	Other Income	0.04	1.19	1.32	1.34	1.29
Total		**0.04**	**1.19**	**1.32**	**1.34**	**1.29**
B.	**Expenditure:**					
(i)	General & Administration expenses	0.28	1.15	1.31	1.49	1.61
Total		**0.28**	**1.15**	**1.31**	**1.49**	**1.61**
Profit (+) & Loss (-) for the year		**(-) 0.24**	**(-) 0.05**	**(-) 0.01**	**(-) 0.15**	**(-) 0.32**

Source:Provisional Annual Accounts of ZENICS

It can be seen from the Table above that:

- As on 31st March 2014, ZENICS had a paid up share capital of ₹ 4.77 crore wholly subscribed by the GoM. In addition, ZENICS continued to hold an amount of ₹ 2.68 crore during 2009-14 which was received from the State Government as share application money. However, allotment of shares against this share application money was pending. There was no reason on record for non-allotment of shares by ZENICS against this share application money. Thus, the State Government's funds to that extent remained blocked with ZENICS without any returns.

- ZENICS incurred losses during all the five years covered under the review and the accumulated loss increased from ₹ 6.59 crore in 2009-10 to ₹ 7.01 crore in 2013-14. The accumulated loss had eroded 94 *per cent* of the paid-up capital.

- The expenditure exceeded over income during the years 2009-10, 2012-13 and 2013-14 ranging from ₹ 0.15 crore to ₹ 0.32 crore.

Further examination of the records revealed that ZENICS had not evolved a system to assess viability of its operations through forecasting of operational profitability. ZENICS had neither introduced a system of financial planning nor prepared business plan and resource forecasting for sustainability of the organisation in long run.

The Government did not offer any comments on the issue.

Audit Objective: To assess the capacity utilisation of its Computer Training Centre by ZENICS

5.3.9 Under-utilisation of slots

ZENICS offered different Computer Courses *viz*. Diploma in Computer Application (DCA) – six months, Diploma in Desktop Publishing (DTP) – three months and Multimedia Content Creation (MCC) – three months. Number of batches of student in each courses, availability of slots in each batches, actual number of student, percentage of capacity utilisation, revenue generated and revenue loss due to under-utilisation of the capacity of the Computer Training Centre (CTC) for the period 2009-10 to 2013-14 were shown as below:

Table-5.3.3

Year	Name of Course	Total No. of Batches and Slots Available		No. of Students Admitted	Slots remained Vacant	Percentage of capacity utilisation	Revenue Generated (₹ in lakh)	Maximum generation of revenue (₹ in lakh)
		Batches	Slots					
2009-14	MCC (3 months)	2	20	2	18	10.00	0.05	0.43
2009-14	DCA (6 months)	50	1400	353	1047	25.21	8.1	23.86
2009-14	DTP (3 months)	43	1204	202	1002	16.78	1.81	9.75
Total		**95**	**2624**	**557**	**2067**	**21.23**	**9.96**	**34.04**

Source:Records of ZENICS

It was observed in audit that during 2009-14, against the available slots of 2,624 in three different computer courses, only 557 students got admitted, which constituted 21 *per cent* of the available slots. Thus, the revenue of ₹ 9.96 lakh generated during 2009-14 could have been more had the management taken effective steps for full utilisation of available slots.

The Government while admitting the facts stated (December 2014) that the resource capacities are not fully utilised due to non availability of students and hence the expected revenue cannot be generated. The Government further reiterates that effort would be put to utilise maximum resources for increasing revenue in future.

The reply of the Government corroborates the fact that the slots for the various courses were created without assessing the actual availability of students.

Audit Objective: To assess the achievement against the envisaged objectives of the schemes/projects as well as economy and efficiency in utilisation of scheme/project funds

5.3.10 Implementation of Projects

5.3.10.1 Rural Information Kiosk (RIK)

The GoM (through ZENICS) submitted (May 2011) a Detailed Project Report (DPR) to the North Eastern Council (NEC), Ministry of Development of North Eastern Region (DoNER) for establishing Rural Information Kiosk (RIK) in 300 villages of Mizoram. The NEC accorded (March 2012) Administrative Approval to the project at a total cost of ₹ 4.90 crore which was earmarked for Computer and Connectivity Infrastructure, Terminal Software for Business to Citizen (B2C) services and Application Software for Government to Citizen (G2C). The project was to be implemented within a period of 12 months from the date of release of funds. As of March 2014, out of ₹ 3.44 crore received from the NEC and State Government, the company incurred an expenditure of ₹ 3.22 crore in the project.

Audit observed the following:

5.3.10.1.1 Submission of incorrect Utilisation Certificates

The NEC accorded (March 2012) Administrative Approval for Establishment of Rural Information Kiosks at a total cost of ₹ 4.90 crore. The NEC's share of contribution was 90 *per cent* of the total approved cost *i.e.* ₹ 4.41 crore and State's mandatory contribution was 10 *per cent i.e.* ₹ 0.49 crore. As per the approval, the NEC was to release subsequent instalments of funds after submission of Utilisation Certificates (UCs) by GoM against previous instalments released by NEC/GoM.

Status of funds released by NEC and GoM (as on 31 March 2014) was as shown below:

Table-5.3.4

Date of Release of Funds by NEC	Date of Release of Funds by the GoM to ZENICS (Delay in release of funds)	Date of Submission of UC to NEC by the GoM	Amount (₹ in crore)
1st Instalment (01.03.2012)	20.11.2012 (8 months)	24.08.2012	1.30
2nd Instalment (29.11.2012)	23.08.2013 (9 months)	10.05.2013	0.90
--	23.08.2013 (State Share, 1st Instalment)	--	0.24
3rd Instalment (21.11.2013)	20.03.2014 (4 months)	Not submitted as of September 2014	1.00
Total			**3.44**

Source: Records of ZENICS

It can be seen from the above that the Information & Communication Technology Department (ICTD), GoM submitted the UCs for an amount of ₹ 2.20 crore to the NEC for the two instalments long before its actual utilisation and even before their release to the implementing agency *i.e.* ZENICS.

Thus, submission of incorrect UCs before its actual utilisation led to misstatement of facts by the GoM to the funding agency *i.e.* the NEC.

The Government while admitting the facts stated (December 2014) that submission of UCs before actual utilisation of fund was regretted but it was done so for smooth running and timely implementation of the project. The Government further reiterates that delay in releasing fund to implementing agency was due to parking of fund under K-Deposit[27] as instructed by State Finance Department.

[27] Civil Deposits/Deposits not bearing interest

5.3.10.1.2 Delay in selection of Village Level Entrepreneurs

The Rural Information Kiosk (RIK) project was to be implemented through Public Private Partnership (PPP) model. In implementation of RIK project both, the Service Centre Agency (ZENICS) as well as Village Level Entrepreneurs (VLEs) had to play important role. ZENICS role was to select 300 VLEs and execute proper agreement and also to provide services to citizen through selected VLEs.

As per the stipulated time frame of the DPR, the scheme was to be completed within 12 months from the date of sanction (March 2012) of the project *i.e.* by March 2013. However, the target date of completion was extended till September 2013. Further, as per the project implementation plan it was to be implemented in a phased manner as under:

Phase-I : ZENICS was to identify and select Kiosks operators (*i.e.* VLEs) for 300 villages;

Phase-II : Supply of computing infrastructure and installation of internet connectivity using Very Small Aperture Terminal (VSAT); and

Phase-III : Commissioning and monitoring of kiosks.

A selection committee consisting of six members under the Chairmanship of Managing Director, ZENICS was constituted for selection of VLEs. As against the targeted number of 300 VLEs, the selection committee could select total 241 VLEs (September 2014). Thus, the implementing agency could not complete the selection of balance 59 kiosk operators (VLEs) even after a lapse of one year from the extended date (September 2013) of completion which in turn deprived the targeted beneficiaries from availing the intended benefits of the project to that extent.

The Government while admitting the facts stated (December 2014) that due to scarcity of qualified candidates in respective villages, the selection process was pending for the remaining 59 RIK-VLEs.

5.3.10.1.3 Idle expenditure of ₹ 1.09 crore

ZENICS placed (September 2012) purchase order on M/s Hughes Communication India Limited, Gurgaon (Contractor) for supply of 300 numbers of VSAT Bandwidth equipment for installation in 300 locations in eight Districts of the State.

Audit noticed that the firm delivered (December 2012) the VSAT equipment at various designated locations in eight Districts of the State and an amount of ₹ 1.09 crore was paid (August 2013 and March 2014) to the supplier. Further, the equipments were not installed and had been lying idle even after a lapse of 20 months due to non-selection of the VLEs as pointed out in **Paragraph 5.3.10.1.2**.

Thus, due to delay in selection of VLEs by ZENICS, the investment of ₹ 1.09 crore made in VSAT equipment remained idle for more than 20 months, which resulted in depriving the intended rural masses from getting the intended benefit of the project.

The Government while admitting the facts stated (December 2014) that due to non-release of payment to the extent of 80 *per cent* of contract value (*i.e.* ₹ 1.09 crore) as per the contract conditions, the Contractor (M/s Hughes) did not start installation of VSAT equipment till March 2014.

The reply is not acceptable as the delay in payment to the Contractor was mainly on account of delay in release of project funds by GoM to ZENICS. Further, non-selection of 59 VLEs by ZENICS was also one of the reasons for non-installation of VSAT equipment in all 300 VLEs.

5.3.10.2 Common Service Centre (CSC)

5.3.10.2.1 Implementation of Common Service Centre (CSC)

The Common Service Centre (CSC) is a project under the National e-Governance Plan (NeGP) to empower the rural community and catalyze social change through modern technologies. The CSCs are meant to provide high quality and cost effective Government to Citizen (G2C) and Business to Citizen (B2C) services such as electricity bill payment, water bill payment, property tax collection, residential, income, scheduled caste and tribe certificates etc under G2C and in case of B2C, services to be rendered includes railway, airline tickets, mobile and DTH recharge, insurance *etc.*

Ministry of Communication & Information Technology, Department of Technology (DIT), GoI accorded (January 2008) administrative approval for implementation of CSCs through Mizoram State e-Governance Society (MSeGS). The project was to be implemented over a period of four years at an initial project cost of ₹ 2.16 crore to be contributed by GoI and GoM in equal proportion. The total project cost was subsequently revised (December 2009) to ₹ 4.94 crore involving contribution of ₹ 2.47 crore each from DIT (GoI) and GoM. The Information and Communication Technology Department, GoM appointed (March 2011) ZENICS as Service Centre Agency (SCA) for implementation of CSC project in Mizoram and Master Service Agreement (MSA) was signed on 1 April 2011.

As per the MSA, the ZENICS (SCA) was required to operate and manage 136 Village Level Entrepreneurs (VLEs) in 136 CSCs in eight Districts of the State as detailed below:

Table-5.3.5

Name of District	District-wise VLEs in the CSCs (in No.)
Aizawl	69
Serchhip	12
Lunglei	14
Champhai	14
Kolasib	10
Lawngtlai	05
Mamit	08
Saiha	04
Total	**136**

Source: Departmental records

The observations on implementation of the CSCs project by ZENICS are as under:

5.3.10.2.1.1 Non-installation of Very Small Aperture Terminal (VSAT) for G2C Services

For eight Districts in Mizoram 136 CSCs locations were rolled out and total 136 VSAT installations were allotted covering each CSC location. M/s Hughes Communication India Limited (HCIL) was appointed as the vendor (all India basis) by GoI through e-Governance Services India Limited for supplying, installation and commissioning of VSAT.

Status of delivery of VSAT Equipment and VSAT Installation during the period 2012-14 is shown below:

Table-5.3.6

Sl. No.	District	Delivery Status of VSAT	Allotment of VSAT to be Installed	No. of VSAT Installed	VSAT yet to be Installed
1.	Aizawl	69 delivered	69	47	22
2.	Mamit	8 delivered	8	8	0
3.	Kolasib	10 delivered	10	7	3
4.	Serchhip	12 delivered	12	12	0
5.	Lunglei	14 delivered	14	12	2
6.	Champhai	14 delivered	14	8	6
7.	Lawngtlai	5 delivered	5	3	2
8.	Saiha	4 delivered	4	4	0
Total		**136 delivered**	**136**	**101**	**35**

Source: Departmental records

From the table above, it could be noticed that out of 136 locations VSAT installation could not be completed at 35 locations (26 *per cent*) (September 2014). However, in absence of complete information on the targeted dates for delivery and installation of VSAT on selected destination by HCIL (supplier), Audit could not verify the extent of actual delays in implementation of the project.

5.3.10.2.1.2 Unfruitful expenditure in installation of Terminal ID for B2C Services

CSCs could be functional and useful only when the required G2C and B2C services are integrated with these CSCs. The following services were required to be integrated into Mizoram Online for B2C services:

(i) Railway ticket, (ii) Airlines ticket, (iii) Mobile recharge, (iv) DTH recharge, (v) Insurance, (vi) Bus ticketing, (vii) Car rentals, (viii) Hotel bookings and (ix) Holiday packages.

Accordingly, ZENICS issued (January 2011) quotation to four firms for supply of 136 terminal Software for B2C Services. M/s Hermes i-Tickets Private Ltd. (M/s Hermes) being the lowest bidder was selected for developing 136 terminal IDs at an agreed cost of ₹ 13.60 lakh. Letter of Intent (LoI) was sent (February 2011) to M/s Hermes for initiating the project. Agreement was signed (March 2011) between ZENICS and M/s Hermes for development of Mizoram Online Services (MOL) Terminal IDs for B2C services. Purchase Order for 136 numbers of Terminal IDs for Mizoram Online Services was placed (March 2011) and the expenditure sanction was accorded (April 2011) for the sum of ₹ 13.60 lakh.

It was noticed in audit that out of total 136 Village Level Entrepreneurs (VLEs) selected in 8 districts of the State for operating CSCs only 88 VLEs were active till the date of audit (September 2014) as per details given below:

Table-5.3.7

Sl. No.	District	Total No. of VLEs	Active No. of VLEs	In-active No. of VLEs
1.	Aizawl	69	48	21
2.	Kolasib	10	8	2
3.	Mamit	8	4	4
4.	Serchhip	12	6	6
5.	Lunglei	14	7	7
6.	Champhai	14	10	4
7.	Lawngtlai	5	2	3
8.	Saiha	4	3	1
Total		**136**	**88**	**48**

Source: Departmental records

Thus, 48 nos. of VLEs (35 *per cent*) remained inactive, despite making full payment of ₹ 13.60 lakh to the Contractor (M/s Hermes) for creation and development of terminal IDs at all 136 VLEs,.

The Government stated (December 2014) that the Contractor had developed 136 numbers of Terminal ids for Mizoram Online Services and delivered in good condition. As such, payment of ₹ 13.60 lakh crore was made as per terms of agreement. It was further stated that Terminal IDs for non-functional 48 VLEs would be used as and when these VLEs are in active condition.

The reply confirms the fact of non-achievement of the intended benefits of the project to the full extent.

5.3.10.3 Implementation of Mizoram State Wide Area Network (MSWAN)

Under the National e-Governance Action Plan (NeGAP) 22 Mission Mode Projects were identified for implementation at the Central and State level in a phased manner. In addition, various other e-Governance initiatives were being taken up by the respective States and Government of India over three to four years starting from 2005-06. The State Wide Area Network (SWAN) was identified as an element of the core infrastructure for supporting these e-Governance initiatives. Government of India would continue to support for establishment of such infrastructure up to the block level.

The GoM had selected Mizoram State e-Governance Society (MSeGS) as the implementing agency of MSWAN. During February 2006 the GOI (DIT) accorded Administrative Approval for conducting feasibility study of the project and released an amount of ₹ 0.15 crore with the stipulation to complete the study within four months.

The Project Implementation Committee of the GoM decided to engage (May 2006) M/s Wipro Infotech Limited (Wipro) for undertaking the feasibility study. On completion of feasibility study, Wipro submitted (February 2007) their report to MSeGS. Detailed Project Proposal for MSWAN was forwarded (February 2007) by GoM to DIT (GoI) for further approval.

Based on the Detailed Project Proposal submitted by GoM, DIT (GoI) conveyed (March 2007) Administrative Approval for implementation of M-SWAN at an estimated cost of ₹ 20.59 crore (GoI's share: ₹ 14.63 crore and State's share: ₹ 5.96 crore).

Based on the request made by GoM, DIT (GoI) appointed (December 2007) ZENICS as Implementing Agency for MSWAN in place of MSeGS. Accordingly, MSeGS handed over (January 2008) ₹ 2.93 crore to ZENICS which the MSeGS had received in March 2007.

Meanwhile, GoM had received (December 2005) ₹ 3.35 crore for Site Preparation of M-SWAN Points of Presence (PoPs) from Government of India as Additional Central Assistance. ZENICS prepared and submitted (June 2008) a revised detailed estimate for construction of new buildings for POPs at 42 locations at total cost of ₹ 3.35 crore. GoM released ₹ 3.35 crore to ZENICS in two instalments of ₹ 1.67 crore (August 2008) and ₹ 1.68 crore (November 2009).

ZENICS undertook site preparation works departmentally. It was noticed that necessary space for establishment of 13 PoPs out of 42 PoPs was provided by GoM in existing buildings. Hence, construction of buildings for these 13 PoPs was not required. ZENICS, however, completed the construction of remaining 29 PoPs.

After inviting the tender notice, ZENICS appointed (December 2009) M/s Wipro Limited as Consultant for providing assistance in managing the implementation of M-SWAN at a consideration of ₹ 0.40 crore.

ZENICS further appointed (January 2011) M/s ITI Limited, Bangalore and its Consortium Partner M/s Vayam Technologies Limited, New Delhi, being the lowest bidder in open tendering, as Network Operator (NO) for MSWAN at a negotiated contract value of ₹ 16.81 crore. The work scope of the Network Operator (M/s ITI Ltd.) included to design, supply of equipment, installation, commissioning, integration, operation and maintenance of MSWAN on Build, Own, Operate and Transfer (BOOT) basis for five years.

In March 2011, the MSWAN implementation committee appointed M/s KPMG Advisory Services Private Limited as Third Party Auditor (TPA) to carry out third party audit and Service Level Agreement (SLA) monitoring activities at an agreed fee of ₹ 0.96 crore. ZENICS and Bharat Sanchar Nigam Limited (BSNL) signed (May 2011) Memorandum of Understanding (MoU) to provide Bandwidth (4 Mbps) from State Headquarters to District Headquarters and 2 Mbps leased circuit from District Headquarter to Block Headquarters. As per MoU, the BSNL would provide Bandwidth to establish a dedicated wide area network to vertically connect 42 Points of Presence (POPs) within MSWAN in the first phase and thereafter for horizontal connectivity to Government Offices at State Capital, District Headquarters and all Blocks in the State of Mizoram.

Out of 42 PoPs proposed at various locations, total 35 PoPs could be commissioned during 2011 (15 PoPs), 2012 (18 PoPs) and 2014 (2 PoPs) while remaining 7 PoPs were pending for commissioning.

It was observed that ZENICS served (March 2014) notice to M/s ITI Limited and its consortium partner for termination of contract on the ground of their performance as Network Operator being poor and unsatisfactory. ZENICS, however, allowed a period of 30 days to the Network Operator for rectifying all the defects noticed to avoid termination of the contract.

As on September 2014, out of total 42 PoPs, only 24 POPs were operational and remaining 18 POPs were non-functional due to issues relating to site, power, BSNL, UPS defaults, DG Set problem, man power and maintenance *etc.*

In this connection, following observations are made:

5.3.10.3.1 Diversion of funds

As per the Terms and Conditions governing the Additional Central Assistance (ACA)/ Grants-in-Aid (GIA), the fund released were to be utilised only for the approved purposes.

It was observed that out of ₹ 9.87 crore released (January 2008 to March 2014), ZENICS had diverted an amount of ₹ 1.80 crore towards salaries of employees (₹ 1.62 crore) and purchase of vehicles (₹ 0.18 crore).

Thus, diversion of project funds was in violation of the terms and conditions and this could have adverse impact on implementation of the scheme.

The Government while admitting the facts stated (December 2014) that due to financial crisis in State Government, ZENICS utilised ₹1.80 crore towards salary and purchase of vehicles.

The reply is not convincing as the diversion of scheme funds was not permissible under the agreed terms and conditions of the scheme as the same could have adverse impact on implementation of the Scheme.

5.3.10.3.2 Unauthorised retention of bank interest

As per the terms and conditions governing ACA/GIA, interest earned against project funds would be treated as credit to the grantee and same was required to be adjusted towards future installments of the grant.

Audit noticed that the ZENICS earned an amount of ₹ 0.63 crore as bank interest against MSWAN funds upto 2013-14. As of September 2014, however, ZENICS had not reported the fact of bank interest receipts to DIT.

Thus, ZENICS unauthorisedly retained the bank interest of ₹ 0.63 crore without reporting to the GoI in violation of the terms and conditions of the scheme.

The Government stated (December 2014) that ZENICS indicates the bank interest whenever UCs was submitted to the concerned authority and as such there was no unauthorised retention of bank interest.

The Government, however, did not provide any documentary evidence in support of the reply for verification by audit.

5.3.10.3.3 Doubtful expenditure on site preparation for construction of PoPs

As per the guidelines issued by the DIT, GoI, all Points of Presence (PoPs) are required to be newly constructed in RCC type building with proper security measures and technical specifications to be taken up for the safety of the highly sensitive equipments to be installed after the construction of new buildings at each of the PoPs.

During December 2005, the GoM received an ACA of ₹ 3.35 crore for Site Preparation of 42 MSWAN PoPs from the GoI as per details given below:

Table-5.3.8

Sl. No.	Name of work	Nos.	Amount (₹ in crore)
1.	Construction of building for MSWAN PoP at State Headquarters	1	0.37
2.	Construction of building for MSWAN PoP at District Headquarters	7	1.68
3.	Construction of building for MSWAN PoP at Block/Sub Division Headquarters	34	1.30
Total		**42**	**3.35**

The GoM released (August 2008/November 2009) the entire fund of ₹ 3.35 crore to ZENICS and accordingly ZENICS undertook site preparation of 42 PoPs departmentally. Out of 42 PoPs, 29 PoPs were constructed during 2008-09 to 2010-11 at a total cost of ₹ 2.90 crore. As the remaining 13 PoPs were supposed to function from the existing Government buildings, no further PoPs were required to be constructed by ZENICS. It was, however, observed that the GoM submitted Utilisation Certificate (UC) amounting to ₹ 3.44 crore against Site Preparation works in respect of all the 42 POPs to the GoI.

In this connection, following observations are made:

(i) The PoP-wise detailed expenditure incurred by the ZENICS was not furnished to Audit. Further, based on the funds (₹ 3.35 crore) released for 42 PoPs, the estimated average expenditure worked out to ₹ 7.98 lakh per PoP. Hence, the expenditure for 29 PoPs (excluding 13 PoPs for which new buildings were not required) would be ₹ 2.31 crore as against ₹ 3.44 crore reported by GoM.

Thus, in absence of the detailed expenditure for construction of 29 PoPs, ZENICS incurred a doubtful expenditure to that extent.

(ii) As per the terms and conditions of ACA, any part of the grant which is not ultimately required for expenditure for the approved purposes was to be surrendered to DIT (GoI).

Since 13 PoPs were functioning from the existing Government buildings, construction of new buildings for these PoPs was not required. Hence, the balance amount of ₹ 0.45 crore (₹ 3.35 crore - ₹ 2.90 crore) should have been surrendered.

(iii) The GoM submitted UCs showing expenditure incurred in excess to the tune of ₹ 0.54 crore (₹ 3.44 crore - ₹ 2.90 crore) to the GoI.

The Government while admitting (December 2014) the fact that built-up space for 13 out of 42 PoPs was provided by the Government stated that ZENICS has spent ₹ 1.53 crore on site preparation work of all 42 PoPs resulting an overall saving of ₹ 1.82 crore. The Government, however, admitted that PoP-wise expenditure was not available on records.

The fact, however, remained that the expenditure on site preparation of 13 PoPs is not justified as it did not involve any civil construction work.

5.3.10.3.4 Undue favour to the Network Operator

There should be a Network Operator (NO) to design and to cater to supply/commissioning of equipment as well as operation and maintenance of MSWAN. Accordingly, ZENICS appointed (January 2011) the consortium of two firms (*viz.* M/s ITI Ltd., Bengaluru and M/s Vayam Technologies Ltd., New Delhi) as NO for MSWAN at a total contract value of ₹ 16.81 crore.

As per the Agreement, the payment was to be released to the NO on the basis of the following:

(i) that payment against Quarterly Guaranteed Revenue (QGR) for each quarter was to be released for each PoP based on the certificate provided by the Third Party Auditor (TPA) on the performance of the NO after conducting the Partial Acceptance Test (PAT) and Final Acceptance Test (FAT);

(ii) that each PoP was to be treated as separate entity for the purpose of QGR after deduction of downtime penalty, if any.

(iii) that the NO was required to enclose supporting documents along with QGR claims such as (a) POPs-wise performance statistics, (b) Log of network parameters along with service downtime calculation and uptime percentage and (c) Any other documents necessary in support of the service performance acceptable to ZENICS.

Audit observed that an amount of ₹ 2.19 crore was released to the NO as QGR payments during March to October 2013 as detailed below:

Table-5.3.9

Quarter	Period	QGR No.	Amount (₹ in crore)	Status	Date of payment
(A) Payment for State Headquarter (SHQ) and District Headquarters (DHQs)					
1st QGR	03-04-2012 to 02.07.2012	12799001	0.45	Submitted/ Paid	12-03-2013
2nd QGR	03-07-2012 to 02.10.2012	12799002	0.45		12-03-2013
3rd QGR	03.10.2012 to 02.01.2013	12799003	0.45		04-07-2013
4th QGR	03.01.2013 to 02.03.2013	13799001	0.45		10-10-2013
Total (A)			**1.80**	--	--
(B) 33 Block Headquarters (BHQ)					
1st QGR	08.11.2012 to 07.02.2013	12799004	0.39	Submitted/ Paid	04-07-2013
Total (B)			**0.39**	**--**	**--**
Grant Total (A + B)			**2.19**	**--**	**--**

Source: Departmental records

During examination of records, it was noticed that contrary to the stipulations made in the agreement with NO, FAT review report submitted by the Third Party Auditor (TPA) was not considered for payment of QGR claims made by the NO. It was also noticed that the NO did not submit the delivery challans for despatch of materials to ZENICS. Further, all the mandatory documents such as network design, technical manuals, configuration and network details as installed, installation and commissioning procedures, security policy, warranty for all equipments and service details, BSNL downtime reports, utility of NMS were also not submitted by NO to ZENICS.

Thus, in violation of terms of the agreement, ZENICS paid an amount of ₹ 2.19 crore to the NO which led to undue benefit to the NO to that extent.

The Government while admitting the facts stated (December 2014) that PAT and FAT are very much considered while payment was made. PAT/FAT has been prepared by NO which was reviewed by TPA and accordingly payment of 1st, 2nd, 3rd and 4th QGR was released to NO in case of SHQ and DHQ.

The Government, however, did not submit any documentary evidence in support of their reply for verification by Audit.

5.3.10.3.5 Unfruitful expenditure on purchase of Terastation

Network Attached Storage (NAS) is file-level computer data storage server connected to a computer network providing data access to a heterogeneous group of clients.

The NO stated that due to NAS storage problem, the authentic values of downtime and uptime of the system could not be determined. In order to overcome the problem, NO suggested for purchase of Terastation 7000 for NAS storage for MSWAN. Based on the suggestion (June 2013) made by the NO, ZENICS procured a Terastation 7000 for NAS storage at a cost of ₹ 9.90 lakh.

Audit observed that despite spending ₹ 9.90 lakh crore on procurement of Terastation 7000 as per the suggestion of NO, the problem of NMS/EMS database was not resolved (September 2014). It was observed that even after installation of new/additional storage device (Terastation 7000), the system could not cater to the requirements of MSWAN EMS reports and other service backups as out of 42 PoPs, a total of 11 POPs only were available for network availability report (July 2014).

Thus, due to non-resolution of the problem of NMS/EMS database, procurement of Terastation 7000 for NAS storage at a cost of remained unfruitful.

The Government stated (December 2014) that due to storage constraint in the NMS server for backup of network performance reports, Terastation 7000 with 24 TB was purchased. There was configuration issue during the initial stage which has been resolved since March 2014. The storage capacity would last many years for backing up of NMS data and hence cannot be considered as an unfruitful expenditure.

The reply regarding resolving the problem since March 2014 is not acceptable as the audit observation relating to availability of various reports in only 11 out of 42 PoPs is based on the status of network availability as of July 2014.

Audit Objective: To assess the adequacy and effectiveness of Corporate Governance ZENICS

5.3.10.4 Corporate Governance

5.3.10.4.1 Corporate Plan

Corporate Plan indicates the long-term policy of an organisation, which translates its corporate objectives into remarkable action plan for initiating activities aimed at developing Information Technology in the State.

Examination of record revealed that the ZENICS had not formulated any corporate plan/long-term policy for attaining the objective of promoting Information Technology till March 2014.

No specific comments were offered by the Government on the issue.

5.3.10.4.2 Board meetings

The business of ZENICS was managed by the Board of Directors (BoD). For taking decisions on important matters in respect of policy decision, implementation of projects, *etc.* it is very essential to hold regular Board Meetings at prescribed intervals. According to Section 285 of the Companies Act, 1956, the BoD must hold at least one meeting in every quarter in a year. It was, however, noticed that during the years from 2009-10 to 2013-14, only 9 nos. of meetings were held by the BoD as against 20 nos. of mandatory meetings required to be held as shown below:

Table-5.3.10

Year	No. of Board meetings held	Date of meetings held	Minimum no of meetings which should be held	Shortfall in Board meetings
2009-10	4	30.05.2009, 31.07.2009, 24.02.2010 & 29.03.2010	4	-
2010-11	1	04.11.2010	4	3
2011-12	NIL	NIL	4	4
2012-13	2	19.07.2012 & 29.01.2013	4	2
2013-14	2	23.09.2013 & 06.03.2014	4	2
Total	**9**	**--**	**20**	**11**

Source: Departmental records

The Government while admitting the facts assured (December 2014) that in future, Board Meeting would be held as per the requirements of the Act.

5.3.10.4.3 Formation of Audit Committee

The Audit Committee is useful for reviewing the internal control system and also the accounting policies, cost reduction measures, general policies, procedural aspects with regard to collateral security and half yearly/annual financial statements before submission to the BoD. Examination of records revealed that ZENICS had not constituted the Audit Committee since its inception.

The Government while admitting the facts stated (December 2014) that ZENICS would be asked to constitute Audit Committee as advised.

5.3.10.4.4 Internal Audit

Internal audit is an appraisal of the activities of an entity with reference to its laid down objectives. It was, however, observed that ZENICS had not established an Internal Audit wing since its inception till March 2014. ZENICS had appointed two firms of Chartered Accountants for the years 2009-10 (M/s Shambu Kedia & Comapany) and 2010-13 (M/s Akas & Associates for the year) to carry out the work of internal audit and preparation of financial statement for each year. An amount of ₹ 30,000 per year was paid as audit fee to the firms without assessing their actual performance.

Audit scrutiny revealed that the internal auditor had merely prepared the annual financial statements of ZENICS. Audit is of the view that the scope of internal auditor should be widened to examine the efficiency of operations of ZENICS as well as compliance by ZENICS with the applicable rules and laws so that the findings included in their reports could be utilised as relevant indicators of internal controls.

No specific comments were offered by the Government on the issue.

5.3.11 Impact Assessment

Audit conducted Physical Verification of selected locations/centres jointly with the ZENICS officials pertaining to the following four projects undertaken by ZENICS as detailed below:

A. Mizoram State Wide Area Network (MSWAN):

Out of 42 POPs, 8 POPs have been selected for site physical verification comprising 1 SHQ, 2 DHQ and 5 BHQ. During the course of site visit, audit observed the following:

Sl. No.	Name of Block	Observation
1.	Thingsultliah BHQ	a) Though internet connection/link was available, the maintenance of the PoP was poor and improper since there was no operator to look after the PoP. b) Battery was damaged. c) Inventory Register was not maintained.
2.	Kawnpui BHQ	a) No service was rendered (till September 2014) since there was no internet connectivity/link. b) AC and UPS were damaged.
3.	Thingdawl BHQ	a) No service rendered. b) No internet connectivity/link. c) IP migration not completed and UPS not working.
4.	Durtlang BHQ	MSWAN equipment was not installed. The PoP was used as godown.
5.	Aizawl DHQ	Three Nos. of UPS batteries were found damaged.
6.	Aizawl SHQ	a) Power Board, Control Board, IGT Board and 1/0 Board wave were found faulty and needed to be replaced. The faulty UPS could not be repaired/replace till the date of inspection. b) AC meant for Aizawl DHQ, Tlangnuam BHQ, Sakawrdai BHQ and Reiek BHQ were used in Server Room of SHQ NOC.

B. Rural Information Kiosk (RIK)

Out of 300 Kiosks located across the State, VLEs for 241 Kiosks have been selected. Out of these 241 VLEs, 12 VLEs[28] were selected for joint physical verification by Audit team and the representatives of ZENICS. During the course of physical verification, audit observed that out of 12 VLEs, VSAT installation was pending in 7 VLEs.

C. Common Service Centre (CSC)

Out of 136 VLEs selected for CSC Project, 88 VLEs have been operational and remains active. Out of the said 88 active VLEs, 14 VLEs were selected for physical verification. During the course of site visit, audit observed that none of the 14 VLEs could provide B2C service (such as Mobile recharge, DTH Recharge, Railway/online tickets, *etc.)* to the citizen. Under G2C service, the VLEs could provide only the services namely, Income Certificate, Residential Certificate and Scheduled Tribe Certificate. G2C services such as Electric Bill payment, Water Bill payment, Property Tax collection, Revenue Tax payment *etc.*, could not be provided to the citizen till September 2014.

D. IT Education Programme for 100 Nos. of Schools in Mizoram

Secretary, NEC in exercise of the financial powers had accorded (21 October 2011) Administrative Approval for operation of the Scheme on IT Education and S&T Awareness programme at 100 schools in Mizoram at a total cost of ₹ 4.57 crore.

The scheme was to be implemented by the ZENICS within 6 months after receiving Grants from NEC and support for 12 months.

The project focused on assisting the Department of School Education through NEC fund to assume its leadership role of the ICT in School Education with the following objectives:

a) To formulate computer education programme and plan for integration of computers into the curriculum and to make it a part of schooling process,

b) To provide computer systems to 100 schools in Mizoram and introduce awareness programme in those schools,

c) To facilitate internet connection from BSNL to the selected schools,

d) To increase computer literacy among the school students,

e) To provide special training programme for the faculty of IT in school so as to enable them to teach computer subject in school, and

[28] 1. Angela Zairemtluangi, Tuirial, 2. Laltlanzova, Seling, 3. Ricky Zothanzama, Kawnpui, 4. Lalchhansanga, Kolasib, Venglai, 5. Lalrindika Pautu, Kolasib Hmar Veng, 6. H. Lalrempuii, Kelsih, 7. C. Zarzoliana, Muallungthu, 8. K. Lathuammawia, Falkawn, 9. Vanlalhriata, Hualngohmun, 10. Lallianpuii Ralte, Mission Vengthlang, 11. Zodintluanga, Tuithiang and 12. R. Lalchhanhima, Zuangtui

f) To achieve computer literacy among the school teacher of different levels.

Out of 100 schools selected for implementing IT Education Programme in Mizoram, computers and its peripherals have been delivered in 72 schools only. Out of these 72 schools where computers and peripherals were provided, eight schools were selected for physical verification. During the site visit of selected eight schools, following observations were made:

(i) As per the terms and conditions, the selected schools should provide sufficient space for computer lab for installation of computer systems. It was noticed that six out of eight schools did not have sufficient space for installation of computer system. While the systems were utilised for works like printing, storing data, photostat, *etc.* computer class/ training had not been imparted to the students. Under such circumstances, the equipment had been lying idle and unused. This invites the risk of deterioration and obsolescence of the computers with the passage of time and technology advancement.

(ii) The selected schools did not have internet connection, though one of the objectives of the scheme was to facilitate internet connection to the selected schools.

(iii) The projects also aimed at providing special training programme for at least one teacher in each school so as to enable them to teach computer subject in school. It was noticed that no such training was conducted so far. Under such circumstances, the intended objective of imparting and increasing computer literacy among the students could not be attained (September 2014).

No specific comments were offered by the Government on the issue.

5.3.12 Evaluation of achievement of intended benefits

During the period of review, ZENICS had implemented four projects, *viz.*, RIK, CSC, MSWAN and IT Education for various objectives such as computer and connectivity infrastructure, software for B2C and G2C services; creation of front-end service delivery points for Government, private and social sector services to urban and rural citizens in an integrated manner; and rendering defined infrastructure level services to State which include web, data base, mail, anti-virus, domain, proxy services and video conferencing services. ZENICS, however, had not evolved any mechanism for evaluating whether intended benefits of the Scheme were achieved or not.

No specific comments were offered by the Government on the issue.

5.3.13 Conclusion

ZENICS incurred losses in all five years from 2009-10 to 2013-14 covered in the Performance Audit. ZENICS had neither evolved a system to assess viability of its operations nor introduced a system of business planning and resource forecasting for sustainability of the organisation in long run. During 2009-14, the capacity utilisation of the Computer Training Centre of ZENICS was to the extent of 21 *per cent* only. Performance of ZENICS in implementation of various projects/ schemes was not satisfactory on account of several deficiencies. These deficiencies were in the nature of submission of incorrect Utilisation Certificates against project funds and delay in selection of village level entrepreneurs (Rural Information Kiosk project); delay in installation of VSAT equipment (Common Service Centre project); and diversion of project funds, doubtful expenditure on site preparation for Points of Presence, undue favour to the Network Operator, etc. (Mizoram State Wide Area Network). The Corporate Governance of ZENICS was not effective due to non-constitution of an Audit Committee and shortfall in holding prescribed number of meetings of the Board of Directors, which had adverse impact on taking prompt decision on important issues.

5.3.14 Recommendations

- ZENICS should introduce appropriate system to prepare business plan and resource forecasting and should also evolve appropriate system to assess viability of its operations;

- Effective derive should be launched by State Government/ZENICS to create awareness among students regarding benefits of trainings in the Computer Training Centre;

- The State Government needs to ensure timely release of project funds and monitor their utilisation before submission of Utilisation Certificates to Government of India. Guidelines issued by funding agencies should be strictly adhered to in implementing the projects/schemes.

- Regular meetings of the Board of Directors must be held for strengthening the Corporate Governance and taking prompt decision/timely corrective action on important issues.

Aizawl
The 17 April 2015

(L. Tochhawng)
Principal Accountant General (Audit),
Mizoram

Countersigned

New Delhi
The 20 April 2015

(Shashi Kant Sharma)
Comptroller and Auditor General of India