CHAPTER-IV

ECONOMIC SECTOR

(PUBLIC SECTOR UNDERTAKINGS)

CHAPTER IV: ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

4.1 Functioning of State Public Sector Undertakings

4.1.1 Introduction

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 keeping in view the welfare of people and also occupy an important place in the State economy. As on 31 March 2015, in Meghalaya, there were 16 SPSUs. None of these companies was, however, listed on the stock exchange. During the year 2014-15, one SPSU[1] was incorporated while no SPSU was closed down during the year. The details of the SPSUs in Meghalaya as on 31 March 2015 are given below.

Table 4.1.1: Total number of SPSUs as on 31 March 2015

Type of SPSUs	Working SPSUs	Non-working SPSUs[2]	Total
Government Companies[3]	13	1	14
Statutory Corporations	2	Nil	2
Total	**15**	**1**	**16**

The working SPSUs registered an aggregate turnover of ₹ 640.05 crore as per their latest finalised accounts as of September 2015. This turnover was equal to 2.53 *per cent* of Gross State Domestic Product (GSDP) of ₹ 25,333[4] crore for 2014-15. The working SPSUs incurred overall loss of ₹ 220.92 crore as per their latest finalised accounts as of September 2015. They had employed total 4287 employees as at the end of March 2015.

As on 31 March 2015, there was one non-working SPSU[5] which was defunct since 2006 and involved investment of ₹ 4.72 crore. This is a critical area as the investments in non-working SPSUs do not contribute to the economic growth of the State.

4.1.2 Accountability framework

The audit of the financial statements of a company in respect of financial years commencing on or after 1 April, 2014 is governed by the provisions of the Companies Act, 2013. However, the audit of a company in respect of financial years that

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1 Meghalaya Basin Management Agency.

2 Non-working SPSUs are those which have ceased to carry on their operations.

3 Government companies include Other Companies referred to in Section 139(5) and 139(7) of the Companies Act 2013. Including three subsidiary companies of Meghalaya Energy Corporation Limited (MeECL) viz. Meghalaya Power generation Corporation Limited (MPGCL), Meghalaya Power Transmission Corporation Limited (MPTCL) and Meghalaya Power Distribution Corporation Limited (MPDCL) which were incorporated on 18 December 2009.

4 Source: Official website of Ministry of Statistics & Programme Implementation, Government of India.

5 Meghalaya Electronics Development Corporation Limited.

commenced earlier than 1 April 2014 continued to be governed by the Companies Act, 1956.

According to Section 2 (45) of the Companies Act, 2013 (Act), a Government Company is one in which not less than 51 *per cent* of the paid-up capital is held by the Central and/or State Government (s) and includes a subsidiary of a Government Company. The process of audit of Government companies under the Act is governed by respective provisions of Section 139 and 143 of the Act.

Statutory Audit

The financial statements of a Government Company defined in Section 2(45) of the Companies Act, 2013 are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 139 (5) or (7) of the Companies Act. These financial statements are subject to supplementary audit to be conducted by CAG under the provisions of Section 143 (6) of the Act.

Further, the Statutory Auditors of any other company *(Other Company)* owned or controlled, directly or indirectly, by the Central and/or State Government (s) are also appointed by CAG as per the provisions of Section 139 (5) or (7) of the Act.

As per the provisions of Section 143 (7) of the Act, the CAG, in case of any company (Government Company or *Other Company)* covered under sub-section (5) or sub-section (7) of Section 139 of the Act, if considers necessary, by an order, cause test audit to be conducted of the accounts of such Company (Government Company and *Other Company)* and the provisions of Section 19 A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test Audit.

Audit of Statutory Corporations is governed by their respective legislations. Out of two Statutory Corporations, CAG is the sole auditor for Meghalaya Transport Corporation. In respect of the other Corporation (viz. Meghalaya State Warehousing Corporation), the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Role of Government and Legislature

The State Government exercises control over the affairs of these SPSUs through its administrative departments. The Chief Executives and Directors to the Board of these SPSUs are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the SPSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government Companies and Separate Audit Reports in case of Statutory Corporations are placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

4.1.3 Stake of Government of Meghalaya

The State Government has huge financial stake in these SPSUs. This stake is of mainly three types:

- **Share Capital and Loans-** In addition to the Share Capital contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the SPSUs from Financial Institutions.

4.1.4 Investment in State SPSUs

As on 31 March 2015, the investment (capital and long-term loans) in 16 SPSUs was ₹ 2,691.91 crore as per details given in **Table 4.1.2** below.

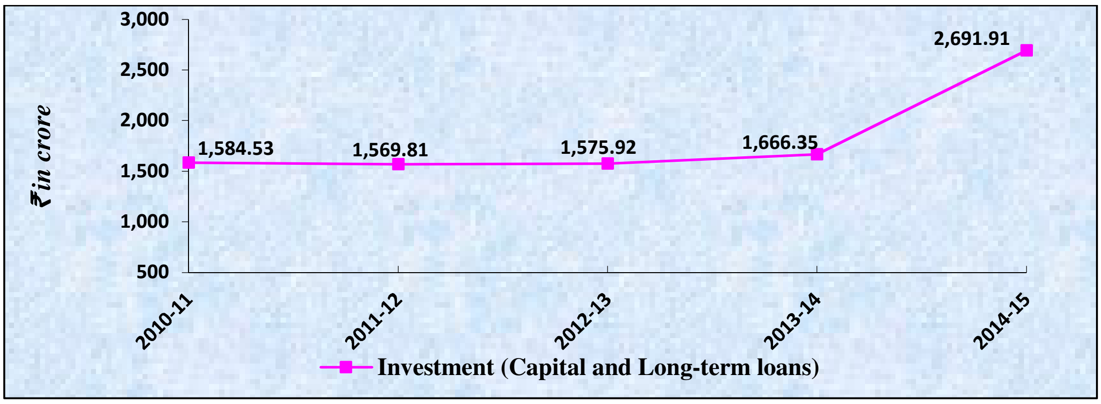
Table 4.1.2: Total investment in SPSUs

(₹in crore)

Type of SPSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working SPSUs	1,282.36	1,311.64	2,594.00	93.19	Nil	93.19	2,687.19
Non-working SPSU	4.72	Nil	4.72	Nil	Nil	Nil	4.72
Total	**1,287.08**	**1,311.64**	**2,598.72**	**93.19**	**Nil**	**93.19**	**2,691.91**

Out of the total investment of ₹ 2,691.91 crore in SPSUs as on 31 March 2015, 99.82 *per cent* was in working SPSUs and the remaining 0.18 *per cent* in non-working SPSUs. This total investment consisted of 51.27 *per cent* towards capital and 48.73 *per cent* in long-term loans. The investment has grown by 69.89 *per cent* from ₹ 1,584.53 crore in 2010-11 to ₹ 2,691.91 crore in 2014-15 as shown in **Chart 4.1.1** below.

Chart 4.1.1: Total investment in SPSUs



The sector wise summary of investments in the State PSUs as on 31 March 2015 is given below:

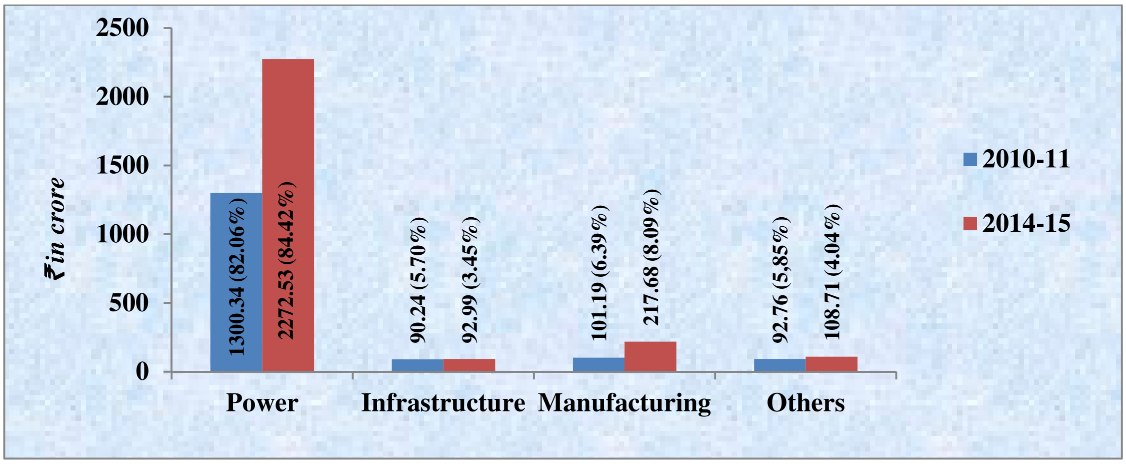
Table 4.1.3:Sector-wise investment in SPSUs

(₹in crore)

Name of Sector	Government/ *Other*[6] *Companies*		Statutory Corporations	Total Investment
	Working	**Non-Working**	**Working**	
Power	2,272.53	Nil	Nil	2,272.53
Manufacturing	212.96	4.72	Nil	217.68
Finance	Nil	Nil	Nil	Nil
Miscellaneous	4.31	Nil	3.36	7.67
Service	7.96	Nil	89.83	97.79
Infrastructure	92.99	Nil	Nil	92.99
Agriculture & Allied	3.25	Nil	Nil	3.25
Total	**2,594.00**	**4.72**	**93.19**	**2,691.91**

The investment in various important sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are indicated in **Chart 4.1.2**. The thrust of SPSU investment was mainly in power sector, which was 82.06 *per cent* during 2010-11 and has marginally increased to 84.42 *per cent* in 2014-15.

Chart 4.1.2: Sector wise investment in SPSUs



It could be observed from the **Chart** above that the investment in power sector which was at ₹ 1,300.34 crore in 2010-11 has increased by 74.76 *per cent* to ₹ 2,272.53 crore in 2014-15 mainly on account of investment of ₹ 972.04 crore in one[7] power sector in the form of equity (₹ 807.28 crore) and loans (₹ 164.76 crore). Besides, the investment in manufacturing sector has also increased significantly by 115.12 *per cent* from ₹ 101.19 crore (2010-11) to ₹ 217.68 crore (2014-15) mainly due to investment of equity (₹ 93.96 crore) in one SPSU[8].

4.1.5 Special support and returns during the year

The State Government provides financial support to SPSUs in various forms through annual State budget allocations. The summarised details of budgetary outgo towards

[6] '*Other Companies*' as referred to under Section 139 (5) and 139 (7) of the Companies Act, 2013.
[7] Serial No. A-7 of ***Appendix 4.1.2***
[8] Serial No. A-5 of ***Appendix 4.1.2***

equity, loans, grants/ subsidies, loans written off and interest waived in respect of State PSUs for three years ended 2014-15 are given in **Table 4.1.4** below:

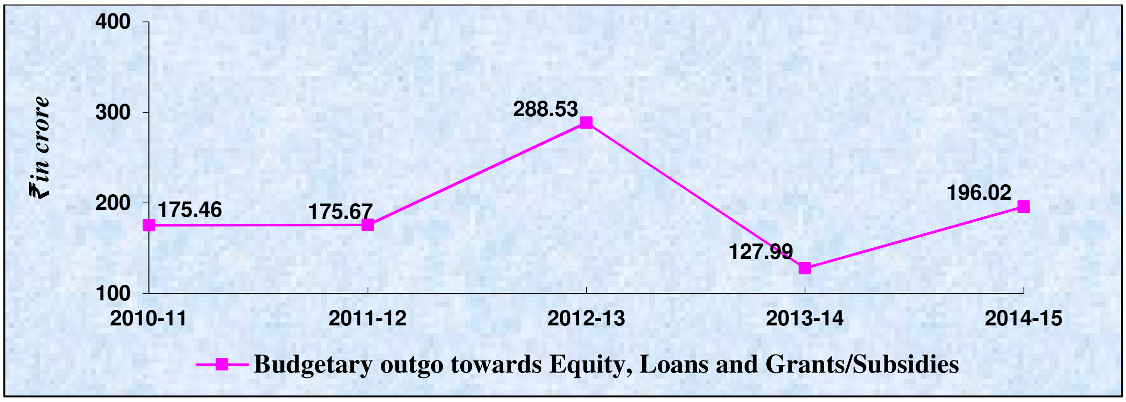
Table 4.1.4: Details regarding budgetary support to SPSUs

(₹in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	2	38.57	4	11.75	4	40.30
2.	Loans given from budget	-	-	-	-	2	2.46
3.	Grants/Subsidy from budget	5 3	235.45(G) 14.51 (S)	4 3	97.50(G) 18.74(S)	5 2	128.53(G) 24.73(S)
4.	**Total Outgo (1+2+3)**	**6**	**288.53**	**9**	**127.99**	**10**	**196.02**
5.	Waiver of loans and interest	-	-	-	-	1	3.00
6.	Guarantees issued	1	56.10	1	85.63	Nil	Nil
7.	Guarantee Commitment	2	888.43	2	985.00	3	758.18

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years from 2010-11 to 2014-15 are depicted in **Chart 4.1.3**.

Chart 4.1.3: Budgetary outgo towards Equity, Loans and Grants/Subsidies



The budgetary outgo during 2010-11 was ₹ 175.46 crore which increased to ₹ 288.53 crore in 2012-13. However, the budgetary support during 2013-14 was all time low in five years at ₹ 127.99 crore which increased thereafter in 2014-15 to ₹ 196.02 crore mainly due to extension of grants/subsidy of ₹ 142.84 crore to one power sector SPSU (viz. Meghalaya Energy Corporation Limited).

In order to enable SPSUs to obtain financial assistance from Banks and Financial Institutions, State Government provides guarantee subject to the limits prescribed by the Constitution of India, for which the guarantee fee is being charged. This fee varies from 0.25 *per cent* to one *per cent* as decided by the State Government depending upon the borrowing entity. The guarantee commitment decreased to ₹ 758.18 crore during 2014-15 from ₹ 888.43 crore in 2012-13. There was one SPSU[9] which had accumulated outstanding guarantee fees of ₹ 36.40[10] crore as on 31 March 2015. The said SPSU had not paid any guarantee fee during the year 2014-15.

[9] Sl No. 7 of ***Appendix 4.1.2***

[10] Figure of MeECL is as per Finance Accounts 2014-15 (₹ 36.40 crore).

4.1.6 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the Finance Department and the SPSUs concerned should carry out reconciliation of differences. The position in this regard as at 31 March 2015 is summarised in **Table 4.1.5** below.

Table 4.1.5: Equity, loans, guarantees outstanding as per Finance Accounts *vis a vis* records of SPSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs[11]	Difference
Equity	357.27[12]	1380.27[13]	(-) 1023.00
Loans	Not available[14]	1311.64	--
Guarantees	1148.36[15]	758.18	(+) 390.18

Audit observed that the differences occurred in respect of 3 SPSUs and some of the differences were pending reconciliation since 2007-08. Though the Principal Secretary, Finance Department, Government of Meghalaya as well as the management of the SPSUs concerned were apprised (September 2015) by Audit about the differences from time to time and stressed upon the need for early reconciliation, no significant progress was noticed in this regard. The matter was also regularly taken up with the Chief Secretary, Government of Meghalaya to take necessary steps. The Government and the SPSUs concerned should take concrete steps to reconcile the differences in a time-bound manner.

4.1.7 Arrears in finalisation of accounts

The financial statements of the companies for each financial year are required to be finalised within six months after the end of the relevant financial year i.e. by September end in accordance with the provisions of Section 96 (1) the Act. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

Table 4.1.6 below provides the details of progress made by working SPSUs in finalisation of their annual accounts including arrears as on 30 September 2015.

[11] Information as provided by 16 SPSUs

[12] Includes ₹ 2.14 crore in MSWC, ₹ 81.27 crore in MTC, ₹ 91.59 crore in MIDC, ₹ 162.79 crore in MCCL, ₹ 2.32 crore in MMDC, ₹ 1.97 crore in FDCM, ₹ 0.75 crore in MGCCL, ₹ 11.70 crore in MTDC and ₹ 2.74 crore in MH&HDC.

[13] Includes ₹ 3.36 crore in MSWC, ₹ 89.83 crore in MTC, ₹ 92.24 crore in MIDC, ₹ 162.90 crore in MCCL, ₹ 2.32 crore in MMDC, ₹ 1.97 crore in FDCM, ₹ 0.75 crore in MGCCL, ₹ 7.96 crore in MTDC, ₹ 4.26 crore in MH&HDC, ₹ 4.72 crore in MEDCL, ₹ 1009.28 crore in MeECL, ₹ 0.05 crore in MePDCL , ₹ 0.05 crore in MePGCL, ₹ 0.05 crore in MePTCL, ₹ 0.48 crore in MBCL and ₹ 0.05 crore in MBMA. (As per details furnished by the management of the respective PSUs).

[14] State Government's loans to State PSUs are extended through the Government Departments. These Government Departments reallocate the loan funds to different PSUs. Hence, the PSU-wise figures of State Government loans are not available in the Finance Accounts.

[15] Guarantee commitment given by the State Government against loans were ₹ 1090.96 crore (Principal = ₹ 713.24 crore and interest = ₹ 377.72 crore) for MeECL ₹ 45.21 crore (Principal only) for MCCL and ₹ 12.19 crore (Principal only) for MMDCL.

Table 4.1.6: Position relating to finalisation of accounts of working SPSUs

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Number of Working SPSUs	14	14	15	15	15
2.	Number of accounts finalised during the year	15	18	15	9	13
3.	**Number of accounts in arrears**	**56**	**52**	**52**	**58**	**60**
4.	Number of Working SPSUs with arrears in accounts	10	13	14	14	15
5.	Extent of arrears (numbers in years)	1 to 15	1 to 16	1 to 15	1 to 16	1 to 14

As could be noticed from the **Table** above, the number of accounts in arrears showed a decreasing trend upto 2012-13 but increased thereafter mainly on account of less number of accounts finalised by working SPSUs during 2013-14 and 2014-15. As of September 2015, total 60 accounts relating to 15 SPSUs were in arrears, which was highest in last five years. The major arrears of accounts pertained to three working SPSUs namely, Meghalaya Tourism Corporation Limited (14 years), Forest Development Corporation Limited (10 years) and Meghalaya Handloom & Handicrafts Development Corporation Limited (10 years).

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 stipulated period. As part of regular monitoring of the progress made in this regard, audit has taken up (21 August 2015) the issue with the Chief Secretary, Government of Meghalaya with a request to convene a meeting with the Administrative Heads of the SPSUs concerned and chalk out a time bound action plan to clear the backlog of accounts. The response of the Chief Secretary, Government of Meghalaya on the issue was awaited (January 2016). This issue was also taken up (1 July 2015) with the Meghalaya Legislative Assembly Secretariat impressing upon the need for intervention of the Committee on Public Sector Undertaking (COPU) in the matter so as to elicit prompt action from defaulting SPSUs.

The State Government had invested an amount aggregating ₹ 526.17 crore in 9 SPSUs {equity: ₹ 57.08 crore (5 SPSUs), loans: ₹ 67.74 crore (1 SPSU) and grants ₹ 401.35 crore (7 SPSUs)} during the years the accounts of these SPSUs were pending finalisation as detailed in ***Appendix 4.1.1***. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not. Thus, State Government's investment in such SPSUs remained outside the control of State Legislature.

In addition to above, as on 30 September 2015, there were arrear of 9 accounts in respect of the only non-working SPSU[16] as on 30 September 2015. The said SPSU having arrears for 9 years became non-working in 2006 and was in the process of liquidation since June 2011.

[16] Meghalaya Electronics Development Corporation Limited (MEDC)

Table 4.1.7: Position relating to arrears of accounts in respect of non-working SPSU

No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
1	2006-07 to 2014-15	9

4.1.8 Placement of Separate Audit Reports

The position depicted in **Table 4.1.8** below shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2015) on the accounts of Statutory Corporations in the Legislature.

Table 4.1.8: Status of placement of SARs in Legislature

Sl. No.	Name of the Statutory Corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government
1	Meghalaya Transport Corporation	2004-05	2005-06 to 2009-10	12 April 2012
2	Meghalaya State Warehousing Corporation	2012-13	2013-14	3 November 2015

4.1.9 Impact of non-finalisation of accounts

As pointed out under **paragraphs 4.1.10 to 4.1.12,** the 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 relevant Statutes. In view of the above, the actual contribution of SPSUs to the State GDP for the year 2014-15 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is, therefore, recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**
- **The Government should make finalisation of accounts as a condition for fresh grants/investments.**

4.1.10 Performance of SPSUs as per their latest finalised accounts

The financial position and working results of working Government Companies and Statutory Corporations are detailed in ***Appendix 4.1.2***. A ratio of SPSU turnover to State GDP shows the extent of SPSU activities in the State economy. **Table 4.1.9** below provides the details of working SPSU turnover and State GDP for a period of five years ending 2014-15.

Table 4.1.9: Details of working SPSUs turnover vis-a vis State GDP

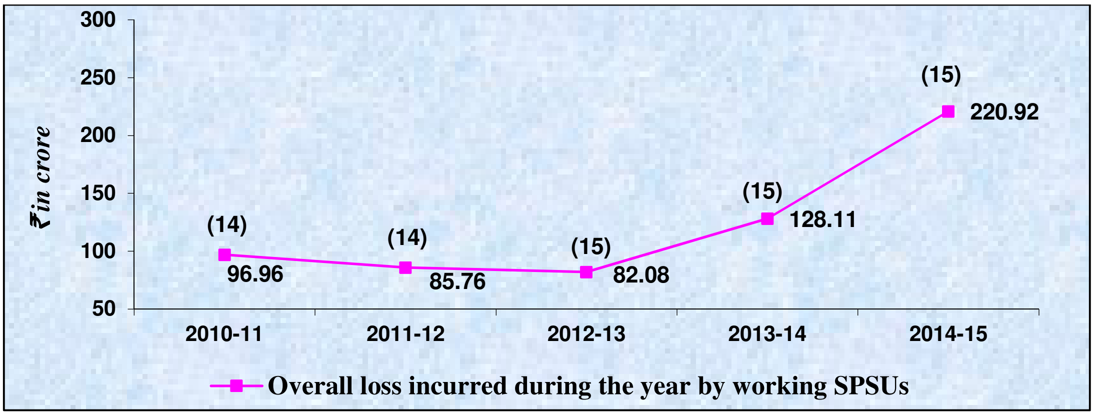
(₹in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover[17]	457.06	463.31	461.00	430.20	640.05
State GDP[18]	14,583.00	17,199.00	19,000.00	21,922.00	25,333.00
Percentage of Turnover to State GDP	3.13	2.69	2.43	1.96	2.53

From the **Table** above, it could be noticed that during the last five years ending 2014-15, the overall percentage of SPSUs turnover to State GDP had declined from 3.13 *per cent* (2010-11) to 2.53 *per cent* (2014-15). Contrary to the constant growth registered by State GDP during 2010-11 to 2014-15, the turnover of State PSUs had shown a decreasing trend upto 2013-14 (excepting 2011-12). As a result, the contribution of State PSUs turnover to State GDP in percentage terms has shown a decreasing trend upto 2013-14. During 2014-15, the percentage of State PSUs turnover to State GDP has improved because of the increase in the SPSUs turnover figure, which was mainly on account of increase of ₹ 148.36 crore in the turnover of one power sector company (viz. Meghalaya Energy Corporation Limited).

The overall losses incurred by State working SPSUs during 2010-11 to 2014-15 as per their latest finalised accounts as on 30 September of the respective year have been depicted below in **Chart 4.1.4**.

Chart 4.1.4: Losses of working SPSUs



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

From the **Chart** above, it could be noticed that the overall losses of working SPSUs had shown a decreasing trend upto 2012-13. The losses of working SPSUs has increased considerably during 2014-15 and reached at peak in last five years to ₹ 220.92 crore (2014-15) mainly due to the huge losses (₹ 203.99 crore) incurred by one power sector company (viz. Meghalaya Energy Corporation Limited). During 2014-15, out of 15 working SPSUs, 2 SPSUs earned profit of ₹ 1.63 crore while 10 SPSUs incurred loss of ₹ 222.55 crore as per their latest finalised accounts as on 30 September 2015. Three working SPSUs[19], however, had not commenced the

[17] Turnover of working SPSUs as per the latest finalised accounts as on 30 September of the respective year.

[18] Source: Ministry of Statistics & Programme Implementation, Government of India

[19] Serial No. A-8, A-9 and A-10 of ***Appendix 4.1.2***

commercial activities. The main contributor to profit was Meghalaya Government Construction Corporation Limited (₹ 1.59 crore). The heavy losses were incurred by Meghalaya Energy Corporation Limited (₹ 203.99 crore), Mawmluh Cherra Cements Limited (₹ 11.48 crore) and Meghalaya Transport Corporation (₹ 3.55 crore).

Some other key parameters of SPSUs are given below.

Table 4.1.10: Key Parameters of State PSUs (Provisional figures)

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Return on Capital Employed (*per cent*)*	-	-	-	-	-
Debt	1129.38	1080.12	1047.53	1126.21	1310.44
Turnover[20]	457.06	463.14	461.00	430.20	640.05
Debt/ Turnover Ratio	2.47:1	2.33:1	2.27:1	2.62:1	2.05:1
Interest Payments	42.35	42.65	40.80	31.52	41.98
Accumulated losses	620.74	668.37	671.82	358.41	576.93

** Negative figures in all the five years*

From the **Table** above, it could be noticed that during 2010-15 (excepting 2013-14) the debt-turnover ratio has shown an improving trend. During 2014-15, the debt-turnover ratio (2.05:1) was at its best in five years due to increase in the SPSUs turnover from ₹ 430.20 crore (2013-14) to ₹ 640.05 crore (2014-15), which was mainly on account of increase of ₹ 148.36 crore in the turnover of one power sector company (viz. Meghalaya Energy Corporation Limited) during 2014-15. There were significant variations in the figures of SPSUs accumulated losses during 2013-14 (decrease of ₹ 313.41 crore) and 2014-15 (increase of ₹ 218.52 crore). This was mainly on account of corresponding changes in the accumulated losses of the said power sector company during 2013-14 (decrease of ₹ 332.61 crore) and 2014-15 (increase of ₹ 203.99 crore). This is indicative of the fact that the overall operational results of the SPSUs are highly influenced by the functioning of the said power sector company (viz. Meghalaya Energy Corporation Limited).

The State Government had not formulated any dividend policy for payment of minimum return by SPSUs on the paid up share capital contributed by the State Government. As per their latest finalised accounts as on 30 September 2015, two SPSUs[21] earned aggregate profit of ₹ 1.63 crore but none of them declared any dividend.

4.1.11 Winding up of non-working SPSUs

There was one non-working SPSU involving investment of ₹ 4.72 crore as on 31 March 2015. Though the liquidation process of non-working SPSU had commenced in June 2011, the winding up of the same was still in process (December 2015). As this SPSU has not finalised the annual accounts since 2006-07, the up-to date details of the expenditure incurred by it on salaries, establishment expenditure etc. were not available. As the non-working SPSU is neither contributing to the State economy nor

[20] Turnover of working SPSUs as per their latest finalised accounts as on 30 September of the respective year.

[21] Meghalaya Government Construction Corporation Limited and Meghalaya Mineral Development Corporation Limited

meeting its intended objectives, the winding up process of the SPSU may be expedited so as to close down the SPSU at the earliest.

The stages of closure in respect of non-working SPSU are given below.

Table 4.1.11: Closure of Non -working PSUs

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working SPSUs	1	Nil	1
2.	Of (1) above, the No. under	-	-	-
(a)	liquidation by Court (liquidator appointed)	-	-	-
(b)	Voluntary winding up (liquidator appointed)	1	-	1
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	-	-	-

4.1.12 Accounts Comments

During the year 2014-15[22], 8 working companies have forwarded 12 audited accounts to Accountant General (AG). Of these, 8 accounts of 5 companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of the comments of statutory auditors and CAG are given below.

Table 4.1.12: Impact of audit comments on working Companies

(Amount ₹in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	2	3.41	1	1.46	2	0.53
2.	Increase in loss	7	4.77	0	0.16	3	109.58
3.	Non-disclosure of material facts	3	2.54	3	34.21	2	2.93
4.	Errors of classification	1	0.21	2	6.28	2	56.21

During the year, the Statutory Auditors had given qualified certificates to all 12 accounts of 8 companies. In addition, CAG has also issued qualified certificates on all 8 accounts of 5 companies selected for supplementary audit. No adverse certificates (which means that accounts do not reflect a true and fair position) or disclaimers (meaning the auditors are unable to form an opinion on accounts) were issued by the Statutory Auditors or CAG on any of the accounts during the year. The compliance of companies with the Accounting Standards remained poor as there were 26 instances of non-compliance relating to 8 accounts.

Similarly, during the year 2014-15, one working Statutory Corporation[23] forwarded its audited accounts for one year for supplementary audit to AG which was completed.

[22] October 2014 to September 2015
[23] Meghalaya State Warehousing Corporation Limited.

The Statutory Auditors and the CAG had given qualified certificate on the accounts of the Corporation.

4.1.13 Response of the Government to Audit

Performance Audits and Paragraphs

For the Chapter on Economic Sector (PSUs) of the Report of the CAG for the year ended 31 March 2015, Government of Meghalaya one Performance Audit and four audit paragraphs were issued to the Principal Secretaries of the respective Departments with a request to furnish replies within six weeks. The replies of the State Government in respect of the Performance Audit Report and one paragraph were, however, awaited from the State Government (December 2015).

4.1.14 Follow up action on Audit Reports

Replies outstanding

The Reports of the CAG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. To ensure accountability of the executive about the issues contained in these Audit Reports, the Public Accounts Committee (PAC) of the Meghalaya Legislative Assembly issued instructions (July 1993) for submission of *suo motu* explanatory notes by the administrative departments concerned within one month of presentation of the Audit Reports to the State Legislature.

Table 4.1.13: Explanatory notes not received (as on 30 September 2015)

Year of the Audit Report (Commercial/ SPSUs)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2010-11	23 March 2012	1	5	-	1
2011-12	9 October 2013	1	1	-	-
2012-13	16 June 2014	Nil	4	-	3
2013-14	24 September 2015	Nil	6	Nil	6
Total		**2**	**16**		**10**

From the above, it could be seen that out of 16 paragraphs and 2 performance audits (PAs), explanatory notes to 10 paragraphs in respect of 4 Departments, which were commented upon, were awaited (September 2015).

Discussion of Audit Reports by COPU

The status as on 30 September 2015 of PAs and paragraphs that appeared in the Chapter on Economic Sector (PSUs) of the Audit Reports and discussed by the Committee on Public Undertakings (COPU) was as under.

Table 4.1.14: PAs/Paras appeared in Audit Reports *vis a vis* discussed as of September 2015

Period of Audit Report	Number of PAs/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2010-11	1	5	-	3
2011-12	1	1	1	1
2012-13	-	4	-	1
2013-14	-	6	-	-
Total	**2**	**16**	**1**	**5**

Compliance to Reports of Committee on Public Undertakings (COPU)

Action Taken Notes (ATN) to 15 recommendations[24] pertaining to three Reports of the COPU presented to the State Legislature between November 2010 and March 2015 had not been received (December 2015) as indicated below:

Table 4.1.15: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where Action Taken Notes (ATNs) not received
2008-09	1	7	7
2009-10	1	7	7
2010-11	-	-	-
2011-12	1	1	1
2012-13	-	-	-
2013-14	-	-	-
Total	**3**	**15**	**15**

It is recommended that the Government may ensure: (a) sending of replies to Inspection Reports/explanatory notes/draft paragraphs/performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) recovery of loss/ outstanding advances/overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations for their early redressal.

4.1.15 Coverage of this Report

This Chapter contains four audit paragraphs and one Performance Audit relating to State Transport utilities in the State of Meghalaya involving financial effect of ₹ 101.30 crore.

4.1.16 Disinvestment, Restructuring and Privatisation of SPSUs and any reforms in power sector

During the year 2014-15, no instance of Disinvestment, Restructuring and Privatisation of SPSUs and any reforms in power sector were noticed.

[24] Against four paragraphs and one performance audit

PERFORMANCE AUDIT

TRANSPORT DEPARTMENT

4.2 State Transport Utilities in the State of Meghalaya

The Meghalaya Transport Corporation (Corporation) is mandated to provide public transport service in the State of Meghalaya. In addition, Meghalaya Urban Development Agency (MUDA), Urban Local Bodies (ULBs) and private operators had also been operating to provide public transport services in the State. The performance audit (PA) covers the performance of the Corporation and the performance of buses operated by the Corporation/MUDA. The coverage of the PA had to be restricted to four years from 2010-11 to 2013-14 due to non-availability of the financial data of the Corporation for 2014-15. Following are the highlights of the PA.

Highlights

Though the fleet strength of the Corporation had increased from 50 in 2010-11 to 63 buses in 2014-15, the average number of passengers travelled per day by Corporation run buses had reduced from 22 (2010-11) to 17 (2014-15). This was indicative of the fact that the Corporation could not augment its passenger base corresponding to the increase in number of buses during 2010-15.

(Paragraph 4.2.8)

During the period from 2010-11 to 2014-15, the Corporation purchased total 29 vehicles (Tata buses) costing ₹ 4.43 crore from a Dealer without inviting open tenders. The Corporation, however, did not recover the penalty of ₹ 48.86 lakh from the Dealer as per the terms of the purchase order despite delay in delivery of buses thereby extending undue commercial favour to the Dealer.

(Paragraph 4.2.9)

MUDA failed to effectively enforce the terms of the agreements with private operators and monitor their performance with reference to the agreed commitments. Audit could not find any justification for handing over the bus operation to private operators which further resulted in undue commercial favour to these operators.

(Paragraph 4.2.10)

Non-implementation of land development projects had resulted in idling of the surplus land since incorporation of the Corporation (1976). Further, non-revision of rent in consonance with market rates had resulted in loss of rental income of ₹ 5.04 crore for the period April 2011 to August 2015. Against ₹ 2.42 crore receivable from the Indian Railways as commission during 2010-15, it received only ₹ 0.94 crore leaving an outstanding amount of ₹ 1.48 crore as of March 2015.

(Paragraph 4.2.11)

The Corporation was highly dependent on GoM for allocation of funds from State Budget to meet its financial requirements, which was not a healthy practice for progressive development of the Corporation.

(Paragraph 4.2.12.2)

The Corporation failed to finalise its annual accounts since 2010-11 onwards. The Corporation did not have a comprehensive system for recording of operational and financial data through maintenance of specific registers for documenting each aspect of functioning.

(Paragraph 4.2.12.1 and 4.2.13.1)

4.2.1 Introduction

Meghalaya Transport Corporation (Corporation) was established in 1976 under section 3 of the Road Transport Corporation Act, 1950 (the Act) and is mandated to provide an efficient, adequate, economical and properly co-ordinated road transport in the State of Meghalaya. Apart from the Corporation, Meghalaya Urban Development Agency (MUDA), Urban Local Bodies (ULBs) and private operators had also been operating in providing public transport services in the State. The Corporation plies mainly inter-city buses (except school buses) while MUDA buses ply only within the city. ULB vehicles mainly ply within the city/towns falling under the jurisdiction of the respective ULB/Municipal Boards.

The Corporation functions under the administrative control of the Transport Department of the Government of Meghalaya (GoM). The Corporation was managed by a Board of Directors (BoD) comprising of the Chairman, Vice Chairman and six Directors including the Managing Director (MD). The Managing Director who is the Chief Executive, manages the day to day affairs of the Corporation with the assistance of two Deputy General Managers and one Chief Accounts Officer. As on 31 March 2015, the Corporation had five Depots, three Sub-Depots one Central Workshop and Central Store, and one Maintenance Centre.

The Corporation had a fleet strength of 63 buses (including 10 small stage carriages with seating capacity of seven) as on 31 March 2015. During 2010-15, the share of the Corporation in the passenger transport operations in the State was ranging between 0.51 and 0.59 *per cent* while the remaining 99.41 to 99.49 *per cent* pertained to private operators and others[25]. The fleet of the Corporation carried an average of 988 passengers per day during 2010-11 to 2014-15. During 2013-14[26], the total revenue of the Corporation was ₹ 8.90 crore (out of which ₹ 3.47 crore was traffic revenue), which was equal to 0.04 *per cent* of the State Gross Domestic Product (₹ 21,922 crore[27]) for 2013-14. The Corporation had 265 permanent employees on its rolls as at 31 March 2015. MUDA had a fleet strength of 120 buses obtained

[25] Others include Urban Local Bodies and MUDA.
[26] Figures for 2014-15 have not been compiled by the Corporation.
[27] Source: Official website of Ministry of Statistics & Programme Implementation, Government of India.

(November 2009) under JnNURM Scheme while ULBs had total strength of 304 vehicles being run under six Municipal Boards.

A review on the working of the Corporation was included in the Report of the Comptroller and Auditor General of India for the year 2008-09, Government of Meghalaya. The Report was discussed (September 2010) by the Committee on Public Undertakings (COPU) and its recommendations were included in the Fourth Report of COPU 2008-09. The Report of the COPU was presented to the Legislature in November 2010. Important recommendations of COPU included in the said Report have been discussed in the present Report at the relevant places.

4.2.2 Scope and Methodology of Audit

The present performance audit (PA) was conducted during April 2015 to July 2015 to assess the performance of the Corporation for the period from 2010-11 to 2013-14. Scope of the PA had to be restricted to four years from 2010-11 to 2013-14 as the Corporation had not compiled even the provisional figures for 2014-15. The PA also covers the areas of operation of the Corporation for the year 2014-15 wherever the data was available. Besides, the PA also covers the operational performance of the buses operated by the Corporation and MUDA under Jawaharlal Nehru National Urban Renewal Mission (JnNURM) Scheme of the Government of India. The audit examination involved scrutiny of records at the Office of the Commissioner of Transport, Head Office of the Corporation, Central Workshop, Central Store as well as all its Depots/Sub-Depots and the Head Office of MUDA. As the Corporation had not finalised the annual financial accounts since 2010-11, the Audit had to rely upon the provisional data provided by the Corporation and also had to compile certain data at its own for the purpose of conducting the present audit. As regards the operations of the vehicles run by ULBs, the same have already been covered previously and audit findings featured under Annual Technical Inspection Report on Urban Local Bodies for the year ended 31 March 2014, Government of Meghalaya. Hence, the present PA did not cover the operational performance of ULB run vehicles.

The methodology adopted during the course of audit entailed explaining the audit objectives to top management during an 'Entry Conference' held on 01 May, 2015, scrutiny of records maintained at Head Office of the Corporation and MUDA as well as unit offices of the Corporation, interaction with the personnel of the Corporation/MUDA, analysis of data with reference to audit criteria, raising of audit queries, study of the survey results of passengers/employee conducted by Audit and discussion of audit findings with the Management of the Corporation/MUDA. The (Draft) Audit Report was issued (October 2015) to the Corporation/MUDA/GoM for their response. The findings of the Report were also discussed with the representatives of the Corporation/MUDA and GoM in an Exit Conference held on 03 December 2015. The Corporation and MUDA had submitted (November/December 2015) their replies while the replies from GoM had not been received (December 2015). The formal replies of the Corporation/MUDA and the views expressed by the representatives of the Corporation/MUDA and GoM in the Exit Conference have been suitably considered and incorporated in the Audit Report.

4.2.3 Audit Objectives

The objectives of the performance audit were to assess whether:

- the Corporation was rendering services in an efficient, effective and economic manner advantageous to the public, trade and industry,
- the Corporation had re-aligned the business model in an effective and efficient manner so as to tap non-conventional sources of revenue,
- the Fund Management System of the Corporation was efficient and effective in meeting its financial commitments,
- the Corporation had an effective monitoring and evaluation system in place.

4.2.4 Audit Criteria

The criteria adopted to assess the achievement of the audit objectives were derived from the following:

- Road Transport Corporation Act, 1950
- Motor Vehicles Act, 1988
- All India averages for performance parameters;
- Performance indicators of STUs in neighbouring States.
- Instructions of the Government of India (GOI) and State Government and other relevant rules and regulations;
- Procedures laid down by the Corporation.

4.2.5 Financial Position and Working Results

As the Corporation had not finalised its accounts since 2010-11, authentic financial data were not available for the years from 2010-11 to 2013-14 covered under the PA. The Corporation had not even compiled complete provisional financial figures for the year 2014-15. The financial position and working results of the Corporation for the four years up to 2013-14 have been given in ***Appendix 4.2.1*** and ***4.2.2*** respectively. It would be observed that during the period from 2010-11 to 2013-14, the Corporation had been incurring continuous loss ranging from ₹ 1.46 crore (2011-12) to ₹ 7.91 crore (2010-11) mainly on account of high operating costs. During the years from 2010-11 to 2013-14, the operating costs of the Corporation ranged between 360 *per cent* (2013-14) and 559 *per cent* (2012-13) of the operating revenue. As of March 2014, the Corporation had accumulated losses of ₹ 101.64 crore, which had completely wiped off the entire capital contribution of ₹ 88.08 crore of the Corporation.

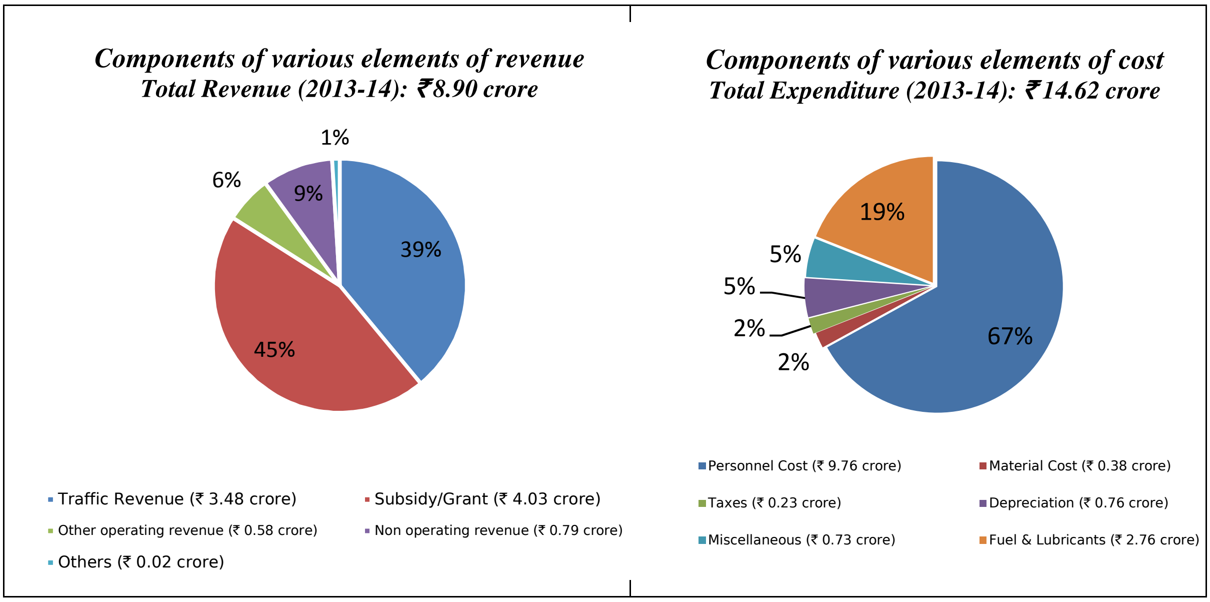
Elements of cost and revenue

As could be noticed from ***Appendix 4.2.2***, subsidy/grant was the major element of revenue during 2010-11 to 2013-14, which ranged between 45 *per cent* (2013-14) and

73 *per cent* (2012-13) of the total revenue of the Corporation. On the other hand, personnel cost of the Corporation was the major cost element, which ranged between 67 *per cent* (2013-14) and 80 *per cent* (2012-13) of the total costs during the four years under reference. Thus, the subsidy/grants so received by the Corporation were completely absorbed in meeting the personnel cost of the Corporation during all the four years.

Major elements of revenue and costs of the Corporation for 2013-14 have been depicted below in **Chart 4.2.1**.

Chart 4.2.1



Source: Provisional financial statements of the Corporation

Audit Findings

The audit findings are discussed below.

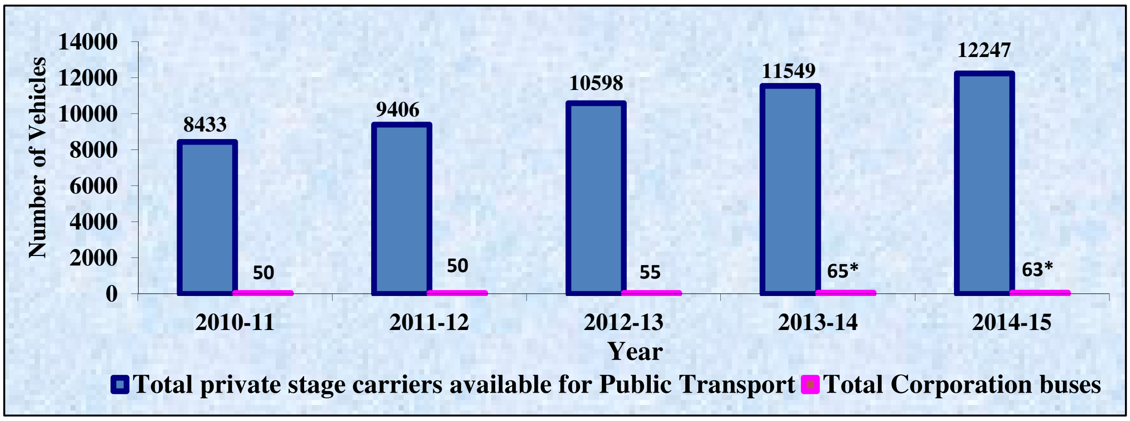
Objective 1: Efficiency, effectiveness and economy achieved by the Corporation in rendering services to the public, trade and industry.

4.2.6 Share of the Corporation in the State public road transport services

During 2010-11 to 2014-15, the Corporation had a contribution in providing public transport services in the State which ranged between 0.59 (2010-11) and 0.51 (2014-15). As against total 12,310 number of public service vehicles[28] registered and operated in the State as of March 2015, only 63 vehicles (0.51 *per cent*) belonged to the Corporation. Further, during the last five years, 4816 number public service vehicles were registered in the State out of which only 31 vehicles (0.64 *per cent*) belonged to the Corporation. The following **Chart** depicts the year-wise contribution of the Corporation *vis-a-vis* private carriers in the total bus passenger traffic of the State as a whole during the five years from 2010-11 to 2014-15.

[28] As per Section 2(35) of the Motor Vehicles Act, 1988, Public service vehicle means any motor vehicle used or adapted to be used for the carriage of passengers for hire or reward.

Chart 4.2.2



**Including 10 small stage carriages with seating capacity of seven*
Source: Transport Department, GoM and Corporation

It could be seen that during 2010-11 to 2014-15, though the number of private service vehicles had increased by 45 *per cent* from 8433 (2010-11) to 12247 (2014-15), the growth in the number of Corporation owned vehicles was only 26 *per cent*. Further, the Corporation failed to constantly improve its service as the per capita kilometres run had declined from 0.75 in 2010-11 to 0.68 in 2014-15 during the five years under reference despite steady increase in the population during these years as depicted in **Table 4.2.1** under **paragraph 4.2.8.1** *infra*.

It was observed that during the five years from 2010-11 to 2014-15, the number of taxis in operation (with capacity of five passengers) in the State has increased by 31 *per cent* from 5865 (2010-11) to 9265 (2014-15), which accounted for 76 *per cent* of total private service vehicles (12,247 no.) operational in the State as of March 2015. The taxi operations were ideal for link services in the city but the same could not be a substitute for public transport in the State. Besides, the spurt in the number of taxis had also contributed towards heavy traffic congestion in city areas thereby causing adverse impact on healthy environment and free vehicular/passenger movement. The tremendous increase in taxis also points towards inadequacy of public transport in the city.

In reply, the Corporation accepted (November 2015) that its share in public transport was meagre and stated that this was largely due to the State Government giving permission (since 1990) to private operators on all routes.

The reply was indicative of the inability of the Corporation to compete with the private operators.

4.2.7 Planning

Public transport has definite benefits over personalised transport in terms of costs reduction, congestion on roads and environmental impact. It was observed that the GoM had not devised a State Transport Policy for systematic growth and improvement of public transport system in the State. The Corporation had also not prepared any long term perspective business plan despite GoM direction (February

2010) in this regard and this being one of its action plan recommended by COPU in November 2010. Further, the Corporation had not fixed any operating targets nor conducted any study to compare with its counterparts operating efficiently in other States.

The Corporation failed to grow and establish itself as major operator (level playing) in the State public transport. The negligible operations of the Corporation owned vehicles in the public transport system of the State was attributable on several factors like,

- absence of a well thought State Transport Policy and long term planning for gradual and systematic increase in the share of the Corporation in the State Public Transport,
- inability to increase the fleet strength due to financial constraints faced by the Corporation,
- operational inefficiencies leading to continuous operational losses (due to high operational cost /personnel costs, etc.) as discussed in subsequent text.

In reply, the Corporation stated (November 2015) that due to shortage of capable officers and staff, it is contemplating to outsource the work of preparation of perspective plan.

Considering the immediate need to improve the operational area and efficiency of the Corporation, the work of preparation of a well thought long term perspective business plan should be expedited.

4.2.8 Operational inefficiencies

4.2.8.1 Fleet strength and utilisation

The following table indicates the year-wise figures relating to the fleet strength of the Corporation and its utilisation during the five years from 2010-11 to 2014-15.

Table 4.2.1

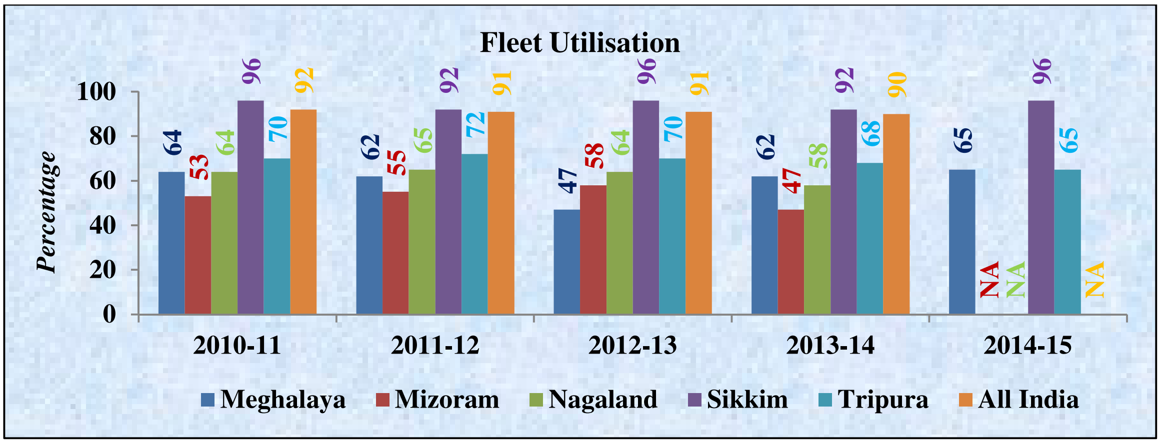
Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
A	Total number of buses at the end of the year	50	50	55	65*	63*
B	Total number of buses on road	32	31	26	40	41
C	Fleet utilisation (in *per cent*) [(B) ÷ (A) X 100]	64	62	47	62	65
D	Total effective kilometres operated (in lakh)	22.23	19.78	16.21	21.16	22.58
E	Total number of passengers travelled (in lakh)	4.02	3.72	2.97	3.46	3.86
F	Average number of Passengers travelled per bus (Corporation) per day [(E) ÷ (A) x 365]	22	20	15	15	17
G	Average KMs operated by per bus per day (viz., vehicle productivity) [(D) ÷ (A) X 365]	122	108	81	89	98
H	Estimated population (lakh)	29.67	30.48	31.31	32.11	32.99

** Including 10 small stage carriages with seating capacity of seven*
Source: Operational data of the Corporation

The fleet strength of the Corporation had increased from 50 in 2010-11 to 63 buses in 2014-15, however, the average number of passengers travelled per day by Corporation run buses had reduced from 22 (2010-11) to 17 (2014-15). This was indicative of the fact that the Corporation could not augment its passenger base corresponding to the increase in number of buses during 2010-15. The reduction in the passenger base was partly on account of underutilisation of buses as evident from the fact that the average kilometres operated per bus per day had decreased from 122 in 2010-11 to 98 in 2014-15. Audit observed that the low operation of buses of the Corporation was mainly due to frequent cancellation of trips, excessive time consumed on repairs and maintenance of buses, etc.

A comparative position of fleet utilisation of the Corporation and that of four neighbouring North Eastern States (*viz.*, Mizoram, Nagaland, Sikkim and Tripura) with reference to the All-India average has been presented in **Chart 4.2.3** below.

Chart 4.2.3



Figures for 2014-15 in respect of Mizoram, Nagaland and All-India average were not available
Source: Meghalaya Transport Corporation and Review of the Performance of State Road Transport Undertakings, Ministry of Road Transport and Highways, Govt. of India

It could be seen that while the fleet utilisation of the Corporation was consistently better in neighbouring States like Sikkim and Tripura, no efforts had been made to study the best practices in these States for implementation in Meghalaya.

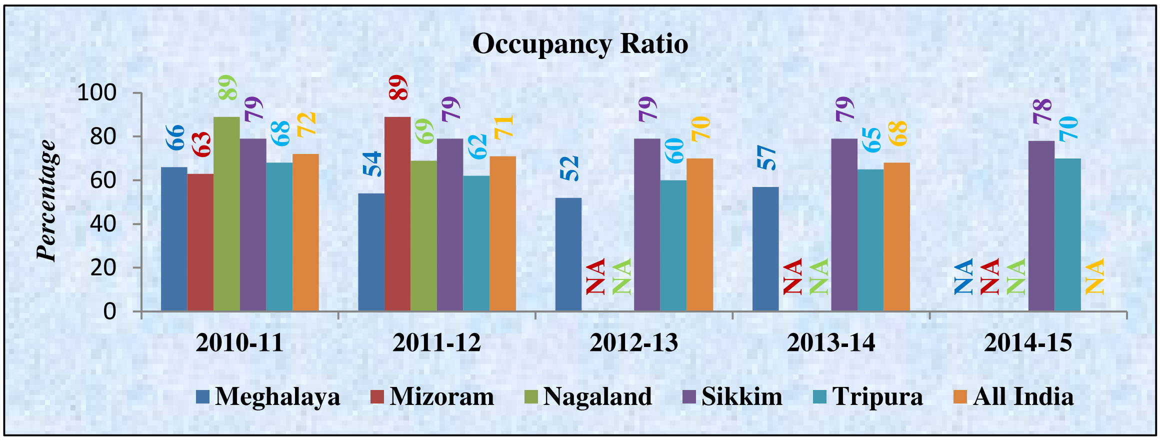
4.2.8.2 Capacity Utilisation and Occupancy Ratio

The Occupancy Ratio (Load Factor) represents the percentage of passengers carried to seating capacity. Scheduling of commercial operations is decided after proper study of routes under operation, trends relating to number of passengers travelled, fleet availability, operations of private players on the route, etc. Further, periodical review and revision of scheduling based on the requirement are equally important to improve the Occupancy Ratio. The Occupancy Ratio of the Corporation had registered a decrease of 9 *per cent* during four years (2010-11 to 2013-14) from 66 *per cent* (2010-11) to 57 *per cent* (2013-14). Major reasons attributable to low occupancy ratio were (i) operation of buses on uneconomical routes, (ii) lack of route planning, (iii) failure to augment the operations to more passengers, and (iv) increase in the number of private taxis plying on the routes operated by the Corporation.

Even though the Occupancy Ratio was deteriorating over the years, the Corporation had not taken any remedial actions to improve the same including scientific route planning. The GoM had also not devised a suitable transport policy for rationalisation of the transport sector in the State (October 2015). Further, the Corporation did not maintain route and bus-wise details of the Occupancy Ratio to identify the uneconomic and non-profitable routes for taking necessary remedial measures.

A comparative picture of the Occupancy Ratio of the Corporation run buses during five years from 2010-11 to 2014-15 *vis-à-vis* that of the four neighbouring North Eastern States (*viz.*, Mizoram, Nagaland, Sikkim and Tripura) with reference to the All-India average has been depicted in **Chart 4.2.4** as follows:

Chart 4.2.4



Source: Meghalaya Transport Corporation and Review of the Performance of State Road Transport Undertakings, Ministry of Road Transport and Highways, Govt. of India

The Occupancy Ratio of the Corporation could not surpass any of the four neighbouring North Eastern States (excepting Mizoram during 2010-11) during the five years from 2010-11 to 2014-15.

4.2.8.3 Vehicle Productivity

Vehicle productivity refers to the average kilometres run by each bus per day. The vehicle productivity of the Corporation *vi/s-à-vis* the number of passengers travelled and passenger revenue per Km during the five years ending 2014-15 is shown in **Table 4.2.2** below.

Table 4.2.2

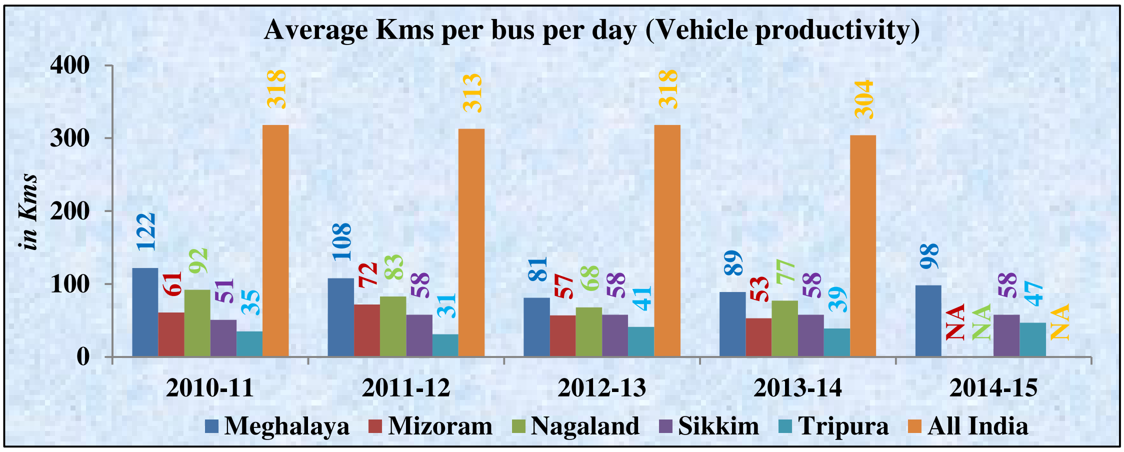
Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
A	Effective Kms operated (lakh)	22.23	19.78	16.21	21.16	22.58
B	No. of buses at the end of the year	50	50	55	65*	63*
C	Vehicle productivity (Kms) [(A) ÷ (B) X 365]	122	108	81	89	98
D	Number of passengers travelled (lakh)	4.02	3.72	2.97	3.46	3.86
E	Passenger revenue per Km	14.98	14.06	16.28	16.42	NA

**Including 10 small stage carriages with seating capacity of seven*
Source: Operational and financial data of the Corporation

From the **Table** above, it could be seen that the vehicle productivity of the Corporation run buses had shown a declining trend up to 2012-13 and had increased thereafter. There was, however, overall decrease in the vehicle productivity from 122 kilometres in 2010-11 to 98 kilometres in 2014-15. The decrease in vehicle productivity was mainly due to cancellation of scheduled operations and low fleet utilisation. The vehicle productivity had improved after 2012-13 due to improvement in fleet utilisation from 47 *per cent* (2012-13) to 65 *per cent* (2014-15) which was mainly due to purchase of new buses. Low vehicle productivity impacted drop in passenger revenue by ₹ 2.98 crore[29] during 2011-14 as worked out based on vehicle productivity for 2010-11. It was further observed that the Corporation had not fixed any specific norms for the vehicle productivity of its fleet and had also not taken any measures to improve it.

The year-wise comparative position of vehicle productivity of the Corporation for five years (2010-11 to 2014-15) with that of the four neighbouring North Eastern States (*viz.*, Mizoram, Nagaland, Sikkim and Tripura) with reference to the All-India average is given in **Chart 4.2.5** below:

Chart 4.2.5



Source: Meghalaya Transport Corporation and Review of the Performance of State Road Transport Undertakings, Ministry of Road Transport and Highways, Govt. of India

It could be seen from the above graphical presentation that although during 2010-11 to 2014-15 vehicle productivity of the fleet of the Corporation was comparatively better than the other four North Eastern States, it was far below the All-India average during all the years[30] under reference.

In reply, the Corporation accepted (November 2015) the audit observation on low fleet utilisation, low capacity ratio and low productivity and stated that the operational inefficiencies of the Corporation were due to granting of more permits by GoM to private operators on routes operated by the Corporation; frequent bandhs, landslides leading to cancellation of trips; law and order problems particularly in Garo Hills region; obligation of the Corporation to operate on uneconomical routes and forcible

[29] 2011-12 = 122 Kms – 108 Kms X 50 buses X 365 days X ₹ 14.06 = ₹ 35.92 lakh
2012-13 = 122 Kms – 81 Kms X 55 buses X 365 days X ₹ 16.28 = ₹ 133.40 lakh
2013-14 = 122 Kms – 89 Kms X 65 buses X 365 days X ₹ 16.42 = ₹ 128.56 lakh

[30] excepting 2014-15 for which All-India average figures were not available.

stoppage of transport operations at its main service depot (SJK Depot) due to court case, etc.

The reply is not tenable as the Corporation needed to address the above issues by devising a well thought long term planning with the concurrence of the GoM. The GoM may also consider formulating an appropriate Transport Policy in this regard so as to revive the operations and share of the Corporation in the State public transport system.

4.2.8.4 Cost of operations

The following **Table** indicates the year-wise details of the cost of operations *vis-à-vis* the revenue earned by the Corporation during the last four years from 2010-11 to 2013-14[31].

Table 4.2.3

Sl.No.	Particulars	2010-11	2011-12	2012-13	2013-14
1.	Operating Revenue	410.20	333.84	336.16	405.71
2.	Operating Cost (₹ in lakh)	1776.24	1486.61	1878.44	1462.16
3.	**Operating loss [(2) – (1)] (₹ in lakh)**	**1366.04**	**1152.77**	**1542.28**	**1056.45**
4.	Total effective Kms operated (lakh)	22.23	19.78	16.21	21.16
5.	Operating revenue per Km (₹) [(1) ÷ (4)]	18.45	16.88	20.74	19.17
6.	Operating Cost per Km (₹) [(2) ÷ (4)]	79.90	75.16	115.89	69.10
7.	Employee Cost (₹ in lakh)	1292.63	1134.91	1510.28	976.35
8.	**Operating cost as a percentage of operating revenue [(2) ÷ (1) X 100]**	**433**	**445**	**559**	**360**
9.	**Employee cost as a percentage of operating cost [(7) ÷ (2) X 100]**	**73**	**76**	**80**	**67**

Source: Operational and financial data of the Corporation

The operating cost of the Corporation for four years ranged between 360 (2013-14) and 559 *per cent* (2012-13) of the operating revenue of the Corporation for the corresponding years. Audit observed that the high cost of operation was mainly attributable to high employee cost which was ranging between 67 (2013-14) and 80 *per cent* (2012-13) (average 74 *per cent*) of the total operating cost during 2010-14. As a result, the Corporation was not able to recover its cost of operation during any of the four years under reference. The total operating loss accounted for ₹ 51.18 crore during 2010-14 affecting the Corporation's ability to provide efficient and effective transport services in the State.

The inefficient operation of buses coupled with high cost of operation and low earning resulted in huge operational losses to the Corporation during the period of four years from 2010-11 to 2013-14.

In reply, the Corporation accepted (November 2015) the observations and stated that under recovery of operational costs was mainly due to high employee cost and high cost of operation in hilly terrains as well as bad road conditions.

The Corporation and GoM needed to take immediate steps to fruitfully deploy its manpower for revival of the operations of the Corporation in the State.

[31] Figures for 2014-15 not available

4.2.8.5 Failure to implement COPU recommendation on Voluntary Retirement Scheme

The GoM introduced (January 2003) Voluntary Retirement Scheme (VRS) for the employees of all Public Sector Undertakings in the State. In pursuance to this, the Corporation implemented (October 2004) the first phase of VRS for 207 employees and accordingly, a compensation of ₹ 14.50 crore was paid by GoM to those employees who had opted for the VRS. In the second phase (June 2005), although the Corporation received VRS applications from 89 employees it did not process the applications further for reasons not on record. The COPU had also recommended (November 2010) to implement VRS in letter and spirit as the main liability of the Corporation was on account of salaries of employees. In the wake of COPU's recommendations, the Corporation prepared (April 2011) a list of 105 employees afresh and an additional list (March 2012) of 30 employees for implementing the 2nd phase of VRS. The 2nd phase of VRS was, however, not implemented on this occasion as well for no reasons on records. Finally, the Corporation submitted (July 2013) a list of 112 employees to GoM for sanctioning VRS. It was, however, observed that 11 employees out of total 112 employees shortlisted for the VRS under 2nd phase had already retired on superannuation as of July 2015. The list of employees submitted (July 2013) by the Corporation for 2nd phase of VRS was, however, still pending for sanction by GoM (October 2015).

Audit observed that though the staff cost constituted 67 to 80 *per cent* of the total operating cost during the period 2010-14, the Corporation failed to implement the 2nd phase of VRS even after lapse of more than 10 years of implementation (October 2004) of the first phase. The Corporation could have saved a total amount of ₹ 4.82 crore on account of employees cost incurred on the salaries of shortlisted (July 2013) 112 employees for VRS for the period from July 2013 to March 2015 by implementing the VRS Scheme in July 2013. A much higher amount could have been saved had the 2nd phase of the Scheme been implemented during 2005-06 itself. The lethargic attitude of the Corporation in implementing VRS adversely affected the financial position of the Corporation.

In reply, the Corporation stated (November 2015) that it could not implement VRS in absence of GoM sanction for funding of the Scheme.

The reply was not tenable as keeping in view its own financial interests, the Corporation should have pursued the issue with the GoM vigorously.

4.2.9 Purchase of vehicles without tendering

Till 2004-05, the Corporation had been purchasing chassis from the original manufacturers/authorised dealers and got the bus body fabricated by engaging private firms through inviting open tenders. The BoD decided (April 2005) to dispense with the existing system and opted for purchase of readymade (fully built) buses without inviting tenders. The BoD had also observed (April 2005) that though the cost of readymade buses would be higher than that of buying chassis and getting bus body fabricated, buying of readymade buses would be more beneficial. Subsequently, the Chairman had commented (February 2012) that if tender had been invited, there would have been more offers from manufacturers with competitive bidding and that would provide transparency in the procurement of vehicles. The Corporation, however, continued to purchase (since 2005-06) readymade buses directly from the Dealer (M/s Modrina Auto Enterprises) without inviting competitive tenders. During the period from 2010-11 to 2014-15, the Corporation purchased total 29 vehicles (Tata buses) costing ₹ 4.43 crore from the Dealer. In this connection following observations are made.

- The Corporation procured (April 2012 to March 2015) a total of 29 vehicles from the Dealer without inviting competitive bids or even negotiation with the dealer at an aggregate cost of ₹ 4.43 crore and thus, lost the opportunity to avail the benefits of competitive bidding or direct purchase from the manufacturers.
- The Corporation issued (March 2012) a Purchase Order (PO) in favour of the Dealer for supply of five numbers of Tata Marco polo buses and six numbers Deluxe Tata buses at an aggregate cost of ₹ 2.43 crore. As per the PO, Marco polo and Deluxe vehicles were to be delivered within 60 days and 90 days after payment of advance respectively. In case of default in delivery of vehicles within the agreed period, a penalty of ₹ 3,500/- per vehicle was recoverable from the Dealer for each day of delay in delivery. The Corporation paid (14 March 2012) advance amount of ₹ 2.17 crore against supply of these vehicles. Thus, the actual delivery should have been completed by 14 May 2012 and 14 June 2012 respectively. Audit observed that all the 11 vehicles were delivered by the Dealer after delay ranging from 105 to 169 days. The Corporation, however, did not recover the penalty of ₹ 48.86 lakh[32] from the Dealer as per the terms of the PO despite delay in delivery of buses thereby extending undue commercial favour to the Dealer.

In reply, the Corporation stated (November 2015) that buses were procured by inviting quotation from the dealer of Tata Motors which was the only manufacturer having wide spread network of sales and services in the State. The delay in delivery of buses was due to painting of the Corporation's colour scheme and logo besides unfavourable climatic conditions.

The reply is not acceptable as the dealers for other brands like Ashok Leyland, Force Motors, etc. were also available in the State. Thus, the Corporation should have preferred competitive tendering rather than purchasing the vehicles from a single Dealer so as to avail the benefits of competitive pricing and after sales services. The decision of the Board to do away with competitive tendering is questionable as the

[32] 4 vehicles X ₹ 3500 X 105 days = ₹ 14.70 lakh
1 vehicle X ₹ 3500 X 112 days = ₹ 3.92 lakh
5 vehicles X ₹ 3500 X 139 days = ₹ 24.32 lakh
1 vehicle X ₹ 3500 X 169 days = ₹ 5.92 lakh
₹ 48.86 lakh

Corporation could not explain the benefits availed under direct purchase from the Dealer. Further, the purchase order was for delivery of complete readymade buses within 60/90 days, hence the contention that delay was due to painting of logo and colour scheme was not tenable.

4.2.10 Operation of Buses by MUDA

MUDA purchased (November 2009) 120 buses under Jawaharlal Nehru National Urban Renewal Mission (JnNURM) at a total cost of ₹ 17.06 crore for deployment in Shillong City area after following the tendering process. Ninety *per cent* of the cost of buses was met from the Central share and remaining cost of ten *per cent* was to be borne by the State. The first lot of 50 Ashok Leyland buses was received by MUDA during October 2010-July 2011 while the remaining 70 buses (Tata) were received during October 2012-June 2013. Initially, 50 Ashok Leyland buses were operated (July 2011 to January 2013) by the Corporation. After January 2013, however, all the 120 buses were being operated by private parties under the supervision and control of MUDA.

In this connection, following observations are made:

4.2.10.1 Delay in selection of bus operators

As MUDA did not have adequate infrastructure and expertise to operate the buses procured under the Mission, it decided to hand over (October 2010-July 2011) the operation of 50 buses (Ashok Leyland make) procured under JnNURM to the Corporation in five batches. As per the agreement entered into (September 2011) with the Corporation, the net profit earned from the operation of these 50 buses (after adjusting operational expenditure) was to be shared between the Corporation and MUDA in 70:30 ratio. The Corporation operated these 50 buses during the period from July 2011 to January 2013 and thereafter the said buses were taken back by MUDA. The details of the revenue earned, expenditure incurred and net revenue earned by MUDA during the period (July 2011 to January 2013) from the operations of 50 buses through the Corporation have been summarised in **Table 4.2.4** below:

Table No. 4.2.4

1	Total revenue	₹ 412.73 lakh
2	Total Expenditure	₹ 330.67 lakh
3	Net revenue	₹ 82.06 lakh
4	30 *per cent* share of net revenue to MUDA	₹ 24.62 lakh
5	Number of days of operation	560 days
6	Average earning per Bus per day	₹ 1474
7	Average expenditure per Bus per day	₹ 1181

Source: Meghalaya Transport Corporation

It was observed that even though 40 out of 50 buses (in four out of five batches) were handed over (26 October 2010 to 15 March 2011) to Corporation till 15 March 2011, MUDA had accorded permission to operate these buses only on 27 July 2011 as MUDA was also exploring the possibilities of operating these buses through private parties. Due to the delay on part of MUDA in allowing the Corporation to operate buses, the JnNURM buses were kept idle for considerable period leading to loss of potential revenue of ₹ 122.49 lakh up to July 2011 as detailed in the ***Appendix 4.2.3*.**

In reply, MUDA stated (December 2015) that national tender was floated on 19 October 2010 for operators, but the response was not forthcoming despite extending the tender twice, It was also stated that there was further delay because of time taken by the Special Purpose Vehicle (SPV) of the State Government and the State Cabinet in approving (January 2011 to July 2011) the proposal for handing over of the buses to the Corporation.

The reply is not tenable as the MUDA should have taken advance action for floating of tenders for operation of the vehicles. Further, the procedural time of seven months (January – July 2011) taken by GoM/State Cabinet for deciding on handing over of buses to the Corporation was excessive and had also contributed towards delay in operations of these buses.

4.2.10.2 Operation of JnNURM buses through private operators

In addition to 50 buses handed over to the Corporation for operations, MUDA entered (October 2012/November 2012/July 2013) into agreements with three private parties[33] for operation of remaining 70 new buses (Tata make). The agreements with private parties were initially on trial basis for three months which were subsequently renewed. After taking back (January 2013) 50 buses (Ashok Leyland make) from the Corporation, MUDA entered (February 2013) into fresh agreements with the same three private parties for operation of said 50 buses. As per these agreements, the net profit earned from the operation of these 120 buses (net after adjusting the operating expenditure) was to be shared equally between MUDA and the private operators.

The above agreements in respect of 120 buses expired in September 2013 and January 2014. Following the expiry of the above agreements, MUDA invited (November 2014) fresh tenders for engagement of bus operators on the basis of minimum cut-off revenue of ₹ 430 per bus per day as fixed by MUDA. All four participating bidders were selected (May 2015) on the basis of highest quoted revenue of ₹ 570 per bus per day.

In this connection, following observations are made:

(i) Non-recovery of envisaged returns from private operators

Initially, three private operators (SSYWO, PTSO and SSHG) were hand-picked (September 2012) for operation of 70 Tata buses without inviting competitive bids. It was also observed that none of the three operators had any past experience in the field of operation of passenger buses/transport. Subsequently, the operations of 50 Ashok Leyland buses taken back from the Corporation were also handed over (February 2013) to these private operators. As per the revenue sharing agreement entered into with three operators, the net revenue earned out of the operations of buses was to be

[33] San Shnong Youth Welfare Organisation (SSYWO), Pioneer Transport Service Organisation (PTSO) and Synroplang Self Help Group (SSHG)

shared equally between the operators and MUDA. Accordingly, during October 2012 to March 2015, MUDA earned net revenue (being its share of 50 *per cent*) of ₹ 47.65 lakh from the operations of these 120 buses. In this regard, it would be pertinent to note that the DPR envisaged self-sustenance of bus operations in 3 years with an internal rate of return of 7.92 *per cent* per annum[34]. Thus, there was an overall shortfall of ₹ 2.42 crore (***Appendix 4.2.4***) in generation of revenue from operations of buses through private parties during October 2012 to March 2015 with reference to the revenue projections made in the DPR.

In reply, MUDA stated (December 2015) that in the DPR, calculation and estimation was made for 176 buses whereas only 120 buses were procured and taking the same IRR is not correct. It further stated that the Revenue Model under which the buses were given to the operators ensures the minimum revenue to be shared.

The reply is not tenable as the annual IRR projections of 7.92 *per cent* made in the DPR were linked with the investments made in the vehicles under operation. Accordingly, the shortfall in operational revenue pointed out by Audit has been worked out for 120 buses in operation through private operators during October 2012 to March 2015 taking into account the actual cost of these buses.

(ii) Irregularities in operation of buses

The irregularities/deficiencies in operation of buses by private operators have been discussed in the following paragraphs.

- MUDA did not ensure maintenance of separate bank accounts for depositing the revenue collected through sale of tickets and submission of audited annual financial statements by these operators. As a result, the statement of expenditure submitted by the private operators was not supported by any documentary evidence and the expenditure claimed as incurred by the operator seemed to be exaggerated. Even though the Monitoring Committee (MC) of MUDA reserved the right to examine the books of accounts of the operators for verification of the reported figures and to inspect any other records pertaining to the activities carried out in pursuance of the agreements, no such inspection/examination was conducted by the MC during the entire period of operation. This indicated complete absence of monitoring of the performance of the private operators despite violation of various provisions of agreements by these operators. In the absence of authentic records relating to revenue collection and expenditure, audit could not validate the quantum of net revenue realized (₹ 0.48 crore) by MUDA during the period of 30 months (October 2012 to March 2015) against operations of 120 buses. The contention of Audit is further substantiated with the fact that the actual net revenue (₹ 0.48 crore) realised by MUDA against the operations of 120 buses through private operators was short by ₹ 1.02 crore (detailed in the ***Appendix 4.2.4***) with reference to the revenue to be realised under the Revenue

[34] The internal return worked out to ₹ 2.89 crore per annum at the rate of 7.92 *per cent* on the cost (₹ 17.06 crore) of 120 buses.

Model envisaged in the agreements which was not effectively enforced and ensured by MUDA.

In reply, MUDA stated (December 2015) that the sale of tickets and fare collection was not much relevant and inspections were carried out to monitor the operation of these buses. It was further stated that two private operators actually earned more than what was envisaged in the Revenue Model for operation of Tata buses.

The reply is not acceptable as the sale of tickets should be the main basis for developing a Revenue Model which MUDA did not adopt. It was observed that the activities of the private operators were not properly monitored and several lapses noticed in the implementation of various terms of the Agreements. Further, the contention regarding earning of two operators in excess of the Revenue Model is also not tenable as the overall revenue earned against operations of all 120 buses was much lower the revenue/IRR envisaged in the DPR of the JnNURM buses as mentioned in the previous paragraph.

- As per the agreements, the operators were required to operate the buses at 90 *per cent* fleet utilisation. The actual fleet utilization by private operators during October 2012 to March 2015 was, however, in the range of 46 *per cent* to 73 *per cent* only. MUDA did not take cognizance of this fact and did not conduct necessary checks to verify whether the operators had diverted the buses for chartered services for unaccounted monetary gain. Further, it failed to enforce the penal provision in the agreements on the private operators for low fleet utilisation.

  In reply, MUDA accepted (December 2015) the facts and stated that fleet utilisation by operators was low as out of the 50 Ashok Leyland buses taken over from the Corporation, only 20 were road worthy.

  The reply was not tenable as even the average fleet utilisation of Tata buses by three private operators was only 68 *per cent*, which was far below the agreed level of 90 *per cent*.

- The agreements[35] for operation of buses with one private operator (PTSO) had expired in September 2013/January 2014. It was, however, noticed that the operator continued to operate 52 buses without any formal agreement up to September 2014 when MUDA finally terminated (October 2014) the operations of these buses. It was further observed that the MUDA had taken back the buses from the operator only in May 2015 when the same were handed over to new operators for their operation. The possibility of misuse of the 52 buses by the operator for unauthorised commercial gain during the period from November 2014 to April 2015 could not be ruled out. Further, as per the terms of the agreement, PTSO was required to deposit an amount of ₹ 22.69 lakh with MUDA towards Performance Guarantee (PG) for operation of 20 Tata Standard buses. The MUDA, however, allotted the buses to PTSO without collecting the PG thereby extending undue commercial favour to the operator. Since MUDA failed

[35] Two agreements relating to Tata mini buses and Ashok Leyland expired in September 2013 while one agreement in respect of Tata standard buses expired in January 2014.

to obtain the required PG from the private operator, it could not recover its share of revenue (₹ 7.28 lakh) from PTSO.

In reply, MUDA stated (December 2015) that the buses could not be taken back immediately since the condition of some of the buses were not road worthy and there was no available operator to manage these buses at the time. Keeping the buses idle would tantamount to depriving the public of the services which they were depending on. It was further stated that the issue of not depositing the PG by PTSO is being pursued legally.

The reply is not tenable as action should have been taken against the private operator for improper maintenance of these vehicles making them non-road worthy and also for irregularly keeping the vehicles under his possession. As regards obtaining of PG from PTSO, MUDA should have ensured the same before handing over the buses to the private operator.

It would thus be observed that MUDA failed to effectively enforce the terms of the agreements with private operators and monitor their performance with reference to the agreed commitments. Audit could not find any justification for handing over the bus operation to private operators which further resulted in undue commercial favour to these operators.

Objective 2*: *Efficiency and effectiveness of the Corporation to re-align the business model to tap non-conventional sources of revenue

4.2.11 Non- conventional Revenue

As the Corporation was mandated to provide an efficient, adequate and economic road transport to the public at affordable fare, it was imperative for the Corporation to tap non-traffic revenue sources to cross-subsidise its un-economical operations. One of the recommendations of COPU (November 2010) to the Corporation on the audit observations appeared in Report of the Comptroller & Auditor General of India for the year ended 31 March 2009, Government of Meghalaya, was to find avenues other than conventional means for increasing the revenue of the Corporation such as display of hoardings/advertisements on the buses and opening of shopping malls in all the transport complexes in the State wherever feasible. Presently, the Corporation had been earning non-conventional revenue from two sources, namely rental income earned from two Buildings of the Corporation and commission earned from Indian Railways against acting as agent for booking of rail tickets.

Summarised details of the non-conventional revenue earned by the Corporation through these two sources *vis-à-vis* the traffic revenue (ticket sales) earned from core activities during the years from 2010-11 to 2013-14 have been given in the **Table 4.2.5** below:

Table 4.2.5

(₹ in lakh)

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14
a	Rental income from Buildings	40.40	44.96	45.01	47.07
b	Commission from Indian Railways.	31.75	28.51	29.23	32.24
c	Total non-conventional revenue (a) + (b)	72.15	73.47	74.24	79.31
d	Traffic revenue (ticket sales)	332.98	278.17	263.91	347.49
e	Percentage of non-conventional revenue to traffic revenue.	21.67	26.41	28.13	22.82

Source: Provisional financial statements of the Corporation

From the **Table** above, it could be seen that the revenue from non-conventional sources as a percentage to Corporation's traffic revenue increased from 21.67 *per cent* in 2010-11 to 28.13 *per cent* in 2012-13 and thereafter dropped to 22.82 *per cent* in 2013-14. Even though the Corporation had huge potential for generating non-conventional revenue, it could not substantially tap the same as discussed in the following paragraphs.

4.2.11.1 Non utilisation of vast area of land located in prime locations

Though the Corporation had 1.01 lakh Square meters (Sq.m.) of surplus land at prime locations since incorporation (1976), it had not taken any effective steps for commercial exploitation of this surplus land. Even an attempt made by the Corporation (April 2012) for commercial utilisation of the land became futile because of the intervention of GoM as discussed below.

- The Corporation decided (April 2012) to construct shopping mall and complexes under Public Private Partnership (PPP) mode in the land (measuring 31,989 sq. meter) situated in five locations (Shillong, Jowai, Lad Nartiang, Ummulong and Williamnagar). Tenders were invited (August 2012) for land development of the proposed projects. The GoM, however, decided (August 2012) to set up a Special Purpose Vehicle (SPV) for the implementation of the project in Shillong. Based on the decision of the GoM, the Corporation cancelled (September 2012) the tender. No further action was taken by the Corporation/GoM for no reason on record and the land continued to be kept idle till date (September 2015).
- As regards implementation of land development projects in remaining four locations, it was observed that the Corporation had not taken any effective action to market and project the economic potential of the locations of its land so as to attract the investors for investment. As a result, the Corporation had not received any responses from investors against the tenders issued (August 2012) by the Corporation for development of land of the Corporation on these locations.

Non-implementation of projects to develop the surplus land reflects lack of initiative on part of the Corporation. The official apathy coupled with lackadaisical attitude of the Corporation/GoM had resulted in idling of the surplus land since incorporation of the Corporation (1976).

In reply, the Corporation accepted (November 2015) the facts and stated that it was actively considering construction of multi-storey buildings at important and centrally located centres.

Audit awaits further development in this regards.

4.2.11.2 Letting out of Building space

The Corporation had two buildings (new and old) located in Shillong. The registered office of the Corporation was situated in the new building at Shillong. The new and old buildings of the Corporation had total rentable area of 4,237 Sq.m. The rentable space had been leased out to the tenants after entering into lease agreements for periods ranging from three to ten years. As on March 2015, the Corporation had total 67 tenants occupying the entire rentable space of 4237.29 Sq.m as per the details given under ***Appendix 4.2.5***.

Audit reviewed these lease agreements and observed the following deficiencies /system lapses resulting in significant loss of revenue to the Corporation.

(i) Fixation of rent without reflecting market rates

The Corporation had last revised (April 2011) the rates of lease rent in respect of the leased out portion of its old and new buildings by 20 *per cent* over the then existing monthly lease rent of ₹ 175 per sq. meter (new building front and old building) and ₹ 125 per sq. meter (new building back part). Audit observed that the Corporation had been fixing the rent without any scientific basis and without considering the prevailing market rates. The Board of Directors of the Corporation had also observed (August 2010) that the rent fixed by the Corporation was too low and needed to be determined in consonance with prevailing market rates. Even though the Corporation collected (September 2010) prevailing market rates of same locality from MUDA, Corporation did not revise (April 2011) the lease rentals in respect of its leased out building on the basis of the market rates obtained from MUDA. Non-revision of rent in consonance with market rates had resulted in loss of rental income of ₹ 5.04 crore for the period April 2011 to August 2015 (details in the ***Appendix 4.2.5***).

In reply, the Corporation accepted (November 2015) that in the initial stages rent was fixed without any basis or considering the prevailing market rates. However, in recent years, the rates were increased and steps were being taken to fix rent as per provision of the Meghalaya Urban Areas (Rent Control) Act, 1972.

The reply is not tenable as the Corporation did not revise the rent after April 2011.

(ii) Non- recovery of lease rent

Test check of the records revealed that the Corporation was not prompt in collecting the monthly rent in time resulting in accumulation of rental dues. As of March 2014, an amount aggregating ₹ 1.85 crore was pending for recovery by the Corporation towards rent which included the rental dues of ₹ 1.29 crore recoverable from one tenant who had been allotted the space in 2001.

In its reply (November 2015), the Corporation accepted the Audit observations and stated that suits were filed against the defaulting tenant which is still pending in Court.

Further developments in this regard were awaited.

4.2.11.3 Operation of Railway Passenger Reservation System

On behalf of the Indian Railways, the Corporation had been operating Passenger Reservation System (PRS) counters at four locations[36] in the State for sale of railway tickets at a commission of 2 *per cent*[37] on the total amount of net sale proceeds (Gross sale *minus* refunds if any) of tickets. The Corporation was required to submit monthly bills to the Railways within the 15th of the next month to claim the commission. After verification of bills, Railway was to release 80 *per cent* of the commission within 10 days of receipt of the bills. The balance amount of commission (20 *per cent*) was to be released after cross checking the detailed statement received from the PRSs regarding net turnover and the actual amount payable. The final payments were to be released by cheque after deduction of applicable Income Tax and Surcharge.

Summarised details of the commission earned by four PRS counters of the Corporation during the period from April 2010 to March 2015 are shown in **Table 4.2.6** below.

Table 4.2.6

(₹ in lakh)

Year	Dues at the beginning of the year	Two *per cent* Commission earned during the year	Commission received during the year	Dues at the end of the year
2010-11	86.00	31.75	23.54	94.21
2011-12	94.21	28.51	15.97	106.75
2012-13	106.75	29.23	14.25	121.73
2013-14	121.73	32.24	-	153.97
2014-15	153.97	33.99	39.84	148.12
2010-15	**86.00**	**155.72**	**93.60**	**148.12**

Source: Meghalaya Transport Corporation

From the **Table** above, it could be observed that though the Corporation was to receive ₹ 2.42 crore as of March 2015 (including the opening outstanding of ₹ 0.86 crore) against the railway tickets sold during the last 5 years, it received only ₹ 0.94 crore leaving an outstanding amount of ₹ 1.48 crore as of March 2015. The Corporation did not pursue the issue with Indian railways effectively for timely recovery of these claims. The Corporation also failed to take up the matter with Indian Railways at appropriate higher level for early settlement of its long pending dues.

In reply, the Corporation stated (November 2015) that it had deputed officials to the Railways for recovery of pending commission. During the Exit Conference

[36] Shillong since March 1996, Tura since March 2007, Jowai since February 2008 and Nongpoh since December 2009

[37] Commission was 4 *per cent* prior to January 2007

(December 2015), it also stated that the General Manager, Northern Frontier Railways had visited the Corporation and was appraised of the situation.

The Corporation should vigorously follow up with Railways for early settlement of all pending claims.

4.2.11.4 Helicopter Services

In order to provide air connectivity to remote and other areas in the State with rest of India, helicopter services operated by Pawan Hans Helicopter Limited[38] (PHHL) were introduced (February 1999) by the GoM with subsidy from Ministry of Home Affairs, Government of India (GoI). According to the terms of the GoI Scheme, the subsidy portion was limited to 75 *per cent* of operational cost after adjusting recovery from passengers. The GoM entrusted (1999) the Corporation with commercial activities like sale and cancellation of tickets, handling of passengers and their baggage, etc., on the basis of commission payable at the rate of nine *per cent* of the sale proceeds of tickets. The GoM suspended the Helicopter Services in May 2011 and re-started (July 2012) the same after entering into one year agreement with PHHL.

In this connection, following observations are made:

(i) Unauthorised retention of Government revenue

The GoM had allowed (March 1999/June 2000) the Corporation, a commission at the rate of 9 *per cent* on the net sale proceeds of tickets from the operation of helicopter service. It was observed that the Corporation instead of depositing the sale proceeds to GoM Account had diverted the proceeds towards salary and other expenditure of the Corporation without approval of the GoM. The total amount so diverted by the Corporation during November 2012 to March 2015 without authorisation was ₹ 2.46 crore, which was irregular.

In reply, the Corporation stated (November 2015) that permission from the GoM was obtained (October 2012) for diversion of the funds towards payment of employee salaries.

The reply is not tenable in view of the fact that the permission of GoM referred to in the reply was for a "one time dispensation" only with specific directions to deposit the proceeds into the GoM Accounts in future. It was noticed that ignoring the specific directions (October 2012) of GoM, the Corporation continued to retain the Government revenue and utilise the same on employee related expenditure without authorisation.

(ii) Irregular subsidy claims of GoM

As per the norms of the Ministry of Home Affairs, Government of India, the subsidy portion against the helicopter services would be limited to 75 *per cent* of operational cost after adjusting recovery from passengers. On the basis of monthly bills issued by PHHL in respect of services rendered, the Corporation/GoM works out the 75 *per*

[38] a Central Public Sector Undertaking

cent Central Share (payable by the Ministry of Home Affairs, Govt of India) and 25 *per cent* State share (payable by the Government of Meghalaya). It was, however, observed that while working out the component of Central Subsidy, Corporation/GoM had not adjusted the revenue earned (₹ 4.58 crore) from chartering services rendered (April 2010 to March 2015) to Government functionaries from the operational cost of helicopter services. Thus, during the last 5 years, the GoM had irregularly claimed excess subsidy amounting to ₹ 3.44 crore[39] from the MHA, GoI, which was irregular.

No comments were offered by the Corporation/GoM on the issue.

Objective 3: Effectiveness of fund management of the Corporation in meeting its financial commitments and investment of surplus funds

4.2.12 Financial Performance Analysis

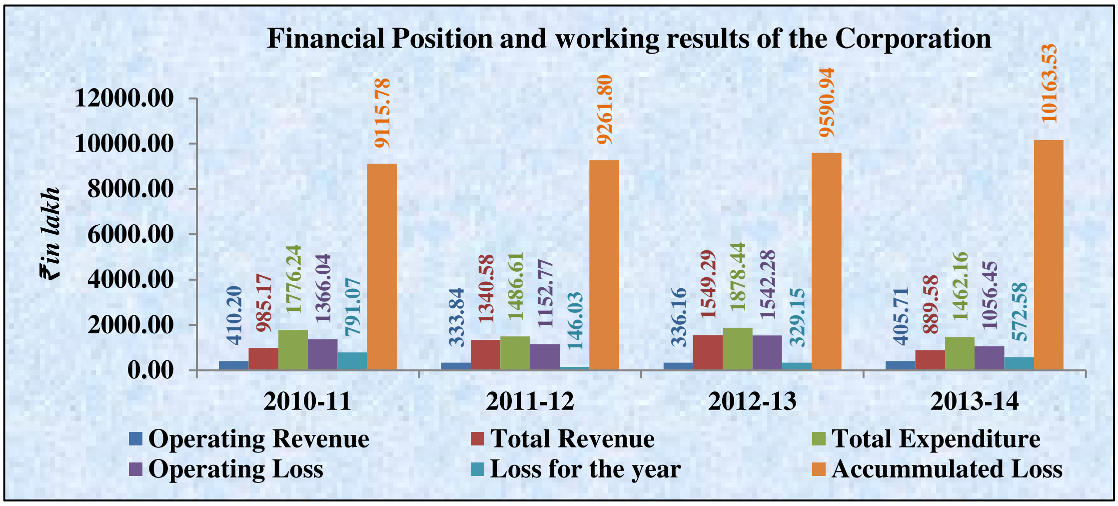
For an effective management of funds, the organisation should have a proper fund management policy. An efficient fund management policy ensures availability of adequate funds for day to day operational requirements, adequate return to the shareholders, safety and adequate return on investments.

4.2.12.1 Preparation of the Annual Accounts

The Corporation failed to finalise its annual accounts since 2010-11 onwards. The delay in preparation of the annual accounts had been attributed (November 2015) by the Corporation on rationalisation of staffing pattern after the retirement of some officers/staff dealing with accounts. Audit had been pursuing the issue regularly (August/July 2015, May 2014) with GoM/Corporation to clear the arrear accounts without further delay. The financial position and working results of the Corporation for last four years ending 2013-14, based on the provisional figures as provided by the Corporation have been summarised under ***Appendix 4.2.1*** and ***4.2.2.*** A graphical presentation of the financial position and working results of the Corporation for the four years under reference has also been depicted in the **Chart 4.2.6** below.

[39] 75 *per cent* of ₹ 4.58 crore

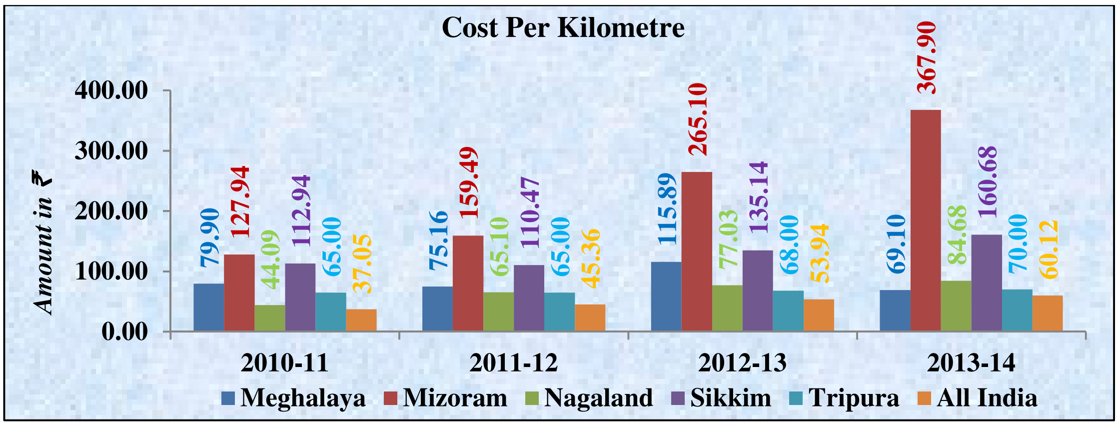
Chart 4.2.6



Source: Provisional Accounts of Meghalaya Transport Corporation

From the **Chart** above, it could be seen that the accumulated loss of the Corporation had increased from ₹ 91.16 crore in 2010-11 to ₹ 101.64 crore in 2013-14. The operating loss during 2010-11 to 2013-14 ranged from ₹ 10.56 crore (2013-14) to ₹ 15.42 crore (2012-13). The operational losses of the Corporation were mainly attributable on its operational inefficiencies and inability to recoup the operational expenditure. Year-wise comparison of the 'cost per kilometre' of the passenger transport operations for four years from 2010-11 to 2013-14 in respect of the Corporation and four neighbouring North-Eastern States (Mizoram, Nagaland, Sikkim and Tripura) *vis-à-vis* All-India average has been presented in the following **Chart**:

Chart 4.2.7



Source: Meghalaya Transport Corporation and Review of the Performance of State Road Transport Undertakings, Ministry of Road Transport and Highways, Govt. of India

From the **Chart** above, it could be seen that the 'Cost per kilometre' in Meghalaya was comparatively better than Mizoram and Sikkim while it fared worse than Nagaland, Tripura as well as All-India average during 2010-11 to 2013-14.

4.2.12.2 Absence of a Fund management Policy

The Corporation did not have a well-defined fund management policy so as to effectively regulate the investment and borrowing decisions of the Corporation. The Corporation, however, prepared annual plans based on the anticipated income and expenditure for submission to GoM. Based on the said annual plans, the GoM allocates funds out of State Budget to the Corporation in the form of capital contribution, loans, grants and subsidies. During the last four years ending March 2014, the Corporation received an amount aggregating ₹ 41.98 crore as budgetary allocations from GoM in the form of equity (₹ 12.30 crore), grants (₹ 15.91 crore) and subsidies (₹ 13.77 crore).

As could be observed from ***Appendix 4.2.2***, the GoM contribution in the form of grants and subsidy accounted for 62 *per cent* of the total revenue (₹ 47.65 crore) of the Corporation during 2010-14. Thus, the Corporation was highly dependent on GoM for allocation of funds from State Budget to meet its financial requirements, which was not a healthy practice for progressive development of the Corporation. In this connection, following observations are made:

(i) Heavy dependence on Subsidy from the State Government

The GoM had been providing financial support in the form of subsidy to the Corporation mainly to compensate the loss incurred on account of transport operation on uneconomic routes. During the last four years ending 2013-14, the Corporation had received a total subsidy of ₹ 13.77 crore from the GoM on this account. The year-wise subsidy so received by the Corporation during 2010-14 accounts for 14 *per cent* (2012-13) to 45 *per cent* (2013-14) of the total revenue. The subsidy claim had been allowed by the GoM without assessing the actual loss incurred on operation of uneconomic routes as the Corporation did not have authentic figures of operational loss in absence of approved annual accounts since 2010-11. The Corporation had not effectively taken any steps till now to improve the working results and to minimise dependence on Government subsidy. The COPU also recommended (November 2010) that the Corporation should take steps to minimise the dependence on GoM subsidy as it was not a healthy sign.

The Corporation did not offer (November 2015) any comments in the matter.

(ii) Claims and dues receivable

A summarised position of sundry debtors and other receivables of the Corporation for years from 2010-11 to 2013-14 is shown in **Table 4.2.7** below:

Table 4.2.7

(₹ in lakh)

Particulars	2010-11	2011-12	2012-13	2013-14
Bills Receivable	3.80	3.80	3.80	3.80
Receivable from Railway	94.21	106.75	121.73	153.97
Lease Rent Receivable	139.93	151.54	166.60	185.15
Postal Subsidy Receivable	10.68	8.07	9.36	9.86

Particulars	2010-11	2011-12	2012-13	2013-14
Road Warrant Receivable	1.23	1.23	1.23	1.23
Mizoram State Transport	0.64	0.64	0.64	0.64
Advance to MUDA	8.09	0.00	12.50	12.50
Total Debtors	**258.58**	**272.03**	**315.86**	**367.15**
Total turn over from core activities	**410.20**	**333.84**	**336.16**	**405.71**
Debtors as a percentage to total turn over	**63**	**81**	**94**	**90**

Source: Meghalaya Transport Corporation

From the **Table** above it could be seen that during the four years from 2010-11 to 2013-14, the total debtors of the Corporation had increased by 42 *per cent* from ₹ 258.58 lakh (2010-11) to ₹ 367.15 lakh (2013-14). The dues receivable from Railways against commission and lease rental receivable against lease of office space constituted 92 *per cent* of the total debtors as on March 2014. On the other hand, it was observed that the Corporation availed (September 2012) Cash Credit of ₹ 4.36 crore from the Meghalaya Rural Bank at a floating interest rate of 13.5 *per cent* to 14 *per cent* for payment of salaries and allowances to its employees. The outstanding balance of Cash Credit as on May 2015 was ₹ 0.78 crore.

The Corporation did not maintain age-wise analysis of debtors and also no system was in place to obtain confirmation of balances from these debtors. As such, Audit could not assess the recoverable status of the debtors as on 31 March 2014.

The Corporation has noted (November 2015) the Audit observations but did not offer any further comments on the issue.

Objective 4*: *Effectiveness of the monitoring and evaluation system

4.2.13 Monitoring and Evaluation

To achieve economy, efficiency and effectiveness in operation there should be well-thought norms for operations, service standards and financial and operational performance. Further, an effective and suitable Management Information System (MIS) is also essential to be in place so as to periodically report on achievement of targets and norms. The achievements need to be reviewed at regular intervals to address deficiencies and also to make appropriate revisions in the targets, if necessary, for subsequent years. The targets fixed should be realistic so as to make an organisation self-reliant.

In this connection, following observations are made.

4.2.13.1 Monitoring by top management

The Corporation did not have a comprehensive system for recording of operational and financial data through maintenance of specific registers for documenting each aspect of functioning. The essential records and registers, including the Cash Book, were not being properly maintained by the Corporation at Head Office or Depot level. There was no system of maintaining the Cost accounts at the Workshops. Non-maintenance of vital records in a complete and appropriate manner had deprived the Management of having reliable and authentic data with respect to various operational and financial performance causing a detrimental effect on decision making. Further, there was no effective system in place for periodical monitoring and evaluation of the performance of the Corporation at top management level. As per Section 11(1) of the Road Transport Act, 1951, "*the Board of Directors of the Corporation was required to meet at least once in every three months* to review and discuss transactions of business of the Corporation. It was, however, observed that against minimum 20 meetings mandatorily required to be held in five years, the Board met only 5 times during the five years from 2010-11 to 2014-15. The deficiency in holding the required minimum number of meetings by the Board indicated lack of adequate monitoring and apathy of the top management on the functioning of the Corporation. The GoM had also not made any serious attempt to improve the performance of the Corporation even though the accumulated losses (provisional) of ₹ 101.64 crore (as on 31 March 2014) had completely wiped off the entire capital contribution of ₹ 88.08 crore of the Corporation as on 31 March 2014.

Further, the Corporation had not evolved and ensured an effective Management Information System in place at different organisational levels. No targets for various key operational parameters (such as, fuel efficiency per kilometre, Cost per Kilometre, occupancy ratio number of passengers, and operational life of tyres /engine) had been fixed by the top management for compliance by its depots and workshops. The Corporation had also not made an attempt to treat each operating route as a cost centre to assess their viability based on the performance of respective routes so as to maximise revenue.

The Corporation had noted (November 2015) the Audit observations and no further comments were offered in the matter.

4.2.13.2 Internal Control System

Internal control system encompass a set of rules, policies, and procedures an organisation implements to provide reasonable assurance regarding the authenticity and reliability of its financial reports as well as effectiveness of its operational activities in compliance with applicable laws and regulations. Audit observed the following deficiencies in the internal control system of the Corporation.

Internal control mechanism in the Corporation was found to be inadequate as the Corporation had not developed an appropriate set of rules, polices and procedures for regulation and general management of its operational and financial activities. The Corporation had also not maintained proper and complete records showing full particulars including quantitative details and location of fixed assets. There was no system in place for conducting physical inspection/verification of the fixed assets at regular intervals so as to address the deficiencies noticed by taking timely remedial actions by top management.

The Audit observations were noted (November 2015) by the Corporation and no further comments were offered in the matter.

4.2.13.3 Internal Audit system

The Corporation did not have adequate Internal Audit System commensurate with the size and volume of its activities. The Internal Audit Wing of the Corporation consisted of only one official who was mainly involved in audit of ticket collection, remittance and local purchases of spare parts. Internal Audit did not cover other financial and operational performance of the Head Office and units.

The Corporation stated (November 2015) that only one official was deployed for auditing of operational and financial transactions both at the Head Office and Depots level.

The reply is not tenable as the internal audit did not cover the operational aspects as was seen from their internal audit reports.

4.2.13.4 Employee and Passenger Survey

Audit conducted (August 2015) a survey of 48 employees and 86 passengers to assess level of satisfaction towards the operation and services provided by the Corporation. The responses of the employees (20 parameters) and passengers (16 parameters) were grouped under different satisfactory levels varying between poor (lowest) and very good (highest). It was observed that more than 90 *per cent* of the employees were not satisfied with various parameters such as timely payment of salary, adequacy of incentive/bonus and retirement benefits. Further, 66 to 83 *per cent* of the employees had registered their response as 'average and poor' towards the parameters set against promotion opportunities, working environment, level of motivation and opportunities for career growth in the Corporation.

Further, out of 86 passengers surveyed, 85 to 100 *per cent* of the passengers were not satisfied (responded average and poor) with cleanliness of buses, comfort, luggage carrying facility and first aid services available in the Corporation run buses. About 74 *per cent* of the passengers were not satisfied with the overall promptness of Corporation's bus services. The behaviour of the crew with the passengers was graded as poor or average by 45 *per cent* of the passengers surveyed while 44 *per cent* graded them as good and 11 *per cent* as very good.

The details of parameters and responses by employees and passengers are given in ***Appendix 4.2.6***.

4.2.13.5 Non-implementation of COPU recommendations

The COPU (November 2010), while discussing the Report of the Comptroller and Auditor General of India for the year ended 31 March 2010 – Government of Meghalaya, had made seven recommendations for implementation and compliance by the Corporation. Audit reviewed the implementation status of these recommendations and observed that none[40] of these recommendations have been implemented by the Corporation so far (November 2015), as detailed in **Table 4.2.8** below.

[40] Excepting the pension liabilities of the Corporation which was taken over by GoM w.e.f 2013-14

Table 4.2.8

Sl. No.	COPU Recommendation	Compliance by Corporation
1.	Expedite implementation of the programmes drawn in the action plan such as, • Voluntary Retirement Scheme(VRS) • Payment of pension liability by GoM • Preparation of a perspective business plan • Improvement of Transport Service	1. The Corporation failed to implement VRS in letter and spirit (**paragraph 4.2.8.5**). 2. The GoM decided (March 2015) to take over all pension liabilities of the Corporation w.e.f. 2013-14. 3. The Corporation failed to prepare perspective plan (**paragraph 4.2.7**). 4. The Corporation failed to improve its transport service (**paragraphs 4.2.6 and 4.2.8.1**).
2.	Take steps to see that plying the buses for non-commercial activities which is termed as social obligations should not be at a loss and should do something to avoid such unnecessary burden.	The Corporation did not take any steps for avoiding unnecessary burden on account of operation of buses on social obligations, but stated (November 2015) that it was making efforts (**paragraph 4.2.8.2 and 4.2.8.3**).
3.	Steps should be taken to cross minimise its dependence or subsidy from the State Government.	The Corporation did not take any steps for minimising dependence on Government subsidy, but stated (November 2015) that it was making efforts {**paragraph 4.2.12.2 (i)**}.
4.	Steps should be taken at the earliest to find avenues other than conventional means for increasing its revenue such as hoarding in the buses, opening of shopping malls in the Transport Complex in the State wherever feasible, etc.	The Corporation has not taken steps for commercial use of land and finding other non-conventional sources of revenue (**paragraphs 4.2.11.1, 4.2.11.2 and 4.2.11.3**).
5.	Goods transport should also be introduced by the Corporation as there is good scope of earning more revenue from this source.	The Corporation has not taken steps for introduction of goods transport as it considered it unviable owing to stiff competition from private operators.
6.	Corporation should improve its administrative functions and take appropriate steps to ensure discipline and sincere work among all sections of workers to ensure that the Corporation should not only be self-sufficient but earns more revenue as it was intended.	The Corporation failed to motivate its employees and to inculcate a better work culture (**paragraph 4.2.13.4**).
7.	With the implementation of the action plan prepared and approved by the Board, the Corporation would improve its functioning and earnings, otherwise the Committee will be compelled to suggest to the Government for its closure, or the Government may find out alternative means for its improvement.	The Corporation failed to implement its own approved action plan and also failed to improve its functioning and earnings. With accumulated loss at ₹ 101.64 crore (March 2014) which had already eroded the total capital (₹ 88.08 crore), there is no sign of any improvement for turnaround. In this background, the COPU recommendation should be seriously considered by the GoM.

Conclusion

During last five years from 2010-11 to 2014-15, the share of the Corporation in State public transport was ranging between 0.59 *per cent* (2010-11) and 0.51 *per cent* (2014-15). The Corporation failed to grow as a major operator in the State public transport system and could not compete with private players in the State on account of several reasons like, absence of a well thought of state transport policy and long term planning for gradual and systematic increase in its share in the State Public Transport, inability to increase the fleet strength due to the financial constraints, operational inefficiencies and high cost of operations leading to continuous operational losses, etc.

Meghalaya Urban Development Authority (MUDA) failed to ensure the projected returns as envisaged in the Detailed Project Report (DPR) through operations of 120 buses purchased under Jawaharlal Nehru National Urban Renewal Mission (JnNURM) of Government of India (GoI).

MUDA did not effectively enforce the terms of the agreements with private operators and monitor their performance with reference to the agreed commitments leading to extension of undue financial favour to private operators.

Even though the Corporation had huge potential for generating revenue through non-conventional sources, it could not substantially tap these sources to re-align the business model to its benefit.

Absence of well-defined fund management policy and lack of monitoring and persuasion with debtors has resulted in accumulation of receivables and heavy dependence on capital contributions/subsidy from Government of Meghalaya (GoM).

Ineffective monitoring and evaluation resulted in lack of control over operational and financial performance.

Recommendations

- A well thought State Transport Policy after comparing with the successful comparable States should be drawn out and appropriate short and long term plans should be framed for effective implementation of the said policy.
- The Corporation needs complete make over by taking several steps, which may include improving the condition of buses, ensuring sound business principles and discipline, creating ideal work environment and deploying the staff in an effective manner.
- The Corporation should improve its operational efficiency by identifying more profitable routes and enforcing strict cost control measures in line with the best practices in other States.
- MUDA/Government should ensure that the operation of JnNURM buses generate guaranteed returns as envisaged, and activities of private operators are effectively monitored to meet the agreed commitments.
- The Corporation/Government should take effective steps for commercial utilisation of the available surplus land and periodic revision of the building rent in consonance with market rates. The Corporation may also explore the option of PPP mode for development of infrastructure wherever feasible.
- The Corporation should evolve a fund management policy and fix responsibility for delay in finalisation of arrear accounts.
- The Corporation should strengthen monitoring and evaluation by top management and implement COPU recommendations without further delay.

COMPLIANCE AUDIT PARAGRAPHS

POWER DEPARTMENT

MEGHALAYA ENERGY CORPORATION LIMITED

4.3 Undue favour

The Company irregularly transferred the contract load from the Consumer to its sister concern without insisting for settlement of earlier dues of the Consumer leading to accumulation of unpaid dues of ₹ 13.40 crore.

M/s Greystone Smelters Private Limited (the Consumer), an industrial unit located in the Export Promotion Industrial Park (EPIP), Byrnihat was allotted (August 2004) power supply by Meghalaya Energy Corporation Limited (Company) at 132 KV for a contract demand of 4 MVA. This was further enhanced to 8 MVA with effect from April 2005 and to 10 MVA from September 2005. The Consumer had outstanding electricity dues of ₹ 2.22 crore as on June 2009.

The Meghalaya State Electricity Regulatory Commission (Commission), while disposing of the truing up[41] petition filed by the Company for the financial year (2008-09), reduced the tariff notified for 2008-09 with retrospective effect from October 2008 to November 2009**.** Not satisfied with the quantum of reduction, Byrnihat Industrial Association[42] (BIA), on behalf of the State Industrial consumers, filed an appeal before the Appellate Tribunal (Tribunal) demanding further reduction in the tariff. The Tribunal, however, had upheld (10 August 2010) the truing up order passed by the Commission. Consequent to this, an appeal was filed by the BIA in the Supreme Court against the decision of the Tribunal. The Supreme Court had also dismissed (August 2012) the appeal thereby upholding the truing up orders of the Commission for downward revision of the tariff for the FY 2008-09.

In the meantime, M/s CMJ Breweries Private Limited (CMJ), a sister concern of the Consumer applied (June 2009) for re-allocation of 1 MVA power from the 10 MVA power already allocated to the Consumer. The Chief Executive Officer, Western Circle, MeECL, Umiam while forwarding (August 2010) the request of CMJ to the Additional Chief Engineer (Distribution/Eastern Zone) for decision had observed that the Consumer from whom the load is proposed to be transferred to CMJ had an unpaid outstanding dues of ₹ 5.93 crore[43] as on July 2010. The Additional Chief Engineer (Distribution/East Zone) forwarded (November 2010) the case to Chief Engineer with observation that the Consumer was required to pay off the outstanding

[41] For fixation of tariff, a distribution utility has to file a tariff petition before the Electricity Regulatory Commission showing the Aggregate Revenue Requirement (ARR) and Expected Revenue from Charges (ERC). As these would be prepared on an estimate basis, the utility has to file a truing up petition subsequently on the basis of audited accounts. If there are considerable differences between the ARR and ERC and the Audited Accounts; tariff may be refixed retrospectively.

[42] It is an Association of Industries located in Byrnihat, Ri-Bhoi District.

[43] After dismissal (August 2012) of the appeal of BIA by the Supreme Court, the dues of the Consumer as of July 2010 were reworked (March 2013) by Company at ₹ 3.53 crore.

dues as the Tribunal had already upheld (August 2010) the truing up orders passed by the Commission for the financial year 2008-09.

Accordingly, the Chief Engineer (Distribution) {CE (D)} forwarded (February 2011) the request of CMJ for transfer of load (1 MVA) from the Consumer to the Director (Distribution) with specific recommendations that the request of CMJ should not be considered until the outstanding dues of the Consumer were cleared. It was, however, observed that ignoring the specific recommendations of CE (D) on the issue, the Chairman-cum-Managing Director (CMD) of the Company who was also the Chief Secretary of the State had, as a special case, approved (March 2011) the transfer of 1 MVA power from the Consumer (M/s Greystone Smelters) to its sister concern (CMJ) without insisting for the clearance of unpaid dues by the Consumer and accordingly, the power allocation of 1 MVA was transferred (November 2011) from the Consumer to CMJ. The unpaid dues of the Consumer as of November 2011 worked out to ₹ 7.16 crore.

In this regard, the following observations are made:

1. The decision of the CMD to transfer 1 MVA power to CMJ, a sister concern of the Consumer without clearance of outstanding dues (₹ 7.16 crore) of the latter was against the recommendation of the technical officers of the Company including the Chief Engineer (Distribution). It was observed that this decision was made treating the request by M/s CMJ Breweries Private Limited as a "special case" without recording the reason for such special treatment. This arbitrary decision was against the commercial interest of the Company clearly and tantamount to extending of undue financial favour to the Consumer and its sister concern (CMJ).
2. Since the Tribunal had already upheld (August 2010) the truing up orders of the Commission for the financial year 2008-09, the Consumer was under the obligation to clear the entire outstanding dues as on date. Ignoring this aspect, however, the Company did not insist upon the Consumer to settle his unpaid dues at the time of transfer of 1 MVA power to CMJ. As a result, the Consumer continued to draw power from the Company without paying any dues till the power supply was finally disconnected (August 2012) by the Company when the dispute on truing up orders (financial year 2008-09) of the Commission was finally settled after dismissal of the appeal of BIA by the Supreme Court. By this time, the outstanding dues which were ₹ 3.53 crore[44] in July 2010 increased to ₹10.24 crore (August 2012) and further to ₹ 13.40 crore[45] (March 2015) (including delayed payment charges[46]).

Thus, the Company irregularly transferred 1 MVA power of contract load from the Consumer (M/s Greystone Smelters) to its sister concern (CMJ) without insisting for

[44] Unpaid dues as reworked out (March 2013) by the Company after dismissal (August 2012) of the appeal of BIA by the Supreme Court.
[45] The Company had not updated the figures of the unpaid dues of the Consumer after March 2015.
[46] At simple rate of interest of 12 *per cent* per annum.

settlement of earlier dues of the Consumer which led to accumulation of unpaid dues of the consumer to ₹13.40 crore.

The matter was reported (July 2015) to the Company/Government (July 2015); their replies had not been received.

4.4 Loss due to under insurance

Failure to obtain the insurance cover at correct value of assets led to avoidable loss of ₹ 0.76 crore to the Company on account of under insurance

The Umiam Stage I Power Station of Meghalaya Energy Corporation Ltd (Company) was commissioned in 1965. The Hydro-electric project (HEP) having an installed capacity of 36 MW was part of the Umiam system. Umiam Stage I Power Station was renovated and modernised in 2003 at a cost of ₹ 91.63 crore.

The Company had obtained (April 2008) an insurance policy from M/s Reliance General Insurance Limited (RGIL) to cover material damage caused by fire and special perils in respect all hydro-electric power stations under the Umiam system including dams and tunnels. The total sum insured under the policy was ₹ 333 crore (including plant and machinery of Umiam Stage I power station at ₹ 67.90 crore) against the annual premium of ₹ 0.19 crore. A fire accident occurred (22 March 2009) in Stage-I Power Station of Umiam HEP causing extensive damage to 132 KV control panels, Generator of Unit-III, Generation protection panels, 11 KV panels and others. The accident was attributed to short circuit caused by a high voltage surge. The Company lodged the claim (September 2009) with the insurer, RGIL against the loss of assets sustained in the fire incident.

Based on the final report submitted (March 2012) by the Surveyor[47], the gross loss was assessed at ₹ 6.81 crore. After taking into account various deductions as per the insurance terms, the RGIL finally admitted the net claim amount at ₹ 3.78 crore. The final pay out was arrived at by RGIL after deducting an amount of ₹ 0.76 crore towards under insurance at 16.77 *per cent*.

In the above context it was observed that at the time of obtaining (April 2008) the insurance cover, the Company had not assessed the value of the assets to be insured on the basis of 'the value at risk[48]' (₹ 81.58 crore) and instead got the asset insured at the 'written down value' (₹ 67.90 crore) of the assets as on April 2008. In view of the average clause[49] specified in the policy document, the insurer while processing the claim had deducted ₹ 0.76 crore (16.77 *per cent)* towards under insurance. This was clearly avoidable had Company insured the asset at correct value.

[47] M/s Cunningham Lindsey International Private Limited

[48] This represents market value of the asset less accumulated depreciation as on date.

[49] The policy document contained a clause which stipulated that "*If the property insured shall at the breaking out of any fire or at the commencement of any destruction or damage to the property by any other peril hereby insured against be collectively of greater value than the sum insured thereon, then the insurer shall be considered as being his own insurer for the difference and shall bear a rate able proportion of the loss accordingly*".

Thus, failure to insure the asset at proper value resulted in a loss of ₹ 0.76 crore to the Company.

In reply, Government accepted (August 2015) that the loss due to under insurance occurred because the asset was insured at book value only. It was further stated that a consultant was appointed subsequently to advise the Company on insurance related matters and based on their advice, the assets to be insured were revalued and it was ensured that loss due to under insurance would not occur in future.

The reply is not tenable as the loss on account of under insurance was avoidable had the Company obtained the insurance cover on assets at the value of risk instead of written down book value. As however, verified from the records of the Company, it has already started obtaining the insurance cover on the said assets at higher value in the subsequent years.

4.5 Unwarranted expenditure

The Company incurred unwarranted expenditure of ₹ 0.51 crore on Survey & Investigation works after handing over the Project to private Developer

NEC accorded administrative approval (January 2011) at an estimated cost of ₹ 4.48 crore for Survey & Investigation (S&I) of Upper Khri Diversion Hydro Electric Project[50], Stage-I and II (15 MW+10 MW) and released an amount of ₹ 2.15 crore[51] between January 2011 to March 2013 for the work.

The S&I work was taken up (June 2010) by Meghalaya Energy Corporation Limited (MeECL) departmentally pending approval from NEC. While the S&I work was nearing completion, the State Government decided (October 2012) to implement the Hydro Electric Projects (up to 100 MW) including Upper Khri Diversion HEP through private Developers on Build Own Operate and Transfer (BOOT) basis. After following the tendering process, the State Government issued (January 2013) Letter of Intent (LOI) in favour of M/s S.M. Energenco Limited (Developer) for implementation of Upper Khri Diversion HEP including the S&I works.

The Empowered Committee[52] decided to recover 50 *per cent* of the expenditure incurred towards S&I work for projects whose S&I works are funded by the NEC or any other agency. In return the Power Department would hand over all available data and the built up infrastructure at the project sites to the Developers.

The Developer requested (February 2013) the State Government (Power Department) to hand over the S&I Report which contained all the hydrological and meteorological data. The Company handed over (December 2013) the S&I Report containing all the

[50] The project was planned in 1970, and the S&I work was completed in 1978. The project did not progress due to protests of the local people. The project was re-visited in April 2009 with changed location of the dam.

[51] ₹ 0.65 crore (24 January 2011), ₹ 1.00 crore (28 February 2012) and ₹ 0.50 crore (25 March 2013)

[52] The Committee with 11 members was constituted by the Governor of Meghalaya under the chairmanship of the Chief Minister of Meghalaya.

hydrological and meteorological data to the Power Department, along with the statement of expenditure (₹ 1.45 crore) spent on S&I works up to March 2013 for onward transmission to the Developer. The Power Department intimated (February 2014) to the Developer that an amount aggregating ₹ 0.73 crore, being the 50 *per cent* of the total expenditure (₹ 1.45 crore) incurred by the Company on the S&I works (up to March 2013) needs to be recovered from the private Developer before handing over the S&I data. The Developer agreed (April 2015) that he would reimburse the amount of ₹ 0.73 crore at the time of signing the Implementation Agreement.

In this connection, the following observations are made:

1. The Company issued (January 2013) Letter of Intent (LOI) in favour of the Developer for implementation the project along with the balance S&I works on BOOT basis. It was observed that even after issuing (January 2013) the LOI in favour of the Developer, the Company drew (March 2013) another installment (₹ 0.50 crore) from NEC and incurred an additional expenditure of ₹ 0.51 crore towards S&I work during April 2013 to June 2014.It was irregular and unwarranted to draw and spend NEC funds on S&I works after issuing of LOI in favour of the private Developer for implementation of the project. It would also be pertinent to note that prior to incurring of the said additional expenditure, the Director (Generation) of the Company had instructed (March 2013) that since the project had been handed over to a private Developer by the Government, new/fresh work of S&I may not be pursued.
2. It was noticed that while forwarding (December 2013) the S&I Report and statement of expenditure incurred on the S&I works to State Government for onward transmission to the Developer, the Company did not make mention regarding the additional works and related expenditure being spent by the Company after March 2013. The Company had also not communicated the details of this additional expenditure to the State Government/Developer even at later date, which made it difficult for the Company to recover the amount so spent on S&I works after March 2013. Resultantly the Developer has agreed to reimburse only ₹ 0.73 crore which is the amount incurred before March 2013 and was communicated by the State Government.

In reply, Government stated (August 2015) that after handing over the Project to the Private Developer, fresh works on the Project were discontinued. The works which were already started/half-done/nearing completion were continued till completion as mandated for bringing out the necessary Report. As such the expenditure incurred by the Company after March 2013 was unavoidable for clearance of the outstanding liabilities and establishment charges. Regarding recovery from the Developer the government intimated that the issue will be referred to the Empowered Committee.

The reply is not tenable as spending of further expenditure on S&I works after issuing (January 2013) of LOI in favour of the private Developer for implementation of the project was irregular and unwarranted. The Company/Government should recover the amount (₹ 0.51 crore) spent on S&I works after March 2013.

TOURISM DEPARTMENT

MEGHALAYA TOURISM DEVELOPMENT CORPORATION LIMITED

4.6 Statutory dues not remitted

There was unauthorised retention of statutory dues aggregating ₹ 7.76 crore by the Company

The Company had three hotel units[53] engaged in providing the services of boarding, lodging, meetings and conferences to the tourists against the service charges recoverable from them as per the applicable tariff. In addition, the hotel units were also required to realise components of Value Added Tax (VAT) and Luxury Tax from the customers to be remitted into the Government Account as per the provision of Section 106 (3) of the Meghalaya Value Added Tax Act 2003 (MVAT Act) and Section 4 (1) of Meghalaya Tax on Luxuries (Hotels and Lodging Houses) Act, 1991 (MLTX Act) (amended in 2011) respectively.

As per Section 106 of the MVAT Act, the hotel units of the Company shall deduct VAT at source in the prescribed manner at the rates specified in the Schedule to the Act. Further as per Rule 39 of Meghalaya Value Added Tax Rules, 2005 (MVAT Rules), the VAT deducted at source shall be deposited into the Government Accounts within 10 days after the expiry of each month. In case of failure in depositing the VAT amount into the Government Accounts within the prescribed period, a penal interest[54] was payable by the service providers on the arrears of the VAT amount. Further, as per Section 3 (1) of the MLTX Act, the Luxury tax was to be recovered by the hotel units from each customer as per the rates provided in the Act.

Scrutiny of records of the Company revealed that during the period from 2005-06 to 2014-15, an amount aggregating ₹ 10.28 crore was realised by three hotel units as VAT (₹ 3.15 crore) and Luxury Tax (₹ 7.13 crore) from the consumers (***Appendix 4.6.1***). It was, however, observed that out of the tax amount (₹ 10.28 crore) so collected, the Company had remitted an amount of ₹ 2.52 crore only to Government Accounts and balance amount of ₹ 7.76 crore was irregularly retained by these hotel units without authorisation. The tax money so retained by these hotel units was irregularly utilised by them for meeting their working capital requirements. The matter regarding non-remittance of VAT and Luxury Tax to Government Accounts was first discussed (28 September 2012) in the meeting of the Board of Directors (BoD) of the Company. In the said meeting, BOD while expressing serious concern in the matter had observed that the onus of accountability in this regard would rests on

[53] Pinewood Hotel, Shillong, Orchid Hotel, Shillong and Orchid Lake Resort, Barapani
[54] 2 *per cent* simple rate of interest per month

the hotel units concerned. The BoD had also directed that the outstanding VAT and Luxury Tax should be cleared in a phased manner and strict vigil should be kept to ensure that the current liabilities on this account are discharged regularly.

It was, however, noticed that despite the specific directions of the BoD on the issue, all three hotel units of the Company, had continued to retain VAT and Luxury Tax amount and utilise the same irregularly on their business purposes. As of March 2015, the tax amount so retained by the Company without remitting to Government Accounts had accumulated to ₹ 7.76 crore, which included un-remitted VAT dues of ₹ 2.27 crore. Although the applicable rules provide for imposing of penal interest on the VAT amount not deposited to the Government Accounts within the prescribed period, no such demand was raised by the Taxation Department of the State Government on the Company so far (December 2015).

The Company needs to put an appropriate internal control mechanism in place to ensure that all the funds realised against VAT/Luxury tax are remitted to Government Accounts immediately after collection.

In reply, the Government stated (August 2015) that the statutory dues could not be fully deposited into the Government Accounts due to working capital constraints. It was further stated that from the financial year 2015-16, all taxes were being remitted to Government Accounts on regular basis by the respective Units.

Audit acknowledges the response of the Government/Company for prompt action in remittance of outstanding statutory dues to Government Accounts. As verified by Audit, the Company had remitted the tax amount aggregating ₹ 0.61 crore to Government Accounts between April 2015 and July 2015.