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 2016, in Meghalaya, there were 17 SPSUs. None of these companies was, however, listed on the stock exchange. During the year 2015-16, 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 2016 are given below:

Table 4.1.1: Total number of SPSUs as on 31 March 2016

Type of SPSUs	Working SPSUs	Non-working SPSUs[2]	Total
Government Companies[3]	14	1	15
Statutory Corporations	2	--	2
Total	**16**	**1**	**17**

The working SPSUs registered an aggregate turnover of ₹ 935.69 crore as per their latest finalised accounts as of September 2016. This turnover was equal to 3.43 *per cent* of Gross State Domestic Product (GSDP) of ₹ 27,305.00 crore[4] for 2015-16. The working SPSUs incurred an overall loss of ₹ 389.50 crore as per their latest finalised accounts as of September 2016 as compared to the aggregate loss of ₹ 220.92 crore incurred by the working SPSUs as of September 2015. The increase in the aggregate loss of working SPSUs, was mainly on account of net overall losses of ₹ 365.30 crore incurred by power sector companies in 2015-16. They had employed 4,237 employees as at the end of March 2016.

As on 31 March 2016, 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.

1 Meghalaya Infrastructure Development & Finance Corporation Limited incorporated on 28 August 2014.
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.
4 Source: Official website of Ministry of Statistics & Programme Implementation, Government of India.
5 Meghalaya Electronics Development Corporation Limited.

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 the financial statement of a company in respect of financial years that 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 as 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 19A 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 2016, the investment (capital and long-term loans) in 17 SPSUs was ₹ 4795.63 crore as per details given in **Table 4.1.2** below:

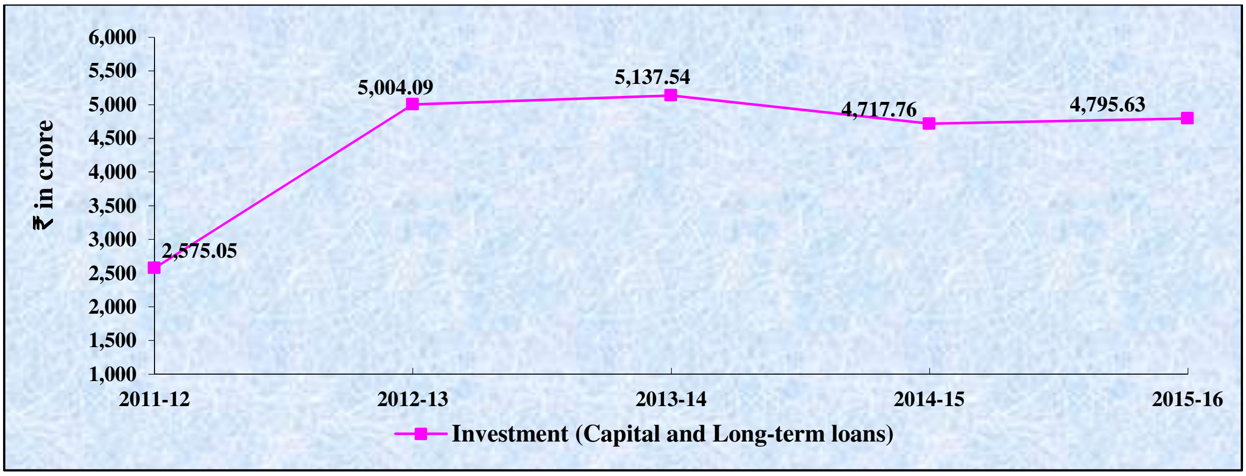
Table 4.1.2: Total investment in SPSUs

(₹ in crore)

Type of SPSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working SPSUs	4188.98	505.42	4694.40	96.51	Nil	96.51	**4790.91**
Non-working SPSU	4.72	Nil	4.72	Nil	Nil	Nil	**4.72**
Total	**4193.70**	**505.42**	**4699.12**	**96.51**	**Nil**	**96.51**	**4795.63**

Out of the total investment of ₹ 4,795.63 crore in SPSUs as on 31 March 2016, 99.90 *per cent* was in working SPSUs and the remaining 0.10 *per cent* in non-working SPSUs. This total investment consisted of 89.46 *per cent* towards capital and 10.54 *per cent* in long-term loans. The investment has grown by 86.23 *per cent* from ₹ 2,575.05 crore in 2011-12 to ₹ 4,795.63 crore in 2015-16 as shown in **Chart 4.1.1** below:

Chart 4.1.1: Total investment in SPSUs



As part of the power sector reforms, the erstwhile Meghalaya State Electricity Board (MeSEB) was unbundled and four[6] new companies were formed. The State Government notified (April 2015) the transfer value of the assets and liabilities of erstwhile MeSEB as on 1 April 2012 to be transferred to these four companies, which led to corresponding increase in the value of the equity capital of four power sector companies to the extent of ₹ 2,141.25 crore. The transfer of the assets and liabilities of erstwhile MeSEB to four power sector companies and corresponding increase in their equity capital was made effective from 1 April 2012 by way of book adjustment without involving any transfer of funds. Significant increase in the investments of the SPSUs during the year 2012-13, as depicted in the ***Chart*** above, was caused mainly on this account.

The sector wise summary of investments in the State PSUs as on 31 March 2016 is given below:

Table 4.1.3: Sector-wise investment in SPSUs

(₹ in crore)

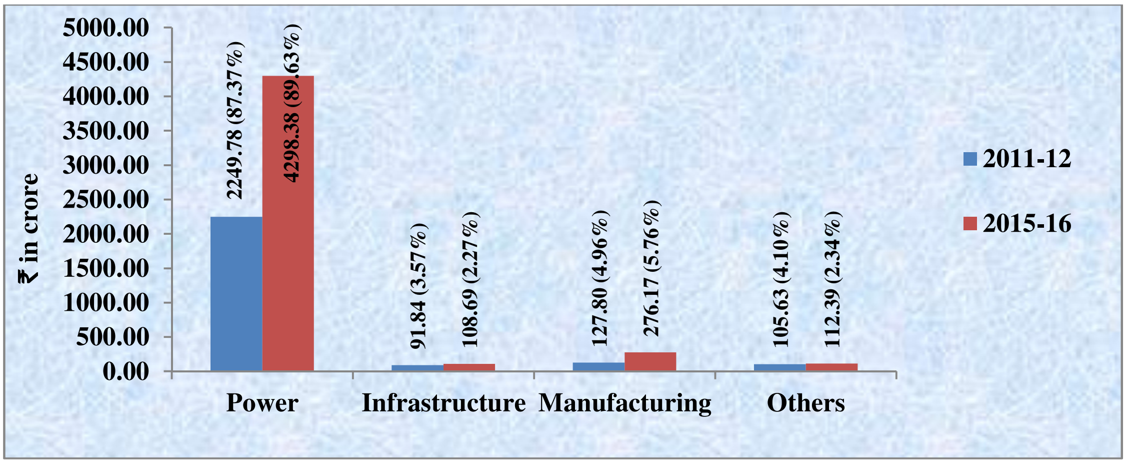
Name of Sector	Government/Other[7] Companies		Statutory Corporations	Total Investment
	Working	Non-Working	Working	
Power	4298.38	-	-	4298.38
Manufacturing	271.45	4.72	-	276.17
Finance	-	-	-	-
Miscellaneous	4.31	-	3.37	7.68
Service	7.96	-	93.14	101.10
Infrastructure	108.69	-	-	108.69
Agriculture & Allied	3.61	-	-	3.61
Total	**4694.40**	**4.72**	**96.51**	**4795.63**

The investment in various important sectors and percentage thereof at the end of 31 March 2012 and 31 March 2016 are indicated in ***Chart 4.1.2***.

6 Meghalaya Energy Corporation Limited, Meghalaya Power Generation Corporation Limited, Meghalaya Power Transmission Corporation Limited and Meghalaya Power Distribution Corporation Limited.

7 'Other Companies' as referred to under Section 139 (5) and 139 (7) of the Companies Act, 2013.

Chart 4.1.2: Sector wise investment in SPSUs



It could be observed from the above ***Chart 4.1.2*** that during 2011-16, the thrust of SPSU investment was mainly in power sector, which has increased by 91.06 *per cent* from ₹ 2,249.78 crore (2011-12) to ₹ 4,298.38 crore (2015-16). Besides, the investment in manufacturing sector has also increased by 116.10 *per cent* from ₹ 127.80 crore (2011-12) to ₹ 276.17 crore (2015-16) mainly due to increase in the equity (₹ 80.06 crore) and long term borrowings (₹ 63.59 crore) of Mawmluh Cherra Cements Limited during 2012-16.

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 equity, loans, grants/ subsidies, loans written off and interest waived in respect of SPSUs for three years ended 2015-16 are given in ***Table 4.1.4*** below:

Table 4.1.4: Details regarding budgetary support to SPSUs

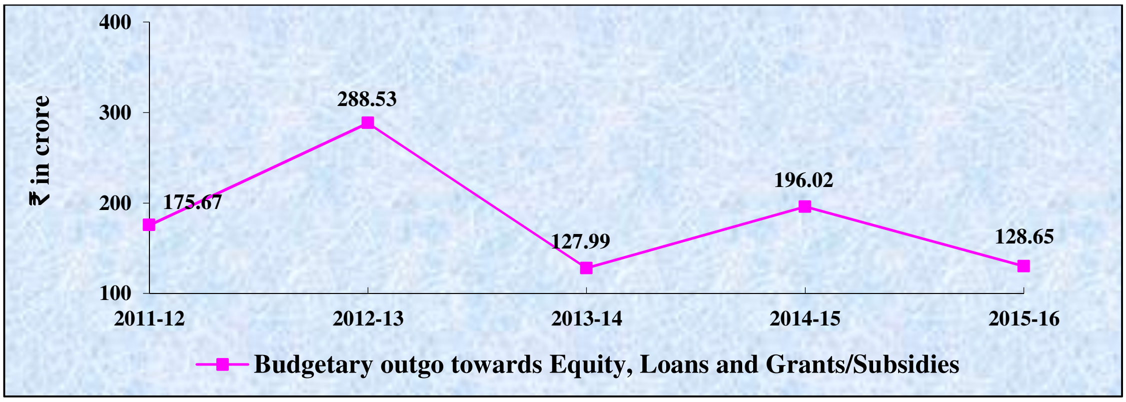
(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	4	11.75	4	40.30	1	3.31
2.	Loans given from budget	-	-	2	2.46	1	100.31
3.	Grants/Subsidy from budget	4 3	97.50(G) 18.74(S)	5 2	128.53(G) 24.73(S)	6 1	18.82(G) 6.21(S)
4.	**Total Outgo (1+2+3)**	**9**	**127.99**	**10**	**196.02**	**9**	**128.65**
5.	Waiver of loans and interest	**-**	**-**	1	3.00	-	-
6.	Guarantees issued	1	85.63	-	-	-	-
7.	Guarantee Commitment	2	985.00	3	758.18	6	993.85

Source: As furnished by SPSUs. (G): Grants; (S): Subsidies

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years from 2011-12 to 2015-16 are depicted in ***Chart 4.1.3***.

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



The budgetary outgo during 2013-14 was at all time low in five years at ₹ 127.99 crore which increased 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). The budgetary support decreased from ₹ 196.02 crore in 2014-15 to ₹ 128.65 crore in 2015-16.

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. As can be noticed from ***Table 4.1.4*** above, the guarantee commitment decreased from ₹ 985.00 crore during 2013-14 to ₹ 758.18 crore in 2014-15 but again increased to ₹ 993.85 crore in 2015-16. There was one SPSU (*viz*. Meghalaya Energy Corporation Limited), which had accumulated outstanding guarantee fees of ₹ 21.27 crore as on 31 March 2016. The said SPSU, however, had not paid any guarantee fee during the year 2015-16.

4.1.6 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per records of SPSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the Finance Department and the SPSUs concerned should carry out reconciliation of differences. The position in this regard as at 31 March 2016 is summarised in ***Table 4.1.5*** below:

Table 4.1.5: Equity, loans and 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[8]	Difference
Equity	365.14	2,343.00	(-) 1,977.86
Loans	Not available[9]	149.90	--
Guarantees	992.38[10]	993.85[11]	(-) 1.47

[8] Information as provided by SPSUs and includes only the investment made by State Government.

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

Audit observed that the difference in equity occurred in respect of 6 SPSUs[12] and some of differences were pending reconciliation since 2012-13. Though the Principal Secretary, Finance Department, Government of Meghalaya as well as the management of the SPSUs concerned were apprised after every three months 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 after every three months 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) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Companies Act, 2013. 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 2016.

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

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Number of Working SPSUs	14	15	15	15	16
2.	Number of accounts finalised during the year	18	15	9	13	35
3.	**Number of accounts in arrears**	**52**	**52**	**58**	**60**	**43**[13]
4.	Number of Working SPSUs with arrears in accounts	13	14	14	15	16
5.	Extent of arrears (numbers in years)	1 to 16	1 to 15	1 to 16	1 to 14	1 to 11

As could be noticed from the ***Table*** above, the number of accounts in arrears increased from 52 in 2012-13 to 60 in 2014-15 but decreased thereafter to 43 in 2015-16 mainly on account of finalisation of maximum number of accounts (35 accounts) during 2015-16 in last five years. As of September 2016, total 43 accounts relating to 16 SPSUs were in arrears, which was lowest in last five years. However, more than 50 *per cent* of total SPSUs arrears (*viz.* 22 out of 43 arrear accounts) pertained to 3 working SPSUs namely Meghalaya Handloom & Handicrafts

[10] Guarantee commitment given by the State Government against loans were ₹ 992.38 crore for MeECL.

[11] Information as provided by SPSUs (MeECL-₹ 992.38 crore, MCCL-₹ 0.47 crore and MGCC-₹ 1 crore).

[12] Meghalaya Industrial Development Corporation, Meghalaya Energy Corporation Limited, Meghalaya Tourism Development Corporation Limited, Meghalaya Handloom & Handicrafts Development Corporation Limited, Meghalaya Basin Management Agency and Meghalaya Transport Corporation.

[13] Including two years accounts of a newly added company at serial no.A-5 of ***Appendix 4.1.2*** which were pending for finalisation.

Development Corporation Limited (11 years), Forest Development Corporation Limited (6 years) and Meghalaya Tourism Corporation Limited (5 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. The meetings were held by the Chief Secretary with all SPSUs having arrear of accounts on 6 June 2016 and 4 July 2016 wherein it was decided as follows:

(i) Each PSU will draw up a specific action plan with specific time-lines, for bringing the annual accounts up-to-date and submit it to the Finance Department within a week. The Finance Department will monitor this closely; and

(ii) The directors of the concerned PSUs to take all initiative to update the arrear of accounts in time.

4.1.8 Investment made by State Government in SPSUs

The State Government had invested an amount aggregating ₹ 166.62 crore in 12 SPSUs {equity: ₹ 7.97 crore (3 SPSUs), loans: ₹ 144.45 crore (4 SPSUs) and grants ₹ 14.20 crore (5 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 the above, as on 30 September 2016, there were arrear of 9 accounts in respect of the only non-working SPSU[14] as on 30 September 2016. This SPSU became non-working in 2006 and was in the process of liquidation since June 2011.

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	2007-08 to 2015-16	9

4.1.9 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 2016) on the accounts of Statutory Corporations in the Legislature. No SAR of the Statutory Corporations was, however, pending for placing in the State Legislature (December 2016).

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
1	Meghalaya Transport Corporation	2009-10
2	Meghalaya State Warehousing Corporation	2014-15

[14] Meghalaya Electronics Development Corporation Limited

4.1.10 Impact of non-finalisation of accounts

As pointed out under ***paragraphs 4.1.7 to 4.1.9*** 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 2015-16 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 ensure the clearance of arrears in accounts by identifying the reasons for delay in addressing them and setting targets for individual companies which should be closely monitored.*
- *The Government may consider finalisation of accounts as a pre-condition for providing fresh equity/loans/grants etc.*

4.1.11 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 SPSUs turnover and State GDP for a period of five years ending 2015-16.

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

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover[15]	463.31	461.00	430.20	640.05	935.69
State GDP[16]	19,918.00	21,872.00	22,938.00	24,065.00	27,305.00
Percentage of Turnover to State GDP	2.33	2.11	1.88	2.66	3.43

From the ***Table*** above, it can be noticed that during the last five years ending 2015-16, the overall percentage of SPSUs turnover to State GDP had increased from 2.33 *per cent* (2011-12) to 3.43 *per cent* (2015-16). Contrary to the constant growth registered by State GDP during 2011-12 to 2015-16, the turnover of State PSUs had shown a decreasing trend up to 2013-14 and increased thereafter during subsequent two years. During 2014-15 and 2015-16, the percentage of SPSUs turnover to State GDP had improved because of the increase in the SPSUs turnover figure, which was mainly on account of overall increase of ₹ 280.23 crore in the turnover of four power sector companies[17] from ₹ 529.26 crore (2014-15) to ₹ 809.49 crore (2015-16).

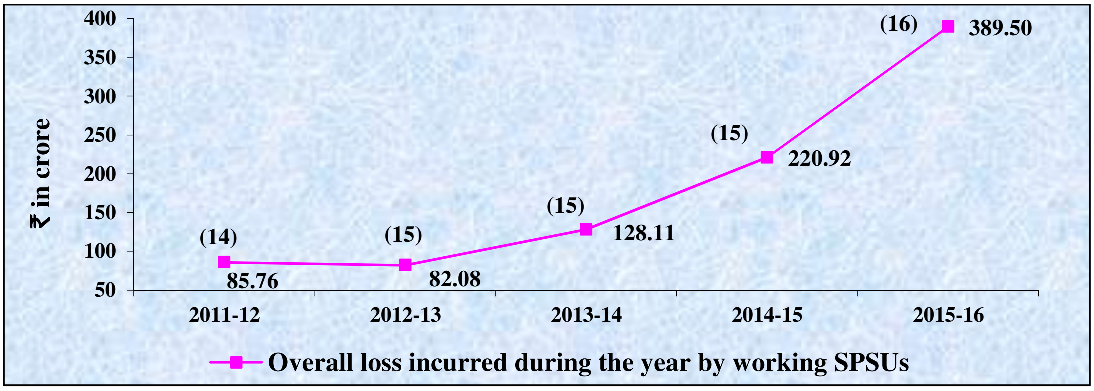
The overall losses incurred by the working SPSUs during 2011-12 to 2015-16 as per their latest finalised accounts as on 30 September of the respective year have been depicted below in ***Chart 4.1.4***.

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

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

[17] Meghalaya Energy Corporation Limited, Meghalaya Power Generation Corporation Limited, Meghalaya Power Distribution Corporation Limited and Meghalaya Power Transmission Corporation Limited.

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 can be noticed that the overall losses of working SPSUs increased considerably from 2013-14 onwards and peaked at ₹ 389.50 crore (2015-16) mainly due to the huge losses (₹ 366.55 crore) incurred by three power sector companies[18]. During 2015-16, out of 16 working SPSUs, 4 SPSUs earned profit of ₹ 4.93 crore while 10 SPSUs incurred loss of ₹ 394.43 crore as per their latest finalised accounts as on 30 September 2016. Remaining one SPSU[19] had not finalised its first accounts. The main contributors to profits were Meghalaya Government Construction Corporation Limited (₹ 2.96 crore) and Forest Development Corporation of Meghalaya Limited (₹ 0.61 crore). Heavy losses were incurred by Meghalaya Power Distribution Corporation Limited (₹ 295.15 crore), Meghalaya Power Generation Corporation Limited (₹ 70.02 crore), Mawmluh Cherra Cements Limited (₹ 19.07 crore) and Meghalaya Transport Corporation (₹ 5.73 crore).

Some other key parameters of SPSUs are given below.

Table 4.1.10: Key Parameters of SPSUs

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Return on Capital Employed (*per cent*)*	-	-	-	-	-
Debt	1080.12	1047.53	1126.21	1310.44	1231.99
Turnover[20]	463.14	461.00	430.20	640.05	935.69
Debt-Turnover Ratio	2.33:1	2.27:1	2.62:1	2.05:1	1.32:1
Interest Payments	42.65	40.80	31.52	41.98	137.13
Accumulated losses	668.37	671.82	358.41	576.93	1113.47

* Negative figures in all the five years under reference.

From the ***Table*** above, it could be noticed that during 2011-16 (excepting 2013-14) the debt-turnover ratio has shown an improving trend. During 2015-16, the debt-turnover ratio (1.32:1) was at its best in five years mainly on account of increase of ₹ 280.23 crore in the turnover of four power sector companies[21] from ₹ 529.26 crore

[18] Meghalaya Power Generation Corporation Limited (₹ 70.02 crore), Meghalaya Power Distribution Corporation Limited (₹ 295.15 crore) and Meghalaya Power Transmission Corporation Limited (₹ 1.38 crore).

[19] Serial no. A-5 of ***Appendix 4.1.2***.

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

[21] Serial no. A8 to A11 of ***Appendix 4.1.2***.

(2014-15) to ₹ 809.49 crore (2015-16), which caused corresponding increase in the SPSUs turnover during 2015-16. The accumulated losses decreased from ₹ 668.37 crore (2011-12) to ₹ 358.41 crore (2013-14) and increased to ₹ 1113.47 crore (2015-16). This was mainly on account of similar changes in the accumulated losses of four power sector companies which decreased from ₹ 449.03 crore in 2011-12 to ₹ 119.97 crore in 2013-14 and increased to ₹ 822.32 crore in 2015-16. This is indicative of the fact that the overall operational results of the SPSUs are highly influenced by the performance of power sector companies.

There was no information available on record regarding the existence of any specific policy of the State Government on payment of minimum dividend by the SPSUs. As per their latest finalised accounts as on 30 September 2016, 4 SPSUs[22] earned aggregate profit of ₹ 4.93 crore. None of these SPSUs, however, had declared any dividend during 2015-16.

4.1.12 Winding up of non-working SPSUs

There was one non-working SPSU involving investment of ₹ 4.72 crore as on 31 March 2016. Though the liquidation process of the non-working SPSU had commenced in June 2011, the winding up of the same was still in process (December 2016). As the annual accounts of this SPSU were pending finalisation since 2007-08, the up-to date details of the expenditure incurred towards salaries, establishment expenditure, *etc.* were not available. As the non-working SPSU was neither contributing to the State economy nor meeting its intended objectives, the winding up process of the SPSU need to be expedited.

4.1.13 Accounts Comments

During the year 2015-16[23], 12 working companies have forwarded 30 audited accounts to the Accountant General (AG). Of these, 19 accounts of 10 companies were selected for supplementary audit while 11 accounts of 3 companies were issued 'non-review certificates'. 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:

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[22] Forest Development Corporation of Meghalaya Limited, Meghalaya Government Construction Corporation Limited, Meghalaya Energy Corporation Limited and Meghalaya Tourism Development Corporation Limited.

[23] October 2015 to September 2016

Table 4.1.11: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	1.46	2	0.53	4	3.31
2.	Increase in loss	0	0.16	3	109.58	16	95.69
3.	Non-disclosure of material facts	3	34.21	2	2.93	8	1877.13
4.	Errors of classification	2	6.28	2	56.21	5	572.68

Source: As per latest finalised annual accounts of SPSUs.

During the year, the statutory auditors had given qualified certificates to all 30 accounts of 12 companies. In addition, CAG had also issued qualified certificates on all 19 accounts of 10 companies selected for supplementary audit. No adverse certificates or disclaimers 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 28 instances of non-compliance relating to 15 accounts.

Similarly, during the year 2015-16, two working Statutory Corporations forwarded five accounts for audit to AG which was completed. The statutory auditors and the CAG had given qualified certificates on all five accounts of the Corporations.

4.1.14 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 2016, Government of Meghalaya, one performance audit and four compliance audit paragraphs involving two Departments 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 two paragraphs were, however, awaited from the State Government (December 2016).

4.1.15 Follow up action on Audit Reports

Replies outstanding

The Reports of the CAG represent 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 moto* explanatory notes by the administrative departments concerned within one month of presentation of the Audit Reports to the State Legislature.

Table 4.1.12: Explanatory notes not received (as on 30 September 2016)

Year of the Audit Report	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	-	4	-	3
2013-14	24 September 2015	-	6	-	2
2014-15	23 March 2016	1	4	-	4
Total		**3**	**20**		**10**

From the above, it could be seen that out of 20 paragraphs and 3 performance audits (PAs), explanatory notes to 10 paragraphs in respect of 3 Departments, which were commented upon, were awaited (December 2016).

Discussion of Audit Reports by COPU

The status as on 30 September 2016 of PAs and compliance audit 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 4.1.13: PAs/paragraphs appeared in Audit Reports *vis a vis* discussed as of September 2016

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	-	4
2014-15	1	4	1	1
Total	**3**	**20**	**2**	**10**

Compliance to Reports of Committee on Public Undertakings (COPU)

Action Taken Notes (ATN) to 15 recommendations[24] pertaining to 3 Reports of the COPU presented to the State Legislature between November 2010 and March 2016 had not been received (October 2016) as indicated below:

Table 4.1.14: 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	-	-	-
2014-15	-	-	-
Total	**3**	**15**	**15**

[24] Against four paragraphs and one performance audit

It is recommended that the Government may ensure: (a) sending of replies to Inspection Reports/explanatory notes/compliance audit 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.

4.1.16 Coverage of this Report

This Chapter contains four compliance audit paragraphs and one performance audit report relating to power generation activities of Meghalaya Power Generation Corporation Limited involving aggregate financial effect of ₹ 66.02 crore.

4.1.17 Disinvestment, Restructuring and Privatisation of SPSUs

There was no information regarding any disinvestment, restructuring or privatisation programme in any of the SPSUs during 2015-16.

PERFORMANCE AUDIT

POWER DEPARTMENT

4.2 Power Generation activities of Meghalaya Power Generation Corporation Limited

The State of Meghalaya has a hydro potential of 3,000 Mega Watt (MW) which is about three per cent of the total hydro potential of the country. As of March 2016, the State had total seven hydro power stations (PSs) in operation (total installed capacity: 314.70 MW) which were owned and operated by Meghalaya Power Generation Corporation Limited (Company). Thus, the State could harness only 10.49 per cent of its hydro potential so far. As a result, Meghalaya had been a power deficient State since 1990-91 and it had to depend heavily on import of power from outside the State to meet its demand. The present performance audit (PA) conducted during May to July 2016 covered the power generation activities of the Company for the five years from 2011-12 to 2015-16. The PA mainly deals with the aspects of planning, project and financial management, operational performance and monitoring with regard to power generation activities of the Company. Following are the main highlights of the audit:

Highlights

The Company did not prepare long term perspective plans/annual action plans incorporating the projects to be implemented as per the Meghalaya Power Policy, 2007 to prioritise projects for implementation during 2011-16. As a result, the Company was taking up projects for Survey & Investigation/implementation on a random basis without proper justification for their selection.

(Paragraph 4.2.7.1)

Failure of the Company in conducting detailed survey & investigation works at planning stage and other deficiencies in preparation of Detailed Project Reports for the projects had caused changes in designs and structures after award of contracts leading to significant time and cost overrun in implementation of the projects.

(Paragraphs 4.2.8 to 4.2.8.2)

The Company was heavily dependent on loans from financial institutions for implementation of the projects, which led to increase in the project costs due to high 'interest during construction' with corresponding high generation cost per unit.

(Paragraph 4.2.9.1)

The Company failed to evolve an effective project monitoring mechanism to facilitate completion of the projects within the scheduled period thereby causing time and cost overruns in execution of projects

(Paragraph 4.2.14.3)

4.2.1 Introduction

The State of Meghalaya has a hydro potential of 3,000 Mega Watt (MW)[25] which is about three *per cent* of the total hydro potential of the country. As of March 2016, the State had total seven hydro power stations[26] (PSs) in operation (total installed capacity: 314.70 MW) which included four hydro electric projects[27] (HEPs) with a capacity of 282 MW and three small hydro projects (SHPs) with a capacity of 32.70 MW. Thus, the State could harness only 10.49 *per cent* of its hydro potential so far. As a result, Meghalaya had been a power deficient State since 1990-91 and it had to depend heavily on import of power from outside the State to meet its demand. During the five-year period 2011-12 to 2015-16, 38.23 *per cent* of the power consumed in the State was internally generated, 2.78 *per cent* was met from the State's share of free power from Central Government power generation utilities while the balance 58.99 *per cent* was purchased from outside the State.

The Meghalaya Power Policy, 2007 (MPP) as notified (October 2007) by Government of Meghalaya (State Government), identifies the basic responsibility of the "Electricity Industry" to have the provision of adequate, reliable and quality supply of power to State population at economical cost. As the State mainly had only hydro PSs, the MPP aimed at developing thermal PSs also to meet the immediate shortage of power and protect the State from probable collapse of power supply due to failure of monsoon. It envisaged exploitation of hydro, thermal and non-conventional potential to facilitate growth in the Electricity Industry. However, no thermal PS could be set up in the State due to the ban on coal mining imposed (June 2014) by the National Green Tribunal. As regards non-conventional sources, the Meghalaya Non-conventional and Renewable Energy Development Agency (MNREDA) was the nodal agency for developing and promoting the use of non-conventional energy. At present, MNREDA had several solar installations at State Government offices and schools with a meagre capacity of 978 KW. The energy generated through these installations was, however, not connected to the grid.

The MPP expected an estimated increase of 46 *per cent* in the expected peak demand[28] from 795.59 MW in 2011-12 to 1,164.83 MW in 2015-16. Against this projection, however, the actual peak demand met during the said period through own generation was between 141.30 MW (2011-12) and 75.50 MW (2015-16). As per the MPP, 16 HEPs with a total capacity of 1,367 MW and 8 SHPs with a total capacity of 82.50 MW were envisaged to be completed during the 11^{th} and 12^{th} Five Year Plans[29].

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[25] Including 403.98 MW in Small Hydro Projects (SHPs) of capacity below 25 MW. (Source: Meghalaya Power Policy, 2007)

[26] HEP/SHP and Power station have the same meaning; during planning stage it is termed as HEP/SHP and after commissioning it is termed as Power Station.

[27] Hydro electric projects (HEPs) are the generation units having capacity of 25 MW or more while small hydro projects (SHPs) have the capacity below 25 MW.

[28] Peak demand is the highest rate of electricity usage for a period of time usually from 6 p.m. to 10 p.m.

[29] 11^{th} Five Year Plan period (2007-12) and 12^{th} Five Year Plan period (2012-17).

As part of implementation of the Power Sector Reforms, the erstwhile Meghalaya State Electricity Board (MeSEB) was unbundled (March 2010) into four power sector companies *viz.* Meghalaya Energy Corporation Limited (MeECL – Holding company) and its three subsidiaries[30]. Meghalaya Power Generation Corporation Limited (Company) is carrying out power generation activities in the State.

Out of the above mentioned 24 power projects (16 HEPs and 8 SHPs), 15 projects (9 HEPs and 6 SHPs) were taken up by the Company for execution during the 11th Five Year Plan (5 HEPs and 4 SHPs) and the 12th Five Year Plan (4 HEPs and 2 SHPs) as detailed in ***Appendix 4.2.1***. All the seven[31] operational PSs (HEPs and SHPs) in the State, which included one project[32] commissioned during 2011-16 are owned and operated by the Company.

The Company is headed by a Chairman-cum-Managing Director who is assisted by a Director (Generation), Director (Finance), and Director (Human Resource and Administration). The Company has its Head Office at Shillong. Besides power generation, the Company is also engaged in activities relating to setting up of projects identified/taken up by it.

4.2.2 Scope of Audit

A Performance Audit (PA) on the generation activities of the erstwhile MeSEB was included in the Report of the Comptroller & Auditor General of India for the year 2009-10. The Report was discussed (September 2011 and August 2012) by the Committee on Public Undertakings (COPU). The recommendations of COPU thereon, however, were awaited (December 2016).

The present PA covered the power generation activities of the Company for the period from 2011-12 to 2015 -16. The PA mainly deals with the aspects of planning, project and financial management, operational performance and monitoring with regard to power generation activities of the Company. For the purpose of conducting the present audit, all 20 projects (*viz.* 7 projects in operation, 3 ongoing and 10 projects at planning stage as detailed in ***(Appendix 4.2.1***) of the Company have been covered.

4.2.3 Audit Objectives

The objectives of the PA were to assess and ascertain whether:

- the planning of the projects/works was appropriate and in line with the Meghalaya Power Policy, 2007;
- the projects were implemented in an efficient, effective and economical manner;
- the generation plants were operated and maintained efficiently, effectively and economically so as to achieve optimum utilisation of generation units; and

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30 Meghalaya Power Generation Corporation Limited, Meghalaya Power Transmission Corporation Limited and Meghalaya Power Distribution Corporation Limited.

31 (i) Umiam Stage-I (4 x 9 MW), (ii) Umiam Stage-II (2 x 10 MW), (iii) Umiam Stage-III (2 x 30 MW), (iv) Umiam Stage-IV (2 x 30 MW), (v) Umtru (4 x 2.8 MW), (vi) Sonapani (1.5 MW) and (vii) Myntdu Leshka Hydro Electric Project (3 x 42 MW).

32 Myntdu Leshka HEP (capacity 126 MW)

- the required quality control and monitoring systems were in place for ensuring timely implementation and effective operation of projects.

4.2.4 Audit Criteria

The audit criteria adopted for attaining the audit objectives were derived from the following sources:

- Electricity Act, 2003;
- Meghalaya Power Policy, 2007;
- Norms/Guidelines of Central Electricity Authority;
- Standard procedures for award of contract; and
- Regulations and targets issued by Meghalaya State Electricity Regulatory Commission.

4.2.5 Audit Methodology

The audit methodology adopted included holding of an Entry Conference (17 May 2016) wherein the scope, audit objectives, audit criteria, *etc.* were discussed with the management of the Company and MeECL, analysing data/records with reference to audit criteria; raising of audit queries and issuing of the draft Audit Report to the Company/MeECL/State Government for comments.

The draft Audit Report was also discussed (9 December 2016) with the representatives of the Company/MeECL/State Government in the Exit Conference. The formal replies (January 2017) of the State Government to the draft report as well as the views expressed by the representatives of the Company/MeECL/State Government in the Exit Conference, have been appropriately taken into consideration while finalising the Audit Report.

4.2.6 Acknowledgement

The Indian Audit and Accounts Department acknowledges the cooperation of the State Government, the Company and MeECL in providing necessary information and records for audit.

Audit Findings

Audit examined the effectiveness of the process of planning for capacity addition and renovation and modernisation of existing plants. The observations are as follows:

4.2.7 Capacity Addition

The actual capacity additions, demand and energy generated during the review period are given below:

Table 4.2.1

Details of actual capacity additions, demand and energy generated during 2011-12 to 2015-16

Sl. No	Description	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Capacity at the beginning of the year (MW)	186.70	272.70	314.70	314.70	314.70
2.	Actual Additions (MW)	86.00[33]	42.00	-	-	-
3.	Capacity at the end of the year (MW) (1 + 2)	272.70	314.70	314.70	314.70	314.70[34]
4.	Demand (MUs)	1094.00	1060.00	1073.00	1041.00	1086.00
5.	Net Energy produced (MUs)	518.00	705.00	862.00	836.00	922.00
6.	Shortfall in generation (MUs) (4-5)	**576.00**	**355.00**	**211.00**	**205.00**	**164.00**

Source: As furnished by the Company and MePDCL

The State had a total installed capacity of 186.70 MW at the beginning of 2011-12 and it managed to add 128 MW during 2011-12 (86 MW) and 2012-13 (42 MW). The shortfall in generation compared to the demand ranged from 164 MU (2015-16) to 576 MU (2011-12) during the review period which was met through purchase of power at higher cost.

Out of the 10 projects with a total capacity of 558.50 MW to be commissioned in the 11th Five Year Plan (2007-12) as envisaged in MPP, 9 projects (***Appendix 4.2.1***) with a total capacity of 528.50[35] MW were to be completed by the Company. Similarly, out of the 14 projects with a total capacity of 891 MW to be commissioned in the 12th Five Year Plan (2012-17), 6 projects (***Appendix 4.2.1***) with a total capacity of 401 MW were to be completed by the Company.

Audit noticed that against the above stipulation made in the MPP, the Company could complete only two projects (Sonapani SHP – 1.50 MW and Myntdu Leshka HEP – 84 MW) with a total capacity of 85.5 MW (16 *per cent*) in the 11th Five Year Plan. Further, during the 12th Five Year Plan only one additional unit of Myntdu Leshka HEP (MLHEP) with a capacity of 42 MW was commissioned (March 2013) and three projects (64 MW) were under construction as of December 2016. Details of the Projects completed and in progress are given below:

Table 4.2.2

Details of Projects of the Company- Completed/Under-construction

Sl. No.	Name of Project	Capacity (in MW)	Scheduled date of completion	Present status
1	Sonapani MHPP	1.50	NA	Commissioned in October 2009.
2	Myntdu Leshka HEP	126	May 2009	Units I & II commissioned in 2011-12 and Unit III commissioned in March 2013.
3	New Umtru HEP	40	August 2011	Works in progress.
4	Lakroh MHP	1.50	June 2011	Works in progress.
5	Ganol SHP	22.50	January 2018	Works in progress.

Source: Records of the Company

Completed Projects   Under-construction Projects

[33] Including 2 MW (Umiam Stage II) added under Renovation, Modernisation and Upgradation.

[34] Generation capacity of total seven power stations (five HEPs and two SHPs).

[35] Excluding further addition of one more generation unit (42 MW) planned during January, 2008 under Myntdu Leshka HEP (***refer to Appendix 4.2.1***).

All the remaining 10 projects[36] (780 MW) were at initial stages of planning as indicated in ***Appendix 4.2.2.*** Audit analysed the reasons for shortfall in achievement of capacity addition and findings are discussed below:

4.2.7.1 Planning for new hydro electric projects

The Meghalaya Power Policy, 2007 (MPP) envisaged commissioning of total 24 projects during 11th Five Year Plan (10 projects with capacity of 558.50 MW) and 12th Five Year Plan (14 projects with capacity of 891 MW). This included 15 projects to be completed by the Company during the 11th Five Year Plan (9 projects with capacity of 528.50 MW) and 12th Five Year Plan (6 projects with capacity of 401 MW).

To achieve the capacity addition as per the MPP, the Company was required to formulate long term perspective plans prioritising the projects for implementation in line with the MPP. The Company also needed to prepare annual action plans fixing stage-wise milestones for the projects to be taken up for implementation, capital outlay, funding pattern, target for completion, *etc.* so as to achieve targeted results.

Audit noticed that during the period of five years (2011-16) covered under audit, the Company did not prepare any perspective plan or annual business plan to prioritise the projects for implementation and taking up pre-planning activities (*viz.* conducting of the feasibility study, survey and investigation (S&I), *etc.*). As a result, the Company was taking up projects for S&I/implementation on an *adhoc* basis without proper recorded justification for their selection.

In absence of a focused approach to implement selected projects in a time-bound manner, 10 projects[37] out of total 15 projects identified for execution by the Company during the 11th and 12th Five Year Plans did not progress beyond planning stage as detailed in ***Appendix 4.2.2***. It was further noticed that in respect of 7[38] out of the said 10 projects to be commissioned during the 11th and 12th Five Year Plans, the target dates of preparation of DPRs fixed (2014-15 to 2018-19) were beyond the respective five year plan periods, which contradict the stipulations made in the MPP.

Audit observed that the time allowed for S&I and preparation of Detailed Project Reports (DPRs) was about 10 years on an average for each project. During the conduct of S&I works, the Company mainly collected hydrological and meteorological data, carried out environmental and topographical surveys, *etc.* These inputs are provided to the agency for preparing DPR.

Data collection Stage

- In respect of the three HEPs[39] expected to be commissioned during 11th Five Year Plan, the hydrological, meteorological and geological data collection was

[36] Sl. No. 11 to 20 of ***Appendix 4.2.1.***
[37] excluding 5 projects discussed under ***paragraph 4.2.7*** *supra.*
[38] Sl. No. 2, 3, 5, 6, 7, 9 and 10 of ***Appendix 4.2.2.***
[39] Sl. Nos. 1, 2 and 3 of ***Appendix 4.2.2.***

still in progress for periods ranging from 12 to 15 years after commencement of S&I and even after lapse of the plan period.

- In respect of 3 HEPs[40] expected to be commissioned during 12th Five Year Plan, the compilation of data was in progress and environmental/topographic surveys are yet to be taken up or in progress despite lapse of more than 10 years after commencement of S&I.

Approval stage

In respect of Riangdo SHP, to be completed in 11th Five Year Plan, though the DPR was prepared, administrative approval for the same was pending from State Government (December 2016). As a result, the first instalment of ₹ 3.42 crore out of the loan of ₹ 11.40 crore disbursed by National Bank for Agriculture and Rural Development to the State Government for implementation of the project, was also not released to the Company so far (December 2016).

In reply, the State Government/Company had confirmed (January 2017) the above facts.

DPR stage

- In respect of two SHPs[41] to be commissioned during 12th Five Year Plan, the target date for preparation of DPR was fixed as January 2017. It was, however, observed that the DPR for the two projects were yet to be completed even after a lapse of about 10 years after commencing the work of preparation of these DPRs. In respect of one HEP[42] to be commissioned during the 12th Five Year Plan, even the S&I works were pending to be taken up (December 2016).

As per the justifications recorded for the above lapses, the Company attributed the slow progress of S&I works on limited working days of 6 months in a year, difficult terrain and remoteness of the project area, shortage of man-power, irregular allocation/release of funds.

The Audit, however, observed that the arguments put forth by the Company for slow progress of works was not acceptable. The problem of difficult terrain and remoteness of project areas could be addressed by adopting various advanced scientific methods like, satellite mapping, *etc.* in conducting S&I works. Further, for collecting hydrological, geological and seismic data from the concerned offices, there would be no limitation on working days. The issue of manpower shortage and irregular allocation of funds could have been overcome through better management of resources.

In the Exit Conference, State Government/Company accepted (December 2016) that there was no planning to prioritise the projects for implementation due to financial

[40] Sl. Nos. 5, 6 and 7 of ***Appendix 4.2.2.***
[41] Sl. Nos. 9 and 10 of ***Appendix 4.2.2.***
[42] Sl. No. 8 of ***Appendix 4.2.2***

constraints faced by the Company and the Company had to depend mainly on Central/ State Government for the project funding.

The fact, however, remained that majority of the projects did not progress beyond planning stage.

4.2.7.2 Planning for Renovation, Modernisation and Upgradation of existing plants

As per the norms prescribed by Central Electricity Regulatory Commission (CERC), hydro generating stations have a useful life of 35 years. Hence, it was essential to timely and efficiently plan for the Renovation, Modernisation and Upgradation (RM&U) of old PSs nearing completion of their useful life so as to give a new lease of life to the PSs without causing any interruptions in the generation activities. As of April 2011, the Company had two plants (71.20 MW) which completed/nearing completion of their useful life. It was, however, observed that the Company had not taken up the RM&U works of these plants so far as indicated in the table below:

Table 4.2.3
Details of the Power Stations due for RM&U/life extension programmes during 2011-2012 to 2015-16

Sl. No.	Name of Power Station	Installed Capacity(in MW)	Date of Commissioning	Due Date (as per CERC norms)
1.	Umtru PS	11.20	1957-68	1992-2003
2.	Umiam Stage-III PS	60	1979	2014

Source: Records of the Company

In this connection, following observations are made:

- All the units of Umtru PS had completed their useful life during 1992-2003. Instead of planning for taking up the RM&U of these units, construction of New Umtru Hydro Electric Project (NUHEP) was conceptualised in 1988-89. The erstwhile MeSEB, however, did not initiate any serious action for taking up the pre-planning activities as well as implementation of NUHEP. It was observed that the S&I works for NUHEP were completed and DPR prepared (June 2005) after more than 16 years of conceptualisation of the project. Though as per work order, the construction of the NUHEP was scheduled to be completed by August 2011, it still remained incomplete (December 2016) as discussed in ***paragraph 4.2.8.2(i)***. Delay in taking up and completion of NUHEP led to non-taking up of the RM&U of Umtru PS and as a result, the Umtru PS has been shutdown since April 2015.

  In reply, the State Government/Company stated (January 2017) that a Working Group has been constituted for collecting data/information for assessing feasibility of the project. The fact, however, remained that RM&U of the PS is yet to be taken up and it remained closed due to lackadaisical approach of the Company.

- The Company submitted (December 2011) a Preliminary Project Report (PPR) for RM&U of Umiam Stage-III PS at an estimated cost of ₹ 344.31 crore to State Government. The State Government forwarded (October 2012) the PPR to the Ministry of Power (MoP), Government of India (GoI) and Central Electricity Authority (CEA) to consider the same for inclusion in the list of Japanese ODA Loan[43] projects during 2012-13. As suggested (September 2013) by MoP, CEA directed the Company to invite budgetary offers from reputed domestic companies/suppliers to reduce the cost of RM&U. Accordingly, the Company after obtaining budgetary offers prepared a revised estimate and submitted (November 2014) to CEA a revised estimate for ₹ 408 crore (including interest and finance charges of ₹ 130 crore). CEA approved (November 2014) the same. After approval (January 2015) of the revised cost estimate by CEA, MoP forwarded (January 2015) the proposal to Department of Economic Affairs, GoI for inclusion under JICA[44] Rolling Plan which was not finalised so far (December 2016). Failure of the Company to arrange funds for the RM&U works for a PS which had completed its useful life resulted in not taking up of the RM&U works of the PS.

State Government/Company stated (January 2017) that the proposal was still lying with GoI and meanwhile funding through Power Sector Development Fund of GoI was also being explored. The reply is not acceptable as the possibility of arranging the project funding from other sources other than Central/State Government should have been explored and finalised by the Company at planning stage itself so as to ensure timely completion of the projects.

Non-taking up of RM&U of PSs on due dates resulted in increase in forced outages and consequent generation losses as discussed in ***paragraphs 4.2.11.3*** and ***4.2.12.2.***

Audit examined the efficiency and economy in implementing/managing the projects which were taken up for execution during the period from 2011-12 to 2015-16 and the findings are discussed below:

4.2.8 Project Management

Preparing accurate and realistic DPRs after conducting detailed feasibility studies and thorough S&I of proposed project sites are the critical requirements of planning stage to ensure successful implementation of projects. Geo-technical investigation for a project needs to be undertaken with adequate understanding of the local and regional environment as it significantly impacts the design, construction and operation of the project. The data collected through geo-technical investigation should have detailed description of the geological situation such as soil/rock quality, water quality, seismic possibilities and assessment of the history of the site for appropriate engineering, drawing and design.

Audit analysed the progress of all the four projects (one completed and three ongoing) given below through these critical stages:

[43] Japanese Official Development Assistance Loan.
[44] Japan International Co-operation Agency.

Table 4.2.4
Details of completed/ongoing projects during 2011-12 to 2015-16

Sl. No.	Name of the Project	Capa-city (MW)	Date of comme nce-ment	Schedu-led Date of comple-tion	Actual Date of Completion	Estimated cost as per DPR (₹ in crore)	Awar-ded Cost (₹ in crore)	Actual expendi-ture as on December 2016 (₹ in crore)	Expenditure in excess of DPR estimate (₹ in crore)	Time over-run* (in months)
1.	Myntdu Leshka HEP (3 x 42 MW)	126	May 2004	May 2009	March 2013	477.67[45]	965.93	1297.02	819.35	46
2.	New Umtru HEP (2 x 20 MW)	40	December 2007	August 2011	In progress	226.40	177.83	494.00	267.60	67
3.	Lakroh MHP (1 x 1.50 MW)	1.50	Septem-ber/Dec-ember 2009	June 2011	In progress	11.76	11.47	14.72	2.96	67
4.	Ganol SHP (3 X 7.50 MW)	22.50	August 2014	January 2018	In progress	177.52	229.17	100.65	--	--

**** In respect of on-going projects, the time over-run has been worked out as on 31 December 2016.***
Source: Records of the Company

From the table above, it can be noticed that the only project (serial number 1 of ***Table 4.2.4***) completed by the Company during the five years (2011-16), was commissioned after a delay of 46 months as against the scheduled date of commissioning. Similarly, other two ongoing projects (serial number 2 and 3 of ***Table 4.2.4***) were also lagging behind the schedule by 67 months each. The present status of progress of work in respect of the fourth project scheduled for completion by January 2018 was, however, not available. There was a total cost overrun of ₹ 819.35 crore in the completed project and ₹ 270.56 crore against the ongoing projects as on date (December 2016). Since the works of three projects were still ongoing, any delays in execution of these works would cause further cost overrun in implementation of these projects.

Audit analysed the process of planning and implementation of the project and observed that the projects were beset with deficient planning as discussed below:

4.2.8.1 Completed project:

Myntdu Leshka Hydro Electric Project

A DPR for construction of Myntdu Leshka Hydro Electric Project (MLHEP) with an installed capacity of 84 MW (2X42 MW) was prepared and submitted (October 1998) to CEA for Techno Economic Clearance (TEC). The project was to be completed within a period of five years at a cost of ₹ 363.08 crore. The CEA had accorded (September 1999) the TEC for the project. After due process of tendering, the contract was awarded (March 2004) and the work started (May 2004). While the work was progressing, it was decided (January 2008) to add one more unit. The Project was commissioned and synchronised to grid during November 2011 to March 2013 (Unit I in November 2011, Unit II in March 2012 and Unit III in March 2013). The total cost of the Project on completion was ₹ 1,297.02 crore.

Audit analysed the factors that led to time and cost overrun and observed as under:

[45] Estimated cost for two units (₹ 363.08 crore) *plus* estimated cost for additional unit (₹ 114.59 crore).

Deficient DPR

- The DPR for the Project was prepared (October 1998) based on few preliminary data on geological features obtained through few drilled holes at the project site. Thus, a detailed analysis/assessment of the geological features of the site (*viz.* soil quality, water quality, seismic impact, *etc.*) at planning stage, which was essential for successful implementation of the HEP was completely missing in the process. The work order for implementation of the project was issued (March 2004) and the work of excavation commenced (October 2004) by the contractor. At this stage the geological features of the site were obtained, data collected, analysed and tests were conducted by engaging agencies like IIT, Roorkee, Central Soil and Mineral Research Station, *etc.* Based on the Reports of these agencies, the dam axis was changed (August 2006), length of dam was increased and depth of foundation blocks was also correspondingly increased to withstand earthquake. As the water was found acidic, measures were also required to protect the structures against acidity of water such as increase in grade of concrete, xypex painting, use of good quality corrosion resistant steel, surface coating, *etc.* These changes in the designs had resulted in corresponding changes in the scope of work, which caused delay in implementation of the project besides increase in the project cost by ₹ 121.20 crore on account of increase in the quantity of materials and cost escalation.
- At the planning stage of the project, the scope of the project was restricted to setting up of only two units (2X42 MW) although there was scope for setting up three units (3X42 MW), Subsequently, while the construction of the project was in progress, it was decided (January 2008) to add one more unit citing inadequacy of the project capacity in view of acute shortage of power in the State, while planning for the additional unit, it was projected that after commissioning of the project, the construction cost per MW would be reduced from ₹ 7.99 crore to ₹ 6.24 crore. This change in the scope of the project had necessitated modifications in the design of various components of the project causing time and cost overrun in execution of the project works. This entailed an additional expenditure of ₹ 114.59 crore including 'Interest During Construction' (IDC[46]) of ₹ 7.20 crore. As a result the actual cost of construction per MW was increased to ₹ 10.29 crore as against the reduction to ₹ 6.24 crore per MW anticipated while adding the third unit.
- The project area was situated in the same hydrological belt of Cherrapunjee which experiences heavy rainfall. Therefore, it was necessary to take adequate precautionary measures to prevent loss/damages to the plant due to floods. During construction, two floods occurred (8 October 2009 and 20 May 2010) causing loss of lives as well as damage to electrical equipment and delayed the completion time by 15 months. It was observed that the height of the protection walls constructed under the project was not adequate to prevent flooding.

[46] Represents financial cost incurred during the construction period of the project, which would be capitalised after completion of the project.

Therefore, the height of protection wall had to be increased by three metres to prevent future flooding. Changes in the height of the protection wall at project implementation stage was indicative of deficiencies in preparation of DPR, which led to loss of lives and increase in the project cost by ₹ 139.38 crore on account of escalation (₹ 32.81 crore), damages (₹ 12.13 crore), compensation (₹ 1.44 crore) and interest (₹ 93.00 crore).

The deficiencies as discussed above, in planning and implementation of the project had delayed execution of project works by 46 months and cost over-run of ₹ 819.35 crore[47]. Further, against the generation cost of ₹ 1.06 per unit as projected in the DPR, the actual generation cost went up to ₹ 4.44 per unit, ₹ 4.03 per unit and ₹ 7.53 per unit during 2013-14, 2014-15 and 2015-16 respectively.

4.2.8.2 On-going projects:

(i) New Umtru Hydro Electric Project

Umtru river is a major source of hydro power in the State. The old Umtru PS (4X2.8 MW), the first development in the basin during 1957-68 had attained its useful life of 35 years (1992-2003). Moreover, the PS was not sufficient to exploit the full potential of the river. In this context, New Umtru Hydro Electric Project (NUHEP) was conceptualised (1988-89). DPR for implementation of NUHEP was prepared (June 2005) with 2X20 MW capacity at an estimated cost of ₹ 226.40 crore. The DPR was needed to be approved by the State Government and Techno Economic aspects to be cleared by CEA. Further, the aspects relating to hydrology, civil design, dam design, dam safety, *etc.* was needed to be evaluated and cleared by Central Water Commission (CWC). The DPR prepared (June 2005) for the project was approved (February 2006) by the State Government. The TEC for the project was also obtained (May 2008) from CEA.

After due tendering, the work of execution of the Project was awarded (December 2007 to April 2009) in three packages to three firms with scheduled completion by August 2011 as indicated below:

Table 4.2.5
Details of award of packages of New Umtru HEP

Sl. No.	Packages	Name of the Contractor	Contract Value (*₹in crore*)	Date of award	Scheduled date of Completion
1	Civil Works	ITD Cementation India Limited	88.33	20-12-2007	June 2011
2	Hydro - Mechanical Works	SEW Infrastructure Limited	11.22	07-01-2009	February 2011
3	Electro – Mechanical Works	Andritz Hydro	78.23	04-04-2009	August 2011

Source: Records of the Company

The work remained incomplete till date (December 2016) even after a lapse of more than five years from the scheduled date (August 2011) of completion. The cost of the

[47] Actual cost for three units (₹ 1,297.02 crore) *minus* estimated cost for three units (₹ 363.08 crore *plus* ₹ 114.59 crore).

project was revised (December 2015) to ₹ 599.00 crore and the expenditure incurred has been ₹ 494.00 crore (December 2016).

Audit analysis revealed the following deficiencies:

Deficient planning

Planning is a very important component for the optimum development of an HEP in a river basin. Before preparation of DPR detailed field investigations, assessment of benefit, design and engineering studies, etc were to be conducted. These are required to avoid subsequent changes in the structure and design after approval and award of contracts. Audit observed that:

- During underground tunnel excavation of Head Race Tunnel[48] (HRT) and Tail Race Tunnel[49] (TRT), there were tunnel collapses due to bad geological strata[50] which necessitated change in the methodology of tunnel boring– involving heading and benching[51] with fore poling, erection of permanent steel support and backfilling[52]. This indicated inadequate assessment of geological features during the conduct of S&I works at planning stage causing delay in execution of the project works by 11 months.
- The scope of work for construction of dam was confined to increasing the crest[53] height of the existing dam by one metre. The spillway[54] was designed as a gated structure[55] with 8 openings of 10 metres width and piers[56] of 3 metres width. Accordingly the designer submitted (February 2008 to October 2009) 14 drawings to CWC for review. CWC advised (July 2010) re-examining the original proposal of raising the existing dam since it was considered to be not only costly but also impossible to execute. Accordingly based on CWC's advice it was decided to construct a new dam 5 metre downstream with increased length of the pier. The decision to construct a new dam necessitated revision in layout, design and drawings of other civil structures of the project as under:

    a. The underground excavation of HRT was to be taken up in two fronts, one from intake and other from Surge Shaft[57] through Adit[58] I and Adit II. Consequent to the decision to construct a new dam, the location of Adits was changed and the alignment and gradient of HRT was changed

[48] a tunnel that carries water from intake to the power house for generation of power.
[49] a tunnel that carries water away from a turbine.
[50] a bed or layer of sedimentary rock that is visually distinguishable from adjacent beds or layers.
[51] this method involves driving the top portion of the tunnel in advance of the bottom portion.
[52] to refill an excavated hole with the material dug out of it.
[53] the highest point of a dam.
[54] a structure used to provide the controlled release of flows from a dam into a downstream area, typically being the river that was dammed.
[55] a spillway where the release of flows is controlled though the opening and closing of gates.
[56] a structure with a deck that is built out over water, and used as a landing place, promenade, etc.
[57] a structure provided at the end of the Head Race Tunnel to account for water hammering effect in the tunnel at its downstream.
[58] an underground tunnel for the purpose of access for construction of Head Race Tunnel/surge shaft/pressure shaft.

due to incorporating the intake structure[59] in the Dam body. This had caused delays in finalisation of alignment of HRT by 43 months coupled with delay in handing over Good for Construction (GFC) drawings[60] for HRT by 10 months. Issue of GFC drawings for the dam was also delayed by 54 months.

b. As per tender, the flood protection was to be constructed by stone masonry. The change in the design of the dam had necessitated modification (March 2009) in the method of flood protection from stone masonry to RCC wall.

c. Further, the change in the dam design had necessitated modification in the diameter of the Surge Shaft from 12.50 metres as envisaged in the tender document to 17.60 metres which caused delays in handing over GFC drawings in respect of Surge Shaft by 26 months.

d. As per the contract for civil works (Clause 33.4), the contract rates were to be valid for a variation of upto + 30 *per cent* of the scheduled quantities of items. For quantities beyond 130 *per cent* of scheduled quantities, separate rates would be applicable. Due to various changes in scope of work and structures as discussed above, there was substantial increase in the excavation and concrete quantities compared to the Bill of Quantities (BoQ) in the estimate as detailed in ***Appendix 4.2.3***. As a result the actual executed quantities exceeded the BoQ beyond 130 *per cent* for which the Company had to pay the contractor at higher rates as provided in the contract clause. This resulted in extra expenditure of ₹ 76.52 crore.

Thus, failure to conduct detailed and adequate studies about the condition of the existing dam during S&I stage had led to significant cost and time over-run in implementation of the project.

Failure to hand over clear site

Handing over of clear site immediately after award of work is essential to enable the contractor to take up and complete the project work as per schedule. The project was to be constructed on Company's own land in the old Umtru PS. The Company, however, failed to handover clear site to the contractor due to an ongoing dispute on the ownership of a portion of land. The dispute was sorted out and the project site could be handed over (July 2008) to the contractor after a delay of seven months of award of contract (20 December 2007). During this period, the Company was to pay (December 2008/December 2014) ₹ 3.28 crore to the contractor towards idle charges due to non-availability of projects site.

Due to the above delays and changes in scope, the completion target was revised to March 2017 and the project cost was revised (December 2015) to ₹ 599 crore

[59] a structure used for collecting water from the surface sources such as river, lake, and reservoir and conveying it further.

[60] sets of detailed designs/drawings prepared by the Design Consultant and are integral part of the Contract Documents.

including IDC of ₹ 128.56 crore resulting in a cost overrun of ₹ 372.60 crore as compared to the project cost (₹ 226.40 crore) approved at DPR stage.

Modification of contract clauses after award

During examination of records, it was noticed that certain clauses of the contract were modified in favour of the contractors at their request as indicated below:

- As per the contract (Clause 34.0) for civil works, price variation was allowed on increase or decrease in the components of direct cost only (*viz.* labour, materials and High Speed Diesel oil). For this purpose, the proportion of these cost components was fixed at 60 *per cent* of the total value of work done. Subsequently, the civil contractor requested (December 2011) to increase the limit beyond 60 *per cent* citing major increase in civil structures from the DPR. Accordingly, the Company concurred (July 2015) to increase the proportion of direct cost components upto 80 *per cent* with effect from July 2010 onwards. The additional claims submitted by the civil contractor on this account were under process (December 2016). The additional liability on this account as worked out by the Company was ₹ 9.27 crore. Enhancing the percentage of the above components as 80 *per cent* of the total value of work done after award of contract lacked justification and led to extension of undue benefit to the contractor.
- As per the Defect Liability Period[61] (DLP) Clause (Clause - 31), the Electro-mechanical contractor was required to make good the defect or damage which may appear or occur, at his own cost during DLP. However, during discussion (May 2015) with the Director (Generation), the contractor claimed charges for extension of warranty stating that the DLP warranty had expired. The claim of the contractor was accepted in principle by the Company. Accordingly, the contractor submitted (October 2015) claim for ₹ 5.44 crore and the Company paid (December 2015) the same. Accepting the DLP warranty as expired even before completion of the work and admitting the claim of the contractor lacked justification. This resulted in avoidable extra expenditure and undue financial benefit to the contractor to the extent of ₹ 5.44 crore.

Thus, the inadequate S&I works and other deficiencies at planning stage of the project had caused post work award changes in designs and structures, leading to delays in completion of the Project as well as escalation in the project costs. This also resulted in loss of generation of 1,276.80 MUs[62] during September 2011 to December 2016.

In reply, the State Government/Company stated (January 2017) that the delay in commissioning of NUHEP were due to delays in issuance of civil construction drawings of dam and vetting of Hydro-mechanical drawings by CWC and due to early rains and floods from last week of March 2016. The reply is not acceptable as the delay in issue/vetting of drawings was on account of changes in the designs of dam and Hydro-mechanical works which was not envisaged in the DPR. As the scheduled

[61] A period of twelve months from the day the works were taken over after successful commissioning.
[62] Calculated @ 239.40 Gwh or MUs per annum in a 90 *per cent* dependable year for 64 months.

date of completion was August 2011, the contention that rains and flood from last week of March 2016 caused delay is not tenable.

(ii) Lakroh Small Hydro Project

Lakroh SHP (1X1.5 MW) in Jaintia Hills District (project cost: ₹ 11.76 crore) was approved (March 2001) by Ministry of New & Renewable Energy (MNRE)[63] with funding from MNRE (₹ 6.75 crore) and North Eastern Council (₹ 5 crore). After due tendering, the erstwhile MeSEB placed order (May 2003) for procurement and installation of turbine generator at a cost of ₹ 2.18 crore. Subsequently, contract for civil works of the project was also awarded (September-December 2009). Thus, as per the work orders issued for the project works, the project was scheduled for completion by June 2011 at a total cost of ₹ 11.47 crore. The cost of the Project was subsequently revised (May 2016) to ₹ 18.67 crore and as of December 2016, the actual expenditure incurred on the project was amounting to ₹ 14.72 crore. The project was likely to be completed by March 2017. Thus, the execution of the project was lagging behind by more than five years with reference to the scheduled date (June 2011) of completion.

Audit analysis revealed that the execution of project had suffered due to several deficiencies in planning process besides lack of professional approach in implementation of the project as discussed below:

Non-execution of land agreement

To execute the project within the scheduled period, it is essential that the availability of the project site is ensured before commencement of work. It was, however, observed that while the process for acquisition of the project site was pending to be completed, the Company went ahead (October 2003) with survey works for construction of the project based on the verbal consent from the land owner to part with the land. Due to the sudden demise of the land owner, his sister took possession of the land and refused to transfer the title of the land in favour of the Company. As a result, the Company had to select (June 2004) alternative location for the project and had to do all the survey, drawings and other works afresh. Failure of the Company to enter into a formal agreement with the land owner before taking up the work had contributed towards delay in execution of project works.

Poor planning

To avoid idling of the equipment on the project site, it is essential that the procurement of the equipment is planned in such a way that delivery of the equipment was received only after the civil structures were ready. The erstwhile MeSEB had procured (January 2006) the electro-mechanical equipment for the project at a cost of ₹ 2.18 crore. The equipment, however, had to be kept idle in the stockyard at the Head Office of the Company as the civil structures meant for installation of the equipment were not ready due to land related issues. After completing of the civil structures, the

[63] earlier Ministry of Non-Conventional Energy Sources.

electro-mechanical equipment were shifted (December 2012) to the power house. On inspection (August 2013) of the equipment by the Chief Engineer (Generation) along with engineers of Boving Fouress Ltd (BFL)[64], the equipment were found to be rusted and certain components were even beyond repair. The work order issued (January 2014) to BFL for the supply and repair/refurbishment of the damaged equipment at their offered rate of ₹ 1.06 crore also could not materialise due to failure of the Company to make advance payment for the work. The work order of BFL for repair work had to be cancelled (June 2015) and fresh tenders were floated (August 2015) for the repair work. As the lone bidder expressed doubts about the reparability of the generator, it was decided (May 2016) to procure a new generator at the rate of ₹ 3.53 crore and order was placed (June 2016) accordingly. Poor planning coupled with failure to arrange funds for making advance payments to the contractor resulted in the generator becoming damaged and consequent procurement of a new generator at cost of ₹ 3.53 crore.

The above failures led to time overrun coupled with cost overrun of ₹ 6.91 crore (₹ 18.67 crore *minus* ₹ 11.76 crore). In addition there was also a generation loss of 7,884 MUs[65].

In reply, State Government/Company stated (January 2017) that works for construction of the project started in October 2003 and was progressing well until 2004 when the demise of the land owner led to stoppage of works as the new owner refused to part with the land for the project. The reply was, however, silent on other deficiencies in planning as brought out by Audit.

The fact, however, remained that deficiencies in planning for different activities of the project had caused significant delay in completion of the project.

(iii) Ganol Small Hydro Project

The Ganol SHP, the first power project in Garo Hills with a capacity of 22.50 MW (3X7.50 MW) was envisaged to make the district self-reliant in power. The S&I was completed (September 2007) and DPR was prepared (September 2007). The State Government had accorded (May 2008) administrative approval for the project at an estimated cost of ₹ 177.52 crore with a completion period of five years. It was, however, observed that the tenders for execution of project works were invited (May 2011) after three years of approval (May 2008) of DPR. After taking further 18 months, the Letter of Intent was issued (December 2012) at ₹ 229.17 crore to the lowest bidder. Considering the IDC, however, the estimated cost of the project went up to ₹ 342.64 crore, which was found to be unviable. In view of the high project cost, the Company approached the State Government for providing financial assistance for the project. With a view to reduce the loan and IDC components included in the project cost, the State Government agreed (December 2013) for a Viability Gap

[64] Original equipment manufacturer of turbine generator.
[65] 1.5 MW x 24 hours x 365 days x 60 *per cent* PLF.

Funding[66] (VGF) of ₹ 100 crore. Accordingly, the project cost was also revised (December 2013) downward to ₹ 332.68 crore due to reduction in the project funding through borrowings and corresponding reduction in the IDC component. The Letter of Award was issued (January 2014) and contract agreement was also executed (June 2014) with a completion period of 42 months (January 2018) from the date of signing (June 2014) the contract agreement. After commencement (August 2014) of the work, the project cost was further revised (September 2014) to ₹ 356.43 crore and the State Government had also correspondingly increased the VGF to ₹ 173.26 crore. As of December 2016 the total expenditure incurred was ₹ 100.65 crore.

In this connection, following observations are made:

Delays in decision making

The status of the land where the project was to be setup, the method of execution of the project, mode of funding, *etc.* were to be decided at the planning stage itself. Audit, however, noticed delays in decision making at various stages prior to construction of the project as discussed below:

- The State Government informed (October 2007) the Ministry of Environment and Forest (MoEF), GoI that the area in which the project was proposed has been certified to be a non-forest land and therefore, no clearance under Forest Conservation Act, 1980 was required. The MoEF, however, pointed out (2009) that since the State Government in their proposal had mentioned the site to be a community forest area, compensatory afforestation was required as per rules. Finally in June 2009, the State Government withdrew the application for forest clearance from MoEF mentioning clearly that the land was declared as 'non-forest land' and, therefore, clearance was not required under Forest Conservation Act, 1980. Thus, the action of the State Government in projecting non-forest land as a community forest area in their correspondence to MoEF delayed the process of implementing the project by two years. Due to this delay, the tender for Civil and Hydro-mechanical works invited in September 2007 had to be extended upto February 2009.
- The tenders were invited (September 2007/September 2008) for constructing the project in two packages (Civil & Hydro-mechanical and Electro-mechanical). During the meeting (February 2010) on the Review and Implementation of Power Projects the State Government suggested that the project, being a SHP, could be taken up on turnkey basis as a single package. As a result, the earlier tender had to be cancelled and the project work was re-tendered (May 2011) as a single package.

Deficient DPR

- After signing (June 2014) of the contract agreement, the contractor commenced (August 2014) the project work. During open excavation on the project site, the

[66] Viability Gap Funding means a grant one-time or deferred, provided to support infrastructure projects that are economically justified but fall short of financial viability.

contractor encountered fractured rock and loose boulders. Hence, detailed examination of the geology and conducting of site specific seismic studies were necessitated. Accordingly, detailed examination of the geological features of the project site was conducted (April 2015) by engaging Geological Survey of India and site specific seismic studies were also conducted by engaging IIT, Roorkee. Based on the reports of these two agencies, changes were made in the design and layout of the project which caused delays in execution of the project. Thus, conducting the geological and seismic studies of the project site after commencement of the project works indicated deficiencies in the S&I works completed by the Company at planning stage.

Failure of the Company to consider the above aspects at the time of preparation of DPR resulted in delays and deficiencies leading to increase in cost by ₹ 46.89 crore on account of escalation (₹ 23.22 crore) and IDC (₹ 23.67 crore). Further, the project, which was approved (May 2008) by the State Government with stipulated completion period of five years remained incomplete (December 2016) even after more than eight years of its approval by the State Government.

4.2.9 Financial Management

Finance is the life blood of any organisation and ensuring sufficient funds at the right time is essential for implementation of projects within the prescribed schedule. Besides, an optimum mix of equity and debt is equally important for maintaining a good financial health of the organisation.

The financial position and working results of the Company for the last four years ending 31 March 2016 has been summarised in ***Appendix 4.2.4.*** The following emerges from the ***Appendix***.

Financial Position

- Secured Borrowings of the Company had increased from ₹ 293.72 crore (2012-13) to ₹ 623.27 crore (2015-16) mainly on account of loans availed during the period for funding various projects undertaken by the Company. Delay in completion of these projects (***paragraph 4.2.8***) had a corresponding impact on the borrowings and IDC due to cost escalation of these projects besides causing accumulation in the value of Capital Work-in-Progress against the ongoing projects.

- Current Assets, Loans and Advances increased from ₹ 250.41 crore (2012-13) to ₹ 338.82 crore (2015-16) due to increase in inter-company receivables from other subsidiaries of MeECL.

- Accumulated losses increased from ₹ 58.26 crore (2012-13) to ₹ 234.98 crore (2015-16) mainly due to non-recovery of the capital costs of MLHEP pending approval of the tariff for MLHEP by MSERC for want of audited accounts of the Company from the financial year 2013-14 onwards as discussed in ***paragraph 4.2.14.1***.

Working Results

- The Company had incurred loss during all four years from 2012-13 to 2015-16 ranging from ₹ 29.94 crore (2014-15) to ₹ 77.30 crore (2015-16).
- During 2012-16, despite increase of ₹ 64.55 crore in the 'revenue from operations', the losses of the Company had increased from ₹ 56.25 crore (2012-13) to ₹ 77.30 crore (2015-16). This was mainly due to provision of ₹ 31.79 crore created by the Company against receivables from the Meghalaya Power Distribution Corporation Limited (MePDCL) which was included under 'other expenses'. Since MePDCL was one of the three subsidiaries of the State owned Government Company (viz. Meghalaya Energy Corporation Limited), provisioning against receivables from MePDCL was not a good gesture and resulted in downgrading the operational performance of the Company.
- Increase in the 'employee benefit expenses' and the 'finance costs' during the period of four years under reference had also contributed towards high losses of the Company.

4.2.9.1 Excessive dependence on borrowing from the financial institutions.

The Company has been facing financial constraints for its operational activities as well as execution of project works. In view of the long gestation period, it is desirable for the Company to pursue with the State Government to avail maximum possible project funding by way of equity and grants so as to reduce the interest burden during construction. The Company, however, was heavily dependent on loans from financial institutions such as HUDCO, Rural Electrification Corporation Limited (REC), Power Finance Corporation Limited (PFC), banks, *etc.* to meet shortfall in funding as detailed below:

Table 4.2.6
Details of loans and grants availed by the Company from State Government and financial institutions for completed/on-going projects during the period 2011-12 to 2015-16

(₹ in crore)

Sl No.	Name of Project	Grant from State Government	Loan from State Government	Loan from Financial Institutions	Total Funding	Percentage of loan to total funding
1	Myntdu Leshka HEP	323.57	75.45	824.74	**1,223.76**	73.56
2	New Umtru HEP	89.10	8.40	228.00	**325.50**	72.63
3	Ganol HEP	76.57	5.17	0.00	**81.74**	6.32
4	Lakroh MHP	11.75	0.00	6.08	**17.83**	34.10
Total		**500.99**	**89.02**	**1,058.82**	**1,648.83**	
Percentage		**30.38**	**5.40**	**64.22**	**100**	

Source: As furnished by MeECL

From the above, following observations are made:

- Loans from financial institutions constituted about 64.22 *per cent* of the total funding for the projects during 2011-16.

- The Company had an outstanding liability of ₹ 89.02 crore (March 2016) against loans from the State Government which constituted merely 5.40 *per cent* of total funding of the four projects.
- Loans from Financial Institutions for MLHEP and NUHEP constituted 67.39 *per cent* and 70.05 *per cent* of the total funding for the respective projects.
- During the period of five years (2011-16) covered under Audit, the Company had commissioned only MLHEP. As on 2014-15, the total IDC for MLHEP was ₹ 342.40 crore (as detailed in ***Appendix 4.2.5***) which led to increase in the per unit generation cost of MLHEP from ₹ 1.06 as projected at DPR stage to ₹ 7.53.
- Similarly, the total IDC for the ongoing NUHEP as of March 2016, was ₹ 128.56 crore which would contribute towards increase in the per unit generation cost (₹ 1.78) of the project as projected at DPR stage.

Thus, excessive dependence on borrowings from financial institutions led to high IDC with corresponding increase in the project cost as well as high generation cost per unit.

4.2.9.2 Poor servicing of debts

Prompt servicing of debts through timely repayment of instalments of principal and interest is essential to liquidate the loans. Revenue generation should be sufficient to pay off its debt apart from meeting its operational expenses, such as employee costs, administrative costs, operation and maintenance expenses, *etc.*

Audit analysis revealed that the interest on loans from financial institutions alone was around 58 *per cent*[67] of the revenue from sale of power as indicated in the table below:

Table 4.2.7
Year-wise details of Interest and penal interest on loans from the financial institutions during 2011-12 to 2015-16

(₹ in crore)

Year	Opening Balance of Interest	Interest Accrued	Interest paid	Closing Balance of Interest	Penal Interest due and paid	Total Interest Paid	Revenue from Sale of Power	Percentage of Interest Paid to Revenue
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (4+6)	(8)	(9)= ((7/8)*100)
2011-12	12.88	82.38	82.93	12.33	1.57	**84.50**	NA	--
2012-13	12.33	87.35	76.82	22.86	2.25	**79.07**	121.40	65.13
2013-14	22.86	100.70	96.74	26.82	2.88	**99.62**	170.38	58.47
2014-15	26.82	107.99	126.05	8.76	2.35	**128.40**	191.10	67.19
2015-16	8.76	115.97	92.98	31.75	0.00	**92.98**	205.75	45.19
Total		**494.39**	**475.52**		**9.05**	**484.57**	**688.63**	**58.10**

Source: As furnished by MeECL

From the above table, it is observed that during the review period, the Company had to bear a total financial cost of ₹ 503.44 crore[68] as interest against a total loan outstanding of ₹ 1,058.82 crore (*refer* ***Table 4.2.6***) from financial institutions which

[67] ((₹ 484.57-₹ 84.50)/₹ 688.63)*100
[68] Includes Interest accrued (₹ 494.39 crore) + Penal interest (₹ 9.05 crore) during the period.

included an amount of ₹ 9.05 crore as penal interest on account of delay in payment of interest.

Besides, the following were also observed regarding poor servicing of debts:

- Though the loan conditions of borrowings availed from the State Government provide for payment of interest at prescribed rates, the Company had not been providing the interest liability against these loans in its accounts. Considering this unaccounted interest liability, the interest costs on the long term borrowings of the Company would be much higher.
- As discussed under ***paragraph 4.2.14.1***, the generation tariff of MLHEP for 2013-14 onwards was approved provisionally by the MSERC pending submission of up-to-date audited accounts by the Company. Thus, due to non-submission of its up-to-date audited accounts with MSERC, the Company was deprived of the final tariff in respect of MLHEP even after four years of its commissioning (March 2013) leading to corresponding revenue loss to the Company.
- The main source of Company's income is revenue earned from sale of power to Meghalaya Power Distribution Corporation Limited (MePDCL). As the Finance and Accounts Wing of all four power sector companies was under the Holding Company (MeECL), only an adjustment entry was passed in the books of accounts for sale of power to MePDCL and shown in the accounts of the Company without involving any physical transfer of cash. This affected the liquidity position of the Company leading to high borrowings and IDC.

The issues discussed above had adverse effect on the liquidity position of the Company leading to poor servicing of debts. As a result, there was significant increase in projects cost on account of high interest costs, which was either being passed on to the consumers through higher tariff or the Company bearing additional losses.

4.2.9.3 Absence of financial prudence in payments to contractors.

Utmost financial prudence must be exercised while releasing payments to contractors on various accounts (*viz.* mobilisation advance, reimbursement of insurance expenses, bank charges, *etc.*) strictly adhering to Central Vigilance Commission (CVC) guidelines and contractual terms and conditions. During examination of the records pertaining to execution of NUHEP, audit observed that the Company released payments to contractors in deviation from CVC guidelines and contractual terms and conditions as discussed below:

- As per CVC guidelines payment of mobilisation advance should be discouraged. If necessary, it should be interest bearing and should be recovered from the bills of the contractor in a time bound manner without linking to the actual progress of work so that the contractor could not take undue advantage by delaying the progress of the work. It was, however, observed that the Company released (April 2008 – July 2009) ₹ 12.18 crore[69] to the contractors of NUHEP as interest free mobilisation advance, which was being recovered from the bills of the contractors. It was further observed that even after expiry of more than seven years of providing the advance, an amount of ₹ 89.88 lakh was still pending for recovery (December 2016) from the contractor. The loss of interest on account of this was ₹ 4.38 crore[70] (December 2016).

- The Company released payments to the Electro-mechanical contractor of NUHEP in deviation from the provisions of the contract as detailed below:

Sl. No.	Clause	Provision	Remarks
1	33	10 *per cent* of contract price would be retained till successful erection, testing and commissioning and would be released within 60 days of issue of Taking over Certificate.	Though the works were not completed, the Company released (January/March 2016) the retention money amounting to ₹ 7.02 crore on the strength of a Bank Guarantee (BG) as per the request of the contractor. This resulted in an interest loss of ₹ 0.58[71] crore till December 2016.
2	9	The contractor, at his own cost, had to keep the BG submitted towards Performance Security valid till the expiry of DLP.	Based on the request of the contractor, the Company reimbursed (May 2016) the bank charges (₹ 0.25 crore) for extending the validity of the BG.
3	40	The contractor had to take All Risk Insurance cover for the goods supplied, contractors' plants, equipment, machinery, employees and third party.	Based on the request of the contractor, the Company reimbursed (June 2015/ April 2016) the insurance premium of ₹ 0.49 crore against the insurance cover obtained by the contractor.

4.2.10 Operational Performance

Audit examined the operational performance of PSs of the Company. The findings are discussed below:

State's demand vis-à-vis generation

At the time of formulation (2007) of MPP, the Company had a generating capacity of 185.20 MW as against an expected average peak demand of 480.89 MW. As per the MPP, 15 projects with a total capacity of 929.50 MW were expected to be commissioned by the Company during the 11th and 12th Five Year Plan periods. The Company, however, could commission only two projects (Sonapani SHP[72] and MLHEP) with a total capacity of 127.50 MW so far (December 2016). This was obviously not enough for the State to meet the demand for power. The actual generation from HEPs and SHPs operated by the Company was substantially less than the average demand as shown below:

69 M/s ITD Cementation India Ltd. - ₹ 4.02 crore, M/s SEW Infrastructure Ltd. - ₹ 0.27 crore and M/s Andritz VA Tech Hydro - ₹ 7.89 crore.
70 @ 10 *per cent* per annum levied by Company on interest bearing advances.
71 Calculated @ 10 *per cent* per annum.
72 The Project (Sonapani SHP) was commissioned during October 2009 prior to the period of five years (2011-16) covered in the present audit.

Table 4.2.8
Details of Generation and Demand during 2011-12 to 2015-16

Year	Actual Generation (MW)	Average Demand (MW)	Percentage of actual generation to Average Demand (in *per cent*)
2011-12	59.13	177	33.41
2012-13	80.48	181	44.46
2013-14	98.40	177	55.59
2014-15	95.43	184	51.86
2015-16	105.25	179	58.80

Source: Records of the Company

As seen from the ***Table*** above, the actual generation increased from 59.13 MW in 2011-12 to 105.25 MW in 2015-16 due to commissioning of MLHEP during 2011-13. It was, however, not sufficient to meet the average demand (179.60 MW). To meet this shortfall, MePDCL had to purchase power from other sources.

4.2.11 Generation Efficiency

4.2.11.1 Shortfall in generation

As on 31 March 2016, the Company had a total of seven power stations (PSs) in operation (total capacity: 314.70 MW) which included four HEPs (282 MW) and three SHPs (32.70 MW). While approving the generation tariffs, MSERC fixes year-wise generation targets for the Company. It was observed that during the period of five years covered under audit (*viz*. 2011-12 to 2015-16), the Company was able to generate a total of 3,864.56 MUs of power against the consolidated target of 4,515.31 MUs thereby causing shortfall of 650.75 MUs (14 *per cent*) in meeting the consolidated generation targets during the five year period (2011-16) as summarised in ***Table 4.2.9*** below:

Table 4.2.9
Generation Targets and Achievements

(in MUs)

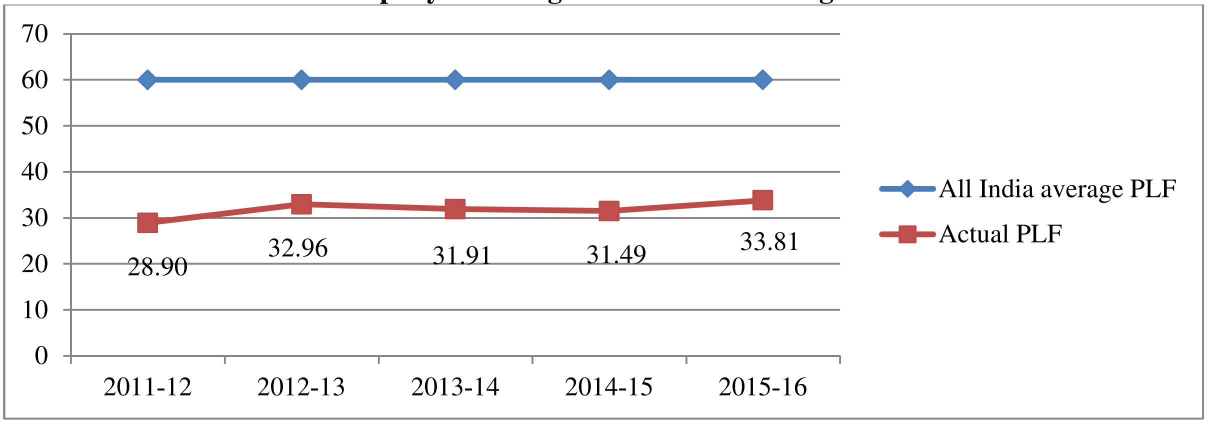
Year	Target	Actual	Actual PLF* (*per cent*)	Shortfall in MUs (*per cent*)
2011-12	528.59	518.66	28.90	9.93 (2)
2012-13	868.40	706.54	32.96	161.86 (19)
2013-14	1039.44	868.49	31.91	170.95 (16)
2014-15	1039.44	842.54	31.49	196.90 (19)
2015-16	1039.44	928.33	33.81	111.11 (11)
Total	**4515.31**	**3864.56**	**31.81**	**650.75 (14)**

Source: Records of the Company
****represents year-wise average plant load factor of the Company***

4.2.11.2 Low Plant Load Factor

Plant Load Factor (PLF) is the ratio of the actual generation to the maximum possible generation. As could be noticed from ***Table 4.2.9*** above, the year-wise actual PLF of the Company during the five years from 2011-12 to 2015-16 ranged between 28.90 *per cent* (2011-12) and 33.81 *per cent* (2015-16). The actual PLF achieved by the Company during 2011-16 was far below than the All India average PLF of 60 *per cent* pertaining to all hydro PSs in the country as illustrated in ***Chart No 4.2.1*** below:

Chart No 4.2.1
Company's PLF against All India average PLF



The low PLF of the Company was mainly attributable to low plant availability[73], high forced outages due to unanticipated fire, delay in completion of repairs and maintenance, *etc.* as discussed under ***paragraph 4.2.12*** *infra*.

In reply, the State Government/Company (January 2017) accepted that the average PLF of the Company's PSs was around 30 *per cent* because most of the PSs were of storage/pondage type and were designed to meet the demand during peak hours only. It was further added that rivers in Meghalaya were being fed by rains only during monsoons.

The reply is indicative of absence of a long term view while planning for HEPs in the State. Considering the huge capital costs involved in construction of HEPs and demand of the State, the projects should have been designed in such a way so as to meet the demand throughout the day on regular basis instead of serving the requirement during the peak hours only.

4.2.11.3 Low Plant Availability

Plant availability means the ratio of actual hours operated to maximum possible hours available during certain period. As per Terms and Conditions for Determination of Tariff Regulations, 2011, MSERC fixed (March 2013)[74] the Normative Annual Plant Availability Factor (NAPAF) for each PS after taking into account the nature of the plant. The NAPAF was further reduced by 5 *per cent* in view of the geological and other difficulties in North Eastern Region. As such the NAPAF fixed by MSERC was more conservative and achievable for the Company. Audit, however, noticed that as against the average NAPAF of 62.04 *per cent* fixed by MSERC during the period for seven PSs of the Company, the actual average plant availability was 41.85 *per cent* during the five years upto 2015-16 as summarised in ***Table 4.2.10*** below:

[73] Plant availability means the ratio of actual hours operated to maximum possible hours available during certain period

[74] Till 2012-13.

Table 4.2.10

Details showing actual average plant availability during 2011-12 to 2015-16

(in *per cent*)

Sl. No.	Name of Power Station	NAPAF	Actual Plant Availability	Excess/Shortfall (-) in Plant Availability
1.	Umiam Stage I (4 x 9 MW)	59.83	36.15	-23.68
2.	Umiam Stage II (2 x 10 MW)	85.00	8.55	-76.45
3.	Umiam Stage III (2 x 30 MW)	63.67	29.20	-34.47
4.	Umiam Stage IV (2 x 30 MW)	61.79	36.85	-24.94
5.	Umtru (4 x 2.8 MW)	80.00	59.60	-20.40
6.	Sonapani (1 x 1.5 MW)	45.00	80.70	35.70
7.	Myntdu Leshka (3 x 42 MW)*	39.00	41.88	2.88
Average		**62.04**	**41.85**	**-20.19**

**For three years w.e.f. 2013-14 to 2015-16*

Source: MSERC and records of the Company

It is seen from the above ***Table 4.2.10*** that there was an overall average shortfall of 20.19 *per cent* in actual plant availability during the review period compared to the NAPAF fixed by MSERC. Further, the shortfalls in achieving the NAPAF occurred in five out of seven PSs. The average shortfall in achieving NAPAF for five plants during 2011-16 ranged from 20.40 *per cent* (Umtru PS) to 76.45 *per cent* (Umiam Stage II PS).

The statistics for total hours available, operated hours, outages, idle hours, *etc.* in respect of seven operational hydro plants of the Company for the period 2011-12 to 2015-16 have been detailed in ***Appendix 4.2.6,*** which revealed the following:

- Total hours available for generation during the period increased from 1,31,760 hours in 2011-12 to 1,58,110 hours in 2015-16 due to the commissioning of Myntdu Leshka HEP during 2011-13.
- Operated hours increased from 45,704 hours in 2011-12 to 76,531 hours in 2013-14 but dropped to 45,854 hours in 2015-16 mainly due to shutdown of Umtru PS (since 2015) (***paragraph 4.2.8.2(i)***) and Unit – I of Umiam Stage – III PS (***paragraph 4.2.12.2***).
- Planned outages decreased from 32,914 hours in 2011-12 to 6,008 hours in 2015-16 due to deficiencies in taking up of repairs and maintenance works as discussed in ***paragraph 4.2.12***.
- Forced outages increased significantly by 58.08 *per cent* from 7,386 hours in 2011-12 to 11,676 hours in 2015-16 due to lack of RM&U and repairs and maintenance.

The high incidence of forced outages and idle hours can be attributed to deficiency in implementation of renovation and modernisation/life extension programmes (***paragraph 4.2.7.2***) and delay in completing repairs and maintenance of PSs (***paragraph 4.2.12***).

In reply, the State Government/Company stated (January 2017) that if a PS could generate at full capacity for at least three hours a day for the whole month, it had achieved 100 *per cent* plant availability for the month (PAFM). The PAFM for the Company's PSs is higher than the NAPAF, except for PSs which were partly or wholly under shutdown.

The reply is indicative of the fact that NAPAF fixed by MSERC was 100 *per cent* achievable if the operations of the PSs are not restricted to three hours per day. However, the actual NAPAF achieved in respect of five out of seven of the operating PSs were far below the NAPAF fixed by MSERC.

4.2.11.4 Low Capacity Utilisation

Capacity utilisation means the ratio of actual generation to possible generation during actual hours of operation. The average NAPAF of 62.04 *per cent* was fixed by MSERC for seven PSs as indicated in **Table 4.2.10** above, could be considered to be the average achievable capacity utilisation of the Company. As against this, however, the actual utilisation of the hydro generation capacity of the Company, during the five years from 2011-12 to 2015-16 ranged from 18.88 *per cent* (2011-12) to 25.70 *per cent* (2015-16) as detailed under ***Appendix 4.2.6***. The low utilisation of available capacity during 2011-12 to 2015-16, as analysed in audit was attributable to increased forced outages, deficiencies in implementation of RM&U/life extension programmes and delay in undertaking/completing repairs and maintenance of PSs as discussed under ***paragraphs 4.2.7.2, 4.2.11.3*** and ***4.2.12***.

4.2.12 Repairs and Maintenance

To ensure long term sustainable levels of performance, periodic maintenance of generating equipment is essential. The efficiency and availability of generating stations is dependent on the strict adherence to annual maintenance and overhauling schedules.

Audit examined the effectiveness in repairs and maintenance carried out in generating stations. It was seen that the repairs and maintenance of PSs was not being carried out at regular time intervals so as to prevent major damages to generation units and avoid possibility of forced outages on this account. In this regard, following observations are made:

4.2.12.1 Delay in replacement of main inlet valves

Umiam Stage-I HEP, commissioned in 1965 was under continuous operation for 36 years with only routine maintenance. The renovation and modernisation (R&M) works of Units I to IV of the PSs were undertaken in 2001-02. It was, however, observed that during R&M work, the Main Inlet Valves (MIVs) of only two units (I & II) were replaced while the MIVs of the other two units (III & IV) were repaired ignoring the fact that MIVs of these units as well had completed their useful life and same were also due for replacement. During re-commissioning (October 2002/January 2003) of these units, leakages were noticed in the repaired MIVs of Units III & IV, which kept on increasing day by day. In July 2006, however, it became impossible even to enter into the casing for closer inspection due to the said leakage. Though the generation loss on account of these leakages was assessed to be 595.84 KW per unit per hour, action for replacement of MIVs was initiated only after more than six years in August 2012 due to financial constraints. The Company had taken another three years in final replacement (June 2015) of the damaged MIVs of the said units. The delay in initiating timely action for replacement of MIVs resulted in a generation loss of 93.95 MUs[75] during the period from July 2006 to June 2015.

4.2.12.2 Delay in repair and re-assembly of generator

A fire accident occurred (June 2013) in Unit I of Umiam Stage III HEP damaging the stator and rotor of the generator. The insurance claim lodged (June 2013) by the Company was rejected (August 2013) by the Insurer on the plea that the fire was caused by the fire incidences not covered under the policy (viz. short circuiting, over-running/self-heating of the equipment, *etc.*). Instead of initiating immediate action for repairing the generator and re-assembling the Unit without waiting for the outcome of the insurance claim, the Company exchanged protracted correspondences (June 2013-June 2014) with the insurer for re-considering the insurance claim.

As there was no positive response from the Insurer, the Company on nomination basis awarded (February 2015) the work of repairing the damaged equipment to Hydro Magus Private Limited at a contract value of ₹ 3.10 crore to be completed within a period of six months. It was, however, observed that the repair work of the damaged equipment was still pending for completion (September 2016). The insurance claim lodged by the Company was also not admitted by the insurer (December 2016).

The generation loss during the period from June 2013 to December 2016 worked out to 464.79 MUs[76].

4.2.12.3 Non-rectification of defects in the Cooling System.

The Superintending Engineer (Electrical) reported (December 2014) serious defects in the cooling system of the Myntdu Leshka HEP due to blockage of water flow into the cooling system on account of deposit of dissolved debris and blockage of strainers. The damage to the cooling system occurred on account of inadequate maintenance of equipment. It was also recommended to modify the existing cooling system at an estimated cost of ₹ 1.16 crore. Though the Company included (December 2014) the same in the Business Plan for 2015-16 to 2017-18, MSERC disallowed (March 2015) the same for want of audited accounts upto 2015-16. Meanwhile, the Company initiated (January 2016) action to divert the drainage and dewatering pipe line of the primary cooling unit from the tail race to the Lynriang river only to reduce the outage by 36 hours from 60-65 hours. Scrutiny of data on outage of MLHEP revealed that there was a generation loss of 9 MUs during the period from 2013-14 to 2015-16 which translated into a revenue loss of ₹ 2.55 crore[77].

In reply, the State Government/Company stated (January 2017) that all the above repair and maintenance works were not taken up due to lack of funds.

The reply is not acceptable as the Company should have prioritised the above works to avoid the generation loss involved.

[75] Worked out as (595.84 KW x 2 units x 24 hours x 365 days x 9 years).
[76] Worked out as (30 MW x24 hours x 365 days x 63.67 *per cent* NAPAF)/(1000 x 36 months).
[77] 90,00,000 units x ₹ 2.83

4.2.13 Manpower Management

As per the CEA recommendation, 1.79 persons per mega watt of the installed capacity was required in each hydro power station. The position of actual manpower *vis-a-vis* the manpower as per CEA norms in respect of generation stations of the Company is given in ***Appendix 4.2.7***.

It may be seen from the ***Appendix*** that the actual man-power deployment in PSs were at wide variance with the CEA norms. In respect of 4 out of 7 PSs in operation, there were shortages of man-power ranging from 25 to 184 compared to CEA norms whereas in the remaining 3 PSs there were excess man-power ranging from 4 to 12.

The State Government/Company accepted (January 2017) that the Company had not conducted review of man-power position in the PSs. The fact, however, remained that there was shortfall in man-power deployment in PSs compared to CEA norms.

4.2.14 Internal control and monitoring

Effective system of internal control and monitoring needs to be in place for efficient functioning of an organisation. Annual accounts have to be finalised periodically and get audited as per the timeframe prescribed in the Companies Act. It is also imperative that the top management be informed periodically of the progress of implementation of various projects. This would enable the top management to assess the performance of the generation units and initiate remedial measures. Deficiencies noticed in the internal control and monitoring mechanism of the Company have been discussed in the following text:

4.2.14.1 Non- finalisation of accounts

As per the provisions of the Companies Act, 1956 and the Companies Act, 2013[78], annual accounts of the company were to be finalised and audited within a period of six months from the end of the financial year. The Company, however, failed to finalise its accounts on the due dates as detailed below:

Table 4.2.11
Details showing finalisation of annual accounts by the Company

Year of Accounts	Due date for finalisation	Actual date of signing of accounts by the Statutory Auditor
2011-12	30-09-2012	No separate accounts were prepared by the Company for 2011-12. The consolidated accounts of four power sector companies were prepared by the holding company (Meghalaya Energy Corporation Limited)
2012-13	30-09-2013	17-05-2015
2013-14	30-09-2014	15-01-2016
2014-15	30-09-2015	Yet to be finalised
2015-16	30-09-2016	Yet to be finalised

The above delays led to non-acceptance by MSERC of the tariff petition filed by the Company as discussed below as well as Business Plan for repairs and maintenance as discussed in ***paragraph 4.2.12.3***.

[78] Accounts of the companies commencing on or after 1 April 2014 are governed by the Companies Act, 2013 while the accounts pertaining to earlier periods continued to be governed by the Companies Act, 1956.

Fixation of tariff for Myntdu Leshka Hydro Electric Project

The Myntdu Leshka Hydro Electric Project (MLHEP) was a new project of the Company commissioned during November 2011 to March 2013. As such, the Company was to claim reimbursement of the capital costs incurred on commissioning of the project as a component of tariff to be fixed by MSERC against the power generated and supplied through the project.

It was observed that the tariff petition filed (December 2012) by the Company against the power generated in MLHEP for the year (2013-14) attracted objections from various quarters during public hearings. Therefore, MSERC ordered (March 2013) the Company that capital cost of the project (MLHEP) would not be accepted without taking into account the audited accounts of the Company and final tariff would be determined only after vetting of capital cost of the project either by an independent agency (like CEA) or experts in the field. As such, the Company was directed to submit its up-to-date certified accounts to MSERC so as to finalise the tariff against the power supplied through generation from MLHEP. As an interim relief, however, MSERC had allowed an interim tariff of ₹ 2.83 per unit from 2013-14 onwards till final approval of the Project Cost. It was, however, observed that despite the clear instructions of MSERC, the Company failed to submit its certified accounts for the years from 2012-13 onwards to MSERC for determination of final tariff for the years 2013-14 onwards.

Non-recovery of the capital costs incurred in construction of MLHEP pending fixation of final tariff for MLHEP had resulted in operational losses of ₹ 348.65 crore to the Company during 2013-14 (₹ 65.64 crore), 2014-15 (₹ 73.43 crore) and 2015-16 (₹ 209.58 crore).

4.2.14.2 Non-maintenance of cost records

As per the Companies (Cost Records and Audit) Rules, generation companies regulated by the Electricity Act 2003 are required to include cost records in their books of accounts. As per these rules, the Company and all its units and branches were required to maintain regular cost records in form CRA-1 effective from 1 April 2014. These cost records were to be maintained in such a manner so as to facilitate calculation of cost of operations, cost of sales and margin for its activities on monthly, quarterly, half yearly and annual basis. The systematic maintenance of cost accounting records was to give yardstick to measure the health and performance of the Company in terms of cost of generation per unit and cost of major expenditure/inputs in terms of manpower, utilities, repair and maintenance per unit.

It was observed that the Cost Accountants engaged (2012-13) by the holding company (MeECL) recommended (July 2015) the holding and its three subsidiaries including the Company to prepare Cost Accounting Manual and proper maintenance of cost records in line with Generally Accepted Cost Accounting Principles and Cost Accounting Standards issued by the Cost Accounting Standards Board.

It was, however, observed that the Company, being the sole power generating company in the State, was yet to initiate any action in this regard. In the absence of cost accounting records, the Company was not able to efficiently monitor the operational costs so as to ensure cost control effectiveness and take corrective actions wherever required.

4.2.14.3 Monitoring by top Management

The top management did not have a mechanism by which project execution activities *viz.* survey and investigation (S&I) works, project implementation, generation data, *etc.* were periodically brought to the notice of the Board of Directors (BoD) through periodical Returns and progress reports. Further, the overall working of the PSs were also not brought to the notice of the BoD. Audit observed that though the Company held regular meetings of its BoD, the agenda of these BoD meetings was broadly confined to according of financial concurrence for tendering, procurement, and cost revisions, *etc.* without focusing on the issues relating to supervision and monitoring of the project implementation activities. A review of the minutes of the Board Meetings further indicated that the MIS data collected and sent to the CEA (***paragraph 4.2.14.4***) was not referred to the Board at all. Thus, the Company failed to evolve an effective project monitoring mechanism to facilitate completion of the projects within the scheduled period thereby causing time and cost overruns in execution of projects as discussed under ***paragraph 4.2.8***.

4.2.14.4 Management Information System

As per CEA (Furnishing of Statistics, Returns and Information) Regulations, 2007, Generation companies are required to furnish 15 returns (13 annual, 1 monthly and 1 daily) to CEA containing complete statistics and information on various areas of operations as indicated in ***Appendix 4.2.8***. These returns broadly contain management data on generation, manpower, training, accidents, targets, and data for financial study. Such information was relevant and could also be used by the Company for the purpose of Management Information System (MIS).

Audit observed that out of the 15 requisite returns, only 4 returns (2 annual, 1 monthly and 1 daily) relating to generation data and load generation balance report were being furnished by the Company to CEA. It was further observed that even these four returns being submitted by the power stations (PSs) to the Director (Generation), the relevant data were not being utilised by the top management for MIS purposes. It was further observed that no remedial action was taken by the top management based on these reports so as to improve generation efficiency of the PSs. This indicated absence of any quality assurance mechanism which was evident by increase in forced outages.

4.2.15 Environmental Issues

The impact of the operations of the hydro PSs on environment includes *inter-alia* downstream erosion, sedimentation, impact of local climate, *etc.* Thus, it is imperative that the Company have a system to effectively deal with the possible adverse impacts of generation activities on the environment. Although the Company had created an Environment Division during 2015-16, an appropriate action plan to address the issue was, yet to be evolved by the Company (December 2016). Further, no environmental audit had been conducted by the Company in the project areas either internally or by engaging any external agency during the review period.

The results of a check of the water quality of the reservoirs of PSs carried out by Meghalaya State Pollution Control Board (MSPCB) during January to March 2016 have been summarised in ***Appendix-4.2.9***. Analysis of the said Appendix revealed the following:

- The water quality in all reservoirs of the Company, were not satisfactory. It was observed that the main pollutants of the Umiam Lake were Organic pollutants in terms of Bio-chemical Oxygen Demand and bacteria.
- The Myntdu River was acidic mainly due to acid effluents from coal mines located upstream as well as in the catchment area, which in turn, affects the mechanical equipment of MLHEP which comes in direct contact with the acidic water.
- No action plan was, however, formulated by the Company to address the above issues so far (December 2016). As the Company was wholly dependent on the water of these reservoirs for power generation, the Company needs to take action to improve the water quality for the longevity as well as long term operations of its PSs.

4.2.16 Conclusion

Implementation of the projects taken up by the Company was beset with lack of planning and deficiencies in survey and investigation, feasibility studies, DPRs, etc leading to changes in scope and design of the projects after commencement of works thereby causing significant time and cost overrun;

The Company's financial management was plagued by poor liquidity, excessive dependence on borrowings from financial institutions, poor servicing of debts and lack of prudence in releasing payments to contractors which further worsened the financial position of the Company;

Internal control and monitoring of the Company was weak. Delay in finalisation of up-to-date accounts and absence of an effective system to monitor the progress of implementation of projects at the top management level had adversely affected execution of projects and recovery of project costs through tariffs.

4.2.17 Recommendations

The Company needs to:

- *prepare long-term perspective plans to prioritise implementation of hydro generation projects in line with State Power Policy so that activities can be more focused, time bound and goal oriented;*
- *conduct detailed feasibility studies on a scientific basis before taking up the project for execution so as to avoid subsequent revisions/modifications in the scope and design and avoid delays in project implementation.*

- *chalk out programmes for Renovation, Modernisation and Upgradation/Life Extension as well as Repair and Maintenance works and ensure adherence thereto.*
- *ensure effective monitoring of project works at top management level by evolving effective management information and monitoring systems.*

COMPLIANCE AUDIT PARAGRAPHS

COMMERCE & INDUSTRIES DEPARTMENT

MEGHALAYA INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

4.3 *Compliance Audit of financing activities*

4.3.1 Introduction

Meghalaya Industrial Development Corporation Limited (Company) was incorporated (1971) under the Companies Act, 1956 with the objective to promote and advance the industrial development of the State of Meghalaya. The Meghalaya Industrial Policy 1997 entrusted the Company the responsibility to provide escort[79] services for the large and medium scale industries in the State. Further, the Meghalaya Industrial and Investment Promotion Policy (MIIPP) 2012 has entrusted the Company with the responsibility of project consultancy and financial operation[80] especially for Cluster Development, Self-Help Group, Vocational Training Institute, *etc.* to the Company.

The financing activities of the Company include extending of loans to: (i) Micro, Small and Medium Enterprises (MSMEs) for setting up and operations of industrial units and (ii) Small Road Transport Operators (SRTOs) for purchase of commercial vehicles. The present audit was conducted to examine the economy, efficiency, effectiveness and transparency of the Company in performing the loan activities during the period from 2011-12 to 2015-16.

4.3.2 Scope and Methodology of Audit

The business of the Company is being overseen by the Board of Directors (BoD) consisting of 13 members (one executive director and 12 non-executive directors) as on March 2016. As on 31 March 2016, the Company had total 213 loans cases with outstanding dues of ₹ 99.53 crore[81] (principal-₹ 68.40 crore and interest-₹ 31.13 crore) including disbursements aggregating ₹ 26.02 crore[82] made against 86[83] loan cases during April 2011 to March 2016. During audit, the disbursements of ₹ 26.02 crore (26.14 *per cent* of total loan outstanding as of March 2016) made during 2011-16, were examined.

4.3.3 Failure to register with Credit Information Companies

Credit Information Companies collect and maintain past records of an individual's repayment history pertaining to loans and credit cards. Such Companies provide

[79] Escort means handholding/financial assistance to an entrepreneur till the Unit is established.

[80] MIIPP 2012 explains "Financial Operation" as financing of clusters, Self Help Groups, Training cum Production Centres, Vocational Training Institutes and tiny Industrial/service enterprises not being in the purview of Central Schemes. It further states that financial operation to credit worthy individual unit/beneficiary can be given only in those cases where central linkage is available.

[81] MSME loans: ₹ 96.84 crore and SRTO loans: ₹ 2.69 crore

[82] MSME loans: ₹ 22.86 crore and SRTO loans: ₹ 3.16 crore

[83] MSME loans: 29 nos. and SRTO loans: 57 nos.

Credit Information Reports (CIR) and credit scores to the member credit institutions in order to help, evaluate and approve the loan applications. From the information supplied by these companies, the member credit institutions can have a complete picture of the payment history and credentials of the (loan) applicants.

During examination of the records of the Company, it was observed that the Company did not have any standardised mechanism to evaluate and verify the credit worthiness/credentials of loan applicants before sanction of loan. Hence, financing activities are being carried out by the Company without assessing and establishing credentials of the applicants. To overcome this handicap, the Company sought (June 2012/March 2014) approval of the Board of Directors to register with Credit Information Bureau (India) Limited (CIBIL) so as to enable the Company to gain access to an applicant's complete credit record and carry out appraisal of loan applications more effectively. On both the occasions, however, the Board decided (June 2012/March 2014) to keep the proposal in abeyance without any justified reason. No further development in this regard was, however, seen on records.

In the Exit Conference (01 November 2016), the Company accepted that they did not have any mechanism/procedure to assess the credit worthiness/track record of any person. It was added that the Company made efforts to access information about prospective borrowers by contacting various banks although this was not a comprehensive method.

The reply is not acceptable as in absence of a standardised mechanism for verification of the credentials of loan applicants before sanction of loan, the Company is exposed to the risks of defaults in repayment of loans extended by it.

4.3.3.1 Financing of loan to a single Private Company

M/s CMJ Breweries Private Limited (CMJ) was the single largest borrower of the company during the period of five years (2011-12 to 2015-16) covered in the Audit. Out of the total disbursements (₹ 26.02 crore) made by the Company during 2011-2016, ₹ 20.60 crore (79.17 *per cent*) was disbursed to CMJ against total sanctioned loans of ₹ 45.00 crore. Further, out of ₹ 68.40 crore outstanding loan (excluding interest) as on 31 March 2016, an amount of ₹ 42.50 crore (62.14 *per cent)* pertained to CMJ alone.

Audit observed that in the year 2009, the Company sanctioned a Term Loan of ₹ 26 crore[84] to CMJ and disbursed the same during April 2010 to March 2012.

The first repayment instalment by CMJ was due in June 2012. CMJ, however, citing delay in commencement of commercial production, requested (April 2011) for rescheduling of loan. Based on the request, Managing Director of the Company approved (April 2011) rescheduling of the loan allowing the repayments to commence

[84] 1st disbursement (7 April 2010)- ₹ 5 crore, 2nd disbursement (19 April 2010)- ₹ 10.00 crore, 3rd disbursement (24 June 2010)- ₹ 1.50 crore, 4th disbursement (26 October 2010)- ₹ 4.40 crore, 5th disbursement (08 March 2011)-₹ 1.50 crore, 6th disbursement (21 March 2011)-₹ 2 crore, 7th disbursement (09 March 2012)- ₹ 1.60 crore.

from the financial year 2014-15. It was further observed that even before CMJ started repayments towards this loan, the Company sanctioned (May 2013) and disbursed (July 2013 to July 2014) the second Term Loan of ₹ 19 crore to CMJ to be repaid in 7 yearly instalments starting from 2016-17 (May 2016).

In respect of the first loan (₹ 26 crore), CMJ repaid (July 2013) an amount of ₹ 2.50 crore towards the principal. To facilitate its third expansion project, CMJ again approached (October 2014) the Company to reschedule the repayment periods of the two loans as under:

(i) to re-schedule the first term loan (with outstanding balance of ₹ 23.50 crore) and allow the repayments to start from 2017-18 (8 yearly instalments) instead of 2014-15 which was already allowed during first re-scheduling of loan.

(ii) to re-schedule the second term loan (₹ 19 crore) and allow the repayments to start from 2018-19 (7 yearly instalments) instead of 2016-17 (May 2016).

The above proposals of CMJ were agreed to (25 November 2014) by the Managing Director and the two loans were re-scheduled accordingly.

The accrued interest liability against above two loans for the financial year 2014-15 worked out to ₹ 4.81 crore (first loan: ₹ 2.82 crore and second loan: ₹ 1.99 crore), which was to be paid by CMJ within 31 March 2015. On the grounds of the financial crunch being faced by CMJ in implementing its third expansion project, CMJ again proposed (February 2015) to convert the above interest liability into a fresh term loan. While declining to accept CMJ’s proposal, Managing Director of the Company allowed (March 2015) to defer the payment of interest accrued by one year and permitted CMJ to pay off the interest accrued (₹ 4.81 crore) against the two loans for 2014-15 in March 2016. CMJ, however, did not pay the interest overdue of ₹ 9.91 crore for the years 2014-15 and 2015-16. It was noticed that due to default (March 2016) in payment of interest by CMJ, the loan outstanding (principal) against CMJ was transferred under NPA category.

The above instances of repeated rescheduling of loans established that CMJ was a chronic defaulter in repayment of Company loans. It was also observed that the Managing Director, despite involving significant financial implications, accorded approval to re-schedule the repayment period of loan (principal) on two occasions (April 2011 and November 2014) and deferment (March 2015) of interest payment.

Examination of the records of the Company further revealed that while responding to the advices sought by other Financial Institutions on the credit worthiness of CMJ, the Company had responded (April 2015/January 2016) positively to these queries. This was surprising in view of the fact that CMJ had not been able to comply with the original loan terms and was repeatedly seeking re-scheduling. Further, as the majority of loan was extended to CMJ, the loan assets of the Company were highly exposed to the risk of defaults and non-recovery considering poor track record of CMJ.

At present, loan appraisal is being done solely by the Loan Section headed by a Deputy General Manager who also recommends for sanction of loan without taking inputs of Finance/Recovery Section of the Company. The Company may consider constituting a Screening Committee to carry out appraisal of loan proposals in an effective manner duly taking into account the credit worthiness/track record of the loan applicants before approving loan proposals. The Company also needs to fix responsibility for repeated rescheduling of the outstanding loans of CMJ without adequate justification and without approval of the Board of Directors of the Company.

4.3.4 Monitoring of loan disbursed

The Company disburses loan in instalment depending upon the physical progress of work, satisfactory utilisation of instalments already advanced and also promoter's contribution. However, there were instances of continued disbursement of instalments by the Company in respect of two loans despite repeated default by the borrower to honour the terms of repayment as per loan conditions.

During 2011-12 to 2015-16, ₹ 22.86 crore were disbursed to MSMEs. Out of these, loan aggregating ₹ 0.95 crore (4.16 *per cent*) was disbursed[85] to two units viz. Destination Hotel (₹ 0.50 crore) and Byrnihat Hotel (₹ 0.45 crore). The observations in respect of these two loans have been discussed below:

4.3.4.1 Byrnihat Hotel cum Shopping Complex

The Company sanctioned (October 2009) a Term Loan of ₹ 1.37 crore for construction of Hotel cum shopping complex at Byrnihat and disbursed the same during the period from November 2009 to November 2012. As per the loan conditions, the loan was to be repaid in 32 quarterly instalments to be commenced from November 2011. The borrower, however, continuously failed to honour the agreed repayment schedule. At the time when the first repayment instalment was due (November 2011) from the borrower, an amount of ₹ 0.87 crore was already disbursed by the Company. Since the borrower had defaulted to honour the repayment schedule, the Company should have refused to disburse the remaining sanctioned amount of ₹ 0.50 crore. However the default by the borrower was ignored on grounds that the work was progressing and a further release of an amount of ₹ 0.45 crore was approved (July 2011 to November 2012) by the Company after retaining a meagre amount of ₹ 0.05 crore as provision for interest during construction. As on 31 March 2016, the total outstanding amount overdue for repayment by the borrower accumulated to ₹ 1.63 crore (principal: ₹ 0.77 crore and interest: ₹ 0.86 crore).

4.3.4.2 M/s Destination Hotel, Jaintia Hills.

Loan of ₹ 1.50 crore was sanctioned (July 2009) and disbursed (August 2009 to May 2013) for setting up M/s Destination Hotel, a Hotel-cum-shopping complex. Examination of disbursement records revealed that an amount of ₹ 0.50 crore was

[85] Disbursements against loans sanctioned (July 2009/October 2009) to Destination Hotel (₹ 1.50 crore) and Byrnihat Hotel (₹ 1.37 crore).

disbursed in instalments during the period from December 2011 to May 2013 despite repeated defaults in repayments by the borrower since the first instalment became due (September 2011) for repayment on grounds that the work was progressing. Against the total outstanding overdue of ₹ 1.86 crore (principal: ₹ 0.89 crore and interest: ₹ 0.97 crore) as on 31 March 2016, the borrower had repaid a meagre amount of ₹ 0.20 lakh towards interest only.

Thus, failure to ensure proper monitoring of repayment schedule and enforcement of the conditions for sanction of loans resulted in undue favour to the above two borrowers.

4.3.5 Recovery of Loans

4.3.5.1 Non-performing Assets

The level of Non-performing Asset (NPA) in a financing company is an important indicator of its financial health and effectiveness of its monitoring mechanism. As per classification of loan assets carried out by the Company[86], NPA represents those loans where repayment towards principal and/or interest accrued remains defaulted beyond 90 days. On the other hand, Standard Asset (SA) represents those loans in respect of which there is no default in repayment of principal and interest accrued or where default in repayment is less than 90 days. The NPAs are further classified into the following three categories, based on the period for which the assets remained non-performing:

i. Sub-standard asset – loan assets which remained NPA for a period more than 90 days but less than or equal to 12 months.

ii. Doubtful asset - one which has remained in the sub-standard category for a period of 12 months.

iii. Loss asset - an asset where loss has been identified by the Company but the amount has not been written off wholly. Such assets is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

The above norms for classification of assets were framed and followed by the Company throughout the period examined by Audit. The loan asset portfolio of the Company during the period (2011-16) covered under audit has been summarised in ***Table 4.3.1*** below:

[86] Asset classification is being carried out by the Company as on 31st March of financial year.

Table 4.3.1: Details of loan asset portfolio

Year	Standard Assets (SA)	Non-Performing Assets (NPA)	Total	Percentage	
				SA	NPA
	(₹in crore)				
2011-12	31.46	24.30	55.76	56.42	43.58
2012-13	30.13	24.97	55.09	54.68	45.32
2013-14	32.50	23.53	56.03	58.00	42.00
2014-15	43.24	26.05	69.29	62.40	37.60
2015-16	0.51	67.89	68.40	0.75	99.25

From the **Table** above, it can be seen that there had been drastic variations in the figures of 'standard assets' and 'non-performing assets' during 2015-16. This was mainly due to transfer of the outstanding (principal) loan (₹ 42.50 crore) pertaining to one borrower (CMJ) to 'non-performing assets' category during 2015-16. The findings relating to this borrower (CMJ) have been discussed under ***paragraph 4.3.3.1*** *supra.*

Audit further examined recovery efficiency of the Company during the period of five years from 2011-16 and observed that the recoveries made by the Company during these years had declined from 18.72 *per cent* (2011-12) to 3.57 *per cent* (2015-16) as detailed in ***Table 4.3.2*** below:

Table 4.3.2: Details of loan recovery

Year	Received			Amount Overdue			Total Amount (A+B)	Percentage	
	Principal	Interest	Total (A)	Principal	Interest	Total (B)		Received	Outstanding
	(₹in crore)								
2011-12	3.58	4.45	**8.03**	16.67	18.17	**34.84**	42.87	18.72	81.28
2012-13	2.67	1.56	**4.23**	17.86	17.71	**35.57**	39.80	10.63	89.37
2013-14	4.54	7.26	**11.80**	18.13	16.90	**35.03**	46.83	25.20	74.80
2014-15	1.28	0.70	**1.98**	20.42	19.84	**40.26**	42.24	4.70	95.30
2015-16	1.34	0.57	**1.91**	20.48	31.13	**51.61**	53.52	3.57	96.43

During examination of records on loan recovery, it was observed that one of the main factors for decline in the recovery performance during previous two years was unjustified re-scheduling of Term loans in respect of one major borrower[87] as elaborated under ***paragraph 4.3.3.1*** *supra*.

4.3.6 Conclusion

There was absence of an effective system to verify the credit worthiness of loan applicants before sanction of loans. The Company had been re-scheduling and sanctioning further loans to habitual loan defaulters without justification. Thus, the financing activities of the Company lacked focus and direction leading to poor recovery performance and high incidence of non-performing assets.

[87] M/s CMJ Breweries Private Limited against whom 62 *per cent* (₹ 42.50 crore) of total outstanding (₹ 68.40 crore) as on 31 March 2016 was pending for recovery.

4.3.7 Recommendations

The Company may consider to:

- *constitute a screening committee to ensure effective appraisal of the loan proposals duly taking into account the credentials and previous track records of the loan applicants;*
- *strengthen its internal control mechanisms relating to sanction, disbursement and recovery of loans so as to protect the financial interests of the Company.*

MEGHALAYA ELECTRONICS DEVELOPMENT CORPORATION LIMITED

4.4 Misappropriation of cash

Absence of an effective system for periodic physical verification of cash in hand on regular basis led to possible misappropriation of cash of ₹ 19.98 lakh.

During the course of Audit (July 2013) of Meghalaya Electronics Development Corporation Limited (Company) it was seen that the closing balance of cash in hand as on 31 March 2011, as per the uncertified compiled account, was shown as ₹ 19.98 lakh. In the subsequent year, the closing balance of cash in hand (₹ 19.98 lakh) was transferred to Suspense account and consequently, the cash in hand as on 31 March 2012 became 'nil'. There was no disclosure in the accounts for reasons of transferring it to Suspense Account. It was further observed that the Company had not finalised its accounts after the financial year 2006-07 and the cash book of the Company also had not been closed and authenticated since 2007-08. In view of this development, a Joint Physical Verification of cash was conducted (05 July 2013) by Audit in the presence of the present Director in-charge of the Company and it was found that there was 'nil' cash balance. The reason for the 'nil' cash balance and the supporting records in respect of expenditure of ₹ 19.98 lakh could not be produced to Audit.

The Board of Directors of the Company withheld (29 April 2014) the VRS dues/arrear salaries of the three officials[88] suspected to be involved in the possible misappropriation of cash and the same were not released so far (December 2016). No disciplinary action was, however, seen to have taken on records against any of the suspects nor was any recovery made from the VRS dues/arrear salaries of these officials so far (December 2016). It was further observed that one of the three suspects in the case (viz. the then Director of the Company) had already passed away on 24 December 2013.

In a unit level reply to audit query, the Company furnished (July 2016) the Special Audit Report of the Directorate of Local Accounts, Government of Meghalaya which had confirmed the figure of cash in hand as on 31 March 2012 to be ₹ 13.51 lakh. The Report (26 May 2015) of the Internal Auditors also had confirmed the said closing cash balance (₹ 13.51 lakh) of the Company as on 31 March 2012. The figures of the closing cash balance as on 31 March 2012 as per the above two Reports was, however, at variance with the Physical verification of cash conducted (05 July 2013) by Audit in the presence of the present Director in-charge of the Company.

During a meeting of the internal auditor (15 June 2016) with the Audit, however the internal auditors had confirmed that the closing cash balance of ₹ 13.51 lakh as on 31 March 2012 (as per the Internal Audit Report of the Company) was arrived at on the basis of "Computerised Cash Book" and vouchers which were neither certified nor

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[88] The three officials were Director ((Late) Shri A C Tham), the Accounts in-charge (Shri Johnie Hadem) and Agency functions (Shri A G Kynta).

signed by the Management. The Cash Book was in the form of computer printout and the same was neither closed/balanced daily nor were the entries of the day authenticated on daily basis as required under Rule 103 (3) of the Meghalaya Financial Rules 1981[89].

Thus, absence of an effective system for periodic physical verification of cash in hand on regular basis led to possible misappropriation of cash of ₹ 19.98 lakh.

In reply (July 2016), the State Government stated that the Board of Directors of the Company have already decided (June 2016) to investigate the issue of difference of closing cash in hand by third neutral party.

During the meeting (October 2016) of the Management of the Company with the Audit, the Company had confirmed the facts and figures of the observations and assured that the compiled accounts would be re-worked based on the physical existence of assets, liabilities *etc.*

No further action in the matter was, however, seen to have been taken on records by the Company so far (December 2016).

POWER DEPARTMENT

MEGHALAYA POWER GENERATION CORPORATION LIMITED

4.5 Statutory dues not remitted

There was unauthorised retention of forest royalty amounting ₹ 9.85 crore by the Company.

As per the provision of Forest Regulation (Application and Amendment) Act 1973 the Myntdu Leshka Hydro Electric Project (MLHEP) of Meghalaya Power Generation Corporation Limited was required to deduct Forest Royalty from the contractors' bills while making payments to the contractors and remit the same to the Government Account within the specified time.

As per Section 34(2) (h) of the Meghalaya Forest Regulation (Application and Amendment) Act 1973, no forest produce should be extracted/removed from a forest area unless a permit/pass was granted by the forest officer on realisation of royalty in full. Scrutiny of records (February-March 2016) of MLHEP revealed that during the period August 2000 to March 2016, it had deducted Forest Royalty to the tune of ₹ 14.68 crore from the bills of the contractors. As against this, MLHEP had deposited an aggregate amount of ₹ 4.83 crore only in respect of Forest Royalty into the Government Account. Thus, an amount aggregating ₹ 9.85 crore in respect of Forest Royalty had not been deposited by MLHEP into the Government Account (December 2016).

[89] As per Rule 103 (3) of the Meghalaya Financial Rules 1981, the Head of the Office is personally responsible to Government for the due accounting of all money received and disbursed and for the safe custody of cash.

Section 75 of the Forest Regulation (Application and Amendment) Act, 1973 stipulates that all unpaid dues against the price of forest produce shall be recovered under the law for the time being in force as if it were an arrear of land revenue. Section 76 of the Meghalaya Forest Regulation (Application and Amendment) Act, 1973 further stipulates that when any such money is payable for any forest produce, the amount thereof shall be deemed to be a first charge on such produce and such produce may be taken possession of by a Forest Officer specially empowered in this behalf and may be retained by him until such amount has been paid. It was however seen that no such demands were raised on the Company by the department concerned so far (December 2016).

In reply, the State Government/Company stated (September 2016) that the amount collected on account of Forest Royalty could not be deposited to Government Accounts due to paucity of funds. It was further added that the details of utilisation of the said funds are not known since there are still pending liabilities with contractors and suppliers till date.

The reply is not acceptable as the forest royalty is in the nature of statutory dues and hence it should have been remitted to the State exchequer immediately after its collection in a systematic manner.

The Company needs to keep the funds realised against forest royalty separately in an escrow account so that the forest royalty so collected is remitted to Government Accounts immediately after its collection.

MEGHALAYA ENERGY CORPORATION LIMITED

4.6 Heavy retention of revenue

Heavy retention of Company's revenue collected by Axis Bank resulted in blockade of funds and consequent loss of interest of ₹ 58.35 lakh to the Company.

The Meghalaya Energy Corporation Limited (MeECL) entered (March 2013) into an agreement (March 2013) with Axis Bank for providing Cash Management Services (CMS) in respect of six[90] Revenue Sub-Divisions (RSDs). As per the terms of agreement (Clause 1.0), the service provider (Axis Bank) was to collect the amount of electricity bills in the form of cheque/demand draft/cash from the collection units/centres of the Company and deposit the same into the principal collection account of the Company maintained in the Shillong branch of Axis Bank. The cash so collected from the six RSDs of the Company was to be credited into Company's collection account (Shillong branch of Axis Bank) on the same day while the cheques/DDs deposited by the Service provider (Axis Bank) were to be realised in Company's collection account as per normal clearing process (Clause 1.5).

[90] Byrnihat Revenue Sub-Division (BRSD), Shillong Revenue Sub-Division (SRSD), Khliehriat Revenue Sub-Division (KRSD), Jowai Revenue Sub-Division (JRSD), Tura Revenue Sub-Division (TRSD) and Umiam Revenue Sub-Division (URSD)

Scrutiny of records of the six RSDs for the period April 2013 to March 2016 revealed the following:

- The periodic transfer of revenue by Axis Bank to the Company's principal account in respect of six RSDs ranged from 1 to 25 days i.e. for BRSD (1 to 20 days), SRSD (1 to 6 days), KRSD, (1 to 12 days), JRSD (1 to 12 days), TRSD (1 to 7 days) and URSD (1 to 25 days).
- During the period April 2013 to March 2016 the daily deposits made by Axis Bank into the principal account against the collection for six RSDs of the Company ranged between ₹ 112 and ₹ 12.90 crore[91]. Since flow of revenue from Axis Bank to Company's principal account was only periodic, the Company could not avail the intended financial benefits against this revenue due to delays in deposit of this cash to Company's principal account.
- Significant amount collected from the RSDs of the Company was being retained by the Axis Bank without transferring the same to Company's principal account. Such amount retained by the bank ranged[92] from ₹ 0.08 lakh to ₹ 12.63 crore. The position stated indicated that the revenue collected and deposited by Axis Bank into the Company's principal account was not monitored effectively.
- As the revenue collected by Axis Bank was not transferred on time, it resulted in blockade of Company's funds with the bank and consequent loss of interest[93] amounting to ₹ 58.35 lakh[94] to the Company. It was, however, noticed that the CMS agreement with the Axis Bank was terminated (February 2016) by the Company on grounds of the poor services of the Bank.

Thus, due to heavy retention of Company's revenue collected by Axis Bank resulted in blockade of funds and consequent loss of interest amounting to ₹ 58.35 lakh to the Company.

The matter was reported (August 2016) to the Company/State Government; their replies had not been received (December 2016).

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[91] Ranged between ₹ 514 and ₹ 12,89,55,887 for BRSD, ₹ 444 and ₹ 3,60,62,311 for SRSD, ₹ 5,000 and ₹ 6,39,91,859 for KRSD, ₹ 1,056 and ₹ 84,11,359 for JRSD, ₹ 879 and ₹ 1,55,26,877 for TRSD and ₹ 112 and ₹ 1,90,32,985 for URSD

[92] ₹ 10,819 to ₹ 12,62,67,653 for BRSD, ₹ 51,429 to ₹ 11,75,74,990 for SRSD, ₹ 2,49,397 to ₹ 8,41,51,372 for KRSD , ₹ 14,701 to ₹ 1,62,44,046 for JRSD, ₹ 39,818 to ₹ 1,78,55,381 for TRSD and ₹ 8,092 to ₹ 1,99,24,073 for URSD.

[93] Calculated at the rate of SBI Fixed Deposit Rate for seven to 45 days i.e. 5 *per cent.*

[94] Interest for the period from April 2013 to March 2016 amounting to ₹ 28.10 lakh for BRSD + ₹ 12.43 lakh for SRSD+ ₹ 7.32 lakh for KRSD+ ₹ 3.92 lakh for JRSD+ ₹ 3.77 lakh for TRSD+ ₹ 2.81 lakh for URSD.