

CHAPTER – V
ECONOMIC SECTOR
(STATE PUBLIC SECTOR UNDERTAKINGS)

CHAPTER-V: ECONOMIC (SPSUs) SECTOR

5.1 Overview of State Public Sector Undertakings

5.1.1 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 the SPSUs occupy an important place in the State economy. As on 31 March 2017, there were six SPSUs (all Government Companies, including one non-working company) in the state. None of these companies was listed on stock exchange. The details of the SPSUs in Arunachal Pradesh as on 31 March 2017 are given below:

Table: 5.1.1 - List of SPSUs as on 31 March 2017

(₹ in crore)

Sl. No.	Name of the Company	Aggregate Profit/Loss as per latest finalized accounts (as of September 2017)	Paid Up Capital
Working SPSUs			
1	Arunachal Pradesh Industrial Development and Financial Corporation Limited	(-) 2.43	4.15
2	Arunachal Pradesh Mineral Development and Trading Corporation Limited	(-) 0.28	2.13
3	Arunachal Pradesh Forest Corporation Limited	3.54	4.50
4	Arunachal Police Housing and Welfare Corporation Limited	5.26	0.02
5	Hydro Power Development Corporation of Arunachal Pradesh Limited	0.43	5.00
Total		6.52	15.80
Non-Working SPSUs			
1	Parasuram Cement Limited	0	0.24
Grand Total		6.52	16.04

The working SPSUs employed 229 employees as at the end of March 2017.

5.1.2 Accountability framework

The audit of the financial statements of a company in respect of financial years commencing on or after 1 April 2014 is governed by the provisions of the Companies Act, 2013. However, the audit of a company in respect of financial years that 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, 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 is governed by respective provisions of Section 139 and 143 of the Act.

5.1.3 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 (C&AG) as per the provisions of Section 139 (5) or (7) of the Act. These financial statements are subject to supplementary audit to be conducted by C&AG within sixty days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act.

5.1.4 Role of the Government and Legislature

The State Government exercises control over the affairs of these SPSUs through its administrative departments. The Chief Executive and Directors to the Board 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 C&AG, in respect of State Government Companies are to be placed before the Legislature under Section 394 of the Act. The Audit Reports of C&AG are submitted to the Government under Section 19A of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

5.1.5 Stake of Government of Arunachal Pradesh

The State Government's financial stake in these SPSUs is mainly of 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 and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the SPSUs from Financial Institutions.

5.1.6 Investment in State PSUs

As on 31 March 2017, the investment¹ (capital and long-term loans) in six SPSUs was ₹ 31.95 crore as per details given below:

Table: 5.1.2 - Total investment in SPSUs

(₹ in crore)

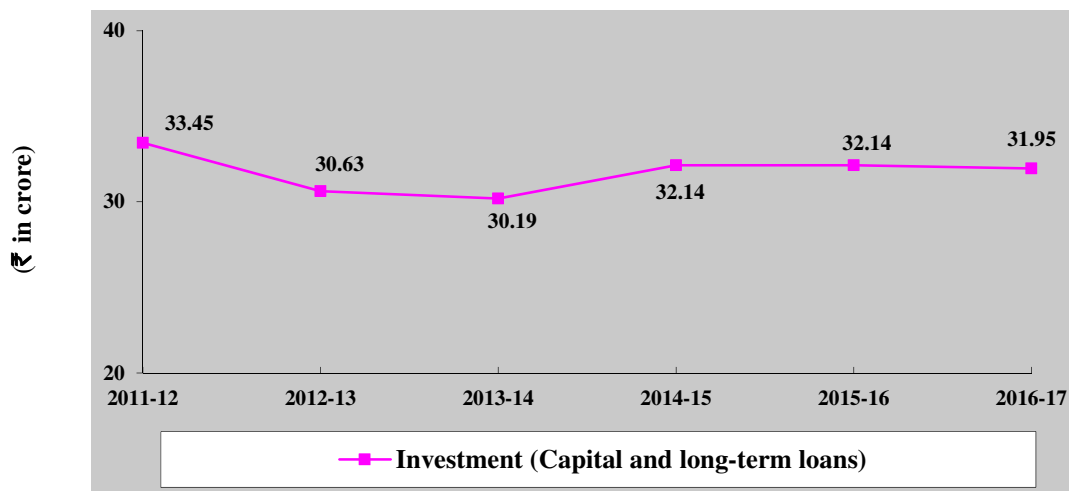
Type of SPSUs	Government Companies		
	Capital	Long Term Loans	Grand Total
Working SPSUs	23.60	8.11	31.71
Non-working SPSUs	0.24	-	0.24
Total	23.84	8.11	31.95

Out of the total investment of ₹ 31.95 crore in SPSUs as on 31 March 2017, 99 per cent was in working SPSUs and the remaining one per cent was in non-working SPSUs. Total investment consisted of 75 per cent towards capital and 25 per cent in long-term loans.

¹ Includes investment of Central Government and others.

The investment during the period from 2011-12 to 2016-17 ranged between ₹ 30.19 crore (2013-14) and ₹ 33.45 crore (2011-12) as shown in the following graph:

Chart 5.1.1: Total investment in SPSUs



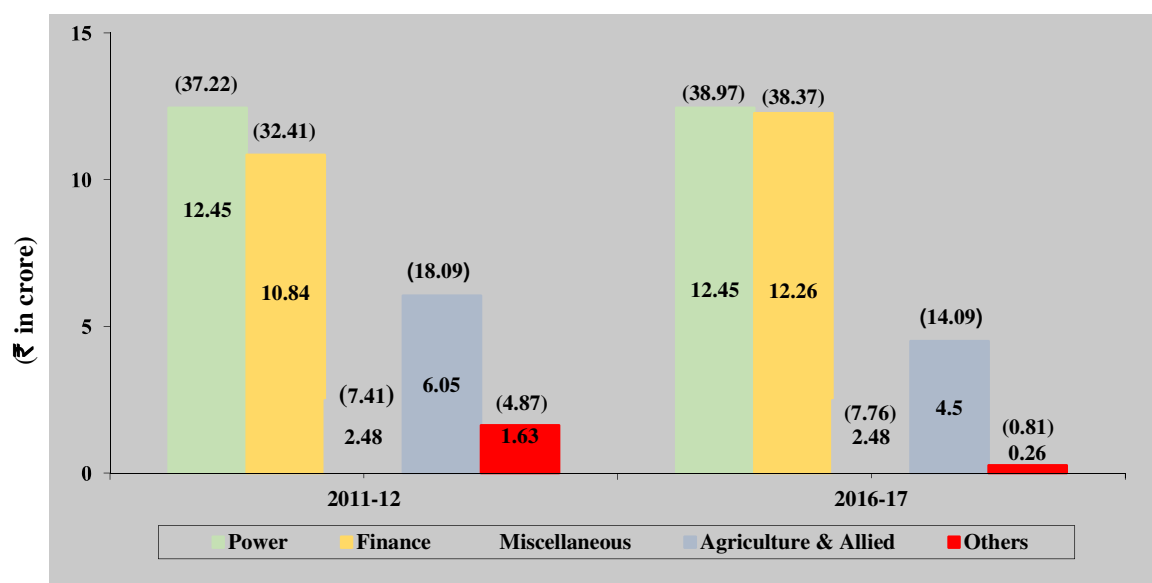
The sector-wise summary of investments in the State PSUs as on 31 March 2017 is as given below:

Table: 5.1.3 - Sector-wise investment in SPSUs

Name of Sector	Government Companies			Investment (₹ in crore)
	Working	Non-Working	Total	
Power	1	-	1	12.45
Manufacturing	-	1	1	0.24
Finance	1	-	1	12.26
Miscellaneous	1	-	1	2.48
Infrastructure	1	-	1	0.02
Agriculture & Allied	1	-	1	4.50
Total	5	1	6	31.95

The investment in important sectors and percentage thereof at the end of 31 March 2012 and 31 March 2017 are indicated below in the bar chart.

Chart 5.1.2: Sector-wise investment in SPSUs



(Figures in brackets show the percentage of total investment)

It can be observed from the chart above that the thrust of investment was mainly in the Power and Finance sectors, which had 39 per cent and 38 per cent of the total investment respectively in the year 2016-17. Among all sectors, the Power sector had the highest investment of ₹ 12.45 crore. The investment in Power sector represented the equity contribution made by the State Government to SPSU, namely, Hydro Power Development Corporation of Arunachal Pradesh Limited.

Further, investment in the Finance sector increased from 32 per cent in 2011-12 to 38 per cent in 2016-17. The increase in investment was due to the equity contribution of ₹ two crore made by the Ministry of Tribal Affairs, Government of India in June 2013 to Arunachal Pradesh Industrial Development and Financial Corporation Limited.

5.1.7 Special support and returns during the year

The State Government provides financial support to SPSUs in various forms through annual budget. Summarized details for three years ended 2016-17 of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of State PSUs are given below:

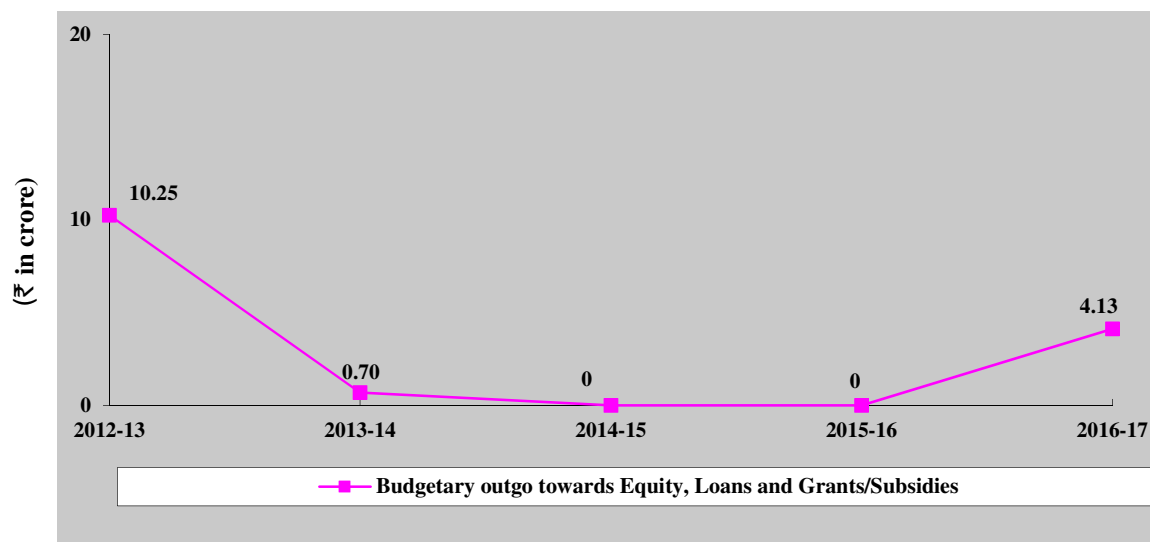
Table: 5.1.4 - Details regarding budgetary support to SPSUs

(₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1	Equity Capital outgo from budget	-	-	-	-	-	-
2	Loans given from budget	-	-	-	-	-	-
3	Grants/Subsidy from budget	-	-	-	-	2	4.13
4	Total Outgo (1+2+3)	-	-	-	-	2	4.13
5	Waiver of loans and interest	-	-	-	-	-	-
6	Guarantees issued	-	-	-	-	-	-
7	Guarantee Commitment	1	2.00	1	2.00	1	2.00

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

Chart 5.1.3: Budgetary outgo towards Equity, Loans and Grants/ Subsidies



Analysis of the budgetary outgo during the period of five years from 2012-13 to 2016-17 indicates that while as the budgetary outgo was highest in 2012-13 at ₹ 10.25 crore, the budgetary outgo during 2013-14 was only ₹ 0.70 crore and during 2016-17 it was to the extent of ₹ 4.13 crore. During 2014-15 and 2015-16, there was no budgetary outgo. Out of a total guarantee commitment of ₹ two crore extended by the State Government to one SPSU (viz. Arunachal Pradesh Industrial Development and Financial Corporation Limited) in 1999, an amount of ₹ 0.98 crore was still outstanding as on 31 March 2017. No guarantee commission was payable to the State Government by any SPSUs. There was no case of conversion of Government loan into equity, moratorium in repayment of loan and waiver of interest during the period.

5.1.8 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned SPSU and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2017 is stated below:

Table: 5.1.5 - Equity, loans, guarantees outstanding as per finance accounts *vis-a-vis* records of SPSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	9.00	19.39	10.39
Loans	Nil	7.84	7.84

Audit observed that the differences occurred in respect of position of outstanding in respect of equity and loans as per the record(s) of the Finance Account of the State and the figures depicted in the accounts of the SPSUs. The differences had not been reconciled over a period of more than ten years. The Principal Accountant General has taken up the matter from time to time with the Secretary, Finance Department, Government of Arunachal Pradesh, Administrative Departments of respective SPSUs and the concerned SPSUs for reconciliation of the differences. However, no significant progress in this direction was noticed. The Government and the SPSUs should take concrete steps to reconcile the differences in a time-bound manner.

5.1.9 Arrears in finalisation of accounts

The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year, i.e., by September end in accordance with the provisions of Section 96 (1) of the Act. Failure to do so, may attract penal provisions under Section 99 of the Act.

The table below provides the details of progress made by working SPSUs in finalisation of accounts as of 30 September 2017:

Table: 5.1.6 - Position relating to finalisation of accounts of working SPSUs

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1	Number of Working SPSUs/other companies	5	5	5	5	5
2	Number of accounts finalised during the year	5	4	5	1	3
3	Number of accounts in arrears	28	29	29	33	35
4	Number of Working SPSUs with arrears in accounts	5	5	5	5	5
5	Extent of arrears (numbers in years)	1 to 15	1 to 15	1 to 15	1 to 16	1 to 17

It can be observed that the number of accounts in arrears has not seen any significant improvement during 2012-13 to 2016-17. The number of accounts finalised during the year has decreased from five (2012-13) to three (2016-17). Arunachal Pradesh Mineral Development and Trading Corporation Limited has the highest arrears in accounts of 17 years (since 2000-01).

The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these SPSUs within stipulated period. As part of regular monitoring of the progress made in this regard, audit has taken up (May 2017) the issue with the Chief Secretary, Government of Arunachal Pradesh, with the request to impress upon the concerned Administrative Heads of the SPSUs to expedite liquidation of arrears of account. Response of the Government was awaited (May 2018).

The State Government had invested ₹ 11.99 crore in four SPSUs {equity: ₹ 0.35crore (one SPSU), loans: ₹ 1.51 crore (two SPSUs) and grants ₹ 10.13 crore (two SPSUs)} during the earlier years for which accounts have not been finalised as detailed in **Appendix 5.1.1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ascertained whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not.

In addition to above, as on 30 September 2017, there were arrears in finalisation of accounts in one non-working SPSU viz. Parasuram Cement Limited. During 2016-17, one non-working SPSU viz. Arunachal Horticultural Processing Industries Limited was dissolved under Section 560(5), Companies Act, 1956 by the Registrar of Companies, Shillong. The non-working SPSU had not commenced the process of liquidation though accounts were in arrears for eight years (2009-10 to 2016-17).

5.1.10 Impact of non-finalisation of accounts

As pointed out in the para above, 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 arrears of accounts, the actual contribution of SPSUs to the State GDP for the year 2016-17 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is recommended that the Government may setup a system to oversee the clearance of arrears in accounts and set the targets for individual companies for submission of their accounts.

5.1.11 Performance of SPSUs as per their latest finalized accounts

The financial position and working results of working Government companies are detailed in **Appendix 5.1.2**. A ratio of SPSU-turnover to State GDP shows the extent of SPSU-activities in the State economy. Table below provides the details of working SPSUs turnover and State GDP for a period of five years ending 2016-17:

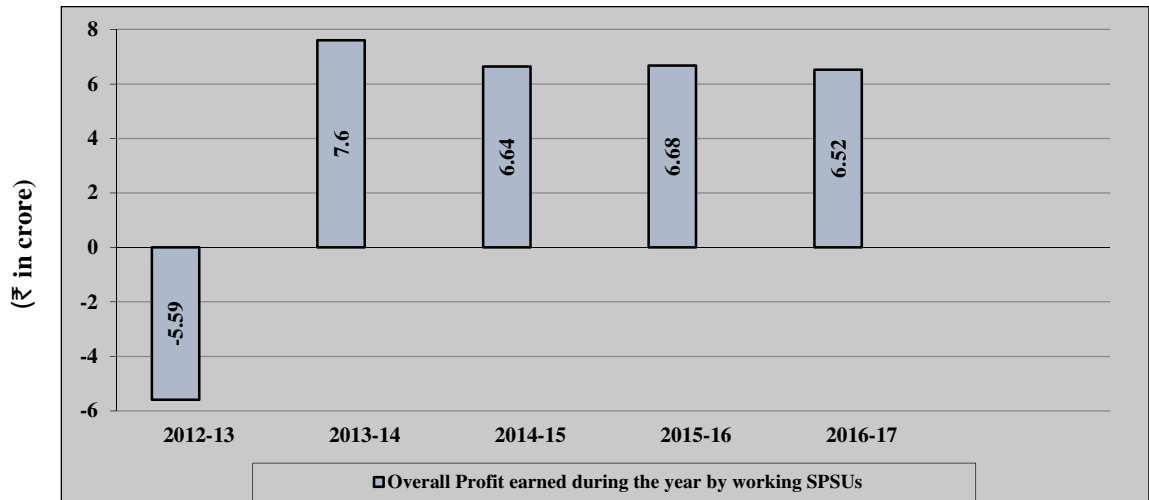
Table: 5.1.7 - Details of working SPSUs turnover vis-a-vis State GDP

(₹ in crore)					
Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Turnover ²	7.57	6.31	6.66	6.28	6.67
State GDP	12,547.00	14,581.00	17,931.00	20,294.00	24,056.00
Percentage of turnover to State GDP	0.06	0.05	0.04	0.03	0.03

It can be seen that during the period of five years, the percentage of turnover to State GDP had reduced from 0.06 in 2012-13 to 0.03 in 2016-17.

Overall profit (losses) earned (incurred) by State working SPSUs during 2012-13 to 2016-17 as per the latest finalized accounts are given below in a bar chart:

Chart 5.1.4: Profit/Loss³ of working SPSUs



It can be observed that the working SPSUs showed negative working results during the year 2012-13 at (-) ₹ 5.59 crore and improved overall profits during 2013-14 to 2016-17. Out of five working SPSUs, three SPSUs earned aggregate net profit of ₹ 9.23 crore and two SPSUs incurred losses of ₹ 2.71 crore. The contributors of profit were Arunachal Pradesh Forest Corporation Limited (₹ 3.54 crore), Arunachal Police Housing and Welfare Corporation Limited (₹ 5.26 crore) and Hydro Power Development Corporation of Arunachal Pradesh Limited (₹ 0.43 crore). The heavy losses were incurred by Arunachal Pradesh Industrial Development and Financial Corporation Limited

² Turnover as per the latest provisional accounts as of 30 September of the respective years.

³ As per latest finalized accounts as on September 2017.

(₹ 2.43 crore) and Arunachal Pradesh Mineral Development and Trading Corporation Limited (₹ 0.28 crore). The working SPSUs had earned aggregate profit of ₹ 6.52 crore as per latest finalized accounts as compared to aggregate profit of ₹ 6.68 crore during 2015-16.

The State Government has not formulated (January 2018) any dividend policy to make it mandatory for SPSUs to pay a minimum return on the paid-up share capital contributed by the State Government. None of the three working SPSUs which earned an aggregate profit of ₹ 9.23 crore had declared any dividend during the year.

5.1.12 Winding-up of non-working SPSUs

One non-working SPSU had ceased operation since 1995. The details of non-working SPSUs at the end of each year during past five years are given below:

Table: 5.1.8 - Non-working SPSUs

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
No. of non-working companies	2	2	2	2	1

The State Government has not started any process of winding up or initiated any turnaround strategy for one non-working company.

5.1.13 Comments on accounts

During the year 2016-17, three working companies forwarded their audited accounts⁴ to the Principal Accountant General. Accordingly, one company was selected for supplementary audit. The details of aggregate money value of comments of Statutory Auditors and C&AG are given below:

Table: 5.1.9 - Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	-	-	-	-	1	0.14
2.	Increase in profit	1	20.37	-	-	-	-
3.	Decrease in loss	-	-	-	-	-	-
4.	Increase in loss	1	3.89	1	3.98	1	3.98
5.	Non-disclosure of material facts	1	4.10	1	2.10	1	11.83

During the year, the Statutory Auditors had given unqualified certificates and C&AG had issued two Non-review certificates to two SPSUs (viz. Arunachal Pradesh Industrial Development and Financial Corporation Limited and Arunachal Police Housing and Welfare Corporation) and one Comment to one SPSU respectively (viz. Hydro Power Development Corporation of Arunachal Pradesh Limited).

⁴ Hydro Power Development Corporation of Arunachal Pradesh Limited (2012-13), Arunachal Police Housing and Welfare Corporation (2014-15) and Arunachal Pradesh Industrial Development and Financial Corporation Limited (2015-16)

5.1.14 Follow up action on Audit Reports

The Report of the Comptroller and Auditor General (C&AG) of India represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Arunachal Pradesh issued (June 1996) instructions to all Administrative Departments to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the C&AG of India within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any comments/queries from the CoPU.

Table: 5.1.10 - Explanatory notes pending as on 30 October 2017

Year of the Audit Report	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs)/Compliance Audit Paragraphs in the Audit Report		Number of PAs/Compliance Audit Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2008-09	03.09.2010	1	6	1	2
2009-10	24.03.2011	1	4	1	2
2010-11	27.09.2012	-	4	-	4
2011-12	23.09.2013	1	2	1	2
2012-13	26.09.2014	1	1	1	1
2013-14	21.07.2015	-	3	-	3
2014-15	10.03.2017	-	2	-	2
2015-16	14.10.2017	1	1	1	1
Total		5	23	5	17

From the above, it can be seen that out of 28 compliance audit paragraphs/performance audits, explanatory notes in respect of 17 compliance audit paragraphs and five performance audits, in respect of four Departments and five SPSUs, which were commented upon, were awaited (January 2018).

5.1.15 Discussion of Audit Reports by CoPU

The status as on 30 September 2017 of Performance Audits and Paragraphs that appeared in Audit Reports (SPSUs) and discussed by the Committee on Public Undertakings (CoPU) was as follows:

Table: 5.1.11 - Reviews/Paras appeared in Audit Reports *vis-à-vis* discussed as of October 2017

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2008-09	1	6	-	2
2009-10	1	4	-	-
2010-11	-	4	-	-
2011-12	1	2	-	-
2012-13	1	1	-	-
2013-14	-	3	-	-
2014-15	-	2	-	-
2015-16	1	1	-	-
Total	5	23	-	2

It can be seen from the table that out of 28 paragraphs/performance audits, for the period from 2008-09 to 2015-16, 26 paragraphs and performance audits in respect of four departments and five SPSUs were yet to be discussed by the Committee on Public Undertakings.

Compliance Audit Paragraphs

Home Department

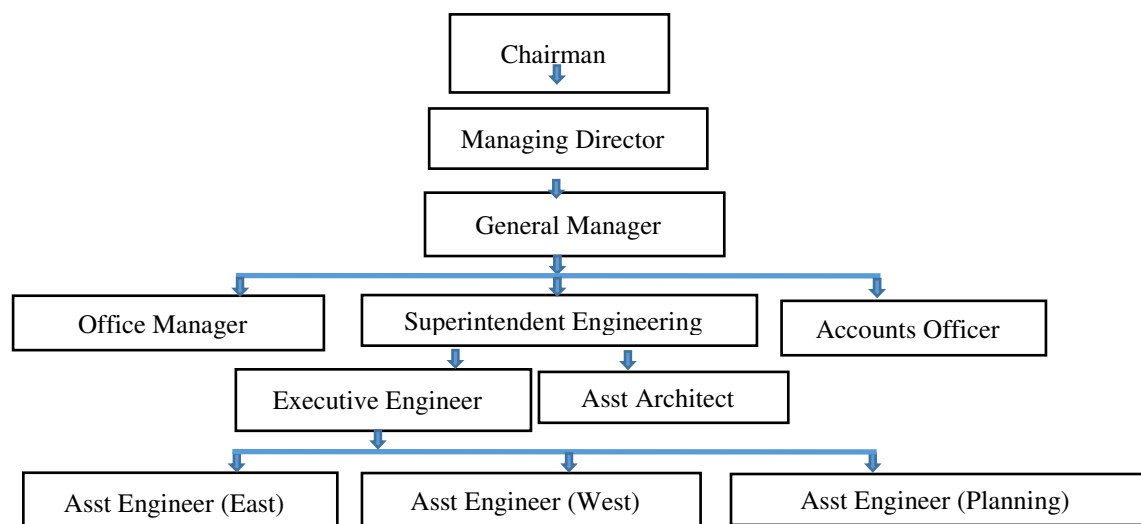
5.2 Project execution in Arunachal Police Housing and Welfare Corporation Limited (APHWCL)

5.2.1 Introduction

Arunachal Police Housing and Welfare Corporation Limited (APHWCL), the principal construction agency of the Police Department, Government of Arunachal Pradesh (GoAP) was incorporated (November 2005) under the Companies Act, 1956 with the objective of undertaking design, construction, repair and allied works for all kind of buildings for the Police Department.

After the projects are approved by the Police Department and on receipt of intimation for preparation of estimates, the Corporation prepares the preliminary estimates which are sent to the Police Department for obtaining the administrative approval and expenditure sanction. Accordingly, the Corporation executes projects as per terms and conditions of the sanction order of the Police Department and in accordance with the provisions of Central Public Works Department (CPWD) Manual, 2005 and General Financial Rules (GFR).

5.2.2 Organisational set up



5.2.3 Audit scope and methodology

Compliance audit on execution of project by APHWCL was conducted during May to July 2017. The scope of the Compliance Audit (CA):

- scrutiny of records of office of the Managing Director, covering the period 2012-13 to 2016-17;

- during this period, the Corporation undertook 155 projects costing (₹ 7,879.60 lakh);
- out of these 155 projects, 41 projects (26 per cent of the total projects) valued at ₹ 4,112.40 lakh and each costing ₹ 25.00 lakh and above were selected for detailed examination using Probability Proportional to Size Without Replacement (PPSWOR) method;
- out of these 41 projects, 11 were selected for physical verification based on risk analysis.

An Entry Conference was held on 27 April 2017 with the management of the Corporation wherein audit objectives, scope and methodology, criteria, *etc.*, were explained. Audit findings were discussed with the management of the Corporation in the Exit Conference held on 5 December 2017. Replies and views of the Corporation are incorporated in the report wherever found appropriate.

5.2.4 Audit Objectives

The objectives of compliance audit were to assess whether:

- the projects were planned and executed economically and efficiently and were completed in a timely manner; and
- monitoring mechanism was in place and effective.

5.2.5 Audit Criteria

Audit observations would be benchmarked against the following criteria:

- Scheme guidelines and sanction orders,
- CPWD Manual and GFR,
- Memorandum of Association and Rules of the APEDA; and
- Schedule of Rates.

Audit Findings

Audit findings are discussed in following paragraphs.

5.2.6 Planning

5.2.6.1 Deficiencies in preparation of estimates

As per Clause 4.2.1 (2) CPWD Manual, the detailed estimate should be complete and supported by detailed preliminary lay-out drawings of the various services, specifications for the various components, *etc.*

Scrutiny of records revealed that in 12 projects out of 41 sampled projects costing ₹ 858.37 lakh, no preliminary survey of the site was conducted and other⁵ requirement of the projects were also not assessed at the time of preparation of the estimates. As a result, detailed estimates were prepared without incorporating approach road, site development, additional plinth height, *etc.* These additional works were awarded for ₹ 173.64 lakh

⁵ Approach road, site development *etc.*

(20 per cent) in these 12 projects which indicated deficiencies in the preparation of the estimates. (Details in **Appendix 5.2.1**).

Thus, the above deficiencies in preparation of estimates were mainly due to lack of site investigation and preliminary survey. Further, the requirement of various components were not properly worked out and assessed on realistic basis.

5.2.7 Financial Management

5.2.7.1 Fund flow and expenditure

Status of funds and expenditure for projects executed by the Corporation during the period from 2012-13 to 2016-17 was as follows:

Table: 5.2.1 - Position of funds and expenditure

(₹ in crore)

Year	No. of projects sanctioned	Sanction cost	Opening Balance	Amount received	Total	Expenditure	Per cent of expenditure	Closing Balance	Percentage of closing balance
2010-11	1	8.79	0.00	3.10	3.10	1.57	50.65	1.53	49.35
2011-12	0	0.00	1.53	3.10	4.63	3.04	65.66	1.59	34.34
2012-13	55	11.50	1.59	0.00	1.59	1.23	77.28	0.36	22.72
2013-14	59	34.37	0.36	19.47	19.83	3.14	15.83	16.69	84.17
2014-15	40	24.14	16.69	33.69	50.38	11.31	22.45	39.07	77.55
2015-16	0	0.00	39.07	9.07	48.14	27.14	56.39	21.00	43.61
2016-17	0	0.00	20.99	2.86	23.85	13.78	57.75	10.07	42.25
Total	155	78.80		71.29		61.21			

(Source: APHWCL records)

Audit observed from above that:

- Out of the 155 sanctioned projects costing ₹ 78.80 crore, an amount of ₹ 71.29 crore⁶ was received from the Police Department leaving a balance of ₹ 7.51 crore⁷ yet to be released by the Department as on March 2017.
- Out of the total fund of ₹ 71.29 crore, the Corporation could utilize only ₹ 61.21 crore, leaving the balance of ₹ 10.08 crore as on March 2017.
- Though the fund utilization during 2012-13 was at 77 per cent, but from 2013-14 to 2016-17, it was only at 16 per cent to 58 per cent of the available funds due to slow progress of work.
- Closing balance at year end during 2013-14 to 2016-17 ranged from 42 per cent to 84 per cent of the total funds available, with year end fund balances from ₹ 10.07 crore to ₹ 39.07 crore during the same period.

⁶ Includes ₹ 1.37 crore earned from project funds of 2010-11. Hence, if ₹ 1.37 crore adjusted as receipt is included, the outstanding funds to be received by the Corporation was ₹ 7.51 crore + ₹ 1.37 crore = ₹ 8.88 crore.

⁷ ₹ 1.37 crore (2012-13); ₹ 0.06 crore (2014-15); ₹ 1.45 crore (2015-16); ₹ 4.25 crore (2016-17); and ₹ 1.75 crore (2016-17).

While accepting the audit observations, the Corporation stated (December 2017) that less fund utilization was due to late receipt of funds and other exigencies such as less working session, hard topography and receipt of fund at the fag-end of the year.

5.2.7.2 Delay in release of funds

Status of release of fund after sanctioned of projects during 2012-13 to 2016-17 in respect of 41 sampled projects was as under:

Table: 5.2.2 - Status of sanctioned and released of fund

(₹ in crore)

Sl. No.	Name of the Scheme	Total no. of projects selected	Sanctioned cost / actual expenditure	Month of sanction of fund by the State Government	Month of release of fund to the Corporation	Delay in release of fund (Month)	Status of projects Out of projects sanctioned, how many were completed.	
							Completed	Ongoing
1	CSS NLCPR (2010-11)	1	8.79	Nov-10	Dec - 10	1	0	1
2	State Plan (2012-13)	13	4.72	Mar-13	Aug - 13	5	13	0
3	State Plan (2013-14)	6	3.70	Mar-14	Feb - 15	11	6	0
4	TFC (2013-14)	7	9.10	Jul-14	Nov - 14	4	5	2
5	CSS Non Plan (2013-14)	1	1.46	Mar-14	Feb - 15	11	0	1
6	MPF (2013-14)	4	3.62	Mar-15	Mar - 16	12	2	2
7	MPF (2014-15)	4	1.77	Mar-15	Mar - 16	12	4	0
8	SRE (2014-15)	5	7.96	Mar-13	Mar - 14	12	5	0
	Total	41	41.12				35	6

(Source: APHWCL records) (CSS NLCPR- Central Sponsored Scheme-Non-Lapsable Central Pool Resources, , TFC- Thirteen Finance Commission, MPF- Modernization of Police Force, SRE- Security Related Expenditure)

Audit observed from above that there were substantial delays in release of funds by the Police Department to the Corporation after the projects had been sanctioned. In 20 (Sl. No. 3, 5, 6, 7 & 8) out of 41 sampled projects costing ₹ 18.51 crore (45 per cent of the sampled projects), the Department released funds against sanctioned projects after a delay of 11 to 12 months. In case of other 20 projects (Sl. No. 2 & 4) costing ₹ 13.82 crore (34 per cent of the sampled projects), the release of fund was also delayed by four to five months.

5.2.7.3 Retention of unspent project fund

As per sanction orders of the projects received from the Government of Arunachal Pradesh, the projects were to be completed within the scope and specifications as approved in the original estimate. Further, the unspent amount/part payment of the financial year ending (i.e March) for the schemes under CSS, 13th TFC etc., were to be deposited into the Civil Deposit of the Government Account.

Audit observed that 11 projects (₹ 580.30 lakh) out of 41 projects (₹ 4,112.40 lakh) were completed by incurring an expenditure of ₹ 414.15 lakh leaving an unspent balance of ₹ 90.71 lakh after deducting Corporation charges of ₹ 75.44 lakh as per details given in the **Appendix 5.2.2**.

The projects were completed during 2014-15 and 2015-16 and unspent balance retained by the Corporation ranged between 4 *per cent* and 40 *per cent* for the periods ranging from 7 months to 29 months as on March 2017. Though, the Corporation submitted (July 2016) Utilisation Certificates to the Police Department showing the unspent balance as liabilities, the Corporation did not refund the amount to the Department as required in the sanction orders.

Thus, the unspent balance to the extent of ₹ 90.71 lakh was retained by the Corporation in violation of the sanction order and without any approval from the sanctioning authority.

5.2.7.4 Implementation of the projects

Rule 129 (vi), Rule 132 (iv), (v), Rule 150 and 151 of GFR stipulate that no work shall commence without inviting tenders. For works costing ₹ five lakh and above and for procurement of goods above ₹ 25.00 lakh open tenders should be invited; and for work costing less than ₹ five lakh and for goods costing above ₹ one lakh to ₹ 25.00 lakh, limited tender should be called. Further, as per Rule 146, purchase of goods costing above ₹ 15,000.00 and up to ₹ one lakh on each occasion may be made on the recommendation of a duly constituted Local Purchase Committee (LPC).

(i) Works awarded without tenders

A test check of 41 projects (₹ 41.12 crore) revealed that in 11 projects costing ₹ 1.81crore (each costing ₹ 1.02 lakh to ₹ 15.46 lakh) were awarded to various local contractors on work order basis and without inviting tenders as per detail given below:

Table: 5.2.3 - Execution of works

(₹ in lakh)

Sl. No.	Name of the Works	No of Work Order	Value of the work	Range of Work value (lowest and highest work order)
1	Type II, 5 quarters at Dollungmukh	8	47.05	1.02 - 7.00
2	SDPO building, Likabali	3	22.56	5.93 - 10.44
3	Out Post Building, Tarasso	3	34.84	8.51 - 15.46
4	10 Men Barrack, Kakoi	2	7.96	2.01 - 5.94
5	Type IV Qtr, Londging	1	2.71	-
6	Type V Qtr, Ziro	2	7.87	3.80 - 4.07
7	10 Men Barrack, Tarasso	1	4.50	-
8	Type IV Qtr, Roing	1	4.53	-
9	DS Police Station, Tawang	2	8.70	2.37 - 6.33
10	15 Men Bachelor Barrack, Changlang	1	13.01	-
11	Police Station at Aalo	3	27.00	7.25 - 9.98
Total		27	180.73	

(Sources: APHWCL records)

Tender procedures were not followed, competitive price and transparency were also not ensured in award of work by the Corporation in violation of extant Rules.

5.2.8.1 Project execution

5.2.8.1 Delay in completion of projects

(a) Year wise physical progress of projects executed during 2010-11 to 2016-17 was as under:

Table: 5.2.4 - Status of projects

(₹ in lakh)

Sl. No.	Year	Project sanctioned		Completed projects		Ongoing projects as on 31.03.17	
		No.	Cost	No.	Cost	No.	Cost
1	2010-11	1	879.10	0	0.00	1	879.10
2	2011-12	0	0.00	0	0.00	0	0.00
3	2012-13	55	1,150.00	55	1,150.00	0	0.00
4	2013-14	59	3,436.50	48	2,536.50	11	900.00
5	2014-15	40	2,414.00	31	1,717.00	9	697.00
6	2015-16	0	0.00	0	0.00	0	0.00
7	2016-17	0	0.00	0	0.00	0	0.00
	Total	155	7,879.60	134	5,403.50	21	2,476.10

(Source: APHWCL records)

During 2012-13 to 2016-17, a total of 155 projects costing ₹ 7,879.60 lakh (134 completed + 21 ongoing) were approved and an amount of ₹ 6,121.01 lakh (78 per cent of the approved project) had been incurred against the projects. Out of which 134 projects costing ₹ 5,403.50 lakh had been completed and 21 projects costing ₹ 2,476.10 lakh were ongoing as on March 2017.

(b) Out of the above, 41 projects costing ₹ 4,112.40 lakh were selected for detail examination. Of these, 35 projects costing ₹ 2,389.30 lakh were completed and six projects (₹ 1,723.10 lakh) were ongoing as on March 2017. The present status of execution of projects is given in **Appendix 5.2.3**.

Table: 5.2.5 - Status of 41 selected projects

(₹ in lakh)

Sl. No.	Period of delay	Ongoing projects		Completed projects	
		No. of projects (Per cent)	Amount	No. of projects (Per cent)	Amount
1	1 to 12 months	4 (10)	724.00	22 (54)	1,578.00
2	13 to 24 months	1 (2)	120.00	2 (5)	190.00
3	25 to 57 months	1 (2)	879.10	-	-
4	Without delay	-	-	11 (27)	621.30
	Total	6 (15)	1,723.10	35 (85)	2,389.30

(Source: APHWCL records)

Audit observed that:

- 11 projects (27 per cent) were completed within stipulated date of completion;
- 22 projects (54 per cent) were completed after delays ranging from one to 12 months and two projects (five per cent) were completed after delays ranging from 13 to 24 months;
- Six projects (15 per cent) are still ongoing and already behind schedule in their completion with delay ranging from one to 57 months as of March 2017.

The delay in execution was due to non-fixing of financial and physical milestones for each project for effective monitoring during the project execution. Thus, due to delay in completion of projects, the facilities such as police stations, bachelor barracks, staff quarters, etc., could not be handed over to the Department in a timely manner for a period ranging between one month and 24 months.

While accepting the audit observations, the Corporation stated (December 2017) that some projects were delayed due to land disputes, road blockage, heavy rains and late placement of funds.

5.2.8.2 Deficiencies in execution of projects

Significant audit findings based on test check of records and site verification of sampled projects are discussed in the succeeding paragraphs:

(i) A project 'Construction of 30 Quarters at Chimpu' costing ₹ 330.00 lakh was sanctioned (July 2014) by the Home Department for execution by the Corporation. The Corporation put the same tender (August 2014) at an estimated cost of ₹ 212.85 lakh. The work was to be completed by March 2016. While evaluating the offers, the Corporation awarded the work to L-2 bidder at a cost of ₹ 192.07 lakh instead of the L-1 bidder who had offered ₹ 162.83 lakh for the work. The Corporation stated (December 2017) that L1 was rejected and the work was awarded to L-2 as the rates quoted by L1 were 24 *per cent* below estimated cost which could have compromised on quality and execution of the work.

The reply of the Corporation was not tenable as the Corporation had already got seven works of similar nature executed by the L-1 (M/S E & K Enterprises) where the offers quoted by L-1 ranged between 17 *per cent* and 38 *per cent* below the estimated cost. Moreover, the Corporation has already incurred an expenditure of ₹ 193.28 lakh on the work as on March 2017 and the work had not been completed. Thus, the Corporation did not follow proper tendering procedures for award of works which contributed to deficiencies in execution of the projects.

(ii) 'Construction of Civil Defence Training Centre at Pasighat' (₹ 146.00 lakh). The required built up area for construction of Civil Defence Training Centre (CDTC) at Pasighat as per guidelines was 1393.54 sqm (15000 sq. ft), for which ₹ 146.00 lakh was sanctioned by Government of India. However, the built up area/plinth area of the building to be constructed was 963.36 sqm while awarding the work (₹ 75.10 lakh). Thus, the Training Centre was constructed 31 *per cent* (430.22 sqm) below the approved specifications without approval of the Police Department.

(iii) 'Construction of 40 men barrack with kitchen, dining and toilet at Changlang' (₹ 85.26 lakh) was awarded at ₹ 78.01 lakh. Though the project was completed at ₹ 53.44 lakh and handed over to the Police Department, the balance of ₹ 31.80 lakh was incurred for construction of RRM wall, additional earth work, cement concrete work, RCC work, brick work, wood work, steel work, *etc.*, over and above the sanctioned estimates without the approval of the Police Department.

(iv) 'Construction of 10 men Barrack at Tarasso' (₹ 43.00 lakh). The work was awarded at ₹ 23.99 lakh, which was below 45 *per cent* of the estimated cost resulting in savings of ₹ 14.19 lakh. However, instead of surrendering the savings to the Department, an amount of ₹ 11.50 lakh was utilized for construction of security wall and ₹ 2.17 lakh for payment of salary of work charged without any provision in the sanctioned estimate without approval of the Department. Moreover, the project was handed over without external electrification and water supply though provided in the sanctioned estimates.

5.2.9 Monitoring mechanism

5.2.9.1 Shortfall in inspection of projects

As per section 5.2.1 of CPWD Manual, the Executive Engineer (EE) should conduct inspections for each work once for every two bills for the works at Headquarters, and once for every three bills for the works outside the Headquarters. Similarly, Superintending Engineer (SE) should inspect the works at least once upto 3rd Running Account(RA) bill, 4th to 6th RA bill and so on at Headquarters and once upto 5th RA bill, 6th to 10th RA bill and so on for the works outside Headquarters.

Status of inspections conducted by the SE and EE in 41 sampled projects during 2012-13 to 2016-17 was as under:

Table: 5.2.6 - Details of inspections conducted

Project Location	No. of Projects	No. of inspections to be conducted		Actual No. of inspections conducted		Shortfall (in per cent)	
		SE	EE	SE	EE	SE	EE
Within Headquarters	11	21	31	0	0	21 (100)	31 (100)
Outside Headquarters	30	25	28	6	1	19 (76)	27 (96)
Total	41	46	59	6	1	40 (87)	58 (98)

(Source: APHWCL records)

From the above, it can be seen that the shortfall in conducting inspection by the SE and EE outside Headquarters was 76 per cent and 96 per cent respectively. However, for projects located within the Headquarters, no inspections were conducted. This was indicative of inadequate monitoring during the execution of the projects.

5.2.9.2 Shortfall in submission of Quarterly Progress Reports

For effective monitoring of financial and physical progress of projects, Quarterly Progress Report (QPR) is required to be prepared and submitted by the executing officers to the top management as well the Police Department.

The position of submission of QPRs during the five years period from 2012-13 to 2016-17 was as under:

Table: 5.2.7 - Position of submission of QPRs

Year	No. of QPRs to be submitted	No. of QPRs submitted	Shortfall (in per cent)
2012-13	4	1	3 (75)
2013-14	4	2	2 (50)
2014-15	4	1	3 (75)
2015-16	4	2	2 (50)
2016-17	4	4	0 (0)
Total	20	10	10 (50)

(Source: APHWCL records)

The above table shows that against the required 20 QPRs during the last five years, only 10 QPRs were submitted to the top management of the Corporation as well as Police Department which indicated that the quarterly monitoring of both financial and physical progress of projects during the audit period was highly inadequate.

5.2.10 Conclusion

In 12 out of 41 projects, estimates were prepared without incorporating various components valuing ₹ 173.64 lakh such as approach road, site development, additional plinth height, etc., as no preliminary site surveys and other requirements of the projects were taken care of at the time of preparation of the estimates.

There was huge unspent balance at year end during 2013-14 to 2016-17 ranging from 42 per cent to 84 per cent of the total funds available. There were substantial delays in release of funds by the Police Department to the Corporation after the projects had been sanctioned. The Department released funds against 20 sanctioned projects costing ₹ 18.51 crore after a delay of 11 to 12 months.

In 11 out of 41 projects, unspent balance of ₹ 90.71 lakh was retained by the Corporation for a period ranging from seven months to 29 months as on March 2017. Utilisation Certificates were submitted to the Police Department showing the unspent balance as liabilities, however, the Corporation did not refund the amount to the Department as required in the sanction orders.

There were substantial delays in execution of projects as 24 projects (59 per cent) out of the 41 sampled projects were completed after delays ranging from 01 to 24 months and only 11 projects (27 per cent) were completed within the stipulated date of completion. In some cases, tendering procedures were flouted by the Corporation contributed to the deficiencies in execution of the projects.

Arunachal Pradesh Forest Corporation Limited

5.3 Idle expenditure

Arunachal Pradesh Forest Corporation Limited constructed Eco-tourist Guest House at Lekhi Village, Itanagar at a cost of ₹ 294.02 lakh in 2013 which had remained idle for more than four years.

Government of Arunachal Pradesh (GoAP) accorded (March 2012) administrative approval and expenditure sanction for construction of Eco-tourist Guest House at Itanagar at a cost of ₹ 100.00 lakh after a proposal was submitted (July 2011) to the GoAP by the Company.

Scrutiny of records (March 2017) revealed that work for construction of eco-tourist guest house was taken up (September 2012) by the Arunachal Pradesh Forest Corporation Limited at a cost of ₹ 100 lakh. The work was commenced after acquiring 2000 Sqm of land at a cost of ₹ 10.00 lakh at Papu village (located between Itanagar and Naharlagun within one km from the National Highway). It was observed that the project was proposed to the GoAP (July 2011) by the Company without conducting any feasibility study and firming up of the proposed site.

Due to land dispute, the Company relocated (October 2012) the project site, after incurring ₹ 14.01 lakh on the site development at the first site, to Lekhi village⁸ (located beyond Naharlagun within 200m from the National Highway) on the land donated by the

⁸ 2000 Sqm of land.

landowner in lieu of the first site (Papu village). This relocation of the project was also done without conducting preliminary survey (feasibility Report) to determine its suitability for the eco-tourist guest house including inflow of tourists and projections for occupancy, etc. The Company again sanctioned (March 2013) the revised cost of ₹ 169.00 lakh (for site development, retaining wall etc., for the relocated project) in anticipation of additional sanction from GoAP. Accordingly, the contract for site development work at relocated site was awarded to M/s Mama Enterprise through work order (March 2013) without any tendering process and Board of Director's approval. The Company incurred an expenditure of ₹ 169.00 lakh⁹ on site development at the relocated site between March 2013 and March 2014. Simultaneously, the construction of eco-tourist guest house at Itanagar was completed in July 2013 at a cost of ₹ 294.02 lakh¹⁰. The Board of Directors (BoD) decided (August 2013) to lease out the asset to private parties from August 2013.

Audit observed that the eco- tourist guest house constructed by the Company was lying idle as on October 2017 due to the following reasons:

1. The Company had not conducted any feasibility for inflow of the tourists in either the first site¹¹ or at the re-located site. In spite of the BoD decision (August 2013) to lease out the asset to the private parties there were no takers for the project. The Company allotted (November 2014) the eco- tourist guest house to M/s Lishi One Home Marketing Private Limited, Naharlagun, (the firm) on nomination basis, however, the allotment had to be cancelled in July 2016 due to unwillingness of the firm to take up the eco- tourist guest house on lease.
2. The project had also been rendered unapproachable and unfit for use as a guest house due to failure of the Company to properly maintain the asset and provide watch and ward for the complex. There was also a theft of valuable articles and furniture items valuing ₹ 24.92 lakh in May 2014 besides natural decay.
3. The Company had awarded the work of site development to M/s Mama Enterprises for construction of the guest house without inviting tenders. In fact, the Company had awarded the contract to the said contractor after taking an undertaking that the contractor would pay an interest to the Company on the cost of development of relocated site (₹ 169.00 lakh). This basis of award of contract lacked any justification and logic as both the first and the relocated sites on which the eco- tourist guest house was coming-up was sold by the contractor to the Company. This also indicated that besides proposing the project without any feasibility, the Company had also given undue advantage to the contractor.

⁹ 1st installment- ₹ 9.48 lakh (March 2013); 2nd installment- ₹ 90 lakh (March 2013); 3rd installment- ₹ 59.17 lakh (April 2013) and 4th installment- ₹ 8.45 lakh (March 2014) and ₹ 1.90 lakh deducted towards contingency.

¹⁰ Land cost at old site of Papu village -₹ 10 lakh; site development at earlier site (Papu village)- ₹ 14.01 lakh; site development at Lekhi village-₹ 169.00 lakh; Buildings- ₹101.01lakh.

¹¹ The first site at Papu village has since been abandoned and has not been put to any constructive use (October 2017).

- The Company had incurred ₹ 169.00 lakh in excess of the first sanction for site as the Company had to incur extra expenditure on retaining wall, drainage *etc.* which was not required at the first site.

Thus, even after a lapse of 4 years, the eco-tourist guest house constructed at a cost of ₹ 294.02 lakh was lying idle since its completion and was abandoned as can be seen from the photographs below:



Eco-Tourist Guest House at Lekhi village, Itanagar lying idle

This has resulted in idle expenditure of ₹ 294.02 lakh (as on October 2017).

The Company replied that the site of the Eco-tourist Guest house was shifted from Papu to Lekhi village as per the directions of the competent authority. The Company had sanctioned ₹ 169.00 lakh from the corporate fund for site development work at the new site based on the undertaking executed between the Company and the contractor, wherein the contractor agreed to pay interest on the sanctioned amount till the amount is sanctioned by the GoAP. Therefore, there was no scope left for inviting tenders. Moreover, a theft had occurred at the Eco-tourist Guest House which was reported to the Police. During 143rd Board of Directors Meeting (August 2013) decision was taken to lease out the Eco-tourist Guest house.

The reply is not acceptable due to the fact that the Company had neither conducted any feasibility study of the tourist inflow to the area, nor had awarded the work on tender basis. Besides, both the first site and the relocated site previously belonged to the contractor for site development. This case needs to be investigated by the state vigilance department for fixing responsibility.