CHAPTER VI : GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

General

This chapter deals with the results of audit of Government companies and Statutory corporations. Paragraph 6.1 gives a general view of Government companies and Statutory corporations. Paragraph 6.2 contains a review on the working of the Forest Development Corporation of Meghalaya and Paragraphs 6.3 to 6.5 deal with topics of other interest.

6.1 Overview of Government companies and Statutory corporations

6.1.1 Introduction

As on 31 March 2005 there were 10 Government companies (all working) and three Statutory corporations (all working) under the control of the State Government as against the same number of working Government companies and working Statutory corporations as on 31 March 2004. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangement of the Statutory corporations is as follows:

Table 6.1

Sl. No.	Name of the Corporation	Authority for audit by the CAG	Audit arrangement
1.	Meghalaya State Electricity Board (MeSEB)	Under Rule 14 of the Electricity (Supply) (Annual Accounts) Rules, 1985 read with Section 185 (2)(d) of the Electricity Act, 2003[(a)].	sole audit by CAG
2.	Meghalaya Transport Corporation (MTC)	Section 32(2) of Road Transport Corporations Act, 1950	sole audit by CAG
3.	Meghalaya State Warehousing Corporation (MSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962	audit by Chartered Accountants and supplementary audit by CAG

Working Public Sector Undertakings (PSUs)

6.1.2 Investment in working PSUs

As on 31 March 2005, the total investment in 13 working PSUs (10 Government companies and three Statutory corporations) was Rs.847.81 crore[*] (equity: Rs.358.93 crore; long-term loans[**]: Rs.484.71 crore and share application money: Rs.4.17 crore) as against a total investment of Rs.567.33 crore [ϒ] (equity : Rs.113.32 crore; share application money: Rs.41.81 crore; and long-term loans: Rs.412.20 crore) in the same number of working PSUs as on 31 March 2004. The analysis of investment in working PSUs is given in the following paragraphs.

6.1.3 Sector-wise investment in working Government companies and Statutory corporations

The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2005 and 31 March 2004 are indicated in the pie charts.

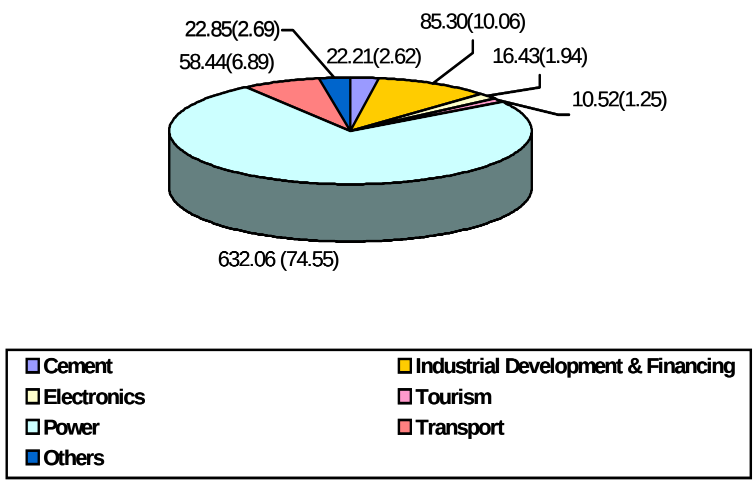
(a) The earlier provision of Section 69(2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003.

* State Government's investment was Rs.520.99 crore (Others: Rs.326.82 crore). Figure as per Finance Accounts 2004-05 is Rs.135.70 crore. The difference is under reconciliation.

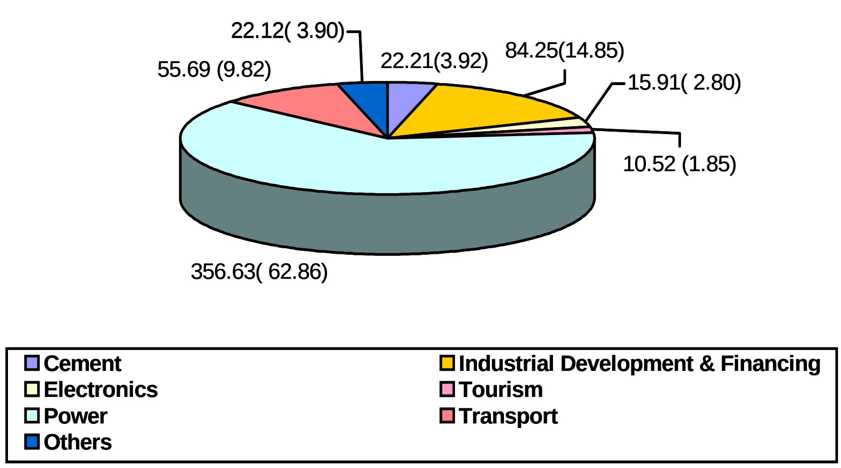
** Long term Loans mentioned in paragraphs 6.1.2, 6.1.3, 6.1.4 and 6.1.5 are excluding interest accrued and due on such loans.

ϒ Previous year figure of total investment was Rs.567.58 crore. This has been recast based on the information provided by the company.

Investment as on 31 March 2005 (Rs.847.81 crore)
(Figures in brackets indicate percentage of investment)



Investment as on 31 March 2004 (Rs.567.33 crore)
(Figures in brackets indicate percentage of investment)



6.1.4 Working Government companies

The total investment in working Government companies at the end of March 2004 and March 2005 was as follows:

Table 6.2

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2003-04	10	104.18$^{\Phi}$	9.95	38.55	152.68
2004-05	10	113.06	4.17	37.63	154.86

Increase in the total investment was mainly due to equity received by Industrial Development and Financing and Handloom and Handicrafts sectors.

The summarised statement of Government investment in working Government companies in the form of equity and loan are detailed in *Appendix XXXVIII*.

As on 31 March 2005, the total investment in working Government companies comprised 75.70 *per cent* of equity capital and 24.30 *per cent* of loans as compared to 74.75 *per cent* and 25.25 *per cent* respectively as on 31 March 2004.

6.1.5 Working Statutory corporations

The total investment in three Statutory corporations at the end of March 2004 and March 2005 was as follows:

Table 6.3

(Rupees in crore)

Name of Corporation	2003-04		2004-05	
	Capital	Loan	Capital	Loan
Meghalaya State Electricity Board (MeSEB)	-	356.63	202.00$^{\beta}$	430.06
Meghalaya Transport Corporation (MTC)	38.67^{f}	17.02^{f}	41.42^{f}	17.02^{f}
Meghalaya State Warehousing Corporation (MSWC)	2.34	-	2.45$^{\#}$	-
Total	**41.01**	**373.65**	**245.87**	**447.08**

The summarised statement of Government investment in working Statutory corporations in the form of equity and loans is detailed in *Appendix XXXVIII*.

As on 31 March 2005, the total investment of working Statutory corporations comprised 35.48 *per cent* of equity capital and 64.52 *per cent* of loans as

Φ The figure of equity has been reduced by Rs.25 lakh due to recasting of the figures as provided by one Company.

β State Government loan was converted into equity.

f Figures for 2003-04 and 2004-05 in respect of MTC are provisional.

\# Figures for 2004-05 in respect of MSWC are provisional.

compared to 9.89 *per cent* and 90.11 *per cent* respectively as on 31 March 2004.

6.1.6 Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loan into equity

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of working Government companies and working Statutory corporations are given in *Appendices XXXVIII* and *XL*.

The budgetary outgo in the form of equity capital and loans and grants/subsidies from the State Government to working Government companies and working Statutory corporations for the three years up to 2004-05 is given below:

Table 6.4

(Rupees in crore)

	2002-03				**2003-04**				**2004-05**			
	Companies		**Corporations**		**Companies**		**Corporations**		**Companies**		**Corporations**	
	No.	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**
1.Equity	2	0.41	1	2.00	2	9.15	1	2.00	2	3.10	2	2.80
2. Loans	-	-	1	48.49	-	-	1	48.73	-	-	1	25.56
3. Grants	1	0.20	1	2.70	-	-	-	-	2	0.58	-	-
4. Subsidy	-	-	1	10.80	2	0.55	2*	13.15	-	-	2*	13.60
Total outgo	**2@**	**0.61**	**2@**	**63.99**	**4@**	**9.70**	**2@**	**63.88**	**4@**	**3.68**	**4@**	**41.96**

During the year 2004-05, the Government had stood a guarantee of Rs. one crore in respect of one Working company. At the end of the year, guarantees amounting to Rs.281.90 crore against two working Government companies (Rs.3.26 crore) and one working Statutory corporation (Rs.278.64 crore) were outstanding.

Against guarantees given by the State Government in earlier years to one Company *viz.*, Meghalaya Mineral Development Corporation Limited amounting to Rs.2.33 crore for obtaining loan from other sources, the default in repayment by the company at the end of 2004-05 amounted to Rs.2.26 crore. At the end of 2004-05, Meghalaya State Electricity Board (Board) defaulted in repayment of Rs.12.15 crore. Guarantee commission amounting to Rs.8.46 crore (including current year: Rs.0.54 crore) was due for payment by the Board to the State Government.

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* Represents subsidy against Rural Electrification losses to Meghalaya State Electricity Board and grants to Meghalaya Transport Corporation for operation of buses on uneconomic routes.

@ Actual numbers of companies/corporations which received equity/loans/grants/subsidy from State Government during the year.

6.1.7 Finalisation of accounts by working PSUs

The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in the cases of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of the respective Acts.

Out of 13 working PSUs (10 working Government companies and three Statutory corporations) only one Statutory corporation *viz*., Meghalaya State Electricity Board had finalised its accounts for the year 2004-05 within the stipulated period. During the period from October 2004 to September 2005, eight working Government companies finalised eight accounts for previous years. The remaining two companies did not finalise any of the accounts during this period. During this period two Statutory corporations finalised two accounts for previous years.

The accounts of 10 working Government companies and two Statutory corporations were in arrears for periods ranging from one to 14 years as on 30 September 2005 as detailed below:

Table 6.5

Sl. No.	Number of companies/ corporations		Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Serial No. of *Appendix-XXXIX*	
	Government companies	Statutory corporations			Government companies	Statutory corpora-tions
1.	03	01	2004-05	01	1, 4 & 10	3
2.	01	-	2003-04 to 2004-05	02	9	-
3.	01	-	2002-03 to 2004-05	03	5	-
4.	02	01	1999-2000 to 2004-05	06	2 & 3	2
5.	01	-	1998-99 to 2004-05	07	7	-
6.	01	-	1996-97 to 2004-05	08	6	-
7.	01	-	1991-92 to 2004-05	14	8	-

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were apprised quarterly by Audit regarding arrears in finalisation of accounts, no effective measures had been taken by the Government. As a result, the net worth of these PSUs could not be assessed in audit.

6.1.8 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government companies and Statutory corporations) as per their latest finalised accounts are given in

Appendix XXXIX. Besides, statements showing the financial position and working results of individual Statutory corporations for the latest three years for which accounts are finalised, are given in *Appendices XLI* & *XLII* respectively.

According to latest finalised accounts of 10 working Government companies and three Statutory corporations, eight companies and one corporation had incurred an aggregate loss of Rs.6.69 crore and Rs.1.96 crore respectively and the remaining two companies and two corporations earned profit of Rs.2.59 crore and Rs.10.98 crore respectively.

Working Government companies

6.1.9 Profit earning working companies and dividend

None of the eight Government companies which finalised their accounts for previous years by September 2005 had earned any profit. The State Government has not formulated any policy for payment of minimum dividend.

6.1.10 Loss incurring working Government companies

Of the eight loss incurring working Government companies, six companies (Sl. Nos. A-3, 4, 5, 6, 9 and 10 of *Appendix XXXIX*) had accumulated losses aggregating Rs.44.03 crore which had exceeded their aggregate paid-up capital of Rs.9.75 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to two of these companies (Sl. No. A-3 of *Appendix XXXVIII* and Sl. No. A-10 of *Appendix XL*) in the form of contribution towards equity, grants, *etc*. According to available information, the total financial support so provided by the State Government by way of equity and grant during 2004-05 to these companies amounted to Rs.50 lakh.

Working Statutory corporations

6.1.11 Profit earning working Statutory corporations and dividend

Only one Statutory corporation (Serial No. B-3 of *Appendix XXXIX*) which finalised its accounts for the previous year by September 2005 earned a profit of Rs.3.49 lakh and had declared dividend of Rs.0.67 lakh.

6.1.12 Loss incurring working Statutory corporations

Loss incurring Statutory corporations (Sl. Nos. B-1 & 2 of *Appendix XXXIX*) had accumulated losses aggregating Rs.311.32 crore which exceeded their paid up capital of Rs.244.48 crore. Despite poor performance and complete erosion of the paid up capital, the State Government continued to provide financial support to these Statutory corporations by way of loan (Rs.25.56 crore), equity (Rs.2.75 crore) and subsidy/grant (Rs.13.60 crore).

6.1.13 Operational performance of working Statutory corporations

The operational performance of the working Statutory corporations is given in *Appendix XLIII*.

Some of the important observations on the operational performance of the Statutory corporations are given below:

Meghalaya State Electricity Board

- The *percentage* of transmission and distribution losses to total power available for sale increased from 23.32 in 2002-03 to 25.97 in 2004-05.

Meghalaya Transport Corporation

- Average kilometres covered per bus per day decreased from 163 in 1996-97 to 135 in 1998-99.

- Loss per kilometre decreased from Rs.11.17 in 1997-98 to Rs.10.38 in 1998-99.

6.1.14 Return on capital employed

As per the latest finalised accounts, the capital employed[#] worked out to Rs.81.84 crore in 10 working companies and negative total return[!] thereon was Rs.0.13 crore as compared to a positive return of Rs.0.63 crore in the previous year. Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts worked out to Rs.604.86 crore and Rs.35.14 crore (5.81 *per cent*) respectively against the total return of Rs.6.64 crore (1.95 *per cent*) in the previous year. The details

[#] Capital employed represents net fixed assets (including Capital work-in-progress) plus working capital except in case of Meghalaya Industrial Development Corporation where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves and borrowings (including refinance).

[!] For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in *Appendix XXXIX*.

6.1.15 Status of placement of Separate Audit Reports of Statutory corporations in Legislature

The following table indicates the status of placement in the Legislature by the Government of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by the CAG.

Table 6.6

Sl. No.	Name of Statutory corporations	Year up to which SARs placed in the Legislature	Year for which SARs not placed in the Legislature		Reasons for delay in placement in the Legislature
			Year of SAR	Date of issue to the Government	
1.	Meghalaya State Electricity Board	2002-03	2003-04	18 July 2005	Under process of placement to Legislature
2.	Meghalaya Transport Corporation	1996-97	1998-99	2 August 2005	-Do-
3.	Meghalaya State Warehousing Corporation	2000-01	2003-04	28 July 2005	-Do-

6.1.16 Disinvestments, Privatisation and Restructuring[(a)] of Public Sector Undertakings

During 2004-05 none of the Public Sector Undertakings (PSU) have disinvested its shares nor has any PSU been privatised, restructured, merged or closed.

6.1.17 Results of audit of accounts of PSUs by Comptroller and Auditor General of India

During the period from October 2004 to September 2005, the accounts of four Government working companies and three Statutory corporations were selected for review. The net impact of audit observations as a result of review of PSUs was as follows:

(a) Restructuring includes merger and closure of PSUs.

Table 6.7

Details	Number of accounts		Rupees in lakh	
	Government companies	Statutory corporation	Government companies	Statutory corporation
(i) Decrease in profit	1	1	38.85	5.90
(ii) Increase in profit	-	-	-	-
(iii) Increase in loss	2	2	17.48	5510.93
(iv) Decrease in loss	-	2	-	4101.62
(v) Non-disclosure of material facts	2	2	231.27	1043.67
(vi) Errors of classification	1	-	5.28	-

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above Government companies and Statutory corporations are mentioned below:

6.1.18 Errors and omissions noticed in case of Government companies

Mawmluh-Cherra Cements Limited (2003-04)

- Non-provision for bad and doubtful debts had resulted in overstatement of net profit and current assets by Rs.38.85 lakh.

Meghalaya Bamboo Chips Limited (2001-02)

- Short provision of Rs.13.01 lakh towards bridging loan had resulted in understatement of loss with corresponding understatement of unsecured loans.

Meghalaya Government Construction Corporation Limited (2002-03)

- Non provision of penalty of Rs.3.77 lakh imposed by Regional Provident Fund Commissioner for default in payment of EPF dues resulted in understatement of net loss with corresponding understatement of current liabilities by Rs.3.77 lakh.

6.1.19 Errors and omissions noticed in case of Statutory corporations

Meghalaya State Electricity Board (2003-04)

- The net loss was overstated by Rs.40.26 crore due to (a) non-accountal of revenue from sale of power (Rs.1.30 crore), (b) under charging of electricity duty on energy consumed (Rs.27.80 crore), (c) non-accountal of interest on short term deposit (Rs.0.66 crore), (d) non-implementation of restructuring plan of ASEB dues (Rs.1.13 crore), and (e) excess provision of interest accrued and due on REC loan (Rs.9.37 crore).

The net loss was understated by Rs. 54.87 crore due to (a) excess levying of storage charges (Rs.1.62 crore), (b) non-accountal of power purchase charges (Rs.5.91 crore), (c) non-inclusion of interest charges on outstanding energy bill (Rs.2.17 crore), (d) non-provision of bad & doubtful debts (Rs.1.70 crore), (e) non-implementation of restructuring plan of ASEB dues (Rs.36.17 crore), and (f) non-adjustment of irrecoverable dues (Rs.7.30 crore).

As such the loss for the year has been understated by Rs.14.61 crore.

Meghalaya Transport Corporation (1998-99)

- The net loss was overstated by Rs.75.21 lakh due to (a) short exhibition of closing stock of spare parts (Rs.48.27 lakh), (b) short exhibition of postal subsidy receivable (Rs.5.71 lakh), (c) excess exhibition of consumption of spare parts (Rs.7.96 lakh), and (d) non-exhibition of commission receivable under passenger reservation system (Rs.13.27 lakh).

The net loss was understated by Rs.23.83 lakh due to (a) doubtful recovery of rent not written off (Rs.10.69 lakh), (b) short exhibition of value of diesel consumed (Rs.1.13 lakh), (c) non-provision of damages (penalty) payable for default in deposit of EPF contribution (Rs.10.42 lakh) and (d) overstatement of operating revenue (Rs.1.59 lakh).

As such the loss for the year has been overstated by Rs.51.38 lakh.

Meghalaya State Warehousing Corporation (2003-04)

- The net profit for the year was overstated by Rs.5.90 lakh due to (a) short provision of depreciation (Rs.3.20 lakh), and (b) short provision of EPF dues (Rs.2.70 lakh).

6.1.20 Audit assessment of the working results of Meghalaya State Electricity Board (MeSEB)

Based on the audit assessment of the working results of MeSEB for the three years up to 2003-04[#] and taking into consideration the major irregularities and omissions pointed out in the SARs on the annual accounts of the MeSEB and not taking into account the subsidy/subventions receivable from the State Government, the net surplus/deficit and the percentage of return on capital employed of the MeSEB would be as follows:

[#] SAR for 2004-05 under process of finalisation.

Table 6.8

(Rupees in crore)

Sl. No.	Particulars	2001-02	2002-03	2003-04
1.	Net surplus (+)/deficit (-) as per books of accounts	(-) 24.94	(-) 24.56	(-) 18.31
2.	Subsidy from the State Government	11.00	10.80	10.35
3.	Net surplus (+)/deficit (-) before subsidy from the State Government (1-2)	(-) 35.94	(-) 35.36	(-) 28.66
4.	Net increase/decrease in net surplus (+)/deficit (-) on account of audit comments on the annual accounts of the MeSEB	(-) 0.57	(-) 3.07	(-) 14.61
5.	Net surplus (+)/deficit (-) after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-) 36.51	(-) 38.43	(-) 43.27
6.	Total return on capital employed	8.76	13.28	(-)13.08
7.	Percentage of total return on capital employed	2.26	2.82	-

6.1.21 Persistent irregularities and system deficiencies in financial matters of PSUs

The following persistent irregularities and system deficiencies in the financial matters of the two Statutory corporations had been repeatedly pointed out during the course of audit of their accounts but no corrective action has been taken by the PSUs so far.

Table 6.9

Meghalaya State Electricity Board	Meghalaya Transport Corporation
• Age-wise analysis of receivables has not been made. • Subsidy registers for purchases, advances, *etc.* remained un-reconciled with the financial records. • Stores ledger remains incomplete and Priced Stores Ledger has not been properly maintained. • Assets were not physically verified.	• The details of opening balance, consumption and closing balances in respect of stores, tyres and tubes were not furnished. The manner in which the value of above stocks and consumption were assessed has not been furnished to Audit. • The opening and closing balances of stationery and forms and tickets were not assessed and accounted for. • Party-wise ledger for Sundry Creditors has not been maintained. • Fixed assets have not been physically verified by the Corporation.

6.1.22 Internal audit / Internal control

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit/internal control systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which need improvement.

(a) The Statutory Auditors in their reports qualified that in respect of four companies (Sl. Nos. A-1, 6, 7 and 10 of *Appendix XXXIX*) no internal audit system exists or that internal audit is not commensurate with the size and nature of business of the companies.

(b) Stocks have not been physically verified and dealt with properly in the accounts by two companies (Sl. Nos.A-1 & 8 of *Appendix XXXIX*).

(c) The internal control procedure was inadequate especially with regard to purchase of raw materials in one company (Sl. No.A-3 of *Appendix XXXIX*).

6.1.23 Response to inspection reports, draft paragraphs and reviews

Audit observations made during local audit and not settled on the spot are communicated to the heads of PSUs/Departments and concerned heads of departments of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through the respective heads of departments within a period of six weeks. Inspection reports issued up to March 2005 pertaining to 13 PSUs/Departments disclosed that 347 paragraphs relating to 99 inspection reports remained outstanding up to September 2005. Of these, 14 inspection reports containing 35 paragraphs had not been replied to for more than 10 years. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2005 is given in *Appendix XLIV*.

Similarly, draft paragraphs and reviews on the working of the Government companies and Statutory corporations are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Three draft paragraphs and one review were forwarded to the various departments during May 2005 to July 2005. Replies to all the draft paragraphs and the review have been received (October 2005) and incorporated in the respective paragraphs/review.

It is recommended that (a) the Government should ensure that procedure exists for action against officials, who fail to send replies to inspection reports/draft paragraphs/reviews as per the prescribed time schedule, (b) action be taken to recover loss/outstanding advances/overpayment as per a time bound schedule, and (c) the system of responding to audit observations is revamped.

6.1.24 Position of discussions of Commercial Chapters of Audit Reports by the Committee on Public Undertakings (COPU)

The status of discussion of reviews/paragraphs of commercial chapters of Audit Reports pending discussion by COPU as on November 2005 are shown as follows:

Table 6.10

Period of Audit Report	Total number of reviews and paragraphs appeared in Audit Report		Number of reviews and paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1984-85	3	3	1	1
1985-86	1	3	-	3
1986-87	1	3	1	2
1987-88	1	4	1	3
1988-89	1	4	-	3
1989-90	1	4	-	3
1990-91	2	4	2	2
1991-92	1	4	1	3
1992-93	1	4	1	4
1993-94	1	4	-	4
1994-95	2	4	2	4
1995-96	1	4	1	4
1996-97	1	4	1	4
1997-98	1	4	1	3
1998-99	1	2	1	2
1999-00	2	7	2	5
2000-01	2	4	2	4
2001-02	1	6	1	5
2002-03	1	4	1	4
2003-04	1	5	1	5

Between July 1985 and April 1997, COPU had presented 12 Reports (including three Action Taken Reports) to the State Legislature.

6.1.25 619-B Companies

There was one non-working company covered under section 619-B of the Companies Act, 1956. The table given below indicates the details of paid-up capital and working results of the Company based on the latest available accounts.

Table 6.11

(Rupees in crore)

Name of Company	Year of accounts	Paid up Capital	Investment by			Profit (+)/ Loss (-)	Accumulated Profit (+)/ Loss (-)
			State Govern-ment	Govern-ment Companies	Others		
Meghalaya Phyto Chemicals Limited	1984[#]	0.75	…	0.54	0.21	(-) 0.66	(-) 2.20

[#] The Company is defunct and thus, in absence of management no accounts after 1984 (Calendar year) have been compiled.

SECTION ‘A’ : PERFORMANCE REVIEW

FOREST AND ENVIRONMENT DEPARTMENT

FOREST DEVELOPMENT CORPORATION OF MEGHALAYA LIMITED

6.2 Review on the working of the Forest Development Corporation of Meghalaya Limited

Highlights

The Forest Development Corporation of Meghalaya Limited (FDCM) was incorporated in 1975 as a wholly owned Government Company with the main objective to undertake forestry activities, *i.e.* to raise plantations and to harvest, purchase and sell timber. The Company undertook teak plantation in an area of 625.20 hectares and pine plantation in an area of 273.752 hectares. The Supreme Court regulated fresh felling of trees in January 1998.

(Paragraphs 6.2.1 and 6.2.7)

The Company could not provide adequate protection to its teak plantations, which resulted in illegal felling of trees valued at Rs.50.58 crore.

(Paragraph 6.2.9)

Selling of timber to private parties at rates lower than the rate at which sale was made to Government Departments resulted in lower realisation on sale of Rs.24.57 lakh.

(Paragraph 6.2.14)

Non-preparation of confidential estimates led to loss of Rs.38.45 lakh.

(Paragraph 6.2.17)

No legal action was initiated for the redemption of investment of Rs.17.91 lakh with the Literature Centre of Cooperative Society Finance and Investment Limited.

(Paragraph 6.2.23)

The Company did not have a well defined internal control system and there was no internal audit wing. The Company had not prepared an Accounting Manual.

(Paragraph 6.2.25)

6.2.1 Introduction

The Forest Development Corporation of Meghalaya Limited (Company) was incorporated on 30 January, 1975 as a wholly owned Government Company under the Forest and Environment Department, Government of Meghalaya with the main objectives to develop land, by raising of plantations of economically important species, maintaining and protecting forest wealth and trading in forest produce.

A Supreme Court judgement of January 1998[*] regulated fresh felling of trees. In accordance with para 24 of the judgement, the Ministry of Environment and Forest allowed (March 2003) the Company to carry out logging operation on 350 trees above 105 cm in girth per year.

During the five years period from 2000-01 to 2004-05, the activities of the Company were confined to protection of planted trees and saw milling operation. Since February 2002 the Company is also implementing a central scheme of medicinal plants.

The Management of the Company is vested in a Board of Directors (BOD) including a Chairman and Managing Director. There were 15 Directors, all nominated by the State Government, as on 31 March 2004. The Managing Director (MD) functions as the Chief Executive of the Company and he is assisted by the Production Manager and Senior Accounts Officer.

The working of the Company was last reviewed and reported in the Reports of the Comptroller and Auditor General of India (CAG) for the year 1984-85 and 1994-95, Government of Meghalaya (GoM). The Committee on Public Undertaking (COPU) while discussing (April 1995) the report of 1984-85 felt that the Company had failed to achieve any of its objectives even marginally and recommended that Government should consider a fresh package for the

[*] (WP 202 of 1995)

Company for ensuring its financial viability. GoM, Forest and Environment Department, in their Action Taken Report (June 1996) mentioned that one activity which might be envisaged for the Company as a part of the package, was to entrust it with raising plantations as a part of the Social Forestry Programme thus functioning as a Plantation Corporation too. GoM had, however, not entrusted the plantations work to the Company (September 2005).

The review report for 1994-95 had not been discussed by the COPU till March 2005.

6.2.2 Scope of Audit

The present review conducted during the period March 2005 to April 2005 is an evaluation of actual performance in the various activities of the Company.

6.2.3 Audit Objectives

The objectives of the review were to ascertain whether:

- the mandated objectives of the Company for development of land by raising plantations of economically important species were achieved;
- the logging, sawing and marketing of forest produce was carried out economically and efficiently;
- the financial management was transparent.

6.2.4 Audit criteria

The audit criteria includes examination and analysis of the systems and procedures designed for achievement of objectives of the Company to see whether:

- plantation activities were carried out as per norms;
- adequate protection measures were taken for Teak and Pine plantations;
- saw mills were properly utilised;
- marketing activities were carried out in accordance with Company's rules;
- logs were sold at the best prices;
- stock of timber at Logging operations and Saw mills was properly maintained.

6.2.5 Audit methodology

During the course of the review the following methodologies were adopted

- Examination of action taken report of Board minutes and the Memorandum and Articles of Association of the Company.
- Analysis of Lease Agreement for plantations.
- Verification of books of accounts, stock register, cash book, transport orders and challans with those of initial records maintained in the field.
- Verification and analysis of Sawing register, daily production report, payment of royalty, credit sale.
- Analysis of the procedures to probe the existence of control points and adherence there to.

6.2.6 Audit findings

Audit findings as a result of the review on the working of the Company were reported to the Management/Government in July 2005 and were discussed in the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 8 August 2005. The meeting was attended by the Secretary, Forest and Environment Department, Government of Meghalaya and Managing Director of the Company. The views expressed by the members have been taken into consideration during finalisation of the review.

The audit findings on the performance for the last five years ending 31 March 2005 are discussed in the succeeding paragraphs.

6.2.7 Plantations

The Company raised plantations (teak and pine) from the year 1976-77 by acquiring 898.952 hectare (pine 273.752 and teak 625.20 hectare) of private land, village, Community and District Council lands on lease. The Company took land on lease for 30 years (pine plantation) in Khasi and Jaintia Hills and for 50 years (teak) in Garo Hills; the gestation period for harvesting of pine plantations is 20 years and that for teak being 40-45 years as per the Project Report.

6.2.8 Pine plantation

The Company raised (1976-77) pine plantations in 273.752 hectare in eight centres in Ri Bhoi, West Khasi & Jaintia Hills districts at a cost of Rs.31.41 lakh. Since then no pine plantation activities have been undertaken though the gestation period of 20 years for harvesting of the plantation is over. The Company spent Rs.76.24 lakh (up to March 2005) towards maintenance of plantations undertaken in 1976-77. The table below gives the position as on 31 March 2005 of trees planted, mortality, trees affected by illegal felling and standing trees.

Table 6.12

Area of Plantation in Hectares	Total number of trees planted	No. of trees affected by natural mortality	Percentage of mortality	No. of trees that should be present after mortality	No. of trees illegally felled	No. of trees actually standing
273.752	3,28,488	1,29,751	39.50	1,98,737	3,629	1,95,108

There was illegal felling of 3629 numbers of trees of volume 734.87 M^3 valued at Rs.7.19 lakh. Government while admitting the audit observation stated (October 2005) that raising plantations by untrained staff and absence of legal support to protect the plantations led to high rate of mortality.

6.2.9 Teak plantation

The Company had taken up (1976-77) plantations in fourteen centres (four centres in East Garo Hills over 177.09 Hectare and ten centres in West Garo Hills over 448.11 Hectare) at a cost of Rs.46.95 lakh. Since then no teak plantation activities have been undertaken. The Company spent Rs.1.34 crore (up to March 2005) towards maintenance and up keep of these plantations.

Harvesting

The Company after getting approval from The Ministry of Environment and Forest (MOEF) in March 2003 harvested 801.983 M^3 of teak timbers for which 700 number of trees were removed in 2003-04 and 2004-05 in plantation centres of West Garo Hills . No arrangement was made for regeneration. A quantity of 430.155 M^3 of the harvested teak was sold for Rs.26.43 lakh during the year ended 2004-05. As per plantation agreement, profit arising out of such sale was to be shared by the Company with the District Council and the owners of the land in the ratio of 50:40:10. The Company without fixing modalities for calculation of profit paid Rs.1.98 lakh to the land owners (March 2005). Government accepted the facts in October 2005.

Thinning operation

To give adequate space for luxuriant growth of plants (in girth and height) and to enrich their value, the plantations require ‘thinning operations’ to remove clusters of teak trees of girth class up to 60 cm in the 10^{th} year of the plantation. Audit noticed that the Company took up the thinning operation only in 2003 in six centres of the plantations created in the years 1977 to 1987, i.e. after delays ranging from six to 16 years. The delay was attributed to delay in taking a decision for thinning operations. The working scheme for thinning operations was prepared in the year 2001-02 and approval of the working scheme was received from the Chief Conservator of Forest (Central) only in the year 2003. The Company removed (2003-04) 394 teak trees of volume 71.139 M^3, pertaining to the girth class of above 60 cm valued at Rs.7.92[ϒ] lakh incurring an expenditure of Rs.5.50 lakh. The records showing mode of disposal of 71.139 M^3 of teak logs were not made available to Audit. Government while accepting the facts (October 2005) stated that the plants have grown above the girth class of 60 cm in the three years between survey and final thinning. The reply did not mention the reasons for not taking up thinning operations in the 10^{th} year nor regarding the mode of disposal of the thinned timber.

Illegal felling

From 1996-97 onwards the reports from the field units received by the Company, covered unabated illegal felling in Teak Plantation of Garo Hills.

To curb illegal felling the Apex Court prescribed (1998) protective measures such as:

- The Principal Chief Conservator of Forest to arrange extensive patrolling in the vulnerable areas.
- The State Government to provide security and police force to protect illegal felling. The Chief Secretary of the State to review at least once in six months the forest protection and developments with Senior Forest Officers.
- The Forest officers of the North Eastern State to be empowered with authority to investigate, prosecute and confiscate, on the lines of the powers conferred on the officers of the other States.
- The State Government to take disciplinary proceedings against officers within 45 days where significant illegal felling has taken place.

The status reports ending 2004-05 revealed illegal felling of about 1,61,522 number of teak trees of girth class 75 cm and above. More alarmingly, there was 90 *per cent* of illegal felling in four centres (Bhaitabari, Naguapara, Khamari, Gunargree). After felling of the trees at night, the miscreants

[ϒ] 71.139 M^3 X Rs 11,135 per M^3 = Rs.7.92 lakh removed timber from the plantation area and sold the same in Assam. The value of such illegally felled trees was Rs.50.58 crore[*].

The Company neither reported/requested the State Government for police patrolling nor took prompt remedial measures, except for filing of an FIR.

The Company in 2002-03 appointed persons on contract basis in three centres (and had incurred an expenditure of Rs.10.22 lakh as on 31 March 2005) to keep watch in the vulnerable areas to combat illegal felling after plantations had already been destroyed.

The Management, in the ARCPSE meeting (August 2005) stated that appointment of contracted persons had to some extent reduced the illegal felling in the areas where they were appointed.

Audit, however, noticed that illegal felling in Chambakpara Centre (out of three Centres) showed an increasing trend during 2002-03 (241 Nos), 2003-04 (262 Nos) and 2004-05 (291 Nos). It was further noticed that the Company had not appointed contracted persons in other two Centres (Bhaitabari and Khamari) where illegal felling were more[⊗] than those in the three Centres. Government accepted the facts in October 2005, but stated that value of Rs.50.58 crore was on the higher side. The reply is not tenable, as it did not indicate the alternate value. Government reply was silent on all other aspects.

6.2.10 Working of coupes [1]

The Company is getting allotment of coupes from the Forest Department. The Company then lifts the logs of timber from the coupes allotted by the Forest Department. The coupes so allotted may be of any variety i.e., teak, sal and non-sal. The Company did not maintain a consolidated record to show coupe wise quantity allotted by the Forest Department, quantity harvested, quantity not harvested, quantity sold, quantity put to sawing and closing balance, if any. The position regarding working of coupes as furnished by the Company is tabulated below:

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[*] 8 M (length of each tree) x 0.75m x 0. 75m ÷ 4 x 4 (square of ¼ of girth) x 161522 (No. of trees) = 45428.06M^3 x Rs.11135 per M^3 = Rs.50.58 crore

[⊗] During the year 2002-03 to 2004-05 the illegal felling in three centre were 1204 trees (284 in Chanupara, 794 in Chambakpara, 126 in Narengree) whereas during the same period illegal felling in these two centres was 2784 trees (1618 in Bhaitabari and 1166 in Khamari)

[1] Coupe: Forest land allotted by the State Government with standing/uprooted trees marked for felling/disposal.

Table 6.13

Years	Allotment			Lifted		Not lifted	
	Nos. of Ranges	Lots	Volume (M^3)	No. of Lots.	Volume (M^3)	No. of Lots.	Volume (M^3)
2000-01	4	66	292.138	33	171.679	33	120.459
2001-02	2	45	153.225	7	33.798	38	119.427
2002-03	3	26	279.807	8	100.300	18	179.507
2003-04	1	10	94.634	10	94.634	-	NIL
		147	**819.804**	**58**	**400.411**	**89**	**419.393**

The above position could not be verified in the absence of the consolidated record. The balance quantity (419.393 M^3) was not lifted because about 30 to 50 *per cent* of the timber had deteriorated; some quantity was also missing and did not tally with the allotment list of Government. The discrepancy between the allotted quantity and the actual lifting had not been brought to the notice of Divisional Forest Officer (DFO) for remission of royalty.

6.2.11 Central Scheme of Cultivation and Development of Medicinal Plants

Government of India, Ministry of Health and Family Welfare established (February 2002) the Medicinal Plant Board (MPB) to ensure availability of medicinal plants for preparation of Indian systems of medicines. The MPB sanctioned (March 2002) Rs.20 lakh, to the State Government for onwards payment to the Company for creating awareness among the public through raising of nurseries of medicinal plants in Meghalaya. The amount was to be spent on (a) raising of nurseries:Rs.5 lakh, (b) procurement of laboratory equipments for testing seeds:Rs.10 lakh, and (c) conducting seminars for dissemination of information for cultivation on commercial scale: Rs.5 lakh. The Company received Rs.16.50 lakh as on April 2003 and incurred expenditure of Rs.13.23 lakh as on 31 March 2004 towards raising nurseries (Rs.4.99 lakh), purchase of laboratory equipments (Rs.6.24 lakh) and holding one seminar (Rs.2 lakh). The Company, however, submitted utilisation certificate on 31 March 2003 for Rs.16.50 lakh without full utilisation of funds.

Scrutiny of the progress report further revealed that:

- The MPB in its Research and Development studies identified 31 species of plants of secured commercial value and of assured returns to growers. The Company, however, raised nurseries of other than the identified species. Thus the objective of creating awareness among the public failed.

- Laboratory equipments valued at Rs.6.24 lakh were purchased for testing seeds but the same remained unutilised till date (September 2005) in the absence of electricity.

- The Company was yet (September 2005) to organise seminars of buyers and sellers at Shillong.

- The Company incurred expenditure of Rs.4.99 lakh in raising nurseries (2 Hectares) against Rs.2.80 lakh as per cost scheduling and sanctions, thereby incurring excess expenditure of Rs.2.19 lakh.

Government in reply (October 2005) admitted that the utilisation certificate was issued without incurring actual expenditure. Government also stated that two of the species raised in the nurseries were included in the project proposal of the State Government whereas the third one did not find a place either in the project proposal or in the identified list of MPB, but had rich medicinal value.

6.2.12 Infructuous expenditure in Rubber Project

Mention was made in paragraph 8.7.8.3 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1995 regarding Rubber plantations and its shortcomings. It was stated therein that the project was to be abandoned, as Rubber plantation did not fall under the purview of the activities of the Company. The Rubber Board had taken over (1991-92) the Company's share of 239 hectares and at present the Company had no activities on the Rubber Project. The Company, however, spent Rs.6.22 lakh towards pay and allowances of the watch and ward staff for non-yielding buds since 1991-92 to 2004-05. Thus the Company incurred infructuous expenditure of Rs.6.22 lakh without exploring the possibility of gainfully utilising the services of the staff elsewhere. Government reply (October 2005) is silent on the infructuous expenditure.

6.2.13 Working of Saw Mills

The High Power Committee (HPC) of Government of India appointed by the Supreme Court, fixed (1998) maximum out turn of 75 *per cent* of conversion from log form to sawn size timber.

The performance of the two saw mills during the last five years is given in the table below:

Table 6.14

Year	Annual capacity (M^3)	Input (M^3)	Output (M^3)	Percentage of		
				Capacity utilisation	Out turn	Wastages
(a) Darugiri Saw Mill:						
2000-01	5400	448.19	248.17	8.3	55.37	44.63
2001-02	-do-	841.87	517.58	15.59	61.48	38.52
2002-03	-do-	608.42	342.95	11.27	56.37	43.63
2003-04	- do-	297.67	175.54	5.51	58.97	41.03
2004-05	do-	125.95	96.54	2.33	76.65	23.35
Total		**2322.10**	**1380.78**			
(b) Nongpoh Saw Mill:						
2000-01	Not operated					
2001-02	2700	198.34	150.35	7.34	75.80	24.20
2002-03	-do-	182.03	124.63	6.74	68.50	31.50
2003-04	-do-	434.63	313.79	16.10	72.20	27.80
2004-05	-do-	1649.30	1261.14	61.09	76.47	23.53
Total		**2464.30**	**1849.91**			

Audit analysis revealed the following:

- The capacity utilisation of Darugiri Saw-Mill varied from 2.33 *per cent* to 15.59 *per cent* and that of Nongpoh Saw-Mill varied between 6.74 *per cent* and 61.09 *per cent* during 2000-01 to 2004-05.

- The percentage of out-turn of Darugiri Saw-Mill ranged between 55.37 and 76.65 whereas in respect of Nongpoh Saw-Mill, it varied between 68.50 *per cent* to 76.47 *per cent*. Thus, the outturn of Darugiri saw mill was far less than the norm of the HPC, except for the year 2004-05 and that of Nongpoh saw mill was less than the norm during 2002-03 and 2003-04.

- During the five years ending 2004-05 against the input of 4786.40 M^3 the Company got output of 3230.69 M^3. Thus there was wastage of 359.11 M^3 (compared to the norms) valued at Rs.15.87 lakh (at the rate of Rs.4, 418 per M^3 as the least cost of timber). The Company did not analyse the reasons for abnormal wastage and no remedial measures were taken.

Government in reply (October 2005) stated that due to quality, formation and defects in the logs, the outturn was less. The reply is not tenable as while fixing the norm the above aspect was considered by the HPC.

Marketing

6.2.14 Sale to private parties

The Company has a Marketing Division at Head Office under the Supervision of Project Manager (PM) to look into the sales and purchase of goods and services. The Company framed Purchase and Sale of Goods and Services Rules 1987 according to which

(a) The Company was to sell timber not below the cost price,

(b) For each sale the Company had to prepare the confidential estimate, which was to be arrived at considering the market rate at the place of sale.

During the period of the review, the Company did not prepare the confidential estimates for sales, except those made to the Public Works Department (PWD).

As mentioned in para 6.2.9 *supra*, out of 801.983 M^3 harvested teak in West Garo Hills, the Company sold 430.155 M^3 (November 2003 to March 2005) for Rs.26.43 lakh to four parties at Rs.5090.40 per M^3 (for girth class 45-90 cm) and Rs.8484 per M^3 (for girth class 90 cm above) on negotiation with the parties. On comparing the above selling price with the rate* at which the Company sold (1999-2000 to 2002-03) to the PWD, the Company's selling price should have been Rs.10158 per M^3 (for girth class 45-90 cm) and Rs.15630 per M^3 (for girth class 90 cm above). Thus, fixing lower prices for the sale made to private individuals and firms led to loss of Rs.24.57 lakh, as detailed below:

Table 6.15

Girth class	Volume M^3	Rate/M^3 as per royalty +110 percent/ M^3	Selling price per M^3	Differences per M^3	Value (Rupees in lakh)
45-90 Cm	296.626	10158	5090.40	5067.60	15.03
90 Cm & above	133.529	15630	8484.00	7146.00	9.54
	430.155		**Total**		**24.57**

Government in reply (October 2005) admitted that confidential estimate were not prepared for sale of timber to parties other than PWD.

* floor price of Rs.4,837 per M^3 for girth class 45-90 cm and Rs.7,443 per M^3 for girth class 90cm and above + 110 *per cent* towards overhead charges and element of profit

6.2.15 Fixation of Market Price and Royalty

The Supreme Court (W.P. 1996) directed all the State Governments to ensure that timber/forest produces which are supplied to industries including Government Undertakings are to be valued at full market price. For arriving at the full market price the existing royalty was to be revised upward by a Committee constituted under the Chairmanship of Principal Chief Conservator of Forests. The Government of Meghalaya (GOM) notified (November 1998) the revised rate of royalty. Audit analysis revealed that the rate was far less than the market price prevailing in the adjoining markets of Assam as would be evident from the comparative position of market price/royalty of Government of Meghalaya and Government of Assam (1996-97) and market price (October 2000) as per the Resource Survey and Management Division of Forest Research Institute (FRI), Dehradun, tabulated as follows:

Table 6.16

Girth class of timber as per GOM (cm)	Species		Floor price/royalty of GOM (Rs./M^3)		Floor price of Govt. of Assam (Fixed 1996-97) (Rs./M^3)		Market price (October 2000) determined by FRI (Rs./M^3)	
	Teak	Sal	Teak	Sal	Teak	Sal	Teak	Sal
45-90 cm	Log	Log	4837	1917	9255 (<120 cm)	5200 (<120 cm)	14300 (minimum rate)	6535 (minimum rate)
90-160 cm	-do-	-do-	7443	4417	15143 (>120 cm)	9100 (>120 cm)	27370 (-do-)	12360 (-do-)
161cm and above	-do-	-do-	8107	4750	15143	9100	-do- -do-	16775 (-do-)

Fixing of timber prices cheaper than the adjoining market prices lacked justification. Government accepted the facts in October 2005.

6.2.16 Non-payment of royalty

The Forest and Environment Department claims royalty on the allotment of timber. As per the information provided by the Company the position of royalty due and payments made during the last five years ending 2004-05 is as follows:

Table 6.17

(Rupees in lakh)

Year	Opening balance	Royalty for the period (Due)	Total	Payment made	Outstanding
2000-01	48.15	48.77	96.92	37.85	59.07
2001-02	59.07	81.32	140.39	11.20	129.19
2002-03	129.19	28.30	157.49	3.82	153.67
2003-04	153.67	35.39	189.06	7.61	181.45
2004-05	181.45	10.64	192.09	10.64	181.45
Total		**204.42**		**71.12**	

The Company paid Rs.71.12 lakh against Rs.2.04 crore accrued towards royalty during the period 2000-01 to 2004-05. The above claim of the Department could not be verified, as the Company did not furnish the demand of the Forest & Environment Department. The reason for non-payment of full royalty due was not on record. Government in reply (October 2005) stated that due to fund constraint the payment was not made.

6.2.17 Logging operation

The Company had a Logging project, which undertook Logging operations (felling of trees, sectioning, debarking, siding and marketing) of timber allotted by the Forest Department.

For dressed logs, prices are chargeable at 20 *per cent* above the royalty rate plus the departmental charges. The Company sold dressed logs at lower rates without preparing confidential estimates which led to loss of Rs.38.45 lakh as shown below:

Table 6.18

Sl. No.	Particulars	2000-01		2001-02		2003-04		2004-05	
		Sal	Teak	Sal	Teak	Sal	Teak	Sal	Teak
1	Sales m^3	251.909	135.342	343.048	112.54	284.01	358.409	112.848	478.531
2	Average royalty (in Rs.)	3695*	6796**	3695	6796	3695	6796	3695	6796
3	Royalty plus 20 *per cent* (in Rupees)	4434	8155	4434	8155	4434	8155	4434	8155
4	Average departmental cost (Rupees)	763	763	1736	1736	1251	1251	984	984
5	Cost of sales (Rupees)	5197	8918	6170	9891	5685	9406	5418	9139
6	Selling price (Rupees)	4303	6406	4291	5500	7161	6870	6040	6562
7	Differential rate (6-5)	(-) 894	(-) 2512	(-) 1879	(-) 4391	+ 1476	(-) 2536	+ 622	(-) 2577
8	Loss Rs. in lakh (7x1)	(-) 2.25	(-) 3.40	(-) 6.44	(-) 4.94	+ 4.19	(-) 9.09	+ 0.70	(-) 12.33

Government in reply (October 2005) stated that it is not correct to say that for the dressed logs rates are chargeable at 20 *per cent* above the royalty. The reply is not tenable as it is contrary to the Government order of 1998.

6.2.18 Stock of timber (round and sawn) at the Logging Project and Saw Mills

As on 31 March 2003 stocks of timber valued at Rs.1.25 crore were lying with the Logging Project, marketing division and Saw Mills. Audit analysis revealed the following:

Average royalty of girth class 45-90 cm, 91-160 cm and 160 cm above:

* Sal per M^3(Rs.1917+Rs.4417+Rs.4750)= Rs.11084/3=Rs.3695

** Teak per M^3 (Rs.4837+Rs.7443+Rs.8107)=Rs.20387/3=Rs.6796

- Timber stock valued at Rs.38.45 lakh related to the Logging Project, which were not sold during 2002-03. This represented 27.16 months' sale for sal, 36.22 months' sale for non-sal and 7.59 months' sale for teaks. This was worked out on the basis of the previous years sale. The timber stock also includes non-moving stocks valued at Rs.17.49 lakh comprising sal (397.98 M^3 - Rs.12.89 lakh) non-sal (80.453 M^3 – Rs.0.46 lakh) and teak (29.144 M^3 – Rs.4.14 lakh).

- Closing stock of Rs.9.34 lakh at Nongpoh Saw Mill included deteriorated stock (since 1994-95) valued at Rs.6.30 lakh. The Company had not formulated and streamlined its procedure to check loss due to deterioration in spite of the direction given by COPU in March 2005.

- The stock of timber (lying since 1992-93) valued at Rs.71.02 lakh at Darugiri Saw Mill, was damaged by floods in October 2004. Against the stock value of Rs.71.02 lakh, the Company took insurance coverage of Rs.31 lakh only. The claim of Rs.31 lakh (November 2004) was pending with the insurance Company. Thus the Company would sustain a loss of Rs.40.02 lakh (Rs.71.02 lakh – Rs.31.00 lakh) due to under insurance.

Government in reply (October 2005) stated that a money suit would be filed shortly to realise the insurance claim.

6.2.19 Non-reconciliation of stock

Scrutiny of Receipt and Stock Registers of logs at Saw Mills (Darugiri & Nongpoh) revealed that the quantity of logs entered in the Receipt Register did not agree with the quantity of those taken to the stock register. The Receipt and Stock registers at both the Saw Mills were not reconciled which indicates falsification of accountal of logs. Government agreed (October 2005) to reconcile the stock.

6.2.20 Physical verification

The Company had not physically verified the stock at the Logging Project and Saw Mills. Non-verification of stock was also pointed out earlier in the Report of the CAG for 1994-95. COPU stated (1995) that physical inspection seems to have been done on spasmodic basis and discrepancy wherever evident was not looked into by the Company. The Company, however, had not yet taken measures for physical verification (September 2005).

Government agreed (October 2005) to physically verify the stock.

6.2.21 Man power position

As on 31 March 2004, there were 82 numbers of all categories of staff (excluding Assistant Production Manager, Production Manager and Senior Accounts Officer) taking together the staff at Head Office, Projects and Saw Mills. The Company had not evaluated the requirement of staff commensurate with its business. The State Government for right sizing the number of employees in all the State Public Sector Undertakings offered a Voluntary Retirement Scheme (VRS) in April 2002. The Company received (August 2002) VRS options from 23 employees and assessed financial requirement of about Rs.1.24 crore. The Company, as per decision of the Board (July 2003), identified 10 employees as surplus. The names of employees along with the financial package of Rs.45.99 lakh were forwarded to the State Government (January 2004) for acceptance of the VRS. The same is pending with the State Government (September 2005). The Company continued to bear the burden of Rs.4.49 lakh annually towards salary of surplus staff despite its financial constraints.

Government in reply (October 2005) admitted the facts but did not give any specific reply with regard to arresting the expenditure.

6.2.22 Position of Accounts

The Company had finalised its accounts up to 1997-98[♦]. As per Articles of Association of the Company the Board was dissolved at each Annual General Meeting (AGM) after adoption of accounts of the Company. The State Government formed the new Boards after delays of about four to ten months which resulted in further delay in finalisation of accounts.

The Management of the Company in the ARCPSE meeting stated (August 2005) that for changing the clause of the Articles of the Association, the matter has been referred to the State Government and the Registrar of Companies.

Cash Management

6.2.23 Redemption of investment made in violation of the Articles of Association

As per the Articles of Association, the Company was to invest in Government securities and/or to hold deposits with scheduled banks only. In violation of this, the Company deposited Rs.15 lakh (February 2000) with Literature

[♦] The Company compiled accounts 1998-99 to 2002-03 (approved by the BOD up to 2001-02) awaited certification by statutory auditors (April 2005).

Centre of Cooperative Society Finance and Investment Ltd. (LCCS) a non-banking and non-scheduled cooperative at the rate of 12 *per cent* compound interest. On the request of the Company (March 2002) to release the money, LCCS informed their inability and requested for further extension of the deposit. After withdrawal of Rs.2.25 lakh the Company went on extending deposits of Rs.12.75 lakh from April 2002 at the behest of the LCCS. The total deposit including interest of Rs.5.16 lakh worked out to Rs.17.91 lakh as on 31 March 2005. In reply to an audit query the Company stated (April 2005) that the investment decision was taken by the MD as per delegation of powers to earn higher rate of interest. Though the MD is competent to take a decision on investment, the selection of a non-scheduled cooperative was in clear violation of the Articles of Association.

Further examination of records of the Assistant Registrar of Co-operative Societies, East Khasi Hills, Shillong (October 2005) revealed that the Company's incumbent Managing Director was also a member of the Board of Directors of LCCS (February 2000) when the investment was made by the Company. This shows that the investment decision was influenced by extraneous consideration.

The Company had not initiated any legal action (September 2005) in spite of a direction (July 2002) of the BOD to this effect. The Management of the Company in ARCPSE meeting stated (August 2005) that legal action would be initiated against LCCS in September 2005. Government accepted the facts in October 2005.

6.2.24 Default in payment of Employees Provident Fund (EPF)

The Company is covered under EPF and Miscellaneous Provision Act, 1952 and schemes framed thereunder with effect from 1 May 1978. The Assistant Provident Fund Commissioner imposed (December 2002) interest of Rs.0.58 lakh due to default in payment of EPF dues of Rs.7.23 lakh for the period from September 2001 to August 2002, which was paid in instalments. Audit scrutiny revealed that despite imposition of interest, the Company further defaulted in payment of EPF dues of Rs.11.41 lakh for the period from September 2002 to December 2004. The Company should arrange to pay EPF dues in time to meet the statutory requirements. Government in reply (October 2005) stated that efforts are on to pay the statutory obligation.

6.2.25 Internal control

The Company did not have any clearly defined internal control system or an internal audit wing even after 30 years of its incorporation in spite of the direction given by COPU in March 1995. A firm of Chartered Accounts is appointed as internal auditor from time to time for compilation of accounts.

The Company has not yet prepared an Accounting Manual to deal with accounting procedures and duties, powers and responsibilities of accounts staff, though non-preparation of accounting manual was pointed out in the Report of the Comptroller and Auditor General of India for the year 1994-95. Government in reply stated (October 2005) that steps are being initiated to take the necessary action.

The above matters were reported to Management/Government in June 2005 and July 2005 respectively. Government and Management reply as received in October 2005 has been incorporated under the respective paragraphs.

Conclusion

The Company was set up with the main objectives to develop land by raising of plantations of economically important species, maintaining and protecting forest wealth and conducting trading in forest produce. The Company did not undertake pine/teak plantation activities after 1976-77 while it incurred substantial expenditure towards its maintenance and up-keep till March 2005. Despite a Supreme Court order of January 1998 that regulated fresh felling of trees, the Company failed to control illegal felling. The Company resorted to belated thinning operations of the girth class above the permissible girth class. Medicinal plants of commercial value were not planted and the Company could not create awareness among the public despite expenditure under a scheme for this. The capacity utilisation of saw mills was dismal; the wastage of timber in the sawing operation was very high as compared to norms. Non preparation of confidential estimates for arriving at the sale price of logs resulted in sale of logs at rates lower than the cost price. The sale of timber to private parties was made at a much lower prices than the price at which sale was made to Government departments. Physical verification of stocks was not done. The Company did not have any clearly defined internal control system and there was no internal audit wing in the Company. Finalisation of accounts was in arrear and the Company had finalised its accounts only up to the year 1997-98. No Accounting Manual was prepared though non preparation of the same was pointed out in the report of the C&AG for the year 1994-95.

Recommendations

- The Company should consider resorting to pine, teak as well as medicinal plantations having good commercial value.

- The Company needs to take effective measures to stop illegal felling.

- The saw mills should be operated efficiently and capacity utilisation needs to be enhanced.

- The Company needs to prepare confidential estimates so as to get the best price for timber sold.

- The Company should introduce an effective internal control system/ internal audit and prepare an Accounting Manual.

SECTION 'B' : PARAGRAPHS

POWER DEPARTMENT

MEGHALAYA STATE ELECTRICITY BOARD

6.3 Avoidable Payment

The Board made avoidable payment of interest Rs.89.84 lakh due to early drawal of loan from Rural Electrification Corporation.

In May 2002 the Meghalaya State Electricity Board (MeSEB) accorded administrative approval for construction of 2 x 42 Myntdu Hydro Electric Project in Jaintia Hills District of Meghalaya at an estimated cost of Rs.363.08 crore.

The Techno Economic clearance of the project had been accorded by Central Electricity Authority (CEA) on 20 September 1999. The Board had submitted the proposal for environmental/forest clearance on 07 January 2000 to the Ministry of Environment and Forest (MOEF), Government of India. Conditional forest and environmental clearance was accorded by MOEF on 19 June and 26 September 2001 respectively and the final forest clearance was accorded on 06 May 2004 only after which the project gained momentum.

For mobilisation of funds, MeSEB entered into an agreement on 24 March 2003 with the Rural Electrification Corporation (REC) for a loan of Rs.192 crore at 9 *per cent* interest per annum with a rebate of 0.5 *per cent* for timely repayment of instalment.

The first instalment up to 10 *per cent* of the sanctioned loan was to be released on execution of the loan documents, completion of other formalities and on the request of the Board. Subsequent instalments were to be released on *pro rata* basis linked to the progress of work.

Though forest clearance had not been received, the Chief Accounts Officer of the Board approached the REC in March 2003 for releasing Rs.16 crore. REC released the money on 28 March 2003. Besides, the Board received Rs.15.74 crore (Rs.2 crore on 2 December 1999 and Rs.13.74 crore on 4 July 2003) from the State Government. Out of the total fund of Rs 31.74 crore, the Board could spend only Rs.15.99 crore as of March 2004 (Rs.14.64 crore towards project expenses and Rs.1.35 crore interest to REC). The balance of Rs.15.75 crore was invested in short term securities earning interest at the rate of 6.25 to 8 *per cent* per annum. Rupees 62.91 lakh only was earned as interest up to 6 May 2004 against payment of Rs.152.75 lakh as interest to REC during the same period (April 2003 to 6 May 2004).

Government in reply (October 2005) stated that the loan can be drawn in bulk from REC and cannot be drawn as and when it is required. The reply is not tenable because as per the agreement, first instalment up to 10 *per cent* of the sanctioned loan was to be released on execution of the loan documents, *etc.*, and subsequent instalments were to be released on *pro-rata* basis linked to the progress of work. The Board could have avoided the interest payment of Rs.89.84 lakh (Rs.152.75 lakh less Rs.62.91 lakh) to REC had they drawn the first loan instalment from REC, only after receipt of final forest clearance (May 2004) from the Ministry of Environment and Forest.

6.4 Blockage of Funds

Purchase of transformer without considering the progress of work, resulted in blockage of funds of Rs.2.44 crore besides the expiry of its guarantee before the transformer was put to commercial use.

Meghalaya State Electricity Board (MeSEB) entered into an agreement with Assam State Electricity Board (ASEB) in November 2003 for construction of 132 KV double circuit transmission line from Sarusajai (Assam) to Byrnihat (Meghalaya). The agreement provided that one 100 MVA 220/132 KV transformers was to be purchased by MeSEB and placed at the disposal of ASEB in good commissioning condition.

Test-check of records revealed that MeSEB in October 2003 (before executing the agreement with ASEB in November 2003) placed purchase order on Alstom Ltd for purchase of 100 MVA transformer at a purchase price of Rs.2.44 crore giving six months time for delivery. Terms and conditions of the purchase order provided that the transformer must be guaranteed for a period of 12 months from the date of commissioning or 18 months from the date of despatch, whichever is earlier. The supplier despatched the transformer on 31 March 2004, and the same was received by the ASEB in May 2004. Guarantee of the transformer, as such, would expire after September 2005.

In a joint meeting held on 5 May 2005, MeSEB and ASEB observed that the expected time of commissioning of the line and evacuation of power would be

December 2005. Reasons attributed for delay in completion of the work were (i) changing of alignment due to construction of new building at the proposed site, (ii) delay in obtaining forest clearance, and (iii) induction of new gantry at sub-station for future expansion.

Thus, MeSEB, without considering the progress of work, had imprudently procured the transformer and blocked fund amounting to Rs.2.44 crore since October 2003. Besides, the guarantee of transformer would expire before the line is charged and the transformer is put to commercial use.

Government in reply (October 2005) stated that the work was expected to be completed in December 2005 and also stated that the present cost of the transformer was much more. The reply is not acceptable as committing an amount of Rs.2.44 crore in October 2003 for a work which is to be completed in December 2005 led to blocking of funds. Further, in view of the expired guarantee and non-usage of the transformer for a period of more than one year and nine months, the Board had foregone the right to get the defects rectified/repaired.

6.5 Avoidable Expenditure

The Board incurred avoidable expenditure of Rs.14.89 lakh towards overhead charges and labour payment.

For constructing any electrical line, disc insulators are fitted to electrical poles to prevent the flow of current in the electrical poles. Due to low insulation resistance (IR) value the disc insulators get punctured. The factors responsible for low IR value in the disc insulators are inadequate, improper or abnormally longer period of storage before use, and commissioning/charging of the line long after the disc insulators are installed.

The Transmission and Transformation (T&T) Division of the Meghalaya State Electricity Board (MeSEB) completed the construction of 132 KV, double circuit stage-IV, Sarusajai transmission line No I (Meghalaya portion) on 31 March 2001, and commissioned the line on 1 September 2001. On 4 October 2003 (within a period of two years) the above line was declared faulty due to low insulation resistance (IR) in the disc insulators.

Audit scrutiny (March 2005) revealed that the Division had received the disc insulators in the year 1994 from central store of the Board against the indent made in 1993, and utilised the same in the above line during the year 1998. Though the disc insulators were procured four years before their actual use, the

Division did not check the IR value of the entire lot of insulators before installation as stated (March 2005) by the Division. Thus, the abnormally long storage had led to the low IR value of the insulators, which got punctured within two years when put into use.

The faulty disc insulators were changed and the line was recharged in November 2003 after incurring an expenditure of Rs.14.89 lakh (Rs.1.46 lakh towards overhead charges and Rs.13.43 lakh towards labour charges).

Thus faulty inventory management of the Board and non-testing of the disc insulators before installation resulted in avoidable expenditure of Rs.14.89 lakh towards labour and overhead charges.

Government accepted the facts (October 2005) and stated that the disc insulators were bought in 1994 and it was further stated that individual testing of the insulator was done before installation. The reply is not tenable, as the Executive Engineer of the executing division had stated in March 2005 that the entire lot of insulator was not checked before installation.