CHAPTER VI : GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

General

This chapter deals with the results of audit of Government companies and Statutory corporations. Paragraph 1 deals with general view of Government companies and Statutory corporations. Paragraph 6.2 contains review on fund management of Meghalaya State Electricity Board and Paragraphs 6.3 to 6.7 deal with topics of other interest (including paragraph on 'Delay in finalisation of accounts by State Public Sector Undertakings').

6.1 Overview of Government companies and Statutory corporations

6.1.1 Introduction

As on 31 March 2004 there were 10 Government companies (all working) and three Statutory corporations (all working) against the same number of working Government companies and working Statutory corporations as on 31 March 2003 under the control of the State Government. 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 are 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 2004, the total investment in 13 working PSUs (10 Government companies and three Statutory corporations) was Rs.567.58 crore[*] (equity: Rs.113.57 crore; long-term loans[**] : Rs.412.20 crore and share application money: Rs.41.81 crore) as against a total investment of Rs.701.94 crore (equity : Rs.113.14 crore; long-term loans: Rs.557.71 crore; and share application money: Rs.31.09 crore) in the same number of working PSUs as on 31 March 2003. 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

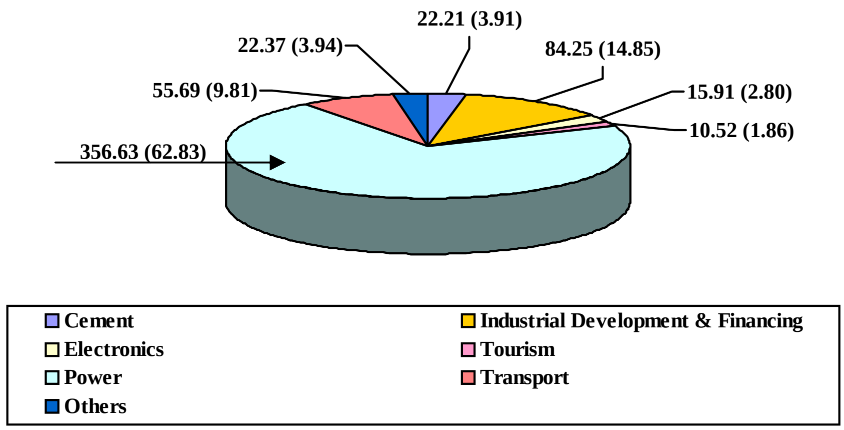
The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2004 and 31 March 2003 are indicated in the pie charts as follows:

(a) The earlier provision of Section 69(2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003.

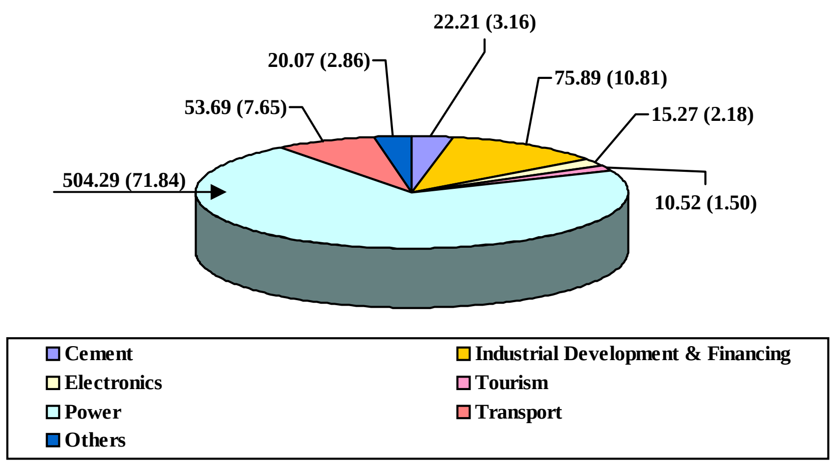
* Figure as per Finance Accounts 2003-04 is Rs.131.72 crore. The difference is under reconciliation.

** 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.

Sector-wise investment in Government companies and Statutory corporations as on 31 March 2004
(Rupees in crore)
(Figures in brackets indicate percentage of investment)
Total investment: Rs.567.58 crore



Sector-wise investment in Government companies and Statutory corporations as on 31 March 2003
(Rupees in crore)
(Figures in brackets indicate percentage of investment)
Total investment: Rs.701.94 crore



6.1.4 Working Government Companies

The total investment in working Government companies at the end of March 2003 and March 2004 was as follows:

Table 6.2

(Rupees in crore)

Year	Number of companies	Equity	Share application money	Loans	Total
2002-03	10	103.99	1.24	36.40	141.63
2003-04	10	104.43	9.95	38.55	152.93

Investment in the current year has increased over the previous year due to induction of equity by the State Government amounting to Rs.9.15 crore in two sectors *viz*. Industrial Development and Financing and Handloom and Handicrafts sectors and overall increase of long term loans by Rs.2.15 crore.

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

As on 31 March 2004, the total investment of working Government companies comprised 74.79 *per cent* of equity capital and 25.21 *per cent* of loans as compared to 74.30 *per cent* and 25.70 *per cent* respectively as on 31 March 2003.

6.1.5 Working Statutory corporations

The total investment in three Statutory corporations at the end of March 2003 and March 2004 was as follows:

Table 6.3

(Rupees in crore)

Name of Corporation	2002-03		2003-04	
	Capital	Loan	Capital	Loan
Meghalaya State Electricity Board (MeSEB)	-	504.29	-	356.63
Meghalaya Transport Corporation (MTC)	36.67	17.02	38.67	17.02
Meghalaya State Warehousing Corporation (MSWC)	2.33	-	2.33	-
Total	**39.00**	**521.31**	**41.00**	**373.65**

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

The decrease in investment in working Statutory corporations during 2003-04 compared to 2002-03 was due to repayment of loan in respect of Meghalaya State Electricity Board by Rs.147.66 crore[(a)].

As on 31 March 2004, the total investment of working Statutory corporations comprised 9.89 *per cent* of equity capital and 90.11 *per cent* of loans as compared to 6.96 *per cent* and 93.04 *per cent* respectively as on 31 March 2003.

(a) The figure as per Finance Accounts 2003-04 is Rs.1.19 crore. The difference is under reconciliation.

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 State Government to working Government companies and working Statutory corporations are given in Appendices XXXII and XXXIV.

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 2003-04 is given below:

Table 6.4

(Rupees in crore)

	2001-02				2002-03				2003-04			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1.Equity	4	12.87	-	-	2	0.41	1	2.00	2	9.15	1	2.00
2. Loans	-	-	2	38.05	-	-	1	48.49	-	-	1	48.73
3. Grants	2	0.54	1	3.50*	1	0.20	1	2.70	-	-	-	-
4. Subsidy	1	0.01	1	11.00*	-	-	1	10.80	2	0.55	2*	13.15
Total outgo	**6@**	**13.42**	**2@**	**52.55**	**2@**	**0.61**	**2@**	**63.99**	**4@**	**9.70**	**2@**	**63.88**

During the year 2003-04, the Government had guaranteed the loans aggregating Rs.206.74 crore obtained by one Statutory corporation. At the end of the year, guarantees amounting to Rs.248.02 crore against one working Government company (Rs.1.38 crore) and one working Statutory corporation (Rs.246.64 crore) were outstanding.

Against guarantees given by 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 2003-04 amounted to Rs.1.38 crore. At the end of 2003-04, Meghalaya State Electricity Board (Board) defaulted in repayment amounting to Rs.11.45 crore. Guarantee commission amounting to Rs.7.92 crore (including current year: Rs.0.50 lakh) was due for payment by Board to the State Government.

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

@ These are the actual number of companies/corporations which have received budgetary support in the form of equity, loans, grants and subsidy from State Government during respective years.

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 relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of 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 financial year. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of the respective Acts.

It would be noticed from Appendix XXXIII that out of 10 working Government companies and three Statutory corporations, only one company *viz.*, Mawmluh Cherra Cement Limited and one corporation *viz.*, Meghalaya State Electricity Board had finalised their accounts for the year 2003-04 within the stipulated period. During the period from October 2003 to September 2004, 10 working Government companies finalised 12 accounts for previous years. During this period two Statutory corporations finalised two accounts for previous years.

The accounts of nine working Government companies and two Statutory corporations were in arrears for periods ranging from one to 14 years as on 30 September 2004 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-XXXIII	
	Govern-ment companies	Statutory corpora-tions			Govern-ment companies	Statutory corpora-tions
1.	02	01	2003-04	01	4 & 10	3
2.	01	-	2002-03 to 2003-04	02	9	-
3.	01	-	2001-02 to 2003-04	03	5	-
4.	01	-	1999-2000 to 2003-04	05	2	-
5.	01	01	1998-99 to 2003-04	06	3	2
6.	01	-	1997-98 to 2003-04	07	7	-
7.	01	-	1996-97 to 2003-04	08	6	-
8.	01	-	1990-91 to 2003-04	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 prescribed period. Though the concerned administrative departments and officials of the Government were appraised quarterly by the 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 XXXIII. Besides, statements showing financial position and working results of individual Statutory corporations for the latest three years for which accounts are finalised, are given in Appendices XXXV & XXXVI respectively.

According to latest finalised accounts of 10 working Government companies and three Statutory corporations, eight companies and two corporations had incurred an aggregate loss of Rs.6.51 crore and Rs.23.61 crore respectively and the remaining two companies and one corporation earned profit of Rs.2.59 crore and Rs.0.05 crore respectively.

Working Government companies

6.1.9 Profit earning working companies and dividend

Out of 10 working Government companies only one company *viz.*, Mawmluh Cherra Cements Ltd. has finalised its accounts for 2003-04 and earned profit of Rs.2.57 crore in the year 2003-04 and Rs.1.78 crore in the year 2002-03 but did not declare any dividend. The State Government has not formulated any dividend 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. 3, 4, 5, 6, 9 and 10 of Appendix XXXIII) had accumulated losses aggregating Rs.38.10 crore which had exceeded their aggregate paid-up capital of Rs.9.42 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. Nos. 3 and 10 of Appendix XXXIII) in the form of contribution towards equity, *etc*. According to available information, the total financial support so provided by the State Government by way of equity and grant during 2003-04 to these companies whose accumulated losses had exceeded the paid-up capital amounted to Rs.37.50 lakh.

Working Statutory corporations

6.1.11 Profit earning working Statutory corporations and dividend

Only one Statutory corporation (Serial 3 of Appendix XXXIII) which finalised accounts for 2002-03 by September 2004 and earned profit of Rs.5.07 lakh had declared dividend of Rs.0.30 lakh.

6.1.12 Loss incurring working Statutory corporations

The aggregate accumulated loss of two Statutory corporations (Sl. Nos. 1 & 2 of Appendix XXXIII) as per their latest finalised accounts was Rs.311.54 crore. As per available information, during 2003-04 the State Government had provided financial support aggregating Rs.63.88 crore to these Statutory corporations by way of loan (Rs.48.73 crore), equity (Rs.2 crore) and subsidy/grant (Rs.13.15 crore).

6.1.13 Operational performance of working Statutory corporations

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

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

Meghalaya State Electricity Board

- Percentage of transmission and distribution losses to total power available for sale increased from 21.90 in 2001-02 to 25.48 in 2003-04.
- Net power generated declined from 597.6 MKWH in 2001-02 to 524.8 MKWH in 2003-04.

Meghalaya Transport Corporation

- Average kilometers covered per bus per day decreased from 163 in 1995-96 to 154 in 1997-98.
- Loss per kilometer increased from paise 1,036 in 1995-96 to 1,117 in 1997-98.

6.1.14 Return on capital employed

As per the latest finalised accounts, the capital employed[#] worked out to Rs.82.04 crore in 10 working companies and total return[!] thereon was Rs.0.63 crore as compared to a negative return of Rs.1.83 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.340.65 crore and Rs.6.64 crore (1.95 *per cent*) respectively against the total return of Rs.5.11 crore (1.08 *per cent*) in previous year. The details of capital

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[#] 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/substracted from the loss as disclosed in the profit and loss account.

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

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

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

Table 6.6

Sl. No.	Name of Statutory corporations	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		Reasons for delay in placement in Legislature
			Year of SAR	Date of issue to the Government	
1.	Meghalaya State Electricity Board	2002-03	-	-	-
2.	Meghalaya Transport Corporation	1996-97	1997-98	28 April 2003	Under process of placement to Legislature
3.	Meghalaya State Warehousing Corporation	2000-01	2001-02	04 April 2003	-Do-

6.1.16 Disinvestment, Privatisation and Restructuring[a] of Public Sector Undertakings

Shares of none of the Public Sector Undertakings (PSU) have been disinvested nor has any PSU been privatised, restructured, merged or closed.

6.1.17 Results of audit by Comptroller and Auditor General of India

During the period from October 2003 to September 2004, the accounts of six Government working companies and two Statutory corporations were selected for review. The net impact of audit observations as a result of review of PSUs was as follows:

Table 6.7

Details	Number of accounts		Rupees in lakh	
	Government companies	Statutory corporation	Government companies	Statutory corporation
(i) Decrease in profit	1	1	16.78	2.61
(ii) Increase in profit	1	-	4.08	-
(iii) Increase in loss	1	1	14.02	307.32
(iv) Decrease in loss	-	-	-	-
(v) Non-disclosure of material facts	2	-	56.07	-
(vi) Errors of classification	-	1	-	2.61

[a] Restructuring includes merger and closure of PSUs.

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 (2002-03)

- Net profit has been overstated by Rs.16.78 lakh due to non-provision of (a) gratuity liability (Rs.15.82 lakh) and (b) interest on state Government loan (Rs.0.96 lakh).

Meghalaya Tourism Development Corporation Limited (1989-90)

- Net loss has been understated by Rs.10.83 lakh due to short provision of depreciation on furniture (Rs.0.54 lakh) and vehicle (Rs.0.29 lakh) and accountal of financial assistance of Rs.10 lakh received in 1991-92 as income.

6.1.19 Errors and omissions noticed in case of Statutory corporations

Meghalaya State Electricity Board (2002-03)

- The net loss for the year (Rs.24.56 crore) was understated by Rs. 3.07 crore due to (i) inclusion of interest of Trust Investment (Rs.0.68 crore) (ii) interest accrued and due of earlier years charged in the current account (Rs.0.05 crore) (iii) excess levying of storage charges (Rs.1.45 crore) (iv) non-adjustment of power charges on revised bills (Rs.0.09 crore) (v) non-provision of bad-debts (Rs.0.81crore) (vi) non-provision of loss due to theft of assets (Rs.0.01crore) (vii) short exhibition of repair maintenance expenses (Rs.0.07 crore) (viii) non-provision of liability (Rs.0.02 crore) and (ix) interest accrued and due on investment not provided in the accounts (Rs.0.11 crore).

Meghalaya Transport Corporation (Accounts for 1997-98)

- The net loss for the year has been overstated by Rs.1.42 crore (net) due to short exhibition of income (Rs.14.59 lakh), excess exhibition of expenses (Rs.36.85 lakh), excess consumption of spare parts (Rs.1.13 crore), excess exhibition of income (Rs.11.97 lakh) and short provision of expenses (Rs.10.29 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 2002-03[#] and taking into consideration the major irregularities and

[#] SAR for 2003-04 under process of finalisation.

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:

Table 6.8

(Rupees in crore)

Sl. No.	Particulars	2000-01	2001-02	2002-03
1.	Net surplus (+)/deficit (-) as per books of accounts	(-) 20.13	(-) 24.94	(-) 24.56
2.	Subsidy from the State Government	10.25	11.00	10.80
3.	Net surplus (+)/deficit (-) before subsidy from the State Government (1-2)	(-) 30.38	(-) 35.94	(-) 35.36
4.	Net increase/decrease in net surplus (+)/deficit (-) on account of audit comments on the annual accounts of the MeSEB	(-) 2.53	(-) 0.57	(-) 3.07
5.	Net surplus (+)/deficit (-) after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-) 32.91	(-) 36.51	(-) 38.43
6.	Total return on capital employed	15.41	8.76	13.28
7.	Percentage of total return on capital employed	4.31	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 needed improvement.

(a) The Statutory Auditors in their reports qualified that in respect of three companies (Sl. Nos. 1, 8 and 9 of Appendix XXXIII) no internal audit system exists or internal audit is not in commensurate with size and nature of business of the companies.

(b) Stocks have not been physically verified and dealt with properly in the accounts by four companies (Sl. Nos. 1, 5, 7 & 8 of Appendix XXXIII).

6.1.23 Response to inspection reports, draft paragraphs and reviews

Audit observations made during 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 respective heads of departments within a period of six weeks. Inspection reports issued up to March 2004 pertaining to 13 PSUs/Department disclosed that 365 paragraphs relating to 106 inspection reports remained outstanding up to September 2004. Of these, 58 inspection reports containing 162 paragraphs had not been replied for more than 10 years. Department-wise break-up of inspection reports and Audit observations outstanding as on 30 September 2004 is given in Appendix XXXVIII.

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. Out of five draft paragraphs and one review forwarded to the various departments during June and July 2004, replies to one draft paragraph and the review have not been received (November 2004) as detailed in Appendix XXXIX.

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) system of responding to the 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 September 2004 are shown below:

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	3
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	4
1998-99	1	2	1	2
1999-00	2	7	2	7
2000-01	2	4	2	4
2001-02	1	6	1	6
2002-03	1	4	1	4

Between July 1985 and April 1997, the COPU had presented 12 Reports (including three Action Taken Reports) before 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' : REVIEW

POWER DEPARTMENT

MEGHALAYA STATE ELECTRICITY BOARD

6.2 Fund Management

Highlights

Board is primarily responsible for development, generation and distribution of power in the most economic and efficient manner; the main sources of its fund are sale of power, loans/grants from Government, Rural electrification subsidy and borrowings including bonds.

(Paragraph 6.2.1)

Failure to revise load security deposit led to a loss of Rs.24.10 crore.

(Paragraph 6.2.6)

The revenue arrear stood at Rs.207.42 crore at the end of 2002-03 which represented 15.68 months' billing/assessment.

(Paragraph 6.2.9)

Board failed to avail of the rebate amounting to Rs.1.16 crore due to delay in payment of bills of power purchase and instead paid delayed payment surcharge to the tune of Rs.1.68 crore.

(Paragraph 6.2.18)

Injudicious rebate of Rs.2.01 crore was allowed to EHT consumers.

(Paragraph 6.2.19)

Rural Electrification subsidy of Rs.106.91 crore awaited realisation from the State Government.

(Paragraph 6.2.22)

6.2.1 Introduction

The Meghalaya State Electricity Board (MeSEB) was constituted on 21 January 1975 under Section 5(1) of the Electricity (Supply) Act, 1948[a]. In terms of Section 18 of the Act *ibid*, Board is primarily responsible for development, generation and distribution of electric power in the most economic and efficient manner. The main sources of fund for Board are sale of power (including sale of power to Assam), rural electrification subsidy, loans and grants from State Government and loans from Rural Electrification Corporation (REC). The outflow of fund is primarily towards capital works, purchase of power, repayment of loans to REC and establishment cost.

The fund requirements of the Divisions are allotted from the Head Office on the basis of annual budget prepared and forwarded by the Divisions and approved by Board. Funds are sent to the Divisions through Demand Drafts.

6.2.2 Organisational set up

The Finance Division of Board is headed by the Member (Finance). He is assisted by five Sr. Accounts Officers or Accounts Officers. The Principal Chief Engineer (Revenue and Commercial) heads the Revenue Divisions. He is assisted by the Superintending Engineer (HQ), two Superintending Engineers (Revenue) and Superintending Engineer (Commercial).

There are 36 Divisions out of which nine are Revenue Divisions under which there are 22 Revenue Sub-divisions to look after revenue billing and collection.

6.2.3 Scope of audit

The Review on tariff, billing and collection of revenue featured as paragraph 8.2 in the Report of The Comptroller and Auditor General of India for the year ended 31 March 2000 - Government of Meghalaya. The Report, presented to the State Legislature on 7 December 2001, has not been discussed by Committee on Public Undertakings so far (May 2004).

The present Review covers various aspects of revenue receipts, its appropriation for meeting various items of expenditure, borrowing from State Government, Financial Institutions and repayment of loan and payment of interest. Records of the office of Chief Accounts Officer, three Revenue Divisions, Superintending Engineer (Commercial) and 12 Divisions (other than Revenue Divisions) were test-checked (March 2004) for the period from April 1999 to March 2004.

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[a] Since replaced by the Electricity Act, 2003.

Audit findings as a result of test-check of records were reported to Government on 10 June 2004 with a request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that the view points of Government and Management were taken into account before finalising the review. The meeting of ARCPSE was held on 11 June 2004 which was attended by the Management and Government represented by Additional Secretary from Power Department, Chief Engineer, Superintending Engineer and Deputy Chief Accounts Officer from MeSEB and their views have been considered in the review.

6.2.4 Sources and Application of Funds

The sources (internal and external) and application of Funds of Board for the last four years up to 2002-03 were as under:

Table 6.12

(Rupees in crore)

		1999-2000	2000-01	2001-02	2002-03	Total
A	**Sources of Funds**					
(i)	Borrowings (net)	34.77	43.52	61.24	161.70	301.23
(ii)	Grants, contribution and subsidies	3.25	3.70	10.28	2.36	19.59
(iii)	Reserves	---	0.62	0.04	---	0.66
	Total	**38.02**	**47.84**	**71.56**	**164.06**	**321.48**
B	**Application of Funds**					
(i)	Acquiring of Fixed assets (including capital expenditure in progress)	8.20	12.39	19.84	99.79	140.22
(ii)	Deferred cost	0.79	0.35	0.21	0.66	2.01
(iii)	Investments	0.60	8.04	7.53	36.01	52.18
(iv)	Funds lost in operations	5.32	16.90	7.40	16.24	45.86
(v)	Increase in working capital	23.11	10.16	36.58	11.36	81.21
	Total	**38.02**	**47.84**	**71.56**	**164.06**	**321.48**

During the period from 1999-2000 to 2002-03[(b)] the total funds raised were Rs.321.48 crore which were mainly utilised in acquisition of fixed assets (Rs.140.22 crore) and investment in short term deposits (Rs.52.18 crore). There was increase in working capital of Rs.81.21 crore; Rs.45.86 crore were utilised to meet the deficit of Board.

6.2.5 Fund Management

It was observed that there were cases of under billing/short billing, delay in collection of revenue, substantial increase in receivables, improper cash management, *etc.*, leading to avoidable borrowings by Board as discussed in the succeeding paragraphs.

[(b)] 2003-04 figures not available. Board's Annual Account for the year not having been finalised.

Billing

6.2.6 Non-Revision of Load Security Deposit

In terms of Clause 27 of the Terms and Conditions (T&C) of Supply of Board made effective from 1989, security deposit equivalent to an estimated value of three months' consumption of power was required to be realised from the consumers. It was pointed out in paragraph 8.2.6.4 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 that the rates of security deposit prescribed in the T&C 1989 had not been revised in spite of four tariffs revisions made up to March 2000. Board made three further revisions thereafter (September 2001, October 2002 and November 2003), but had, however, not revised its Security deposit (March 2004).

During the period 1999-2004 Board sanctioned new service connections to seven Extra High Tension (EHT) and 21 High-Tension (HT) consumers. The actual consumption charges of these consumers for three months (December 2003 to February 2004) were Rs.28.61 crore (EHT: Rs.11.82 crore and HT: Rs.16.79 crore). But, Board raised a demand for load security deposit amounting to only Rs.4.51 crore worked out at the tariff rate prevailing in 1989. Thus due to non-revision of load security deposit, Board had to forgo Rs.24.10 crore in respect of Industrial consumers only which adversely affected its funds position.

Further, out of the total demand of Rs.4.51 crore raised from these consumers, Board actually realised only Rs.2.18 crore. The balance of Rs.2.33 crore (Rs.4.51 crore - Rs.2.18 crore), remained unrealised (March 2004).

Management in its reply (June 2004) stated that a Committee had already been constituted by Board to examine, review and modify the existing General Terms & Conditions of Supply of MeSEB with schedule of Miscellaneous charge. The report of the Committee was still (July 2004) awaited.

6.2.7 Loss of Revenue due to failure to insert monthly minimum charges clause in tariff

It was pointed out in paragraph 7.4 of the Report of Comptroller and Auditor General of India for the year ended 31 March 2003 that Board failed to insert appropriate clause (empowered by the Statute) for levy of minimum monthly consumption charges in the tariff for High Tension (HT) consumers whose energy meters were in order. Board consequently had to incur loss to the tune of Rs.5.29 crore in respect of 15 HT consumers under three divisions (Jowai Revenue Division, Ri-Bhoi Distribution Division and Tura Revenue Division).

Board despite above audit observation did not take any action to include the minimum charges clause in the tariff. During test-check of records in respect of HT consumers (whose meters were in order) under Khasi Hills Revenue Division, it was observed that in case of three HT consumers, Board incurred a loss of Rs.46.87 lakh during the period from January 2003 to January 2004.

Board in its reply (June 2004) stated that insertion of a clause for levy of minimum consumption to the consumers whose meter was working was against natural justice.

The reply is not tenable as (a) in terms of Section 49 of the Act, *ibid* Board is empowered to impose monthly demand charges as well as minimum energy consumption charges, (b) other State and Central Power Sectors have inserted clauses in their tariff for minimum energy consumption charges.

6.2.8 Delay in raising of energy consumption bills

As per the applicable tariff and the T&C of supply, Board is required to raise and serve the energy bills to the consumers on a monthly basis prescribing the due date for payment.

The "Revenue Division Khasi Hills", however, served bi-monthly bills to 76,940 consumers during the period from March 2002 to October 2003 amounting to Rs.6.97 crore, which caused delay in collection of revenue of Rs.3.49 crore by 30 days.

6.2.9 Collection of Revenue

In order to realise revenue from the consumers, Board is required to raise monthly energy consumption bills. Failure to collect revenue in time will affect the fund position of Board.

The position of billing demands raised, collections made and revenue outstanding for the period from 1999-2000 to 2002-03 is given in Appendix-XL. It would be seen from the appendix that:

- While the percentage of collection of revenue within the State varied from 69.17 to 77.49, in respect of inter-State sale it ranged from 5.09 to 20.30.
- The percentage of overall collection varied from 32.13 to 39.86.
- The arrears of revenue both within and outside the State had increased from Rs.153.27 crore at the end of 1999-2000 to Rs.207.42 crore at the end of 2002-03 which represented 19.52 and 15.68 months' billing demand of Board respectively.
- Board did not maintain age-wise break-up of outstanding dues, in the absence of which outstanding current and old dues could not be assessed or analysed in audit.

The irregularities in collection of revenue noticed in audit are discussed in the succeeding paragraphs.

6.2.10 Disconnection of defaulting consumers

As per clause 31.3 of the T&C, if the consumer fails to pay any bill presented to him within the prescribed period of payment, Board is empowered to take action under sub-section 1 of Section 56 of the Electricity Act, 2003 and disconnect the supply after giving such consumers not less than seven days notice in writing and without prejudice to its right to recover the amount of the bill by suit. In this regard audit observed that:

- Power Supply to 567 consumers (Jaintia Hills Revenue Sub-division) having dues of Rs.1.17 crore has not been disconnected. Neither any reasons were there on record for not disconnecting the supply, nor has any action been taken against the delinquent officials.
- Shillong Revenue Division had disconnected (since 1999) the power supply of three HT consumers having outstanding dues of Rs.1.09 crore but no action has been taken by Board to recover the dues so far (March 2004). Legal suits have also not been filed against the defaulting consumers.

6.2.11 Unrealised compensation bill

The Vigilance Wing of Board detected (February 2002 to February 2004) pilferage of power by eight HT consumers and served compensation bills for Rs.18.12 lakh (as per clause 34 of T&C) to seven consumers in September 2002 (Rs.14.18 lakh) and to one consumer in February 2004 (Rs.3.94 lakh). Though the consumers have not paid (March 2004) the bills, disconnection was not effected. Board's failure to take follow up action to disconnect power supply resulted in the non-realisation of compensation bills amounting to Rs.18.12 lakh.

Board in its reply (June 2004) stated that wherever any compensation bill is raised by the Vigilance Wing then that wing was the only authority for disconnection for non-payment; the concerned revenue Sub-division was only the accepting authority when any payment comes against compensatory bill.

In the reply Board has only pointed out who is the competent authority for disconnection. Fact remains that the Board failed to initiate action as envisaged under Sub-section 1 of Section 56 of the Indian Electricity Act, 2003 and connections which should have been disconnected are still live.

6.2.12 Dues from Government consumers

Scrutiny of revenue realisation records of Jowai Revenue Division, Khasi Hills Revenue Division and Shillong Revenue Division revealed that State Departments were not paying their electricity bills in time. The division-wise outstanding revenues as on 31 December 2003 are given below. It was observed in audit that none of the State Government departments was clearing its dues in full. Payments were received in parts which had resulted in accumulation of huge outstanding.

Table 6.13

(Rupees in lakh)

Sl. No.	Name of the Division	Number of consumers	Outstanding amount
1.	Jowai Revenue Division	78	434.00
2.	Khasi Hills Revenue Division	190	203.38
3.	Shillong Revenue Division	48	913.95
Total			**1551.33**

The major defaulting departments were as follows:

Table 6.14

(Rupees in lakh)

Sl. No.	Department	Outstanding amount
1.	Director of Urban Affairs, Shillong	96.44
2.	Director General of Police	205.93
3.	Secretary, General Administrative Department	29.20
4.	Director of Health Services	35.94
5.	Director of Animal Husbandry & Veterinary Department	10.87
Total		**378.38**

The Superintending Engineer, Revenue Circle proposed (February 2004) to disconnect the power supply to the defaulting consumers under the provisions of T&C and tariff. Board, however, abstained from doing so. No reasons for this were available (July 2004) on record. Age-wise analysis of dues have also not been made.

6.2.13 Outstanding against Assam State Electricity Board (ASEB)

Board supplies power to ASEB at 132 KV (EHV) as per agreement renewable from time to time. The supply is categorised as inter-State sale.

The arrears of dues from ASEB at the end of 2002-03 were Rs.153.72 crore which represented 49.20 *per cent* of the total current assets. It was observed that out of Rs.153.72 crore, Rs.95.78 crore have been lying outstanding since 1994-95 as delayed payment charges. No steps have been taken by Board to liquidate such huge arrears which were lying (July 2004) outstanding for more than nine years.

6.2.14 Cash Management

Board did not prepare the annual cash budget and cash flow statement which would have helped in assessing the actual fund requirements for discharging various obligations. As per procedure adopted by Board, the fund requirements of the divisions are sent from Head office by way of bank drafts to the respective current accounts of the divisions. In turn, the revenue sub-divisions deposit the collected revenue to various branches of the State Bank of India and subsequently send the same to the Head office by bank drafts for crediting to Board's collection accounts.

In this regard, the following points deserve mention:

6.2.15 Non-preparation of Bank Reconciliation Statement

Twenty-two Revenue Sub-divisions which were operating Bank Accounts (in SBI) for remittance and revenue collection were not preparing Bank Reconciliation even though monthly statements were received from the banks. It was observed that 156 cheques for Rs.12.13 lakh deposited in the bank, between April 1996 and December 2003 by Revenue Sub-division-I, Shillong, have not been credited to Board's account. On this being pointed out in audit, Board stated (June 2004) that the matter was taken up with the revenue division concerned. Due to failure to ascertain the position from banks, Board's fund amounting to Rs.12.13 lakh remained out of account from one to eight years.

6.2.16 Non-maintenance of revenue cash book

The Revenue Wing at Head Office did not maintain any revenue Cash Book to record the daily collections and the transfer of amount to the principal account. In the absence of the same, the demand drafts and cheques received are entered in a Register and sent to banks for collection. Though the Revenue Wing receives the statement from the Bank at the end of every month, in the absence of Cash Book the Bank reconciliation statement could not be prepared and in such a situation the chances of misappropriation or fraud can not be ruled out.

Board in reply (June 2004) stated that the matter was under examination.

6.2.17 Retention of funds by divisions

Board had not laid down any guideline regarding minimum or maximum holding of cash by the divisions. It was further observed that Board, after allocating the funds, was not ascertaining the details of unspent funds held by the division or adjusting the fresh allocation with the unspent balances held by the division.

Scrutiny of accounts revealed that the average cash holdings at the end of every month in the 14 divisions ranged from Rs.2.44 lakh to Rs.99.18 lakh during 1999-2000 to 2002-03.

Audit analysed the data for the year 1999-2000 and it was observed that during the year 1999-2000, average cash holding after meeting its expenditure by the 14 divisions was Rs.1.08 crore. Due to such high holding of cash by the divisions Board incurred a loss of interest amounting to Rs.30.34 lakh (worked out at a deposit rate of 7 *per cent* per annum) for four years up to 2002-03.

Board in reply (June 2004) stated that the guidelines for maintaining the minimum or maximum of cash holding could not be followed as Board had many divisions out of which some were having less cash transactions while some were having considerably more. The reply is not acceptable as an argument for not having any maximum and minimum levels. If necessary, Board could have different limits for different divisions. In the absence of maximum and minimum limit for cash holding by the divisions, chances of excess or idle funds with the divisions can not be ruled out resulting in poor management of funds and impairing Board's revenue earning capacity.

6.2.18 Failure to avail of rebate and avoidable payment of surcharge

On power purchase by Board, North Eastern Electric Power Corporation (NEEPCO) gives a rebate of 2.5 *per cent* or 1.75 *per cent*, provided the bills are paid by Board within the 20 or 30 days of the following month respectively. Further, payments against bills beyond the limit of 60 days attract interest at 15 *per cent* per annum.

It was observed that due to delay in payment of 36 bills submitted by NEEPCO during the period from July 2001 to September 2003, Board could not avail of rebate amounting to Rs.1.16 crore (no rebate availed of for 22 bills while rebate at the rate of 1.75 *per cent* only availed of in respect of 14 bills) and also paid delayed payment surcharge amounting to Rs.1.68 crore. The rebate could not be availed of in spite of availability of sufficient bank balances and short term deposits with Board.

Board attributed (June 2004) the delay to fund constraints and stated that the available funds were earmarked for capital works. However, since payments of power purchase bills had to be made, the delay only indicated poor fund management.

6.2.19 Injudicious rebate to EHT consumers

Board purchased power at 132 KV level from the Central Power Sector (NEEPCO, National Hydro Power Corporation Limited, National Thermal Power Corporation Limited, *etc*.) for supply to seven EHT consumers and received a rebate of 2.5 *per cent* for timely payment of the energy bills. Against this, Board gave a rebate of 5.2 *per cent* to the EHT consumers thereby incurring a loss of revenue amounting to Rs.2.01 crore during the period September 2001 to February 2004. As such, Board's policy of giving rebates in this regard needs to be reviewed.

6.2.20 Loss of interest

The funds received for projects were invested by Board in term deposits with banks. Audit scrutiny revealed that during the period from March 2000 to January 2002 there were seven cases of delay ranging from nine days to 65 days in investing funds resulting in a loss of interest amounting to Rs.14.60 lakh (worked out at the rate of 7 *per cent* per annum). Board while admitting (June 2004) the delay stated that the delay in deposit was caused by the inability to assess the fund requirements timely.

6.2.21 Unadjusted advance

The Material Management Division, MeSEB was procuring materials for Board as a whole. After procurement of materials the same were issued to Division concerned for execution of the jobs. In the process of procurement of materials, the Material Management Division, sometimes makes advance payment to the supplier and the amount of advance is adjusted against supply.

During scrutiny of records of the Material Management Division, it was noticed that advance payment of Rs.45.75 lakh released to 18 firms during the period from July 1995 to November 1999 was lying unadjusted (March 2004). On this being pointed out in audit, Board stated (June 2004) that Rs.7.44 lakh only has been adjusted.

The process of adjustments has been very slow affecting fund flow adversely.

6.2.22 Subsidy receivable

Board was undertaking rural electrification (RE) work in the State. Difference between total expenditure on supply of electricity to rural areas and revenue demand was being claimed as RE Subsidy from the State Government.

The details of RE Subsidy claimed by Board, the amount received from the State Government, and the balance of subsidy yet to be received from the State Government, during the period from 1999-2000 to 2003-04 are given below:

Table 6.15

(Rupees in lakh)

Year	Opening Balance	Subsidy claimed for the year	Subsidy received during the year	Percentage of subsidy received	Balance
1999-2000	5694.110	2345.075	930.00	11.57	7109.185
2000-01	7109.185	2325.480	950.00	10.07	8484.665
2001-02	8484.665	2445.221	1100.00	10.06	9829.886
2002-03	9829.886	1941.265	1080.00	9.18	10691.151

It could be seen from the above details that though there was steady increase in the amount of subsidy received from the Government, the maximum subsidy received was only 11.57 *per cent* in 1999-2000. As on 31 March 2003 the outstanding subsidy due from Government was Rs.106.91 crore. This had adversely affected the liquidity position of Board. Board in reply (June 2004) admitted the facts.

6.2.23 Internal Control

Having an Accounts Manual to guide the concerned personnel in their day to day activities is a fundamental requirement of any internal control mechanism. Board did not prescribe any such Accounts Manual. There was, thus, no clear-cut guidelines regarding collection and remittance of revenue, retention of funds in banks either in current accounts or in short term deposits, nor were there any pre-determined minimum and maximum amounts of cash that could be held in a division. Another fundamental requirement of internal control which is inspection of subordinate formations by higher management personnel was also not being followed in Board.

Board has an Internal Audit Wing with one Senior Accounts Officer, one Accounts Officer, two Assistant Accounts Officers and one Section Officer. The Internal Audit Wing covered 11 divisions in 2000-01, four divisions in 2001-02, seven divisions in 2002-03 and two in 2003-04. There were 705 paragraphs of Internal Audit Reports outstanding against 30 divisions as at the end of 2002-03 which shows that these paragraphs were not getting the priorities that they deserved. As on March 2004, Internal Audit was in arrears by four years in respect of 10 divisions, three years in respect of two divisions and one year in respect of 10 divisions. The gradual reduction in coverage as well as the heavy arrears indicated the inadequacy of the internal audit arrangement.

Board in its reply (June 2004) stated that the Audit Wing had its own Audit Manual. However, having an audit manual was not of much help since there was no Accounts Manual to standardise and streamline the procedures relating to accounts maintenance functions.

The above matters were reported to Government in July 2004 and followed up with a reminder in November 2004; reply had not been received (November 2004).

Conclusion

Efficient fund management requires concerted efforts to garner resources at the cheapest rates and at the right time, keeping in view the expenditure needs. Review of the fund management of Board revealed cases of short billing and poor collection of revenue. Board also failed to revise the load security deposit. Power supply to consumers who had not made payment of energy bills in time was not disconnected. Board had not fixed any cash holding limit for its Divisions. Instead of availing of rebate for timely payment of power purchase bills late payment surcharge was paid, in several cases. Board suffered revenue loss because of grant of higher rate of rebate to EHT consumers.

Board needs to strengthen its fund management by way of

- ensuring efficient revenue collection;
- defining clearly the cash holding limits of its Divisions;
- revision of load security deposit in tune with tariff revision;
- ensuring timely payment of power purchase bills to get the benefits of rebate on offer and formulation of a rebate policy so as to avoid payment of higher rebate on sale of power while getting lower rate of rebate on payment made for purchased power.

SECTION 'B' : PARAGRAPHS

FOREST & ENVIRONMENT, INDUSTRIES, MINING & GEOLOGY, PUBLIC WORKS AND TOURISM DEPARTMENTS

6.3 Delay in finalisation of accounts by the State Public Sector Undertakings

6.3.1 Statutory provisions for finalisation of accounts

In terms of Sections 166, 210, 230, 619 and 619(B) of the Companies Act, 1956, the accounts of Government companies for every financial year are required to be finalised within six months from the end of relevant financial year. Further, according to the provisions of Section 619-A(3) of the Act, *ibid*, the State Government is required to place an annual report on the working and affairs of each State Government company before the Legislature together with a copy of Audit Report and comments thereon made by the Comptroller and Auditor General of India (CAG) within three months of receipt of such report.

6.3.2 Extent of arrear in finalisation of accounts

As of 31 March 2004, there were 10 State Government companies of which only one company *viz*., Mawmluh Cherra Cements Limited (MCCL) had finalised its accounts for 2002-03. The accounts of remaining nine companies with investment aggregating Rs.82.72 crore were in arrears for periods ranging from one to 14 years.

Besides non-compliance with the Statutory provisions, delay in finalisation of accounts opens the system to risk of fraud and leakage of public money.

6.3.3 Reasons for delay in finalisation of accounts

Audit analysis revealed that the reasons for delay in finalisation of accounts were attributable to (i) abnormal delay in compilation/approval of the accounts and delayed submission of the same to the Statutory Auditors by the management, (ii) absence of programme for audit leading to delay in audit and certification by the Statutory Auditors, (iii) delay in adoption of accounts in Annual General Meeting (AGM) and (iv) lack of required control over the companies by Government. These are discussed in succeeding paragraphs.

6.3.4. Delay in approval and submission of accounts to Statutory Auditors

None of the companies had prepared its accounting manual detailing accounting procedures and duties, power and responsibilities of accounts staff. Further, there was lack of qualified accounting staff. Except MCCL and MIDC, the annual accounts of other eight companies were got compiled by engaging Chartered Accountant firms appointing them as internal auditors.

No time bound action plan for compilation/approval of accounts had been prepared by the companies. In absence of this, the compilation and approval by Board took abnormally long time after close of financial year varying from four to 161 months in respect of nine companies. The approved accounts were submitted to Statutory Auditors by the Management with delay varying from seven to 2,209 days in respect of nine companies.

6.3.5 Delay in certification of accounts by Statutory Auditors

The company was to draw a suitable programme for early completion of audit and the Auditors were to complete the audit within the schedule stipulated by the Management so that the statutory time schedule for placing the accounts in the AGM could be adhered to.

No audit programme stipulating schedule for audit and certification had, however, been drawn by any of the companies. The Statutory Auditors took inordinately long time varying from four to 545 days for certification of accounts after handing over of accounts by the Management. Further, it was observed that the accounts for the year were certified by the Statutory Auditors after six to 1,209 days since the date of adoption of previous years accounts.

6.3.6 Delay in holding of AGM

Section 171 of the Companies Act, 1956 provides that an AGM of a company may be called by giving a notice for 21 days or for shorter period if so consented by the members entitled to vote. Thus, a Government Company could hold its AGM within a maximum period of 30 days of receipt of comments/non-review certificate of CAG.

The companies took six to 331 days in convening the AGM in terms of Section 171 of the Companies Act, 1956. This adversely affected the clearance of arrear of accounts.

6.3.7 Action by the Government

The Government exercises its control over the companies through the concerned administrative department and Finance Department.

In terms of Memorandum and Articles of Association of these companies, the Government has the power to issue directives in the interest of the company. To fulfill these obligations, the Government was expected to take concrete steps to ensure that the accounts of these companies were finalised in time.

The position of arrears in finalisation of accounts were brought to the notice of the Government every six months. However, the position has not shown any improvement.

The matter was reported to Government in July 2004. Government (Tourism, Forest & Environment and Mining & Geology Departments) stated (October, November and December 2004) that appropriate steps were being taken by Meghalaya Tourism Development Corporation Limited, Forest Development Corporation Limited and Meghalaya Mineral Development Corporation Limited to clear the backlogs. Replies of Government (Industries and Public Works Departments) in respect of seven companies had not been received (December 2004).

INDUSTRIES DEPARTMENT

MEGHALAYA INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

6.4 Irregular sanction of Loan to Sick Units

Contrary to Government directives loan of Rs.3.50 crore sanctioned to two sick units have become doubtful of recovery.

The State Government provided between December 2000 and March 2002 Rs.18.33 crore as share capital out of additional Central assistance fund to Meghalaya Industrial Development Corporation Limited (MIDC) for extending financial assistance to industrial units. The Government's sanction (December 2002) contemplated, *inter alia,* that (a) the units selected for financial assistance should be technically and economically viable which can generate income for repayment of principal and interest and (b) complete tie up to be maintained for recovery of dues with a view to enable the company to recycle the funds.

The Company sanctioned (April 2002) working Capital loan of Rs.2 crore to Jaintia Cements Private Limited (JCPL) and term loan of Rs.1.50 crore to

Bomber Cement Plant Private Limited (BCPPL). Both the loans carried interest at the rate of 12 *per cent* per annum (plus 4 *per cent* per annum on delayed payment). The loan was to be repaid within three years (JCPL) and seven years (BCPPL), first installment of principal being due for payment from October 2002 and November 2002 respectively.

Scrutiny (July 2003) of the records of MIDC revealed that:

(a) As per accounts of JCPL for 1999-2000 submitted with the project report, the accumulated loss stood at Rs.14.31 crore as a result of which the net worth was negative (Rs.10.55 crore). Similarly, as per submitted accounts of BCPPL for 2000-01 (neither authenticated nor certified) the accumulated loss was Rs.1.54 crore and had negative net worth (Rs.1.36 crore). It was further observed that MIDC had invested (1988) Rs.26.05 lakh as equity in JCPL but did not get any dividend while in respect of BCPPL the company had waived interest of Rs.46.09 lakh and adjusted Rs.1.15 crore defaulted in repayment of earlier loans with the current loan. In spite of the sickness of the companies, the Core Group consisting of members of the Government and Managing Director sanctioned the loans violating the Government directives. The performance of the units after disbursement of loan had also not been monitored.

(b) As per sanction (April 2002) the assisted units were to maintain complete tie up with the Company for repayment of recoverable amount in three years (JCPL) and seven years (BCPPL) on half-yearly basis, as per recovery schedule. No repayment or recovery schedule was, however, prepared.

(c) None of the units has repaid (June 2004) any instalment of principal although a total amount of Rs.1.72 crore (JCPL: Rs.1.32 crore; BCPPL: Rs.0.40 lakh) had become overdue.

The Management in reply (February 2004) while admitting the facts stated that (i) loan to JCPL was provided as working capital to enable the company to overcome its difficulties and (ii) while the BCPPL after commissioning its plant in February 1999 found problems in plant and machinery and loan was provided as a rehabilitation package.

Thus, the sanction of loan of Rs.3.50 crore to these industrial units was in contravention to Government's directives. The chances of recovery of the loan amount is also doubtful due to the sickness of both the units.

The matter was reported to Government in July 2004. Government stated (January 2005) that JCPL had refunded Rs.8.11 lakh towards principal and the Corporation had been instructed to make efforts to recover the outstanding amounts from the companies.

POWER DEPARTMENT

MEGHALAYA STATE ELECTRICITY BOARD

6.5 Excess payment

Excess payment of Meghalaya Finance Tax (MFT) amounting to Rs.65.22 lakh due to wrong application of rate.

Under the Meghalaya Financial (Sales Tax) Act, steel tabular poles being a declared goods under the Central Sales Tax Act, attracts sales tax at the rate of 4 *per cent* on the value of sales.

Test-check (November 2003) of the records of Material Management Division, Shillong revealed that during the period April 2000 to March 2003 the local supplier of 'steel tubular poles' had claimed MFT at the rate varying from 5.3 to 13.2 *per cent* over the sale price, which was admitted and paid by the division. The total MFT paid was Rs.97.67 lakh on the cost of 34,716 steel tubular poles worth Rs.8.11 crore (base price) instead of the applicable rate of 4 *per cent* resulting in excess payment of Rs.65.22 lakh (Rs.97.67 lakh – Rs.32.45 lakh).

Board in reply (June 2004) admitted the facts. The Government endorsed (September 2004) the reply of Board.

6.6 Irregular procurement of materials

Deviation from purchase policy resulted in excess and unindented procurement of materials valued at Rs.17.78 lakh.

Based on indents and requirements of executing divisions against approved works and subject to availability of funds, the Material Management Division (MMD) of Board issues purchase and supply orders for procurement of materials at rates approved by the Purchase Committee.

Test-check (December 2003 and June 2004) of records revealed that the MMD started procurement of materials from April 2002 under Pradhan Mantri Gramodaya Yojana (PMGY) - II for electrification of 70 villages without having indents from the executing divisions. Funds were also not received from the Government under the scheme. The procurement was, however, made by diverting fund from Minimum Needs Programme (MNP). In

September 2002, the Superintending Engineer, Distribution Circle submitted indents for 52 items of materials (valued at Rs.3.97 crore) under the PMGY-II scheme.

Scrutiny in audit revealed that MMD procured (April-December 2002) 29 items (valued Rs.2.65 crore) under the scheme; of these five items (valued Rs.5.08 lakh) were not indented by the executing divisions; of the remaining 24 items (indented by the executing divisions), six items (valued Rs.12.70 lakh) were purchased in excess of the indented quantity.

Thus, excess and unindented procurement was not only irregular but also led to idle investment of Rs.17.78 lakh.

Further, because of diversion of funds from MNP to PMGY-II, 54 villages could not be electrified under MNP Scheme as on March 2004.

Board in reply (October 2004) admitted the facts and stated that the procurement of materials against the scheme without obtaining fund was initiated with a target of completion in time. The Government endorsed (October 2004) the reply of Board. The fact thus, remains that the purchase of materials was made in deviation from the purchase policy of Board.

TRANSPORT DEPARTMENT

MEGHALAYA TRANSPORT CORPORATION

6.7 Loss of revenue and unrealised rent

Loss of revenue of Rs. 16.84 lakh due to fixation of rent at lower rate and unrealised dues amounting to Rs.21.66 lakh.

The existing monthly rent of hired out rooms and open spaces of Corporation's main building at Jail Road, Shillong was fixed at Rs.110 and Rs.73 per sq. mtr. respectively in 1992. In January 2001, the Managing Director, without inviting quotations, accepted the offer of a private party and let out the entire third floor (area 607 sq. mtr.) and the terrace (area 435 sq.mtr.) of the building for running a hotel at a monthly rent of Rs.48,990 (Rs.47.02 per sq. mtr.). Accordingly, the Managing Director executed an agreement with the party and allotted the entire third floor and terrace with tenancy effective from August 2001. Though the approval of the Chairman of the Corporation was taken, Board's approval was not taken. The reasons for letting out the floor of the building at a rate (Rs.47.02 per sq. mtr.) much lower than the rates fixed in 1992 was not available on record. The monthly rent chargeable at the rate of rent fixed in 1992 works out to Rs.98,525 (607 sq. mtr. @ Rs.110 plus 435 sq. mtr. @ Rs.73). Due to fixation of rent at a lower rate, the Corporation incurred loss of revenue amounting to Rs.16.84 lakh from August 2001 to May 2004 (Rs.98,525 – Rs.48,990).

Further, as per terms of agreement the party was to pay Rs.5 lakh as security deposit within 90 days of the agreement and the rent was to be paid by 10th of each month. In case of default interest at the rate of 15 *per cent* per annum was leviable. The security deposit was not initially paid by the tenant. Clause 14 of the agreement, however, provided for adjustment of the cost of modification and addition and alteration made by the tenant to the existing structure out of the rent payable or security deposit. The hotel started functioning from September 2001. It was further observed that certain modifications or addition and new construction (which remain un-assessed) had been done by the tenant without any approval of the Corporation. Inclusion of the Clause 14 in the agreement giving the absolute rights to the tenant to carry out modification, addition or alteration was not in the interest of the Corporation and led to non-realisation of Rs.21.66 lakh till May 2004 towards rent amounting to Rs.16.66 lakh since August 2001 to May 2004 (Rs.48990 x 34 months) and security deposit of Rs.5 lakh. The future recovery of the dues is also rendered doubtful.

On these being pointed out in Audit, the Management stated (July 2004) that (a) the rent was finalised at the lower rate due to lack of interested parties, (b) the actual allotment was 65 *per cent* of the total areas, (c) security deposit of Rs.5 lakh has been realised in July 2004, (d) steps have been taken for realisation of rent by issue of notices and personal contacts or by initiating legal action, and (e) measures were being taken to modify the unfavourable clause of the agreement. The reply is not tenable as (a) the rent was finalised on the basis of a *suo motu* proposal without calling for tenders, and (b) the area of allotment stated in the reply contradicts the area of allotment specified in the agreement and its schedule. Further development in respect of (d) and (e) of reply are awaited (October 2004). The Government endorsed (October 2004) the replies of the management without any comment.