CHAPTER-VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

CHAPTER – VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7. General

This chapter deals with the results of audit of accounts of the Government companies and departmentally managed commercial undertakings. Paragraph 7.1 gives a general view of the Government companies and departmentally managed commercial undertakings, paragraphs 7.2 to 7.4 deal with miscellaneous topics of interest.

7.1 Overview of Government companies and Departmentally managed commercial undertakings

7.1.1 Introduction

As on 31 March 2007, there were five Government companies (all working) and two departmentally managed commercial undertakings *viz.*, State Trading Scheme[1] under the Food, Civil Supplies and Consumer Affairs Department and Mizoram State Transport[1] under the Transport Department as against the same number of Government companies and departmentally managed commercial undertakings as on 31 March 2006 under the control of the State Government. The results of audit of the Power and Electricity Department are also incorporated in the Commercial Chapter (Paragraph 7.1.15). The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors who are appointed by the Comptroller and Auditor General of India (C&AG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by the Comptroller and Auditor General (C&AG) as per the provisions of Section 619 (4) of the Companies Act, 1956. The accounts of departmentally managed Government commercial undertakings are audited by the C&AG under Section 13 of C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

7.1.2 Working Government companies

The total investment in working Government companies at the end of March 2006 and March 2007 was as follows:

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[1] *State Trading Scheme and Mizoram State Transport are undertakings under the 'Food, Civil Supplies and Consumer Affairs Department' and 'Transport Departmen't respectively for which proforma accounts are prepared.*

Table 7.1

(Rupees in crore)

Year	Number of companies	Equity capital	Share application money	Long term loans♦	Total
2005-06	5	43.60	10.31	22.86	76.77
2006-07	5	46.29	9.47	33.47	89.23♠

The increase in total investment was due to increase in equity mainly in PSUs in Food Processing, Handloom and Handicrafts and Electronics Development sectors and increase in loan in respect of Industrial Development and Financing Sector.

The summarized position of Government investment in the working Government companies in the form of equity and loans is detailed in ***Appendix-7.1.***

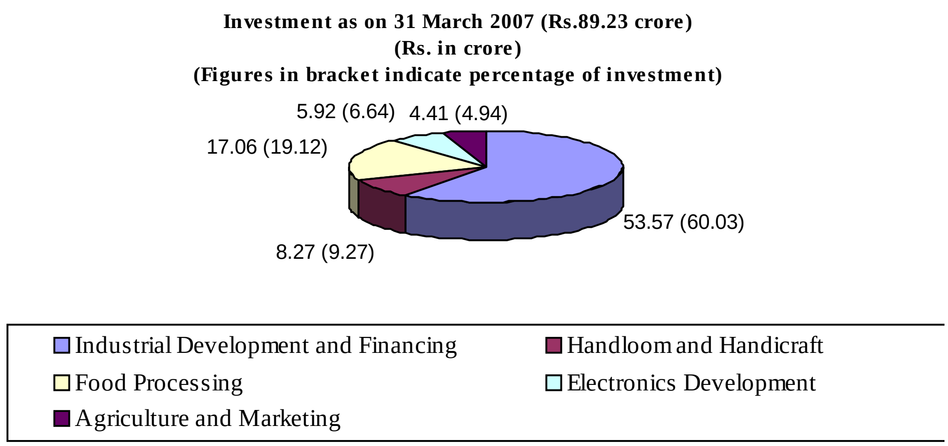
As on 31 March 2007, the total investment in Government companies comprised of 62.49 *per cent* of equity capital and 37.51 *per cent* of loans as compared to 70.22 per *cent* and 29.78 per *cent* respectively as on 31 March 2006.

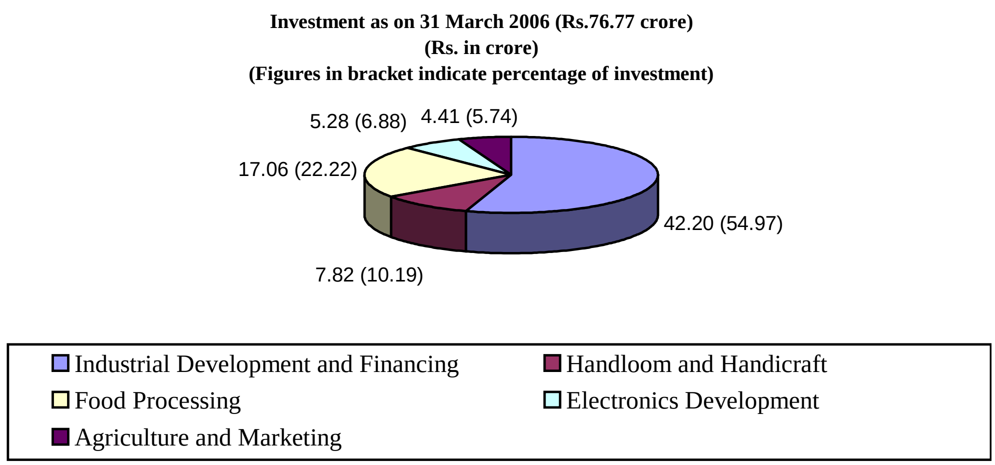
7.1.3 Sector-wise investment in working Government companies

The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2007 and 31 March 2006 are indicated in the following pie charts:

♦ *Long term loans are excluding interest accrued and due on such loans.*

♠ *State Government investment was Rs. 54.03 crore (Others: Rs. 35.20crore). Figure as per Finance Account 2006-07 is Rs.1.45 crore. The difference is under reconciliation.*





7.1.4 Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity as provided to the working Government companies by the State Government are given in ***Appendices–7.1*** and ***7.3***

The budgetary outgo in the form of equity capital and grant/subsidy from the State Government to the working Government companies for the three years upto 31 March 2007 was as follows:

Table 7.2

(Rupees in crore)

	2004-05		2005-06		2006-07	
	Companies		Companies		Companies	
	No.	Amount	No.	Amount	No.	Amount
Equity capital	4	1.67	4	6.16	3	2.10
Grants/subsidy	3	1.12	4	1.12	5	2.22
Total:	**5**[2]	**2.79**	**5**[2]	**7.28**	**5**[2]	**4.32**

During the year, the State Government guaranteed loans of Rs. 36.21 lakh obtained by Mizoram Food and Allied Industries Corporation Limited. As on 31 March 2007, guarantees amounting to Rs.36.21 lakh were outstanding against Mizoram Food and Allied Industries Corporation Limited. No guarantee commission was payable to the State Government by the Government companies. There was no case of conversion of Government loans into equity, moratorium in repayment of loan and waiver of interest.

7.1.5 Finalisation of accounts by working PSUs

The accounts of the Government 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, Power and Conditions of Service) Act, 1971. The accounts duly audited are also to be laid before the State Legislature within nine months from the end of the financial year.

Out of five working Government companies, none of them finalized its accounts for the year 2006-07. During October 2006 to September 2007, three[♣] working Government Companies finalized their accounts for previous years.

The accounts of five working Government companies were in arrears for periods ranging from one to eight years as on 30 September 2007, as detailed below:

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[2] *These are actual number of companies, which have received budgetary support in the form of equity and grant from the State Government during the respective years.*

[♣] *Zoram Electronics Development Corporation Limited, Mizoram Agricultural Marketing Corporation Limited and Mizoram Food and Allied Industries Corporation Limited*

Table 7.3

Sl. No.	No. of working Government companies	Period for which accounts are in arrear	Number of years for which accounts are in arrear	Reference to Sl. No. of Appendix – II
1.	1	1999-00 to 2006-07	8	2
2.	2	2001-02 to 2006-07	6	4 & 5
3.	1	2002-03 to 2006-07	5	3
4.	1	2006-07	1	1

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments of the Government were being apprised quarterly by the audit regarding arrears in finalisation of accounts, no remedial measures have been taken by the Government to get the accounts finalised and as a result the net worth of these companies could not be assessed in audit.

7.1.6 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government companies) as per their latest finalised accounts are given in ***Appendix -7.2*** According to the latest finalised accounts, all the working Government companies had incurred an aggregate loss of Rs.5.19 crore.

7.1.7 Return on capital employed

The details of capital employed and total return on capital employed in case of working Government companies are given in ***Appendix –7.2***. As per the latest finalised accounts of five working companies, the capital employed[3] worked out to Rs.53.41 crore and total return[4] thereon amounted to Rs.(-) 4.86 crore as compared to total return of Rs.(-) 3.69 crore in the previous year.

7.1.8 Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

During the period from October 2006 to September 2007, the accounts of three Government companies were selected for audit. The major errors and omissions noticed during the audit are mentioned below:

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

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

7.1.9 Mizoram Agricultural and Marketing Corporation Limited (2000-01)

The Company failed to disclose in the notes to accounts the salary and remuneration paid to the Managing Director amounting to Rs.3.76 lakh as required in terms of para 4 of Part-II , Schedule VI of the Companies Act, 1956.

An amount of Rs.1.65 lakh of internal audit fees, MIS and accounting fees pertaining to earlier years accounted for in the current year resulted in overstatement of loss by Rs. 1.65 lakh.

7.1.10 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 by them in accordance with the directions issued to them by the Comptroller & Auditor General of India under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which need improvement. The Statutory Auditors in their reports on the annual accounts of the companies pointed out that in four companies[♣] the internal audit system was not commensurate with the size and nature of business of these companies.

7.1.11 Recommendations for closure of PSUs

Even after completion of 13 to 16 years of their existence, the turnover of four[♦] working Government companies has been less than Rupees five crore in each of the preceding five years as per their latest finalised accounts. Similarly, four[♥] Government companies had been incurring losses for five consecutive years leading to negative net worth. In view of poor turnover and continuous losses, the Government may take initiatives either to improve the performance of these Government companies or consider their closure.

♣ *Zoram Industrial Development Corporation Limited, Mizoram Handloom And Handicrafts Development Corporation Limited , Mizoram Food and Allied Industries Corporation Limited and Zoram Electronics Development Corporation Limited*

♦ *Mizoram Handloom And Handicrafts Development Corporation Limited , Mizoram Food and Allied Industries Corporation Limited, Zoram Electronics Development Corporation Limited and Mizoram Agriculture Marketing Corporation Limited*

♥ *Zoram Industrial Development Corporation Limited, Mizoram Handloom And Handicrafts Development Corporation Limited , Mizoram Food and Allied Industries Corporation Limited and Zoram Electronics Development Corporation Limited*

7.1.12 Departmentally managed Government commercial and quasi-commercial undertakings

As on 31 March 2007, there were two departmentally managed commercial undertakings *viz.*, State Trading Scheme under Food, Civil Supplies and Consumer Affairs Department and Mizoram State Transport under Transport Department.

The proforma accounts of the State Trading Scheme for 2004-05 to 2006-07 and of Mizoram State Transport for 2002-03 to 2006-07 were in arrear (September 2007). Though the administrative department of the Government was being apprised quarterly by the audit regarding arrears in finalization of accounts, no remedial measures have been taken by the Government to get the accounts finalized and as a result the net worth of these Undertakings could not be assessed in audit.

7.1.13 State Trading Scheme

Based on the latest finalised accounts, the financial position and working results on the operation of the scheme for the three years from 2001-02 to 2003-04 are tabulated in ***Appendix – 7.4***

It may be seen from *Appendix* - IV that the accumulated loss of the State Trading Scheme as on 31 March 2004 (after provision of interest on Government capital of Rs.61.53 crore) was Rs.59.02 crore. The Scheme was to run on 'no profit no loss basis' so that maximum benefit could be provided to the general public by recovering from them only the cost price of food and incidental charges as far as possible. As per proforma accounts, the Scheme earned trading profit of Rs.0.16 crore for the year 2002-03 but incurred loss of Rs.3.80 crore during the year 2003-04. Audit scrutiny, however, revealed that the trading losses for the year 2003-04 would be more by Rs.7.26 crore had food grains shortages worth Rs.6.21 crore (23803 quintals of rice and 42676 quintals of sugar) and physical cash shortages of Rs.1.05 crore been accounted for in the books of accounts.

7.1.14 Mizoram State Transport

The operational performance of Mizoram State Transport (MST) for three years ended 31 March 2007 is given in ***Appendix–7.5***. It may be seen from the Appendix that during the three years ending 31 March 2007, Mizoram State Transport incurred operating losses of Rs.7.51 crore, Rs.6.07 crore and Rs.6.03 crore respectively. The net loss incurred during these years was Rs.9.87 crore, Rs.7.99 crore and Rs.7.98 crore respectively. The reasons for incurring heavy losses were attributed by the Management to poor utilisation of buses (50 to 53 *per cent*) and low load factor (occupancy) of 42 to 48 *per cent*, inclusion of unapportioned salaries/wages and expenses of other functional units of the Transport Directorate as expenses of the Transport Department and high incidence of salaries and allowances and other operating expenses. The losses per kilometer operated during the three years up to 2006-07 were Rs.58.04, Rs.46.26 and Rs.45.68 respectively.

7.1.15 Power and Electricity Department

The operational performance of the Department for the last three years up to 2006-07 is given in ***Appendix –7.6.***

The total expenditure on power sold during three years up to 2004-05 was Rs. 101.91 crore, Rs.129.77 crore and Rs. 108.50 crore as against the revenue of Rs. 54.41 crore, Rs.80.37 crore and Rs. 44.60 crore respectively. Thus, losses of Rs. 47.50 crore, Rs.49.40 crore and Rs.63.90 crore respectively were incurred during these three years.

The percentage of transmission and distribution (T&D) losses varied from 35 to 38.71 *per cent* as against the norm of 15.5 *per cent* fixed by the Central Electricity Authority. During the year 2006-07, the excess T&D losses over the norms were 48.66 million units valuing Rs.9.88 crore (worked out at average revenue per unit).

7.1.16 Response to inspection reports, draft paras and reviews

Observations made during audit and not settled on the spot are communicated to the heads of the companies and concerned departments of the State Government through Inspection Reports. The heads of companies/offices 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 2007 pertaining to five Government companies, two departmentally managed commercial undertakings and the Power and Electricity Department disclosed that 118 paragraphs relating to 42 inspection reports remained outstanding at the end of September 2007. Of these, 19 inspection reports containing 49 paragraphs had not been replied to for more than three years. Department-wise break-up of inspection Reports and paragraphs outstanding as on 30 September 2007 is given in ***Appendix* – 7.7.**

Similarly, draft paragraphs and reviews on the working of the Government companies and departmentally managed commercial undertakings 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. One draft paragraph was forwarded to Power & Electricity Department in May 2007 for which reply has not been received so far (October 2007).

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

7.1.17 Position of discussion of Commercial Chapter of Audit Reports by the Committee on Public Undertakings (COPU)/Public Accounts Committee (PAC)

The following table gives details regarding the number of reviews and paragraphs of the Commercial Chapter of the Audit Reports discussed by COPU/PAC (as at the end of 31 March 2007):

Table 7.4

Period of Audit Reports	Total number of Reviews/paragraphs appearing in commercial chapter		Number of Reviews/Paragraphs discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
1993-1994	-	4	-	3
1995-1996	1	4	1	2
1996-1997	-	4	-	2
1997-1998	1	3	1	2
1998-1999	-	3	-	2
1999-2000	1	7	-	3
2000-2001	-	2	-	2
2001-2002	-	4	-	-
2002-2003	1	5	-	1
2003-2004	-	5	-	-
2004-2005	1	2	-	-
2005-2006	-	4	-	-
Total	**5**	**47**	**2**	**17**

SECTION 'A': PERFORMANCE REVIEWS

INDUSTRIES DEPARTMENT

7.2 MIZORAM FOOD AND ALLIED INDUSTRIES CORPORATION LIMITED

Highlights:

Mizoram Food and Allied Industries Corporation Limited was incorporated (December 1989) with a view to optimally utilise the available business opportunity and create facilities by infusing proper technology in processing of Agro-products. Its main objective was to establish proper marketing linkages between farmers and manufacturers with the technological support for the development of food processing industries in the state of Mizoram. Even after 17 years of existence, the Company has failed to achieve the maximum plant utilization and production and is not working on sound business principles as observed by COPU.

The accumulated loss of the Company increased from Rs.11.70 crore in 2002-03 to Rs.15.92 crore in 2006-07.

(*Paragraph 7.2.8*)

Grant-in-aid of Rs.3.92 crore relating to ongoing projects were diverted and utilized for administrative and maintenance expenses of the Company.

(*Paragraph 7.2.10*)

Due to under utilization of installed capacity, the Company incurred cash loss of Rs.16.17 lakh and total loss of Rs.1.64 crore during 2002-03 to 2006-07.

(*Paragraph 7.2.14*)

Delayed commencement of commercial production in the four projects of the Company from two to eight years resulting in loss of revenue of Rs.4.86 crore *per annum*

(*Paragraphs 7.2.18, 7.2.19, 7.2.20, 7.2.22*)

Introduction

7.2.1 Mizoram Food and Allied Industries Corporation Limited (Company) was incorporated (December 1989) as a wholly owned Company of the State Government with a view to optimally utilise the available business opportunity and create facilities by infusing proper technology in processing of Agro-products. Its objective was to develop, promote and improve processing and preservation of food, milk, fish, fruits, vegetables and all food materials of animal, poultry agriculture and pisci-culture. The Company was also to buy, stock, sell, import and export and generally to deal in such processed foods.

Presently the Company is engaged in preparing and processing fruit juices, squash, ready-to-serve beverages and canning at Fruit Juice Concentrate Plant(FJCP), Chhingchhip. The Company is under the process of upgrading its existing facilities of Food Processing Plant (FPP) at Sairang and FJCP at Chhingchhip. The Company is also in the process of setting up Food Park at Chhingchhip and Pork and Poultry Processing Plant (PPP), Zemabawk.

The Company has also been designated (July 1992) by the State Government as 'Nodal Agency' for Food Processing Industries (FPI) and to implement the Plan schemes of the Union Ministry of Food Processing Industries (MOFPI).

The Management of the Company is vested in a Board of Directors (BOD) consisting of eight Directors (including Managing Director), all appointed by the State Government. The Managing Director(MD) is the Chief Executive of the Company and is assisted by five Deputy Managers in the Head Office. The production unit in Chhingchhip is headed by an Assistant Manager.

A review on the activities of the Company was included in paragraph 8.4 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1996, Government of Mizoram. The State Committee on Public Undertakings (COPU) had discussed (13 June 2002) the paragraph and its recommendations were included in their Second Report presented (October 2001) to the State Legislature. The COPU, *inter alia*, recommended that realistic plans should be made to achieve the maximum plant utilisation and production and the Company should run on 'Sound Business Principles'.

Scope of Audit

7.2.2 A review on the working of the Company covering the period from 2002-03 to 2006-07 was conducted during February-March and August 2007 through a test-check of records at the Head Office of the Company, production units in Chhingchhip and Sairang and all the four ongoing projects. In addition, audit also covered the evaluation of performance of the Company as Nodal Agency for development of FPI's in the State.

Audit Objectives

7.2.3 The performance review was conducted with a view to ascertain whether:

- the facilities created for the production of fruit concentrate, etc were utilised to the optimum level economically, efficiently and effectively and the company was able to sell the entire production;
- the ongoing projects were completed as per schedule economically, efficiently and effectively;
- the company complied with the assurance given to the COPU in Action Taken Note by the State Government;
- the necessary assistance was provided to the target groups (i.e. small and medium scale entrepreneurs and farmers) for optimizing the output;
- there was a well defined market strategy for promotion of sales and creation of public awareness for its products; and
- the Company achieved its objectives as the Nodal Agency.

Audit Criteria

7.2.4 The audit criteria adopted for assessing the achievement of audit objectives were:

- Targets and norms fixed by the Company for production, consumption of raw materials and various utilities and sales;
- Detailed Project Reports (DPRs)/Feasibility Reports of ongoing projects and plant upgradation plans;
- The assurance given to the COPU in Action Taken Note by the State Government;
- Decisions taken by the BOD of the Company;
- Targets fixed for providing assistance to the target groups; and
- Targets fixed in Ninth and Tenth Five Years Plans for FPIs.

Audit Methodology

7.2.5 The methodology adopted for attaining audit objectives with reference to audit criteria were:

- examination of Annual Reports and agenda papers/minutes of the meetings of BOD, minutes of the officers' monthly meeting;

- analysis of the performance of purchase, sales and inventory management of the production unit at Chhingchhip;
- scrutiny of the DPRs of ongoing projects, their implementation and status reports;
- scrutiny of sanctions of grants-in-aid, its disbursement and utilization;
- examination of purchase and supply orders for the capital assets, tender selection process;
- analysis of the performance of FPIs under Five Year Plan Schemes; and
- issue of audit observations and inter-action with the Management.

Audit Findings

Audit findings emerging from the performance audit were reported (June 2007) to the State Government and discussed (6 September 2007) in the exit conference with the Management. The views expressed by the Management during the said meeting have been taken into consideration while finalising the performance audit. The audit findings are discussed in the subsequent paragraphs.

Corporate Plan

7.2.6 Corporate Plan indicates the long term policy of a Company and translates its corporate objectives into workable action plans. The COPU also recommended (October 2001) that the Management should make realistic plans to achieve maximum plant utilisation and production.

The Management stated (August 2007) that it has formulated five year plans in line with that of the State Government. Audit scrutiny revealed that the five year Corporate Plan of 2002-07 did not emphasize the corporate long-term policy, objective, fixing targets of production, evolving budgetary, quality, inventory control. Further, commissioning of all on going projects though planned in November 2001 for the plan period 2002-2007 was yet to be implemented (September 2007).

Financial Management

Capital Structure and Financial Performance

7.2.7 The Company was registered with an authorised capital of Rs.10 crore, which was increased (May 2006) to Rs.20 crore. As on 31 March 2007, the paid up capital of the Company stood at Rs.17.06 crore, of which the shares of the Central and State Governments were Rs.1.36 crore and Rs.15.70 crore respectively.

7.2.8 The Company had finalized its accounts upto the year ending March 2002 and had prepared provisional accounts for the years 2002-03 to 2006-07. The summarised financial position and working results of the Company for the five year period ending 31 March 2007 are given at ***Appendix* – *7.8.*** It could be seen from the Appendix VIII that the net loss of the Company ranged between Rs.0.86 crore and Rs.1.16 crore during 2002-03 to 2006-07. The accumulated losses increased from Rs.11.70 crore in 2002-03 to Rs.15.92 crore in 2006-07.

Audit scrutiny further revealed that:

- the Company had been incurring losses since inception. The Company had also not evolved any system to forecast annual budgeted profitability for operation of its annual activities.
- the Company had not introduced any system of financial planning nor prepared cash flow or fund flow statements for best utilization of available funds to avoid working loss. Further, no action was taken to improve the working capital.

The Management admitted (March 2007) that it had not evolved any system to forecast budgeted profitability for operation of its activities. Thus, even after 17 years of operation, the Company failed to draw any plan to run its affairs on sound business principles as recommended (October 2001) by the COPU.

Grants-in-Aid

7.2.9 During 2002-2007, the Company received grants-in-aid of Rs.7.47 crore from the State Government (Rs.4.40 crore) and MOFPI (Rs.3.07 crore) for implementation of various projects and schemes under five year plan for development of FPI's.

Utilisation of Grants-in-aid

7.2.10 An analysis of receipt of Grants-in-aid of Rs.7.12 crore for implementation of ongoing projects (FPP, Sairang, FJCP, Foodpark, Chhingchhip and PPP, Zemabawk) revealed that the Company utilized only Rs.3.20 crore for execution of the projects and the balance amount of Rs.3.92 crore (55.06 *per cent*) was diverted and utilized for meeting the administrative and maintenance expenses (which were accounted for under pre-operative expenses and capital work-in-progress of the respective ongoing projects) of the Company. Thus, grants amounting to Rs.3.92 crore were utilized for purposes other than for which these were given resulting in non-achievement of the envisaged objectives of the projects.

Inflated value of assets

7.2.11 Audit examination of accounts revealed that due to financial constraints, the Company had accounted the administrative and maintenance expense of Rs.4.42 crore (including Rs.3.92 crore relating to 2002-07) under Capital work-in-Progress and Pre operating expenses which were not related to the concerned ongoing projects. This resulted in fictitious (inflated) creation of assets of the concerned project and consequently understatement of losses by Rs.4.42 crore.

Avoidable Payment of Interest and penalty to the Employees Provident Fund Organisation

7.2.12 The officers and staff of the Company are covered by Employees Provident Fund (EPF) Scheme under Employees Provident Funds and Miscellaneous Provisions Act, 1952. As per the Scheme, it is the statutory responsibility of the employer to remit employees' as well as employer's share of EPF contributions to the office of the Employees Provident Fund Organisation (EPFO), Shillong. Audit scrutiny revealed that the Company defaulted in remittance of EPF contributions of Rs.72.41 lakh (including employees' share of Rs.15.93 lakh between January 1993 to September 2005) to the Assistant Provident Fund Commissioner, Shillong due to financial constraints. The State Government (January 2005) provided grants-in-aid of Rs.20 lakh to the Company to meet the requirement of funds. The Assistant Provident Fund Commissioner, Shillong charged (August 2003, July 2004, June 2005 and February 2006) interest of Rs.5.70 lakh and imposed (January 1993 to September 2005) penalty of Rs.8.18 lakh, which were paid (January, February, July 2005 and May 2006) by the Company. Thus, non-payment of EPF dues in time resulted in avoidable expenditure of Rs.13.88 lakh thereby adversely affecting the financial health of the Company.

The Management stated (August 2007) that the payment of interest and penal charges to the EPFO due to belated contribution from January 1993 to September 2005 was unavoidable due to demand raised (April 2004) by EPF authority belatedly and insufficient funds provided by the State Government. The reply is not tenable as the timely payment of contribution to EPF organisation was the statutory responsibility of the employer and the Company should have arranged funds for making payment in time to avoid payment of interest and penal interest

Activities of the Company

7.2.13 During the last five years ending March 2007, the main activities of the Company were as follows:

1. Processing and preparation of fruit juices, squashes, ready-to-serve beverages and canning at FJCP, Chhingchhip;

2. Upgradation of existing facilities (FJCP, Chhingchhip and FPP, Sairang), and creation of new facilities (Food Park at Chhingchhip and Pork and Poultry Processing Plant (PPP), Zemabawk)

3. Implementation of various schemes as a Nodal Agency.

Activity-wise position is discussed in the succeeding paragraphs.

Performance of Fruit Juice Concentrate Plant (FJCP), Chhingchhip Production

7.2.14 The Company had set up (May 1998) FJCP, Chhingchhip for processing of fruits like passion, pineapple, orange and other fruits with a view to generate gainful self employment for rural growers and to provide assured market for their produce. The installed capacity of the plant was 1400 MT. The plant, however, had facilities for extraction of juice (140 MT), preparation of squashes (558 MT), canning (126 MT) and fruit concentrate (8 MT). Thus, the total available capacity worked out to 832 MT (say 830 MT-59.43 per cent) only.

It was noticed that the Company had not fixed any target or benchmark or breakeven point for utilisation of the installed capacity of the plant. Consequently, its achievement vis-à-vis the capacity could not be analysed in Audit. It was also noticed that the Company had not maintained the daily production records such as log book register for recording the working of plant and machinery, utilisation of raw materials, other inputs, manpower and total quantity of items produced per shift/day. As such, audit could not verify the daily raw material, other inputs, manpower, etc. utilised for daily production as well as details of direct over-heads and the quantity produced vis-à-vis cost effectiveness of the individual products.

The table below summarises the actual capacity utilised, actual production value and production cost during 2002-03 to 2006-07:

Table 7.2.1

(Rupees in lakh)

Year	Actual produc-tion (MT)	Percentage of production capacity utilized with reference to available capacity (830 MT)	Actual produc-tion value [φ]	Production cost			Percentage of actual cost to actual value of production	Excess of variable cost over actual production value (Cash loss)
				Variable cost	Fixed cost	Total cost		
2002-03	23.91	2.88	7.88	7.80	27.95	35.75	453.68	0.08
2003-04	34.76	4.19	7.11	10.46	25.76	36.22	509.42	3.35
2004-05	35.12	4.23	3.58	9.74	27.49	37.23	1039.94	6.16
2005-06	53.28	6.42	18.15	24.73	29.17	53.90	296.97	6.58
2006-07	68.79	8.29	30.18	25.53	30.84	56.97	188.76	-
							Total	16.17

Source: Company's data.

Analysis of the details given in the table reveals the following:

- the percentage of capacity utilisation ranged between 2.88 and 8.29 during 2002-03 to 2006-07, which was less than even 10 *per cent* of the total capacity (i.e., 1,400 MT). This shows that as a nodal agency, the Company failed in promoting food processing in the State and was bound to make losses.

- the Company incurred production loss[f] of Rs.1.64 crore during 2002-03 to 2006-07. In this regard, the Company had neither formulated any action plan to reduce the production cost, nor taken any step to increase the level of production to achieve the breakeven point. Thus, the Company was bound to make losses. It was also unable to recover even its variable cost during 2002-03 to 2006-07. This resulted in cash loss of Rs.16.17 lakh.

Audit scrutiny further revealed, that, as against the standard norm fixed for recovery of juice from passion fruit, pineapple and orange at 20, 30 and 40 per cent respectively the extraction of juice was less than the standard norms (***Appendix- 7.9***). This resulted in a loss of Rs.3.24 lakh due to excess consumption of fruits.

[φ] *In the absence of daily production records, the actual value of production has been worked out from the sales figure for the relevant year i.e., sales minus opening stock plus closing stock.*

[f] *Total production loss = (variable cost + Fixed Asset)-Actual production value*

The Management, while admitting the facts, stated (August 2007) that the project had been undergoing upgradation during the period and owing to the pressure of the growers, the plant has been working as a promotional measure. The reply of the Company is not tenable as upgradation of the plant was being done without affecting the working of the existing plant. Further, the main reason for losses were under utilization of installed capacity

Procurement of raw material

7.2.15 The MOFPI launched (Tenth Plan Schemes – 2002-2007) the Backward Linkage Scheme under Plan Scheme for regular supply of process able variety of farm produce, to minimise wastage, make value addition, to avoid distress sale and to provide remunerative income to the farmers. According to the scheme, the processor was eligible for reimbursement from the MOFPI at 10 *per cent* of the total purchases made by him from the farmers in a year subject to maximum of Rs.10 lakh per annum for a maximum period of three years, subject to the condition that the processor should enter into a formal agreement with the farmers. The Company purchased (2002 to 2007) raw material of fruits valuing Rs.40.90 lakh under the scheme without entering into any formal agreement with farmers and therefore, failed to avail benefits under the scheme.

The Management stated (August 2007) that FJCP, Chhingchhip, being ongoing project, had been engaged in trial production only and as such the financial assistance from MOFPI was not availed of. The reply is not tenable as the Company was entitled to benefits (Rs.4.09 lakh being 10 *per cent of* total purchases of Rs.40.09 lakh) under the scheme since it was procuring fruits for production in its plant from the farmers.

Price mechanism of finished products

7.2.16 The Company had not adopted any rational policy for costing. The Company had not maintained proper daily production records of individual items which is essential for costing. Audit scrutiny revealed that the prices were fixed below the cost of production. The Management stated (March 2007) that prices are fixed after adding 10 to 20 per cent margin to the production cost. The reply is not tenable as the actual cost of production of various products during the period of review was much higher than the actual production value (refer paragraph 7.2.14). Further, it is also not clear as to how the Company arrived at production cost in the absence of proper daily production records of individual items.

Sales Performance

7.2.17 Sales of products of the Company was concentrated mainly within the State of Mizoram through four sales centres[♣] and 18 dealers of the Company. As of March 2007, the Company had not explored the possibilities of sales in neighbouring and other states by increasing the number of dealership and agencies or to the Defence and para military forces in the State. The Company had neither evolved any marketing strategy/policy nor evaluated the market demand of its finished products through advertising, market survey, etc. for sale of its products within and outside the State of Mizoram. The Company, thus, failed to create public awareness for its products in the market. This was attributable to insufficient production which the Company was unable to raise to its installed capacity (Table 7.2.1). This also shows the apathy of the Company to the development and promotion of FPIs for which it was made the nodal agency. Further, the Company did not fix any annual targets for the sales. In the absence of setting up targets for sales and expenditure, the actual performance of sales *vis-à-vis* the cost could not be analysed in Audit.

The sales performance of the Company for the five year period ending 31 March 2007 is tabulated below:

Table 7.2.2

(Rupees in lakh)

Year	Sales value	Closing Stock	Stock holding in terms of sales (in year)	Cost of sales	Excess cost over sales	Percentage of cost of sales incurred in terms of sales
2002-03	6.21	9.74	1.56	10.54	4.33	165
2003-04	7.34	9.51	1.29	10.39	3.05	141
2004-05	7.82	5.28	0.67	10.95	3.13	140
2005-06	14.02	9.41	0.67	8.21	-	59
2006-07	12.99	26.51	2.07	NA[∝]	NA	NA

Source : Company's data.

The anlysis of the details in the above table revealed the following:

- Though the sales increased from Rs.6.21 lakh in 2002-03 to Rs.14.02 lakh in 2005-06, it dropped to Rs.12.99 lakh during 2006-07.
- The stock holding of finished products was very high and ranged between 0.67 years and 2.07 years in terms of sales during 2002-03 to 2006-07.

[♣] *Head Office – Canteen Square, Chhingchhip, Vairengte and Lengpui Airport*
[∝] *In 2006-07, cost of sales was not maintained separately.*

- The value of stock holding of finished products ranged between Rs.5.28 lakh to Rs.26.51 lakh during 2002-03 to 2006-07, which was more than the total sales of the relevant year except in 2004-05 and 2005-06.

Audit scrutiny further revealed that the Company operated four sales centres (Head Office – Canteen Square, Chhingchhip, Vairengte and Lengpui Airport) and engaged 10 employees for sales of its products. It was noticed that the cost of salaries and wages and other expenditure exceeded the value of sales during 2002-03 to 2004-05 which ranged between Rs.3.05 lakh (2003-04) and Rs.4.33 lakh (2002-03) and the percentage of cost incurred in terms of sales ranged between 140 (2004-05) and 165 (2002-03). Thus, instead of contributing towards the profit, these sales centres could not even meet the cost of employees in the centres.

Execution of projects

Delay in commissioning of Fruit Juice Concentrate Plant, Chhingchhip

7.2.18 The Company planned (2001) upgradation/expansion of FJCP, Chhingchhip (set up in May 1998) with the objective of providing advanced technology for processing fruits (passion fruit, pineapple, orange and other citrus fruits) into value added products like concentrate juice drinks and ready-to-serve beverages, fruit slices, *etc*. Accordingly, a Detailed Project Report (DPR) for Rs.3.75 crore was prepared (2001) by the Company. The project was expected to be completed within a year and was expected to earn a net profit of Rs.1.60 crore *per annum*. The project was to be financed with Grants-in-Aid (Rs. one crore) from the MOFPI with a contribution by the State Government (Rs.2.75 crore). As per DPR, the project was to be completed within 13 months (February 2002) from the date of commencement of work. Even after five years of projected completion date, the project is yet to be completed (September 2007). Audit scrutiny revealed that:

- the Company utilized the grants amounting to Rs.73.10 lakh for administrative and maintenance expenses of the Company exceeding the limit of Rs.34 lakh as provided in the DPR of the project. Further, the Company had incurred Rs.3.62 crore out of the total grant of Rs.3.75 crore upto 31 March 2007 for implementation of the project. The balance funds of Rs.13 lakh were also diverted to meet the administrative and maintenance expenses of the Company not related to the project.

- The Company placed (November 2003) a purchase order on Penwalt India Limited, Mumbai for supply of machinery and equipments for concentration plant (to be imported from M/s. Alberto Bertuzzi, SPA of Italy) at a cost of Rs.1.51 crore. The plant was to be supplied within four months from the date of receipt of purchase order or receipt of advance of 40 *per cent*. The Company paid (25 July 2003) the advance after a delay of 8 months from the date of issue of purchase order due to delay in receipt (June 2003) of matching contribution of Rs.75 lakh from the State Government. The shipment of machinery and equipment plant reached (May 2005) Kolkatta after a delay of more than two years from the date of advance. The Company, however, did not claim compensation of Rs.7.55 lakh (being five *per cent* of the value of order) from the supplier as provided in the terms and conditions of the order. The Company took delivery (September 2005) of the equipment after four months due to delay in getting customs clearance by waiver from depositing Bank Guarantee (BG) or a Bond for the custom duty saved on the said imported equipment.

- It was noticed that testing/trial run of the machinery required higher capacity (250 KVA) of transformer. The CE, Power and Electricity Department, Aizawl had approved (November 2006) the estimate of Rs.47.66 lakh for installation of above transformer, but due to shortage of funds on account of diversion, the installation of transformer is yet to start (August 2007). Meanwhile the warranty period of 12 months (from the date of supply-September 2005) had also expired. Thus, the Company would not be able to replace/repair the defective parts of the machinery at the cost of the supplier.

The Management stated (August 2007) that delay in commencement of production of the plant was due to situation beyond the control of the Company i.e., delay in delivery of machine owing to late payment, requirement of higher capacity of power supply and delay in installation of stainless steel pipes. The Company admitted that as such the schedule of implementation as incorporated in the DPR could not be maintained. The reply brings out the lack of initiative and absence of monitoring mechanism for completion of the project within the prescribed time schedule. The Company was, thus, deprived of benefits that would have accrued on completion of the project and the very purpose of upgradation of the existing plant was defeated.

Delay in commissioning of Food Park at Chhingchhip

7.2.19 The Company decided (May 2000) to set up a food park at Chhingchhip to develop FPI in the State. Accordingly, a DPR for Rs.8.06 crore was prepared, which subsequently was reduced (July 2004) to Rs.6.06 crore due to reduction of matching contribution by the State Government. The project was to be commissioned by 15 April 2005 with the financial assistance from MOFPI (Rs.3.82 crore) and the State Government (Rs.2.24 crore).The component of the project was as detailed below:

Items	**Rupees in lakh**
Land and Land development	178.30
Buildings	142.70
Machineries and equipment	275.00
Pre-operative expenses	10.00
Total	**606.00**

(Source: Detailed Project Report of the project)

It was noticed that in spite of receipt (up to March 2007) of full funds of Rs.6.06 crore from the MOFPI and the State Government, expenditure of only Rs.5.83 crore had been incurred up to March 2007. The project, thus, remained incomplete (September 2007) due to pending works in cold storage, installation of electronic wash bridge, training equipment, quality control and laboratory equipments etc.

Audit scrutiny revealed that:

- Out of Rs. 5.83 crore spent on the work, the grant-in-aid of Rs.1.53 crore (25.25 *per cent*) was diverted and utilized for administrative and maintenance expenses, not related to the project. The balance unspent amount of Rs.0.23 crore (Rs. 6.06 crore *minus* Rs.5.83 crore) was also diverted, thus total diversion amounted to Rs.1.76 crore.

- The work of upgradation of power supply of 160 KVA at an estimated cost of Rs.20 lakh as envisaged in the DPR remained to be completed (August 2007) due to shortage of funds.

- The Company had not finalized (August 2007) the supply order of weighbridge, training equipment, quality control and laboratory equipments (estimated to cost of Rs.32 lakh as per DPR) due to shortage of funds.

The Management admitted (August 2007) diversion of funds for other purposes resulting in non-completion of the project within the stipulated time. The diversion of funds and the inability to complete the project and even to expedite procurement of equipment shows the apathy of the Company towards the fruit growers and development and promotion of food processing industry in the State. Thus, the rural population was deprived of benefits of a food park. Due to delay in completion, the Company was deprived of anticipated earnings of Rs.79.46 lakh per annum since April 2005 as envisaged in the DPR.

Inordinate delay in completion of Pork and Poultry Processing Plant, Zemabawk

7.2.20 The Company planned (1992) for setting up of Pork and Poultry Processing Plant at Zemabawk to provide good quality meat of healthy animals slaughtered and processed under hygienic conditions to the predominantly meat-eating population of the State. Accordingly, a DPR for the project at a cost of Rs.3.51 crore was prepared (1992) by the Company with the following components as detailed below:

Items	**Rupees in lakh**
Land and land development	34.00
Building	103.00
Plant and machineries	144.00
Other fixed assets	20.00
Pre-expenses	40.30
Sub total fixed capital	**341.30**
Margin money for working capital	10.00
Total	**351.30**

(Source: Detailed Project Report of the project)

The project was funded by MOFPI and State Government with equal contribution of Rs.170.65 lakh each for total fixed capital of the project and was released in 8 instalments during May 1993 to December 2005. According to the DPR, the date of commencement of work and commercial production was 15 January 1994 and 25 December 1998 respectively. The project is yet to be completed (August 2007) despite the receipt of total grant.

Audit scrutiny revealed that:

- The Company incurred total expenditure of Rs.4.18 crore as on 31 March 2007, as against total project cost of Rs.3.41 crore. This indicates that the expenditure incurred so far exceeded the project cost of DPR by Rs.0.77 crore (August 2007). The work is yet completed (August 2007).

- The Company diverted (2002-03 to 2006-07) and utilized grant-in-aid amounting to Rs.0.80 crore for administrative and maintenance expenses not related to the project and accounted under pre-operative expenses and capital work in progress for the project.

- The turnkey contractor, Swadesh Construction, Bhopal was relieved (August 2003) by the Company before commissioning of the plant without getting replacement of defective materials such as de-hairing machine, ham luncheon cooker, etc. This was also one of the reasons for delay in completion of the project.

- Stadler Corporation, Mumbai was engaged (February 2007/July 2007) at a cost of Rs.5.02 lakh for installation and trial run of the machines supplied by Swadesh Construction, Bhopal. However, the installation could not be successfully carried out since some of the machines such as dehairing machine and cooker controller had inherent defects and the size of the scalding tank, required outright replacement.

In view of the above lapses, the Company could not complete the project as scheduled. As a result, the people of the State were deprived of quality and hygienic pork and poultry. In addition, due to delay in completion, the Company was deprived of anticipated earnings of Rs.1.74 crore per annum since January 1999 as envisaged in the DPR.

The Management stated (August 2007) that the delay in implementation of the project was due to irregular release of funds for the project. The reply is not tenable as incurring excess expenditure than the estimated cost, diverting the fund for other purposes, discharging the contractor without completion of work, supply of defective machinery and absence of monitoring mechanism for completion of the work within time schedule were the main reasons for delay in completion of the project.

Non-retention of balance payment for successful completion and operation

7.2.21 As per Minutes of Purchase Advisory Board of the Company (December 1996) Swadesh Construction, Bhopal (contractor) was selected for supply and installation of plant and machinery and equipment at pork and poultry plant, Zemabawk on turnkey basis at a total cost of Rs.1.84 crore. The Company entered (April 1997) into an agreement with the contractor for completion of the work within 18 months from the date of issue of work order. As there was delay in the completion of work due to irregular payment by the Company, the contractor claimed (May 2003) price escalation of Rs. 28.11 lakh. The Company did not agree to the payment and mutually agreed (August 2003) to discharge the contractor after payment of Rs.1.68 crore for execution of the works as against the total contract value of Rs.1.84 crore. Audit scrutiny revealed that:

- as per the terms of payment, the Company was to retain the final payment of 10 *per cent* i.e., Rs.18.40 lakh till successful completion of the plant. The contractor was however relieved (August 2003) without retaining the final payment of Rs.18.40 lakh (10 *per cent* of Rs.1.84 crore). Thus, the Company is not covered against any risk for sub-standard work or machinery defects or equipment shortages.

- as per the agreement (April 1997) the firm was to submit a Bank Guarantee valid till the period of successful commissioning of the project. The firm, however, furnished the Bank Guarantee of Rs.9.20

lakh (five *per cent* of Rs.1.84 crore) valid up to 30 June 1998. The Company neither obtained extension of the bank guarantee from the contractor till the successful commissioning of the plant nor claimed liquidated damages for delay in completion thereby allowing the contractors to avail undue financial benefit.

The Management stated (August 2007) that the terms and condition of the agreement between the Company and the contractor could not be complied due to irregular release of funds by the State Government and consequent delay in completion of the project. The reply is not acceptable since the action of the Company of prematurely discharging the contractor without retaining final 10 *per cent* payment till the completion of the project was contrary to the terms and conditions of contractual agreement. This resulted in undue financial benefit of Rs.18.40 lakh to the contractor and non-coverage of installed equipment against successful completion and operation.

Unauthorised diversion of grant-in-aid

7.2.22 The Company planned (2001) upgradation of the total production capacity of 800 MT with the facility of manufacturing canned fruits and vegetables (200 MT), fruit drink squash of pine apple, passion fruit, orange (400 MT) and ready to serve (RTS) beverages of pineapple, passion fruit and oranges (200 MT) from the existing FPP, Sairang set up in the year 1992. A DPR for Rs.1.50 crore was prepared (2001) by the Company with the following components as detailed below:

Items	**Rupees in lakh**
Land acquired/building	20.00
Technical Civil Works	8.00
Plant and machinery	73.00
Auxiliary expenses	20.00
Preliminary and pre operative expenses	14.00
Margin money for working capital	15.00
Total	**150.00**

(Source: Detailed Project Report of the project)

The project was to be financed by grants-in-aid from MOFPI (Rs.60.50 lakh) and State Government (Rs.89.50 lakh) and the total amount was released (October 2001 to March 2007) in instalments. According to the DPR, the project was to be completed within 10 months from the date of commencement of the work. The Company had incurred an expenditure of Rs.1.20 crore on the project till March 2007. The work, though started in September 2002 had not yet been completed (October 2007). Audit scrutiny revealed that:

- The Company diverted and utilized the grant-in-aid amounting Rs.59.41 lakh (39.6 *per cent)* for administrative and maintenance expenses, which was not related to the project.

- As per the MOFPI guidelines, grants-in-aid shall be utilized exclusively for the specific purpose for which it is sanctioned. On review of the expenditure incurred for up-gradation of the plant, it was noticed that the Company had purchased (January 2003 and June 2007) the equipments of water treatment plant (costing Rs.6.19 lakh) and fully automatic filling machine (costing Rs.14.02 lakh) for setting up of mineral water plant at Sairang instead of up-grading the exiting FPP. The Company also installed (November 2003) the pet bottle making machine (costing Rs.3.63 lakh), which had been functioning since 2005-06 for supply of pet bottles to Chhingchhip plant. The other principal plant machineries and equipments related to food processing industry were, however, not purchased. It was noticed that the Company had decided (May 2007) to obtain license for selling mineral water and installation of Automatic Filling and Bottling Machine (packaged mineral water) at Sairang. The Company had, however, not obtained the prior permission of funding agencies (MOFPI and the State Government) for commencement of mineral water production and bottle making plant instead of up-gradation of FPP as envisaged in the DPR.

- The details of expenditure furnished in the Utilisation Certificate (August 2006) and the expenditure accounted in the books of accounts of 2006-07 was at variance in respect of Plant & Machinery and auxiliary equipment of the plant. As against value of Rs.18.18 lakh shown in the accounts, the utilization certificate indicated an amount of Rs.47.50 lakh on Plant & Machinery.

- The Company had not maintained the register for creating assets in Form GPR 19 as per the guidelines.

Thus, the Company had utilised the grants-in-aid to set up mineral water and bottle making plant instead of upgrading the food processing plant as approved by MOFPI and the State Government thereby depriving the benefit to rural farmers to supply the raw materials to the plant and also loss of anticipated earnings of of Rs.72.30 lakh *per annum* due to non up-gradation of the plant.

Abandoned projects

Avoidable blocking of funds due to non-completion of Mushroom Cultivation and Processing Plant at Chhingchhip

7.2.23 The Company received (March 1993) grants-in-aid of Rs.29.80 lakh from MOFPI for setting up a Mushroom Cultivation and Processing Project at Chhingchhip at a cost of Rs.50.40 lakh with 50 *per cent* contribution of the total cost of the project from the State Government. As per the provisional accounts of the Company for the year 2006-07, the Company incurred (prior to 2001-02) expenditure of Rs.41.75 lakh for setting up of the plant for processing of mushroom. But the project was abandoned (1997) midway due to non-receipt of matching contribution from the State Government. Consequently, the purpose of expenditure of Rs.41.75 lakh (capital work-in-progress including land Rs.20.09 lakh and pre-operative expenses Rs.21.66 lakh) was defeated. Records related to the project such as DPR, details of expenditure incurred, status report and date of discontinuation of the plant were not made available to audit despite repeated requests (February and March 2007).

The Management stated (August 2007) that implementation of this project has been discontinued due to non receipt of matching contribution from the State Government. Thus due to failure of State Government to release its share, the plant could not be completed and there was avoidable blocking of funds amounting to Rs.41.75 lakh.

Function as a Nodal Agency

7.2.24 The Company was designated (1992) as Nodal Agency for FPI in the State. During the Ninth and Tenth Five Year Plans, the MOFPI introduced several schemes through designated State Nodal Agencies for the development of processed foods in the Country focusing on different segments of FPI. A review of the implementation of the Plan Schemes by the Company revealed that it did not take effective steps to motivate the rural entrepreneurship by development of private sector in food processing industries in the State of Mizoram as discussed in the subsequent paragraphs:

Scheme for Human Resource Development

7.2.25 The Company conducted (during 2002-2005) eight Entrepreneurship Development Programmes (EDP) at a cost of Rs.7.06 lakh provided by MOFPI as grants-in-aid. The main objectives of EDP were to develop potential entrepreneurs for taking up food processing projects in the State and avail of the grants-in-aid of MOFPI. As per guidelines of EDP programme, the training agency should continue the follow-up phase for a period of 12 months or till at least 50 *per cent* of the trainees have set up their processing units. Audit scrutiny revealed that:

- the beneficiaries were not motivated to start small scale and cottage industries of their own;
- food processing industries were not started by any of the entrepreneurs;
- the Company conducted programme once in two years instead of every year though the amount spent for the programme was reimbursable by the GOI to the extent of Rupees one lakh per programme; and
- no EDP programme was conducted after 2005.

The Management stated (March 2007) that efforts were on to conduct more programmes regularly. Thus, the Company failed to develop potential entrepreneurs as envisaged in the scheme.

Food Processing and Training Programme

7.2.26 The Company started (1997-98) six Food Processing and Training Centres[∂] (FP&TC) at a project cost of Rs.30 lakh with equal contributions of grants-in-aid from MOFPI and the State Government. The objective of setting up of FP&TCs was to provide a "Hands on" experience in operating and managing a small unit for trainees and development of rural entrepreneurship. Audit scrutiny revealed that the FP&TC did not conduct any food processing and training programme and unutilized the training centre from 2002-03 onwards. The Management stated (August 2007) that no training was conducted for want of funds and also expressed in exit conference (September 2007) that these centres were merged into three centres (Chhingchhip, Sairang and Vairengte) and the training programmes were conducted regularly. The reply is not tenable as the Company was to meet the recurring expenditure through sale proceeds of products processed at the centre and the processing fees paid by the growers of raw material. Further, no records were made available/produced relating to conducting of training programme for scrutiny despite requisition (August 2007). Thus, expenditure of Rs.30 lakh incurred for setting of six FP&TC proved unfruitful and deprived the benefit of development of rural entrepreneurship in the state.

Strengthening of Nodal Agency

7.2.27 As per tenth plan scheme (2002-07) of MOFPI, Nodal Agencies were eligible to get financial assistance of Rupees five lakh every five year from the MOFPI for purchase of computer, *etc*. Nodal agencies were to be paid additional Rupee one lakh every year (later revised to Rs.five lakh *per annum*

[∂] *Vairengte, Sairang I and II, Khawzawl, Chhingchip and Lunglei* with effect from 2004-05) for meeting expenses on engaging personnel for preparation of data base, publication of profiles, office consumables *etc*.

Audit scrutiny revealed that

- the Company had not prepared any data base and published profiles. Further, the additional assistance of Rupee one lakh/five lakh *per annum* has not been availed during the years 2002-03 and 2004-05 out of five year period ending March 2006-07.
- the Company incurred an expenditure of Rs.0.53 lakh and Rs.0.56 lakh for maintenance and repair of equipments, telephone and furniture and fixtures out of the grants received for the year 2003-04 and 2005-06 respectively in violation of the guidelines issued by GOI.

The Management stated (August 2007) that efforts would be made to get the assistance on regular basis to strengthen the Nodal Agency. Thus, the Company failed to get financial assistance Rs. six lakh from MOFPI.

Infrastructure Development -Packaging Industries

7.2.28 The scheme as framed (under tenth plan) by MOFPI, aimed to provide facilities for packaging which may help in enhancement of shelf life of food products and make them internationally acceptable. The MOFPI was providing assistance subject to maximum of Rs. two crore for establishment of packaging centre independently in food parks, if the packaging centre was not already part of the common facilities. As the Company's turnover was meagre, it did not avail financial assistance from MOFPI for setting up packaging facilities. Thus, the Company failed to utilize financial assistance from MOFPI amounting to Rupees two crore.

The Management stated (August 2007) that it proposes to avail the assistance from MOFPI during the 11^{th} Five year plan as action is under way for preparation of the DPR.

Modernisation of Abattoirs

7.2.29 The scheme as circulated by MOFPI aims at scientific and hygienic slaughter, causing least pain to the cattle and ensuring optimum by-product utilisation. Assistance at $33^1/_3$ *per cent* of the project cost subject to maximum of Rs. four crore is provided to the local bodies for modernization of abattoirs. The State being largely inhabited by meat eating population, this scheme could have proved to be highly beneficial to the State. Audit scrutiny revealed that the Company did little to motivate beneficiaries (local bodies) for availing the assistance for setting up of modern abattoirs and so far (September 2007) no local body availed the assistance provided by MOFPI. Thus, the local bodies were deprived of central assistance and establishment of modern abattoirs.

Cold chain facilities

7.2.30 This scheme is intended to improve viability of existing cold storages and enhance cold storage capacity with a view to avoid wastage of raw material of perishable produce and supply to food processing industries in the off season without any interruption. Assistance at $33^{1}/_{3}$ *per cent* of the project cost subject to maximum of Rs.75 lakh is provided by MOFPI for establishment of cold chain facilities to all implementing agencies. The State being primarily a horticultural state and with the Company having FPP at Chhingchhip and Sairang, the establishment of cold storages is very essential. Audit scrutiny revealed that the Company had not adequately encouraged for setting up of cold chain facilities through this scheme and so far (October 2007) no implementing agency have taken initiative to avail the assistance.

Corporate Governance

Corporate Governance is the system by which companies are directed and controlled by the management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. BODs are responsible for governance of their companies. It involves a set of relationships, rules and institutional mechanisms between the management of the companies, its BoDs, its stakeholders, auditors and other shareholders through which the objectives of the company are set and the means of attaining these objectives as well as monitoring performance are determined. Key aspects of good corporate governance include accountability of managers and BoDs to the shareholders and corporate responsibility towards shareholders.

Meetings of Board of Directors

7.2.31 According to Section 285 of the Companies Act, 1956, meeting of the BODs shall be held at least once in every three months. Contrary to this, the meetings were held only twice during the years 2002-2003, 2003-04, 2005-06 and 2006-07 and once in 2004-05.

The Management stated (March 2007) that regular meetings could not be held as the representatives of the State Government on the BODs were busy in their respective departments and had little time to spare for the meetings. This showed the apathy of the members to improve the performance of the Company.

Accounting Manual and finalisation of accounts

7.2.32 The Company did not prepare its Accounting Manual to deal with the accounting procedure, duties, powers and responsibilities of the accounting staff. In spite of recommendations (October 2001) of the COPU, the Company failed to compile its annual accounts since 2002-03. Delay in finalisation of accounts is fraught with the risk of misappropriation/embezzlement of funds.

Audit scrutiny revealed that the Company is incurring expenditure of Rs.50,000 (approx) *per annum* for preparation of provisional accounts by an outside audit firm. The Company had paid Rs.2.60 lakh to the said firm during the period from 2002-03 to 2006-07 for preparation of its accounts even though it had full fledged accounts department headed by one Deputy Manager with two assistant Managers and necessary staff.

The Management while admitting the facts, stated (August 2007) that there has been delay in finalisation of accounts and, however, the other authorities such as Statutory Auditors were responsible for such delay. The reply is not tenable as the Company had prepared its provisional accounts up to 2006-07 through a CA firm and the Statutory auditors have been appointed up to 2005-06.

Budget

7.2.33 The Company did not prepare any Budget showing plan wise allocation during the period. Consequently, significant variations/causes for variations were not analysed to take appropriate corrective action.

Internal Control/Internal Audit

7.2.34 Internal control is a management’s tool which provides reasonable assurance to the management that financial interests, assets and other resources of the organisation are safeguarded and reliable information is available. But the Company had neither clearly defined the internal control mechanism nor established internal audit wing even after 17 years of its existence.

Audit scrutiny revealed that the objections and recommendations suggested by Internal Auditors (outside Chartered Accountant Firm) regarding proper maintenance of cash book, voucher, journal, fixed assets register, daily production records, sales and stock register have not been attended to by the Company so far (October 2007) and the same was repeatedly pointed out every year.

Conclusion

The financial performance of the Company was far from satisfactory as the accumulated loss increased consistently during 2002-03 to 2006-07. The Company did not comply with the assurance given to COPU for maximum utilization of the plant and run its operations on sound financial principles. Abnormal low utilization of capacity, poor performance in production and sales coupled with excess cost of products, manpower, absence of internal control, *etc*. characterise the functioning of the Company. There has been delay in completion of ongoing projects The Company had not formulated marketing strategy for promotion of sales despite receipt of required funds from the GoI and State Government. Being the Nodal Agency for the State, the Company could not implement the Five Year Plan Schemes of GOI for Food Processing Industries and also failed to promote development of private sector.

Recommendations

The Company should

- hold meetings of its BoDs regularly as provided in the Companies Act 1956 so that activities are constantly monitored and the Company does not lose focus.
- take stock of present schemes and prepare a long term strategic Corporate Action Plan for growth of this sector with special emphasis on production, sales, marketing within and outside the state, training of personnel as well as the beneficiaries.
- reform management of inefficiencies for efficient use of its allocations and elimination of distortions and leakages in the use of inputs.
- give due publicity to its programmes to attract more participants.
- expeditiously finish the ongoing projects.
- promote of public private partnership along with the growers.
- review staff strength and link it to production so that funds are not diverted for administrative and office expenditure.

The matter was reported (June 2007) to the Management/Government; their replies are awaited (October 2007).

POWER AND ELECTRICITY DEPARTMENT

7.3 Implementation of Accelerated Power Development Reforms Programme (APDRP)

Highlights:

There was delay in release of funds received from MOP by the State Government thereby attracting interest liability of Rs.4.90 crore. The Department failed to submit utilisaion certificate of the funds released by MOP, which may delay the release of balance funds.

(*Paragraphs 7.3.9 and 7.3.10*)

The Department utilized the funds amounting to Rs.1.47 crore for the purposes other than APDRP work and those provided in DPRs.

(Paragraph 7.3.12)

The Detailed Project Reports were not realistic necessitating revision in cost and quantity. Important works valuing Rs.9.47 crore were deleted/reduced from the scope of work due to increase in the cost of execution thereby hindering the achievement of intended objectives of APDRP.

(*Paragraphs 7.3.19 & 7.3.29*)

Improper planning in the procurement of material for execution of works resulted in blocking of funds of Rs3.87 crore and lapse of guarantee on critical equipments.

(*Paragraphs 7.3.19 to 7.3.23*)

Failure of the contractor to supply material in time resulted in non receipt of critical items and blocking up of funds of Rs. 5.56 crore spent on related works and on procurement of material, which could not be used.

(*Paragraph 7.3.24*)

Introduction

7.3.1 The Union Ministry of Power (MOP) launched (February 2001) the Accelerated Power Development Programme (APDP) to accelerate power sector reforms which was renamed (March 2003) as Accelerated Power Development & Reforms Programme (APDRP). APDRP envisaged upgradation of sub-transmission and distribution system (33 KV and below) and to encourage/motivate utilities to reduce cash losses by providing incentives with the financial support of the GOI.

The main objectives of APDRP are to

- reduce aggregate technical and commercial (AT&C) losses;
- bring about commercial viability in the power sector;
- reduce outages and interruptions; and
- increased consumer satisfaction.

A Memorandum of Agreement (MOA) was entered into (July 2002) between the State Government and the MOP for undertaking reforms in power sector in the State of Mizoram with financial help from MOP. Power Grid Corporation of India (PGCIL), Advisor-cum-Consultant, under the overall guidance of MOP was to monitor the implementation of the APDRP in the State.

The Chief Engineer (CE) of Power and Electricity Department (PED) is the Chief Executive Officer for implementation of APDRP Scheme in the State. CE is assisted by the Superintending Engineers (SE) in five Circles and Executive Engineers in 17 Divisions.

The MOP had sanctioned (between July 2002 and September 2004) seven projects at an aggregate estimated cost of Rs. 108.74 crore as detailed in ***Appendix 7.10***. The PED took up all the seven projects and incurred an expenditure of Rs. 78.01 crore (71.73 *per cent*) till March 2007.

Scope of Audit

7.3.2 The performance review was conducted during September 2006 and May 2007 to evaluate the implementation of APDRP projects during 2002-03 to 2006-07. A test check of records of the Office of the Chief Engineer PED, Aizawl and five[ℜ] selected circles (out of seven circles) and 15 divisions in respect of five projects (Sl. No 1, 3, 4, 6 & 7 of ***Appendix7.10***) under various stages of execution was carried out. The estimated cost of the selected projects is Rs. 84.06 crore (77*.30 per* cent) against which the PED has spent Rs.60.45 crore (71.91 *per* cent) up to March 2007.

[ℜ] *Aizwal, Champhai, Lunglei, Project and Transmission*

Audit objectives

7.3.3 The performance review was conducted with a view to ascertain whether:

- the intended objectives of APDRP viz. reduction in AT & C losses, 100 *per cent* system and consumer metering, improvement in quality and reliability of power supply and energy accounting and auditing have been effectively achieved.
- the Detailed Project Reports (DPR) were prepared realistically to achieve the objectives of APDRP;
- the requirement of funds was realistically assessed and funds were sanctioned and released by the MOP and the State Government in time and the funds were used efficiently, economically and effectively;
- the programme has been implemented economically, efficiently and effectively as per the terms and conditions of MOA and the guidelines issued by MOP;
- there was an effective monitoring mechanism at all levels; and
- the commitments agreed to in the MOA have been complied with.

Audit Criteria

7.3.4 The audit criteria adopted for the performance audit were:

- Targets and benchmark laid down in MOA and the guidelines/ directives of MOP/State Government for implementation of the schemes;
- Terms and conditions set out by the MOP/State Government for release of funds;
- Terms and conditions of work orders and contracts: and
- Projections/targets set out in the DPRs.

Audit methodology

7.3.5 The methodology adopted by audit were checking of:

- terms and conditions of MOA and guidelines issued by the State Government;
- records relating to tendering, evaluation, award and execution of contracts;
- DPRs of the programme; and
- issue of audit observations and interaction with the Management.

The audit findings arising from the performance review were reported (July 2007) to the Government/Department and were discussed (October 2007) in an exit conference attended by the Chief Engineer, PED. The views expressed by the members were taken into consideration while finalising the review. Audit findings are discussed in the succeeding paragraphs.

Audit findings

Funding and Financial Management

Funding Pattern

7.3.6 Under APDRP, funds were provided by the MOP through a combination of grants and loans to the State Governments in addition to Central Plan Assistance. MOP finances 100 *per cent* of the project cost in respect of Mizoram, being a special category state, in the ratio of 90 *per cent* grants and 10 *per cent* soft loans. The funding mechanism under investment component was modified (February 2004) to the extent that the Government of India (GoI) would not act as an intermediary for future borrowings of states and that the states may approach market directly. The loan component of 10 *per cent* for special category states under the Central Assistance Component of APDRP stood dispensed (November 2005) with. The funds were to be released in different stages on the following conditions:-

- 30 *per cent* of Project the cost – up front on approval of Project under APDRP.

- After spending 30 *per cent* of the project cost, next tranche of 40 *per cent* to be released.

- Release of 10 *per cent* of the Project cost by FIs/own resources.

- After spending 80 *per cent* of the project cost (70 *per cent* released by MOP and *10 per cent by* FIs), next tranche of 20 *per cent* would be released by MOP.

Receipt of funds and expenditure

7.3.7 Seven Schemes/projects valued at Rs. 108.74 crore were approved (between July 2002 and September 2004) by MOP and Rs.78.01 crore was released (Rs. 75.11 crore as grant in aid and Rs.2.90 crore as loan). The project wise position of funds received and expenditure incurred there against, schedule date of completion and the status of the work is given in ***Appendix-7.10***.

It can be seen from the Appendix-7.10 that PED failed to complete four schemes (Sl No. 3, 4, 5 and 7 of Appendix-7.10) even after a delay ranging between four and 32 months. The major factor contributed for delays and as discussed in subsequent paragraphs were as follows:

- Non-mobilisation of counterpart funds (paragraph 7.3.9)
- Delay in transfer of funds by the State Government (paragraph 7.3.10)
- Non-utilization and idling/blocking of funds released by MOP (paragraph 7.3.11)
- Non adoption of turnkey contract for execution of the works (paragraph 7.3.15)
- Un realistic Detailed Project Reports (DPR) (paragraph 7.3.18)
- Non receipt of critical items (paragraph 7.3.24)

Non-maintenance of separate Bank Account

7.3.8 Audit scrutiny revealed that no separate bank account as required under clause 7 of the MOA was maintained for the funds received for APDRP. The PED stated (October 2007) that the State government did not agree for opening of a separate bank account for APDRP on the grounds that the State Government had opened a separate budget head for APDRP. Therefore, opening of a separate bank account for APDRP fund was not necessary. The reply is not tenable because a separate bank account in a scheduled/nationalised bank was required to be opened as per the MOA.

Non fulfilment of eligibility criteria for release of further instalments

7.3.9 As per the funding mechanism, 10 *per cent* of the project cost was to be arranged by the State Government from Financial Institutions (FIs) or from own sources. Only after spending 80 *per cent* of the project cost, including the 10 *per cent* from own source/FI, the next trench of 20 *per cent* was to be released by the MOP. Further, release of installments was based on criteria which, *inter alia* included the arrangement of counterpart funds, priority completion of mandatory ‘A’ category items and furnishing of utilisation certificate for the amount spent.

It was, however, observed that the State Government allocated its share of 10 *per cent* of project cost only in July 2007. Further, the Department neither planned for priority completion of mandatory 'A' category items such as IT enabling nor the utilisation certificates for the amount released was furnished to the MOP. In view of this, receipt of the balance 20 *per cent* funds (Rs. 19.86 crore) from the MOP are likely to be delayed resulting in further delay in completion of the projects. The PED stated (October 2007) that utilisation certificates for the amount is being processed and will be submitted soon. The fact remains that due to delay in submission of utilization certificates by the Department, release of funds by MOP would be delayed resulting in further delay in the completion of the projects.

Delay in release of funds by the State Government

7.3.10 The general terms and conditions issued (June 2003) by the MOP for utilisation of funds under APDRP provided that the State Government should release the funds provided by the MOP under APDRP within a week and send confirmation to the MOP, or else it would be treated as diversion of funds. If the State Governments divert APDRP funds for other purposes, the equivalent amount would be adjusted with *10 per cent* penal interest against the next installments of Central Plan Assistance to be released to the State Government in that year or in the subsequent year.

Scrutiny of records revealed that the MOP released (August 2005) Rs. 49.05 crore to the State Government and the amount was credited to the State Government account on the same day. However, the State Government released (March 2006) the money to the PED after a delay of six months.

The PED stated (October 2007) that due to procedural formalities the release of funds was delayed. The reply is not tenable since as per the APDRP guidelines the delay in release of funds would be treated as diversion of funds and penalty could be levied. Since the State Government did not adhere to the conditions stipulated by MOP, it would attract avoidable interest liability of Rs. 4.90 crore.

Idling of funds for undue long period

7.3.11 As per MOP guidelines (June 2003) the funds were to be spent within the specific time limit since any lapse there of would be treated as possible diversion of funds, mis-utilisation etc., Audit scrutiny revealed that as against actual expenditure of Rs. 38.85 crore up to March 2007, the total funds of Rs.49.05 crore received during 2005-06 were shown as utilized fully in Monthly Progress Report of March 2007.

PED stated (October 2007) that the amount of Rs.10.20 crore was reserved for payment of committed liabilities like Conductors and Poles etc. but the same could not be spent due to non supply of material. The reply is not tenable since without incurring the expenditure and receipt of material the transaction could not have been completed for issue of UCs.

Utilisation of funds for other purposes not covered under DPR

7.3.12 As per the General terms and conditions for utilization of funds under APDRP, the funds cannot be diverted for other Schemes or purposes by the State Power Utility and if diverted or deemed to have been diverted for other purposes, the equivalent amount will be adjusted with 10 *per cent* penal interest against the next installment of Central Plan assistance to be released to the State Government.

Scrutiny of the records of PED revealed that an amount of Rs. 1.47 crore was used between March 2006 to March 2007 for purposes other than the APDRP works and not covered under the sanctioned estimated cost/DPR (***Appendix – 7.11****)*. Thus, it would attract penal interest of Rs. 14.72 lakh and probable short release of funds in future by the MOP to the extent of Rs. 1.62 crore against the next installment of Central Plan Assistance.

PED stated (December 2006) that the expenditure of Rs. 61.12 lakh was inadvertently not included in the DPR. In respect of the consultancy charges of Rs. 39.98 lakh, it was stated (June 2007) that the approved scheme for both the Circles include provision for higher altitude factor (5 *per cent*) which was meant for consultancy charges. The reply is not tenable since the works (***Appendix 7.11***) were not covered in the approved DPR and no approval was sought from MOP. Further, the Steering Committee had taken a conscious decision (August 2005) not to allow consultancy charges under APDRP and to withdraw the same, where ever allowed earlier.

Internal Financial Control

7.3.13 In allotment of funds the following irregularities were observed indicating ineffective internal financial control mechanism:

- • Against a Letter of Credit (LOC) demand (March 2007) of Rs. 46.86 lakh, the entire balance fund of Rs. 88.35 lakh was allotted. PED stated (October 2007) that funds were released in excess of requirement in order to clear all the liabilities within the financial year and the details of liabilities will be furnished in due course. The reply is not tenable since no liabilities were on record except that indicated in the LOC demand. Excess release of funds is in contravention of cannons of financial propriety and may lead to diversion of funds.

- • Funds amounting to Rs. 5.17 crore were allotted (December 2006) to Kolasib Power Division without obtaining complete details of nature of works, cost estimates against the said work, etc. PED stated (June

2007) that funds were released for execution of APDRP works only. The reply is not tenable as in the absence of complete details in the LOC demand, it could not be ensured that the release of funds were for APDRP works only.

Anomalies in Accounts

7.3.14 Seven divisions were allotted Rs.27.16 crore during 2005-06 for executing the APDRP works as per details given below:

Table 7.3.1

Sl No.	Name of the Division.	Amount allotted and spent as per monthly account (Rs. in lakh)	Expenditure voucher available (Rs. in lakh)	Expenditure voucher not available (Rs. in lakh)
1.	Distribution	130.95	15.62	115.33
2.	Generation	879.07	47.15	831.92
3.	Lunglei II	360.75	15.33	345.42
4.	Lunglei I	218.20	8.41	209.79
5.	Saiha.	224.98	5.30	219.68
6.	Khawzawl.	335.19	146.47	188.72
7.	Champhai.	566.84	19.83	547.01
Total		**2715.98**	**258.11**	**2457.87**

Source: Monthly accounts and vouchers submitted by the Department

Scrutiny of the monthly accounts of the above seven divisions, revealed that though the entire allotted amount were debited towards execution of APDRP schemes, but payment vouchers of only Rs. 2.58 crore were available with the divisions.

The divisions were requested (September 2006) to intimate the details of expenditure of Rs.24.58 crore viz. details of the supply orders, Xerox copies of the measurement books etc. but the same were not made available/communicated to audit. Thus, the above seven executing divisions submitted incomplete accounts to the Government depicting full utilisation of the allotted amount of Rs. 27.16 crore. PED stated (December 2006) that due to late receipt of funds the funds could not be utilized during 2005-06 and instead parked the same under civil deposits. The funds were subsequently used exercising strict control. PED during the exit conference (October 2007) stated that all the documents are available with the divisions. However, the fact remains that reporting of utilization of funds without actually incurring the expenditure was highly irregular.

Execution of Projects

Non adoption of Turnkey system for implementation

7.3.15 As per the guidelines issued (June 2003) by the MOP, the PED was to implement the projects sanctioned under the APDRP scheme on turnkey basis through pre-qualified turnkey contractors selected on competitive basis to ensure quality and expeditious implementation and to fix a single point responsibility. PED, however, decided to execute the work departmentally. While executing the work departmentally, PED overlooked the fact that the conventional system of executing the work would be time consuming and delay in arranging any component could lead to overall delay in the execution of projects. This effected timely completion of works as discussed in Paragraph 7.3.7 and had the following adverse effects:

- Improper control over expenditure (Paragraph 7.3.12),
- Improper procurement planning resulting in blocking up of funds (Paragraphs 7.3.19 to 7.3.23),
- Non/delayed receipt of critical materials adversely affecting completion/ commissioning of related works (Paragraph 7.3.24),
- Irregularities in procurement (Paragraph 7.3.25) ,and
- Non achievement of the desired benefits of APDRP (Paragraph 7.3.26).

The PED stated (October 2007) that it will not be convenient for any firm to execute the works other than Department as the works are very much scattered and the officers and staff are having expertise to execute the works. As such the work was taken up departmentally. The reply is not tenable since the PED did not approach any firm for taking up the work on turnkey basis and by taking up the work departmentally the works had the above adverse effects. Further, this deviation was also not in line with the MOA conditions

Creation of Assets

7.3.16 Two schemes♣ as indicated in ***Appendix 7.10*** (out of seven) were completed and assets valuing Rs. 28.96 crore were stated to have been created. PED did not furnish the DPRs related to these schemes to Audit. In the absence of DPRs of these two schemes, it was not possible to vouch safe the actual expenditure *vis-à-vis* estimates. Further, the actual dates of installation of assets valuing Rs.7.35 crore (***Appendix – 7.12***) were also not furnished to Audit. The PED stated (October 2007) that due to shortage of time the details of schemes could not be located and furnished and the same are being collected and will be furnished.

♣ *consumer metering/system metering and strengthening of sub-transmission and distribution system Champhai*

Discrepant Reporting of completion of work/expenditure

7.3.17 PED reported completion of following works in the Progress Reports as on March 2007, the authenticity of which could not be vouchsafed for the reasons indicated against each:

Table No. 7.3.2

Sl No.	Division	Name of the work	Expenditure (Rs.in lakh)	Reasons for non confirmation of authenticity
A	Khawzawl Power Division	Up gradation and augmentation of Distribution system at Khawzawl	116.00	71 KMs of Conductor required was not procured and utilized
B	Champhai Power Circle	24 KM work of New 11 KV Feeder and 35 KM work of New 33 KV feeder	218.40	Required Conductors were not supplied by the Supplier till May 2007
C	Construc-tion Division	DTC Meter	56.03	Actual expenditure incurred was Rs.27.46 lakh only
D	Aizawl Power Circle	IT – Data logging, Computer billing and Mapping and Indexing	35.00	Work order for IT was not finalised even by May 2007
E	Serchip Power Division	new 33 KV (1 Km) line associated with new Sub station	1.69	Estimated material cost and ordered value were Rs.4.68 lakh & Rs. 5.80 lakh respectively where as actual expenditure is only 1.69 lakh. Thus, complete materials not received.

Source: (i) Monthly Financial and Physical Progress Reports of APDRP Scheme; (ii) Monthly accounts of concerned divisions; (iii) Supply order files of conducted DT meters; (iii)Tender finalisation file for IT.

PED in respect of Khawzawl Power Division, Champai Power Circle and Serchip power Division stated (October 2007) that the works were completed by diverting conductors and other materials from other divisions and the documentary evidence will be submitted in due course. In respect of Aizawl power circle SPAB meeting was held to recommend work order for IT package. The reply is not acceptable as the documentary evidence of such diversion was not shown to audit and in the absence of documentary evidence this could not be vouchsafed in audit. PED in respect of Construction Division accepted (June 2007) the fact and stated that the expenditure reported was due to wrong inclusion of expenditure.

Unrealistic Detailed Project Reports

7.3.18 The Steering Committee for implementation of APDRP decided (November 2006) to allow a variation of 10 to 15 *per cent* in the quantity and price within overall sanctioned cost of the project. The variation was allowed with a condition that the enhanced amount will not be considered for release of Government funds over and above the APDRP component for the original sanctioned cost. The enhanced cost was to be met from own resources or arranged from FIs.

PED revised (January/February 2007) the DPRs of the projects (details in ***Appendix 7.13****)*. It was noticed that the variations ranged between nine *per cent* (new sub station in Transmission Circle) and 579 *per cent* (LT lines for DTs in Champhai Circle). PED neither mobilized the funds from FIs nor met the excess expenditure from its own sources. In contravention of the conditions of MOA, excess expenditure was incurred out of the APDRP funds without sanction of the MOP for the revised cost estimates. The wide variations in the quantity and the cost indicate that PGCIL, the lead consultants appointed by MOP for implementation of APDRP, did not consider the ground realities while preparing DPRs and as such the DPRs were not realistic.

The PED stated (October 2007) that the DPRs were prepared hurriedly and as a result most of the works were not workable. Modified schemes are being prepared and will be submitted in due course for approval. The reply is not tenable since incurring of expenditure without approval is in contravention of the Government directives.

Procurement of Electrical equipments and materials

Ineffective planning of material purchase

Audit scrutiny revealed that there was no planning in the procurement of materials for execution of various works. This resulted in blocking of funds amounting to Rs.3.54 crore and loss of interest of Rs.39.94 lakh thereon and excess procurements of materials of Rs.32.59 lakh as discussed below:

7.3.19 PED issued (March 2006) various supply orders (Rs. 178.34 lakh) for procurement of electrical and other materials for construction of 33 KV sub-station at Sairang departmentally. The equipments/materials costing Rs. 1.57 crore (excluding misc. items) were received between March 2006 and July 2006. The process for acquiring land was, however, initiated (September 2006) and the land was acquired (May 2007) after the administrative approval and expenditure sanction was accorded (March 2007) by the State Government. No work could be commenced till date (October 2007). Thus, due to procurement of materials much in advance and before actual acquisition of land, which was the pre-requisite for any civil works, the funds amounting to Rs. 1.57 crore remained blocked for more than one year. This also resulted in interest loss of Rs.17.57 lakh (calculated @ 10 *per cent*, rate of penalty) apart from incurring storage charges and lapse of warranty period. PED stated (October 2007) that right from the sanction of APDRP, the Department initiated for acquisition of land. However, this was delayed due to various reasons and land was acquired during May 2007. The reply is not tenable since as per the records PED initiated acquisition of land only in September 2006, which consequently delayed the execution of work. Further, the execution of work departmentally instead of on turnkey basis, as provided in APDRP scheme, also resulted in ineffective planning and consequent blocking of funds.

7.3.20 PED issued (March 2006) various supply orders (Rs. 213.23 lakh) for procurement of electrical and other materials for construction of 33 KV Sub-station at Rawpuichip (MPD) departmentally. Though the major/critical equipments/materials costing Rs. 1.97 crore were received (March 2006 to July 2006), the work was started after seven months (February 2007). the work is yet to be completed (September 2007). Thus, due to procurement of materials much in advance of actual requirements, the funds amounting to Rs. 1.97 crore remained blocked up for more than one year resulting in loss of interest of Rs. 22.37 lakh (calculated @ 10 *per cent*, rate of penalty) apart from incurring storage charges and lapse of warranty period. PED stated (October 2007) that since the funding of the scheme was time bound, the procurement of the materials was done to utilize the funds within sanction period. The reply is not tenable since the procurement was to be done efficiently and effectively in accordance with the construction plan to avoid any blocking up of funds. Further, the delay could have been avoided had the work executed on turnkey basis, as provided in APDRP scheme.

7.3.21 As per terms and conditions of the supply orders, the transformers shall be guaranteed for 12 months from the date of delivery of materials. The transformers costing Rs. 53.45 lakh for both the sub-stations (Sairang and Rawpuichip) were supplied in March 2006. The guarantee for the transformers, one of the critical items for a sub station, thus, expired even before the transformers could be installed or charged. Further, no guarantee clause was included in the supply orders for other critical and costly equipments like Control and Relay Panels, Vacuum Circuit Breakers, Isolators (costing Rs.444.27 lakh) etc. Thus, the interest of the Department was not safeguarded. PED stated (October 2007) that care would be taken in future to safeguard the interest of the Department.

Excess procurement of material

7.3.22 PED procured materials valuing Rs. 19.76 lakh in excess of the requirements as detailed below:

Table No. 7.3.3

	Division	***Material***	***Requirement***	***Actual procured***	***Excess***	***Value of excess (Rs. lakh)***
A	*Champhai Circle*	*Poles*	*393*	*651*	*258*	*18.38*
B	*Mamit Power Division*	*Lightning Arrestor*	*23*	*34*	*11*	*1.38*
	TOTAL					***19.76***

Source: (i) DPR/BOQ of Champhai Circle and Transmission Circles; (ii) Supply orders for poles and lightning arrestors.

The PED stated (October 2007) that quantity of lightning arrester and poles procured was as per requirement. The reply is not tenable since audit has worked out the requirements as per the original DPR and procurement of material in excess resulted in blocking up of 19.76 lakh.

7.3.23 PED placed (April 2007) a supply order for procurement of different types of transformers at a total cost of Rs. 12.83 lakh for New DTs (Champhai Power Circle) which were reported as *cent per cent* complete by March 2007. Thus, procurement of material without any immediate requirement resulted in blocking up of Rs.12.83 lakh.

Undue favour to contractors/suppliers

7.3.24 PED issued (March 2006) 11 supply orders on Super Wire, Aizawl, for supply of conductors and poles for Rs. 6.41 crore. The conductors and poles were to be supplied between April and July 2006. The supplier, however, failed to commence the supplies of conductors even after lapse of more than one year (May 2007) from the schedule date of delivery. In respect of poles only partial quantity (896 out of 3600) was supplied (March 2007) after a delay of 12 months. The executing Divisions intimated (December 2006) that the supplier was not in a position to supply the materials and suggested cancellation of the orders and procurement from other suppliers to continue the APDRP work. However, the orders were cancelled only in June 2007.

Fresh tenders were issued in July 2007, which are under consideration (October 2007) of DPAB.

Due to non receipt of the materials various works under APDRP were hampered causing delay in completion of the project apart from blocking up of Rs. 5.56 crore ***(Appendix 7.14)*** spent on the related works and materials already procured but not put to use.

Further, scrutiny of records relating to above supply orders revealed the following irregularities/lacunae in issuance of the supply orders and release of payments:

- The technical evaluation did not contain qualifying criteria to ensure conformity of the specifications or fulfilment of statutory conditions by the supplier. This was not in line with the Central Vigilance Commission guidelines (December 2004) regarding transparency in tendering system.

- Central Excise, Aizawl Range intimated (January 2006) the Department that the supplier was not known to the Excise Department. Another firm (Mizoram Conductor) submitted a representation alleging discrepancies against the supplier as regard to ISI specification, non confirmation of Excise Duty Payment, etc. These aspects, however, were not examined/kept in view before placement of supply orders.

- As per the tender conditions, the supplier was to deposit Rs. 32.20 lakh (5 *per cent* of order value) as performance guarantee at the time of issue of order. However, neither the security deposit was collected nor any bank guarantee was obtained. The contract terms did not contain risk purchase clause. Thus, execution of the contract by the supplier within the time schedule was not ensured.

- Liquidated damage amounting to Rs. 12.79 lakh were not deducted in terms of the supply order (clause No.5) while making payments to the supplier for delay in supply of the poles.

- The invoices submitted were not as required under New Central Excise Manual and no proof of remittance of taxes and duties to the concerned authority were furnished by the supplier. PED, however, made payments against the invoices amounting to Rs. 63.88 lakh including taxes and duties of Rs. 10.94 lakh causing loss to the exchequer.

PED stated (October 2007) that all the orders had since been cancelled. In regard to non deduction of liquidated damages, the Department had considered the difficulties faced by the supplier and delay was accepted. PED stated that it was not appraised of the introduction of New Excise Control code and as such the Department was not in a position to check the invoices. The reply is not tenable since due to improper evaluation of tender and not taking of timely action for cancellation of order and procurement of conductor from alternative source, more than 18 months have been lost, which will further delay the completion of the project. The reply is silent on the observations regarding non obtaining of bank guarantee and other lacunae in the contract. Accepting of delayed delivery without deduction of liquidated damage is not in the best interest of the Department. Further, making of payments against invoices not in line with the requirements of excise manual there was likely loss of revenue to the exchequer.

7.3.25 PED issued (July 2003) supply order to R.C. Energy Metering (RCEM) for procurement of 55000 single phase energy meters valuing Rs.5.08 crore. The supply order *inter alia* stipulated that the materials should be guaranteed for a period of five years and the supplier should submit a performance bank guarantee for an amount equivalent to 10 *per cent* of the total value of the order with its validity till the end of guarantee period. The meters were to be installed departmentally.

RCEM submitted (November 2003) the bank guarantee only for Rs. 43.56 lakh valid for two years and stated that it would be further renewed to cover the entire guarantee period. Audit scrutiny, however, revealed that neither the bank guarantee was renewed by RCEM after it expiry (November 2005) nor PED insisted for it. As of May 2007, 656 meters valuing Rs. 6.04 lakh were to be rectified by the supplier. It is also observed that 116 defective/damaged energy meters supplied by RCEM were not repairable and were recommended for replacement. In the absence of valid bank guarantee the PED could not enforce timely rectification of defective meters. Had the work been executed on turnkey basis, as provided in the APDRP scheme, PED could have avoided this situation.

PED stated (October 2007) that orders were issued in August 2007 for replacement of the 116 defective meters. PED had not replied to the observation on non obtaining of a valid bank guarantee.

Non achievement of Objectives

7.3.26 The main objectives of the APDRP scheme were to reduce AT & C losses to around 15 *per cent*, T & D losses to 10 *per cent* in five years, increase the revenue to make the utility commercially viable, reduce the outages and improve the quality of power supply to consumers. However, the above objectives could not be achieved as discussed below:

Revenue and collection efficiency

7.3.27 The total revenue collected by the PED during the period between 2002-03 and 2006-07 was as follows:

Table No. 7.3.4

(Rupees in crore)

Sl No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
a)	Amount billed	20.94	28.43	26.42	38.91	43.60
b)	Previous outstanding	28.98	31.96	39.80	41.52	46.46
c)	**Total (a + b)**	**49.92**	**60.39**	**66.22**	**8043**	**90.06**
d)	Revenue realized	17.96	20.59	24.70	33.97	25.06
e)	Outstanding revenue **(c – d)**	31.96	39.80	41.52	46.46	65.00
f)	Collection efficiency	35.97	34.09	37.30	42.23	27.83

Source: (i)Report on Energy accounting and audit and (ii) Revenue Receipts Register.

It can be seen from the table that the amount billed indicated increasing trend, which in fact includes the increase (July 2005) due to revision of tariff by around 48 *per cent*. The collection efficiency, however, has not improved resulting in increase in the outstanding dues from Rs. 31.96 crore in 2002-03 to Rs. 65 crore in 2006-07. The collection efficiency deteriorated to 27.83 *per cent* in 2006-07 as against 42.23 *per cent* in 2005-06. The PED stated (October 2007) that due to non receipt of payment mainly from the bulk consumers like PHE Department and Government Departments, the collection efficiency deteriorated. These dues have since been realized and PED expect that the revenue realization will increase reducing the AT & C losses.

T&D losses

7.3.28 The APDRP scheme also aims at, increasing financial viability by reducing T&D losses to around 10 *per cent* in the five year period. For reducing the T & D losses certain measures, including installation of capacitors at all levels, re-conductoring of lines, re-configuration of feeder lines and distribution transformers were envisaged. Audit scrutiny, however, revealed that installation of capacitors was not taken up (July 2007) and the department has deleted/reduced important work of re-conductoring of lines and installation of DTs as discussed in paragraph 7.3.29 and thus, could not achieve the reduction in transmission losses. The T&D losses of PED for the last five years ended 2006-07 were as follows:

Table No. 7.3.5

	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
a)	Energy input (MU)	266.41	228.63	204.28	208.39	196.25
b)	Energy billed (MU)	91.51	115.33	125.67	134.51	141.91
c)	Billing efficiency (*per centage*)	34.35	50.44	61.52	64.55	72.32
d)	T&D losses (*percentage*) (a-b/a)	65.65	49.56	38.48	35.45	27.68

Source: Report on energy accounting and auditing

It can be seen from the above that though there was reduction in T&D losses during the period of review, but the losses were higher than the target of 10 *per cent*. The excess over the targeted T & D losses as per the scheme during 2006-07 were 34.73 million units valuing Rs. 10.66 crore[Σ]. The PED accepted (October 2007) the fact.

7.3.29 The technical loss reduction measures include re-conductoring of lines, re-configuration of feeder lines and distribution transformers etc. Audit scrutiny, however, revealed that due to increase in cost of execution the Department has deleted/reduced certain important terms of works (costing Rs. 946.56 lakh) from the scope of works as detailed below:

- Deletion of re conductoring of 101 Km 11 KV line (Project Circle I) and 29 Km of new 33 KV line (Lunglei Circle)
- Reduction in re-conductoring of 11 KV lines from 88 to 31 KM (Project Circle)
- Reduction in laying of new 33 KV and 11 KV lines (all the circles)
- Reduction in construction of new Sub stations (Transmission and Lunglei circles)
- Reduction in installation of New Distribution Transformers (Transmission and Champhai circles)

The Department failed to address the feasibility of improvement of the transmission and distribution system by deleting/reducing the important components of APDRP scheme.

AT & C losses

7.3.30 One of the main objectives of the APDRP was to reduce the Aggregate Technical and Commercial Losses (AT & C losses) from around 60 *per cent*

[Σ] *The loss has been calculated on the basis of average cost of per unit.*

to around 15 *per cent* in five years. This implied a targeted reduction of 9 *per cent per annum*. The AT & C losses in Mizoram were 87.64 *per cent* in 2002-03 which could be reduced to only 79.88 *per cent* by 2006-07 as indicated in the ***Appendix 7.15***. The reduction in AT&C losses needs to be viewed in the light of the fact that transmission losses from generation point to input point were not considered as discussed in paragraph 7.3.31.

The AT & C losses in respect of all the circles exhibited a rising trend during 2006-07 contrary to the improving trends during the period 2004-05 and 2005-06, primarily on account of very poor collection efficiency which was mainly due to non receipt of dues from PHE and Government Departments as stated (October 2007) by the PED.

Discrepant reporting of AT & C losses

7.3.31 It was noticed that the AT & C losses reported were with reference to the energy input to the consumers' premises (energy billed) only and did not cover the transmission loss from the generation points to the sub-station. The energy loss from the point of generation (energy purchased) to the input point for the last five years ended 2006-07 were as follows:

Table No. 7.3.6

Sl No.	Year	Energy Purchased in MU[ℜ]	Energy received at input point (MU)	Energy loss	*Percentage* of energy loss to energy purchased
1	2002-03	268.30	266.41	1.89	0.70
2	2003-04	280.64	228.63	52.01	18.53
3	2004-05	379.93	204.28	175.65	46.23
4	2005-06	385.75	208.39	177.36	45.97
5	2006-07	288.66	196.25	92.41	32.01

Source: (i) Report on energy accounting and auditing and (ii) details of energy purchased furnished by the Board

It will be seen from the above that the energy loss increased from 0.70 *per cent* in 2002-03 to 32.01 *per cent* in 2006-07. However, these significant transmission losses were ignored while reporting AT & C losses resulting in incorrect depiction of reduction in AT&C losses.

System and Consumer Metering

7.3.32 APDRP scheme envisaged cent *per cent* system metering and consumer metering with a view to ensure proper energy accounting and auditing, improved reliability of power, improve billing and collection

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[ℜ] *This represents the total purchase made by Power and Electricity Department from the CPSU.*

efficiency and increase in customer satisfaction. In particular, feeder metering and DT metering were highlighted as critical Category –A items targeted to reduce commercial losses. Audit scrutiny revealed that in spite of the claim of cent *per cent* consumer metering by the PED, significant portion of billing was based on assessment and system metering was very low as indicated below:

Table No. 7.3.7

Name of Circle	**Consumer and public lighting**			**System metering (Nos.)**			
	Total billed (MU)	**Assessed (MU)**	**Percentage of assessed billing**	**11 KV feeder**	**Metered**	**DTs**	**Metered**
Aizawl Power Circle	6.701187	1.21807	18	31	31	350	16
Transmission	1.462961	0.072267	5	29	27	96	87
Lunglei Power Circle	2.047093	0.091883	4	29	26	350	19
Project circle I	1.023556	0.151175	15	25	20	147	52
Champhai Power Circle	0.70305	0.041982	6	19	19	165	54
Total				**133**	**92**	**758**	**212**

Source: Report on energy accounting and auditing

The above figures indicate that between four to 18 *per cent* of overall billing was on assessment basis. Public lighting was, however, billed cent *per cent* on assessment basis consequently adversely affecting the veracity of the source data for computation of AT & C losses. The metering of 11 KV Feeders, which were envisaged to be operated as business units, and the DTs were abysmally low at 69.17 *per cent* and 27.96 *per cent* only as against target of cent *per cent*. The PED stated (October 2007) that work of system metering although accomplished to some extent, it can not be completed unless the new 33 KV Sub stations are commissioned. The fact remains that by not completing *cent per cent* sytem and consumer metering the State could not enjoy the benefits of APDRP.

Quality of supply and Customer satisfaction

7.3.33 As per the objectives of the scheme uninterrupted power supply was envisaged for increase in customer satisfaction. In this direction MOP prescribed (June 2003) that feeder outages should be less than one per feeder per month. The details of Circle wise feeder outages during the year 2006-07 were as detailed below:

Table No. 7.3.8

Name of Circle	No. of 11 KV feeders[∝]	Total No. of feeders trippings in the year	Average trippings per feeder per month (c/12/b)	Total duration (in Hours)	Average duration per feeder per month(e/12/b)
(a)	(b)	(c)	(d)	(e)	(f)
Aizawl Power Circle	31	1114	3	407	1.09
Transmission Circle	31	2973	8	6106	16.41
Lunglei Power Circle	29	6460	19	17841	51.27
Project Circle I	25	841	3	750	10.71
Champhai Power Circle	17	1609	8	2089	10.24

Source: Report on energy accounting and auditing

The above details revealed that the actual outages were much higher than the prescribed norms of one per feeder per month. The PED stated (October 2007) that the target prescribed for feeder/transformer can be achieved only after the APDRP schemes are fully implemented. Thus, due to delay in completion of APDRP schemes, the intended benefits of reduction in feeder outages could not be achieved.

Energy Audit and Accounting

7.3.34 As per the APDRP guidelines, Information Technology (IT) and Computer Aided Tools play a vital role in distribution management and ensure higher revenue as a result of segregation of T & D losses, and controlling commercial losses, especially for metering, billing, collection and outage reduction and thus, enabling comprehensive energy accounting. DPRs for the IT and Computer Aided tools pertaining to five circles[¢] estimated to cost Rs.3.18 crore was approved (between June 2003 to September 2004). It was, however, observed that the PED is yet (September 2007) to implement the IT package in all the five circles test checked by audit. The abysmally low progress in respect of IT enabling activities contributed to non-implementation of effective and meaningful energy audit and accounting. The PED stated (October 2007) that implementation of IT packages for 2 circles are being taken up which will be subsequently implemented in other circles. However, it was noticed in audit that the tenders for IT package are yet to be finalized (October 2007) and thus, it may further delay the implementation.

[∝] *Average no. of feeders taken as feeder numbesr are different in each month.*
[¢] *Project, Lunglei, Transmission, Champhai and Aizawl*

Ineffective vigilance and legal measures to prevent theft of energy

7.3.35 Vigilance and legal measure to prevent theft which constitutes a substantial part of commercial losses are critical to reduce non technical losses/commercial losses. It was, however, observed from the records that the theft cases were not monitored properly. No proper records of such cases were maintained and reported periodically to CE's office to take corrective measures in this regard. Periodical checking of meters were also not done due to shortage of technical staff. The PED stated (October 2007) that the monthly reports on AT & C losses take care of vigilance and legal measures. The reply is not tenable since the matter is not being included regularly in the reports submitted.

Non compliance of MOA conditions

7.3.36 A Memorandum of Agreement (MOA) between the State Government and MOP was entered into (July 2002) for undertaking reforms in power sector in the State with financial help from MOP.

For release of funds under APDRP scheme the MOP stipulated certain mandatory conditions which are as follows:

- State Government will corporatise the Electricity Department by 2006-07.
- State Government will set-up State Electricity Reforms Commission SERC)/Joint Electricity Reforms Commission (JERC) by December 2003 and file tariff petition.
- State Government will ensure timely payment of subsidies required in pursuance of orders on the tariff determined by the SERC/JERC.
- State Government would achieve 100 *per cent* electrification of villages by 2003.
- State Government will ensure that PED reach a break-even point by 31 March 2006.
- Suitable policy provisions shall be formulated by the State Govt. by July 2004 for handing over parts of distribution system on management contract or on lease to local bodies.
- The process of setting up of computerised billing centers shall be done by July 2003.

- Execution of APDRP work on turnkey basis through pre-qualified turnkey Contractors selected on competitive bid basis or on rate contract system for equipments of repetitive nature.

- Installation of tamper proof, static/high precision, energy meters for all consumers shall be done within July 2003.

None of the above conditions were implemented by PED except conditions at Sl. No. 2 and 9, which were also implemented partially and with delays ranging between 13 and 21 months. Non compliance to the MOA conditions has adverse effect on efficient operation of the Department, deriving the financial benefits and thereby achieving the objective of financial viability.

The PED stated (October 2007) that due to non receipt of required funds, the target can not be achieved. The reply is not tenable since the receipt of funds were delayed mainly due to reasons attributed to the Department only as observed in paragraph 7.3.10.

Unclaimed subsidy from the State government on account of loss

7.3.37 As per the MOA singed (July 2002) with the State Government, timely payment of subsidies required in pursuance of orders on the tariff determined by the SERC/JERC was to be ensured by the State Government. The tariffs were revised twice (2002 and 2005) during 2002-03 to 2006-07. However, PED continues to incur losses due to fixation of lower tariff as indicated below:

Table No. 7.3.9

Sl No.	**Year**	**Energy purchased in MU**[ℜ]	**Energy Bill paid (Rs. in crore)** [ℑ]	**Energy Sold (Rs. in crore)**[™]	**Loss (-)/ Profit (+) (Rs. in crore)**
1	**2**	**3**	**4**	**5**	**6 =(4-5)**
1	2002-03	268.30	45.42	19.54	(-)25.88
2	2003-04	280.64	52.02	25.70	(-)26.32
3	2004-05	379.93	76.07	51.39	(-)24.68
4	2005-06	385.75	74.24	79.91	(+) 5.67
5	2006-07	288.66	61.91	40.80	(-)21.11
Total loss					**92.32**

Source: (i) details of energy purchased furnished by the Board and (ii) Revenue Receipt Register

[ℜ] *This represents the total purchase made by Power and Electricity Department from the CPSU.*
[ℑ] *This represents the total payment made to CPSU for purchase of energy.*
[™] *This represents the total revenue collected from the sale of power*

The total subsidy to be claimed from the State Government by PED was Rs.92.32 crore. PED however, neither claimed nor the State Government released the subsidy. The PED stated (October 2007) that the Department has not yet been corporatised and hence claiming of subsidy from the same does not arise. The reply is not tenable since as per the MOA, the State Government shall ensure timely payment of subsidy to compensate the losses of the Department.

Conclusion

PED failed to comply with the guidelines issued by the GoI for implementation of APDRP funds. The State Government delayed the release of funds resulting in liability of penal interest on delayed release of funds. The State Government failed to arrange for counter part funds for APDRP, to plan completion of category 'A' items on priority basis and to submit utilization certificates to GOI. This is likely to result in delayed receipt of balance funds from the GOI and consequently delaying the completion of the projects under APDRP. Funds were not utilized efficiently and effectively as the funds were diverted for other purposes, and funds were released without obtaining the complete details of the work to be executed. There was wide variation in the quantity and cost estimates with reference to estimates indicating that ground realities were not considered while preparing the DPRs. There was delay in the completion of four out of seven projects under APDRP. PED allowed undue financial benefits to supplier on account of non recovery of liquidated damages, payment of duties without obtaining proof of remittance, etc. PED failed to achieve the main objective of reduction of AT & C losses, enhanced customer satisfaction, elimination of gap between cost of energy purchased and sold. Even after spending more than 70 *per cent* of estimated cost, PED was far from deriving the envisaged benefits.

Recommendations

The State Government should:

- ensure immediate release of funds and avoid diversion of funds to areas not covered under APDRP;
- ensure timely completion of the projects by proper planning, monitoring and control;
- ensure compliance to MOP guidelines in order to get the desired revenue generation and reduction of AT&C losses; and
- ensure the implementation of the reform measures as envisaged in the MOA.

SECTION 'B': DRAFT PARAGRAPH

POWER & ELECTRICITY DEPARTMENT

7.4 Doubtful expenditure

Doubtful expenditure of Rs.27.65 lakh on village electrification due to non-procurement and utilisation of vital materials

The Executive Engineer (Power & Electricity), Revenue Division, Aizawl prepared (January 2005) an estimate for Rs. 24.64 lakh for electrification of Sihhmui village, (Sairang) envisaging construction of 11 KV line-3.206 KM, LT line-3 KM, transformer 100 KVA, 11/0.4 KV, 5 Nos HPSV Lamp. As per approved estimates, for construction of three phase, 3 KM LT line the division was to procure 102 steel poles(Rs.4.66 lakh), 9.45 KM of AAC 7/3.10 mm of Ant conductor(Rs.2.44 lakh) and 6.30 KM of AAC 7/2.21mm Gnat conductor (Rs.0.82 lakh) for electrification of the said village at a cost of Rs.7.92 lakh. The State Government accorded (March 2005) Administrative Approval (AA) for Rs.24.64 lakh and Expenditure Sanction (ES) for Rs.19.95 lakh. The estimate was revised (March 2006) by the division to Rs.27.65 lakh and the State Government accorded (March 2006) sanction for Rs.27.65 lakh.

The division carried out the work departmentally. It was noticed (August 2006) that the division had spent the full amount {Rs.19.95 lakh sanctioned in March 2005 and Rs.7.70 lakh in March 2006} in the month of sanction. Scrutiny of vouchers and relevant records further revealed that for electrification of the said village the division procured 40 steel poles (Rs.1.96 lakh), 5.5 KM of Ant conductor (Rs.1.42 lakh) and 3 KM of Gnat conductor (Rs.0.39 lakh) at a total expenditure of Rs. 3.77 lakh between March 2005 and March 2006 against the estimated requirement of material valuing Rs.7.92 lakh. It was not clear as to how the electrification work of the said village could be shown as completed without utilizing the required number of poles and conductors as stipulated in the approved estimate. Further, the division could not furnish the number of household consumers to whom service connections had been provided, the amount billed and revenue realized per month from the village since the date of electrification.

Thus, expenditure of Rs.27.65 lakh incurred on electrification of Sihhmui village appears to be doubtful.

The matter was reported (November 2006 and May 2007) to the Government/Department; their replies are awaited (September 2007).

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