CHAPTER IV GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

CHAPTER IV : GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

4.1 Overview of State Public Sector Undertakings

Introduction

- **4.1.1** The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Meghalaya, the State PSUs occupy a moderate place in the State economy. The State working PSUs registered a turnover of Rs. 386.20 crore for 2008-09 as per their latest finalised accounts as of September 2009. This turnover was equal to 4.02 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Meghalaya State PSUs are concentrated in power sector. The State PSUs incurred an overall loss of Rs. 20.73 crore in the aggregate for 2008-09 as per their latest finalised accounts. They had employed 5,261 employees as of 31 March 2009.
- **4.1.2** As on 31 March 2009, there were 14 PSUs as per the details given below. Of these, no company was listed on the stock exchange(s).

Type of PSUs	Working PSUs	Non-working PSUs ^Ψ	Total
Government Companies	10	1	11
Statutory Corporations	3	-	3
Total	13	1	14

4.1.3 During the year 2008-09, no new PSU was established nor any existing PSU was closed down.

Audit Mandate

- **4.1.4** Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which not less than 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act.
- **4.1.5** The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by

[•] As per the details provided by 11 PSUs. Remaining PSUs did not furnish the details.

Ψ Non-working PSUs are those which have ceased to carry on their operations.

^{*} Includes one 619-B Company (non-working) namely, Meghalaya Phyto Chemicals Limited.

Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956.

4.1.6 Audit of Statutory corporations is governed by their respective legislations. Out of three Statutory corporations, CAG is the sole auditor for Meghalaya State Electricity Board and Meghalaya Transport Corporation. In respect of Meghalaya State Warehousing Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in State PSUs

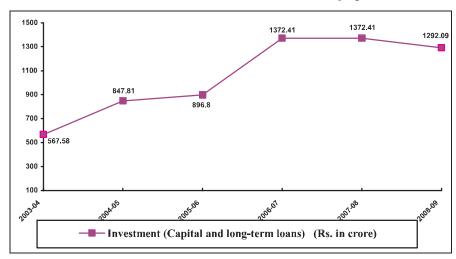
4.1.7 As on 31 March 2009, the investment (capital and long-term loans) in 14 PSUs (including one 619-B company) was Rs. 1,292.09 crore as per details given below.

(Rupees in crore)

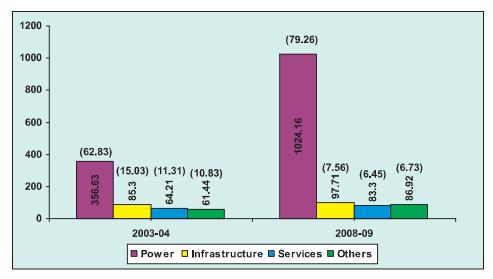
	Gover	nment Comp	anies	Statutory Corporations			
Type of PSUs	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	Grand Total
Working PSUs	148.78	42.60	191.38	277.80	822.16	1099.96	1291.34
Non-working PSUs	0.75		0.75			-	0.75
Total	149.53	42.60	192.13	277.80	822.16	1099.96	1292.09

A summarised position of Government investment in State PSUs is detailed in **Appendix 4.1**.

4.1.8 As on 31 March 2009, of the total investment in State PSUs, 99.94 *per cent* was in working PSUs and the remaining 0.06 *per cent* in one non-working PSU. This total investment consisted of 33.07 *per cent* towards capital and 66.93 *per cent* in long-term loans. The investment has grown by 127.65 *per cent* from Rs. 567.58 crore in 2003-04 to Rs. 1,292.09 crore in 2008-09 as shown in the graph below.



4.1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart. The thrust of PSU investment in the State was mainly in Power Sector during the five years which has seen its percentage share rising from 62.83 *per cent* in 2003-04 to 79.26 *per cent in* 2008-09.



(Figures in brackets show the percentage of total investment)

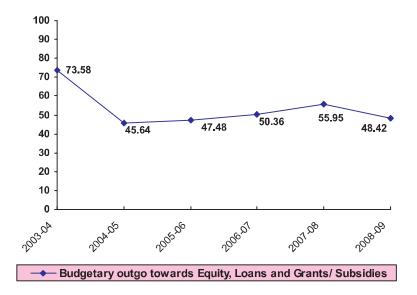
Budgetary outgo, grants/subsidies, guarantees and loans

4.1.10 The details regarding budgetary outgo towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Appendix 4.3.** The summarised details are given below for three years ended 2008-09.

(Rupees in crore)

	(Rupes in ero						
Sl.		200	6-07	200	2007-08		8-09
No.	Particulars	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	5	12.95	5	10.38	5	18.20
2.	Loans given from budget	1	9.66	1	8.43	1	11.04
3.	Grants/Subsidy received	2	27.75	6	37.14	6	19.18
4.	Total Outgo (1+2+3)		50.36		55.95		48.42
5.	Loans converted into equity	1	202.00	-	-	ı	_
6.	Guarantees issued	1	_	-	-	1	150.49
7.	Guarantee Commitment	2	376.90	3	501.23	3	607.24

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



The budgetary outgo in 2004-05 was all time low in six years from 2003-04 to 2008-09 at Rs. 45.64 crore, which showed increasing trend thereafter up to 2007-08. In 2008-09, it slightly decreased and stood at Rs.48.42 crore as against Rs. 55.95 crore in 2007-08.

4.1.12 The guarantee commitment by the State Government against the borrowings of State PSUs was showing an increasing trend. Guarantees for Rs. 376.90 crore (two) PSUs) were outstanding as at the end of 2006-07 which increased to Rs. 607.24 crore (three PSUs) at the end of 2008-09. Fresh guarantees for Rs. 150.49 crore were issued by the State Government during 2008-09 to one PSU.

Reconciliation with Finance Accounts

4.1.13 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

(Rupees in crore)

Outstanding in respect of	0		Difference
Equity	153.71	412.53	258.82
Loans	*	151.99	-
Guarantees	638.91	607.24	31.67

4.1.14 Audit observed that the differences occurred in respect of ten PSUs and some of the differences were pending reconciliation since a long period. Though the

^{*} State Government's loans to State PSUs are extended through the Government Departments. These Government Departments reallocate the loan funds to different PSUs. Hence, the PSU-wise figures of State Government loans are not available in the Finance Accounts.

Principal Secretary, Finance Department, Government of Meghalaya as well as the PSUs concerned were apprised by Audit about the differences stressing upon the need for reconciliation, no significant progress was noticed. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

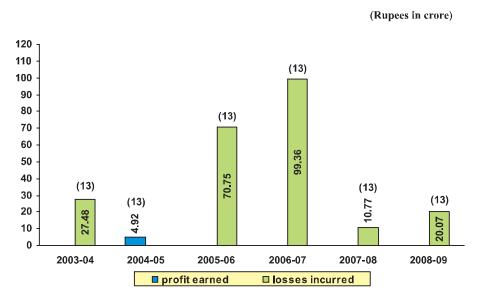
4.1.15 The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Appendix 4.2**, **4.5** and **4.6** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2003-04 to 2008-09.

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover*	210.83	279.18	300.64	278.18	365.47	386.20
State GDP	5280	5805	6445	7330	8472	9611
Percentage of Turnover						
to State GDP	3.99	4.81	4.66	3.80	4.31	4.02

It can be seen from the above that during six years period ending 2008-09, the percentage of turnover to State GDP had declined during three years (*viz.*, 2005-06, 2006-07 and 2008-09) as the turnover of PSUs did not increase in the proportion of corresponding increase in GDP.

4.1.16 Profit earned/losses incurred by State working PSUs during 2003-04 to 2008-09 are given below in a bar chart.



(Figures in brackets show the number of working PSUs in respective years)

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Turnover as per the latest finalised accounts as of 30 September.

During 2003-09, the State working PSUs incurred losses every year except during 2004-05. The overall losses incurred by working PSUs were all time high during 2006-07 (Rs. 99.36 crore) and stood at Rs. 20.07 crore during 2008-09. During the year 2008-09, out of 13 working PSUs, four PSUs earned profit of Rs. 2.04 crore and nine PSUs incurred loss of Rs. 22.11 crore. The major contributors to profit were Meghalaya State Electricity Board (Rs. 1.48 crore) and Meghalaya Government Construction Corporation Limited (Rs. 0.54 crore). The heavy losses were incurred by Meghalaya Transport Corporation (Rs. 12.90 crore), Mawmluh Cherra Cements Limited (Rs. 3.10 crore) and Meghalaya Mineral Development Corporation Limited (Rs. 1.91 crore).

4.1.17 The losses of working PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of Rs. 66.98 crore and infructuous investment of Rs. 10.59 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(Rupees in crore)

			,	
Particulars	2006-07	2007-08	2008-09	Total
Net Loss	99.36	10.77	20.07	130.20
Controllable losses as per				
CAG's Audit Report	41.50	24.28	1.20	66.98
Infructuous Investment	-	5.33	5.26	10.59

4.1.18 The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

4.1.19 Some other key parameters pertaining to State PSUs are given below.

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital	1.72	5.10	_	-	2.93	1.87
Employed (Per cent)						
Debt	412.20	484.71	512.92	892.37	968.28	864.76
Turnover	210.83	279.18	300.64	278.18	365.47	386.20
Debt/ Turnover Ratio	1.96:1	1.74:1	1.71:1	3.21:1	2.65:1	2.24:1
Interest Payments	34.74	30.09	51.38	32.11	38.08	37.69
Accumulated Losses	340.07	403.34	403.34	508.72	524.13	518.36

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

4.1.20 The percentage of return on capital employed was all time high at 5.10 in 2004-05 during last six years and it stood at 1.87 in 2008-09. It was, however, negative during 2005-06 and 2006-07. The accumulated losses showed increasing

Y Turnover of working PSUs as per the latest finalised accounts as of 30 September.

trend during six years period and the same increased by more than 1.5 times from Rs.340.07 crore (2003-04) to Rs. 518.36 crore (2008-09).

4.1.21 The State Government had not formulated any dividend policy for payment of any minimum return by PSUs on the paid up share capital contributed by the State Government. As per their latest finalised accounts, four PSUs earned an aggregate profit of Rs. 2.04 crore. However, none of the PSUs had declared dividend.

Performance of major PSUs

4.1.22 The investment in working PSUs and their turnover together aggregated to Rs. 1677.54 crore during 2008-09. Out of 13 working PSUs, the following three PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These three PSUs together accounted for 91.64 *per cent* of aggregate investment *plus* turnover.

(Rupees in crore)

PSU Name	Investment	Turn over	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover
(1)	(2)	(3)	(4)	(5)
Meghalaya Industrial Development Corporation	92.81	3.99	96.80	5.77
Mawmluh Cherra Cements Limited	65.27	29.96	95.23	5.68
Meghalaya State Electricity Board	1024.16	318.15	1342.31	80.01
Total	1182.24	352.10	1534.34	91.46

4.1.23 Some of the major audit findings of past five years relating to above PSUs are stated in the succeeding paragraphs.

Meghalaya Industrial Development Corporation

The turnover of the Company increased from Rs. 3.77 crore in 1999-2000 to Rs. 3.99 crore during 2001-02. The Company earned profit of Rs. 0.61 lakh, Rs. 4.25 lakh, Rs. 0.14 lakh during the years 1999-2000, 2000-01 and 2001-02 respectively. The accounts of the Company were in arrears from 2002-03 onwards. Some of the major audit findings of past five years are stated below.

Deficiency in implementation

• Irregular sanction of loan of Rs. 3.50 crore to sick units contrary to Government directives resulting in the loan becoming doubtful of recovery. (paragraph 6.4 of Audit Report 2003-04).

Deficiency in monitoring

- Inadequate follow up action and imprudent business practices adopted by the Company resulted in doubtful recovery of loan of Rs. 4.42 crore. (paragraph 7.3 of Audit Report 2006-07).
- Failure to take effective action for recovery of dues resulted in loss of Rs. 25.67 crore and further sanctioning of bridging loan to the subsidiaries to the tune of Rs. 1.83 crore. (paragraph 7.4 of Audit Report 2006-07).

Mawmluh Cherra Cement Limited

The turnover of the Company was Rs. 31.21 crore, Rs. 34.79 crore and Rs. 29.96 crore during 2005-06, 2006-07 and 2007-08 respectively. The Company earned a profit of Rs. 0.83 crore in 2005-06, Rs. 1.45 crore in 2006-07 and incurred a loss of Rs. 3.10 crore during 2007-08. Some of the major audit findings of past five years are stated below.

Deficiency in planning

• Improper assessment of demand of electricity by the Company resulted in incurring extra expenditure of Rs. 0.47 crore on electricity charges. (paragraph 7.5 of Audit Report 2006-07).

Meghalaya State Electricity Board

The turnover of the Board was Rs. 254.30 crore in 2005-06, Rs. 233.17 crore in 2006-07 and Rs. 318.15 crore during 2007-08. The Board incurred losses of Rs. 41.19 crore in 2005-06, Rs. 93.97 crore in 2006-07 and earned a profit of Rs. 1.48 crore during 2007-08. Some of the major audit findings of past five years are stated below.

Deficiency in planning

- Purchase of transformer without considering the progress of work, resulted in blockage of funds of Rs. 2.44 crore besides expiry of the guarantee before the transformer was put to commercial use. (paragraph 6.4 of Audit Report 2004-05).
- Excess procurement of material than required resulted in idle investment of Rs.1.58 crore. (paragraph 7.2.20 of Audit Report 2006-07).

Deficiency in implementation

- Extra expenditure of Rs. 3.39 crore was incurred on procurement of electro mechanical meters not provided in the DPR. (paragraphs 7.2.13 and 7.2.14 of Audit Report 2006-07).
- Additional expenditure of Rs. 6.46 crore was incurred due to Board's failure to negotiate the rates quoted in turnkey contract to bring them at par with the issue rate of its own stores. (paragraph 7.2.18 of Audit Report 2006-07).

- Failure to negotiate the rates quoted in the turnkey contract to bring them at par with rates finalised during the same period resulted in additional expenditure of Rs. 5.23 crore. (paragraph 7.3.13 of Audit Report 2007-08).
- MeSEB incurred infructuous expenditure of Rs. 3.19 crore and extended undue financial benefit of Rs. 2.17 crore to a contractor due to non-inclusion of a suitable clause in the work agreement for recovery rate. (paragraph 7.4 of Audit Report 2007-08).
- MeSEB extended undue financial benefit of Rs. 4 crore to Assam State Electricity Board due to execution of a faulty agreement besides incurring a loss of Rs. 0.70 crore. (paragraph 7.5 of Audit Report 2007-08).

Deficiency in monitoring

- Due to non-revision of Load Security Deposit, MeSEB had to forgo Rs. 24.10 crore in respect of Industrial consumers only, adversely affecting its funds position. (paragraph 6.2.6 of Audit Report 2003-04).
- MeSEB had to incur loss of revenue of Rs. 5.29 crore due to failure to insert monthly minimum charges clause in tariff by MeSEB. (paragraph 6.2.7 of Audit Report 2003-04).
- Delay in raising of energy consumption bills resulted in delay in collection of revenue of Rs. 3.49 crore by 30 days (paragraph 6.2.8 of Audit Report 2003-04).
- No steps were taken for realisation of arrears of Rs. 153.72 crore outstanding from Assam State Electricity Board (ASEB) for inter-State sale of power. (paragraph 6.2.13 of Audit Report 2003-04).

Non-achievement of objectives

- Non-reduction of T&D losses and AT & C losses defeating the main objective of implementation of APDRP scheme. (paragraphs 7.2.26 to 7.2.27 of Audit Report 2006-07).
- MeSEB did not open a separate bank account on receipt of funds of Rs. 122.82 crore for implementation of Rural Electrification works under RE (MNP)/PMGY. Therefore the utilization of funds, diversion of funds for other purposes and balance remaining unutilized was not susceptible for verification in audit. (paragraph 7.3.3 of Audit Report 2007-08).

Deficiency in financial management

• MeSEB spent Rs. 13.11 crore over and above the allocated funds for RE works and incurred avoidable interest of Rs. 1.31 crore due to borrowings of short term loan for meeting its working capital requirements. (paragraph 7.3.6 of Audit Report 2007-08).

Conclusion

4.1.24 The above details indicate that the State PSUs are not functioning efficiently and there is tremendous scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

Arrears in finalisation of accounts

4.1.25 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of Working PSUs	13	13	13	13	13
2.	Number of accounts finalised during the year	11	11	11	13	14
3.	Number of accounts in arrears	56	58	60	60	61
4.	Average arrears per PSU (3/1)	4.31	4.46	4.61	4.61	4.69
5.	Number of Working PSUs with arrears in accounts	12	12	12	12	13
6.	Extent of arrears	1 to 14	1 to 15	1 to 15	1 to 15	1 to 15
		years	years	years	years	years

- **4.1.26** It can be seen from the above that the quantum of arrears in accounts was on the rise during all the years and the average stood at more than four accounts per PSU.
- **4.1.27** In addition to above, there were also the arrears in finalisation of accounts by one non-working PSU since 1984-85.
- **4.1.28** The State Government had invested Rs. 116.43 crore (Equity: Rs. 86.08 crore, grants: Rs. 6.55 crore and subsidy: Rs. 23.80 crore) in 10 PSUs during the years for which accounts have not been finalised as detailed in **Appendix 4.4.** In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.
- **4.1.29** The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As

a result of this, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up (August 2009) with the Principal Secretary, Finance Department to expedite the backlog of arrears in accounts in a time bound manner.

- **4.1.30** In view of above state of arrears, it is recommended that:
- The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.
- The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.

Winding up of non-working PSUs

There was one non-working PSU as on 31 March 2009. The PSU had not commenced the liquidation process. The Company was defunct and no accounts after 1984 (calendar year) had been prepared.

4.1.31 The non-working PSU is required to be closed down as its existence is not going to serve any purpose.

Accounts Comments and Internal Audit

4.1.32 Nine working companies forwarded their nine audited accounts to Accountant General during the year 2008-09. Of these, three accounts of three companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Rupees in crore)

Sl.		200	2006-07		2007-08		2008-09	
No.	Particulars	No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount	
1.	Decrease in profit	-	1	1	0.59	-	-	
2.	Increase in loss	1	0.08	-	-	1	0.47	
3.	Non-disclosure of material facts	-	ı	2	12.48	1	1.94	
4.	Errors of classification	1	0.04	-	-	ı	-	

- **4.1.33** During the year, the Statutory auditors had given unqualified certificates for three accounts, qualified certificates for six accounts. The compliance of companies with the Accounting Standards remained poor as there were eight instances of noncompliance in eight accounts during the year.
- **4.1.34** Some of the important comments in respect of accounts of companies are stated below.

Meghalaya Watches Limited (2005-06)

- Payments under Voluntary Retirement Scheme (Rs. 2.87 crore) and payment of Salary arrears (Rs. 3.83 crore) received from Government of Meghalaya and fully utilised were not reflected in the Profit and Loss (P&L) Account.
- The Company exhibited a sum of Rs. 10.51 lakh as assembly charges under production cost in the P&L Account even though it has ceased all production activity.

Meghalaya Handloom & Handicrafts Development Corporation Limited (2001-02)

 Government Grant in aid of Rs. 3.50 lakh received from Government of India for addition of fixtures and fittings meant for sales emporium was reflected as Other Income.

Meghalaya Tourism Development Corporation Limited (1992-93)

- Encashment of Bank Guarantee of Rs. 25.60 lakh due to non-completion of civil works by contractor was adjusted against Capital Work-in-Progress instead of accounting as Other Income.
- No disclosures was made as required under Para No.8.1 of Accounting Standard-4
 regarding out of court settlement amounting to Rs. 1.94 crore with a contractor
 against Arbitration award in respect of Crow borough Hotel Complex.
- Current liabilities were understated due to non-inclusion of Rs. 1.02 crore being funds received from Government of Meghalaya for implementation of Government projects.
- **4.1.35** Similarly, three working statutory corporations forwarded their five accounts to Accountant General during the year 2008-09. Of these, four accounts of two Statutory corporations pertained to sole audit by CAG which was completed. The remaining one account was selected for supplementary audit. The audit reports of statutory auditors and the sole/ supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of CAG are given below.

						(Rup	ees in crore)
Sl.		2006-07		200	7-08	2008-09	
No.	Particulars	No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	-	-	-	-	3	108.09
2.	Increase in loss	1	9.50	2	8.11	3	19.65
3.	Non-disclosure of material facts	-	-	-	-	1	4.91
4.	Errors of classifi-	-	-	1	1.23	1	4.19

It can be seen from the above that the average impact of comments causing 'decrease in profits' was at Rs. 36.03 crore per account during 2008-09 as against 'nil' in

preceding two years. Average money value of the classification errors also increased from Rs. 1.23 crore (2007-08) to Rs. 4.19 crore (2008-09) per audited account.

- **4.1.36** During the year, all the five accounts of three Statutory corporations received qualified certificates.
- **4.1.37** Some of the important comments in respect of accounts of statutory corporations are stated below.

Meghalaya State Electricity Board (2007-08)

- Short provision of liability for purchase of power and un-scheduled interchange charge from North Eastern Electric Power Corporation resulted in overstatement of surplus by Rs. 13.36 crore.
- Short provision of liability for purchase of power from NTPC by Rs. 1.93 crore and wrong accountal of Rs. 2.01 crore as receivable from NTPC resulted in overstatement of sundry receivable by Rs. 2.01 crore and overstatement of surplus by Rs. 3.94 crore.
- Non-provision of Rs. 1.70 crore towards reimbursement of income tax claimed by North Eastern Electric Power Corporation resulted in understatement of liability and overstatement of surplus.
- Non-provision of Rs. 78.21 lakh towards interest for delayed payment of unscheduled interchange charges resulted in overstatement of surplus and understatement of other current liabilities.
- Overstatement of stock and surplus by Rs. 88.12 crore due to difference as per physical verification report figures and as shown in the books.
- The actual Uninterrupted Interchange charge receivable for sale of power was Rs. 25.15 crore as per the statement furnished by North Eastern Regional Load Despatch Centre against which the Board booked Rs. 21.48 crore resulting in understatement of Sundry Debtors and Surplus by Rs. 3.67 crore.

Meghalaya Transport Corporation (2002-03, 2003-04 and 2004-05)

- Non provision of liability towards interest and penal interest resulted in understatement of loss by Rs. 2.01 crore.
- Payments made to CPF authorities amounting to Rs. 61.29 lakh were credited to CPF account instead of debiting the same resulting in overstatement of current liabilities and provisions and cash at bank by Rs. 1.23 crore.
- Non-provision of liability towards penal interest payable on outstanding PF dues resulted in understatement of loss by Rs. 75.34 lakh.

- Investments includes Fixed/Term Deposits of Rs. 1.62 crore in various banks which should have been classified as Cash balance at Banks as Fixed Deposits instead of investments, resulting in overstatement of investments by Rs. 1.62 crore.
- **4.1.38** The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control / internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of five companies for the year 2007-08 and four companies for the year 2008-09 are given below.

		200	7-08	2008	8-09
Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommen- dations were made	Reference to serial number of the companies as per Appendix 4.2	Number of companies where recommen- dations were made	Reference to serial number of the companies as per Appendix 4.2
1.	Auditors Report & Comments / Draft paras/Mini Reviews not discussed in Audit Committee	-	-	2	A-2, A-9
2.	Non prescribing of Maximum / Minimum level of stock	-	-	2	A-9, A-10
3.	No ABC analysis adopted to control the inventory	4	A-3,A-4 A-9, A-10	1	A-10
4.	Inadequate scope of Internal Audit	5	A-3,A-4,A-5 A-9, A-10	2	A-7, A-9
5.	Absence of proper maintenance of Fixed Asset Register	-	-	3	A-7,A-9, A-10
6.	Inadequate credit policy	-	-	1	A-9
7.	Inadequate system of giving discount	-	-	1	A-9
8.	Inadequate system for timely recovery of outstanding dues	-	-	1	A-9
9.	No system of obtaining confirmation of balances from debtors.	-	-	1	A-9

Recoveries at the instance of audit

4.1.39 During the course of propriety audit in 2008-09, recoveries of Rs. 3.96 crore were pointed out to the Management of various PSUs, of which, recoveries of Rs. 0.62 crore were admitted by PSUs. An amount of Rs. 0.51 crore was recovered during the year 2008-09.

^{ϵ} Sl. No. 3,4,5,9 and 10 in Appendix – 4.2

 $^{^{\}mu}$ Sl. No. 2,7,9 and 10 in Appendix – 4.2

Status of placement of Separate Audit Reports

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

		Year up to	Year for which SARs not placed in Legislature					
Sl. No.	Name of Statutory corporation	which SARs placed in Legislature	Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature			
1.	Meghalaya State Electricity Board	2005-06	2006-07 2007-08	12 May 2008 14 June 2009	The Government has not furnished reasons for non-placement of the SAR.			
2.	Meghalaya Transport Corporation	1999-2000	2000-01 2001-02 2002-03 2003-04 2004-05	22 September 2007 29 February 2008 20 October 2008 23 January 2009 1 April 2009	The Government has not furnished reasons for non-placement of the SAR.			
3.	Meghalaya State Warehousing Corporation	2004-05	2005-06 2006-07 2007-08	22 April 2008 14 May 2008 8 May 2009	The Government has replied (September 2009) that the SAR would be placed in the Assembly soon.			

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature(s).

Disinvestment, Privatisation and Restructuring of PSUs

4.1.41 During the year 2008-09, no exercise was undertaken by the Government of Meghalaya for the Disinvestment, Privatisation and Restructuring of PSUs.

Discussion of Audit Reports by COPU

4.1.42 The status as on 30 September 2009 of reviews and paragraphs that appeared in the Commercial Chapters of Audit Reports (Civil) and discussed by the Committee on Public Undertakings (COPU) is as under.

Period of Audit Report	Commercial cha	ppeared in the	Number of reviews and paragraphs discussed		
	Reviews	Paragraphs	Reviews	Paragraphs	
1984-85	3	3	2	2	
1985-86	1	3	1	-	
1986-87	1	3	-	1	
1987-88	1	4	-	1	
1988-89	1	4	1	1	
1989-90	1	4	1	1	
1990-91	2	4	-	2	
1991-92	1	4	-	1	

Period of Audit Report	paragraphs a Commercial cha	Total number of reviews and paragraphs appeared in the Commercial chapter of the Audit Report		s and paragraphs
	Reviews	Paragraphs	Reviews	Paragraphs
1992-93	1	4	-	-
1993-94	1	4	1	-
1994-95	2	4	-	-
1995-96	1	4	-	1
1996-97	1	4	-	1
1997-98	1	4	-	1
1998-99	1	2	-	-
1999-00	2	7	-	2
2000-01	2	4	-	-
2001-02	1	6	1	1
2002-03	1	4	-	3
2003-04	1	5	1	2
2004-05 [†]	1	3	1	3
2005-06	1	3	1	_
2006-07	1	6	_	-
2007-08	1	4	-	-
Total	30	97	10	23

 † All the reviews / paras appeared in the Commercial Chapter, 2004-05 have been fully discussed by the COPU.

PERFORMANCE REVIEW

TRANSPORT DEPARTMENT

4.2 Meghalaya Transport Corporation

Executive Summary

The Meghalaya Transport Corporation provides public transport in the State through its seven depots. The Corporation had a fleet strength of 62 buses as on 31 March 2009 and carried an average of 1000 passengers per day during 2008-09. The performance audit of the Corporation for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the business model to tap nonconventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.

Finances and Performance

The Corporation suffered a loss of Rs. 0.35 crore in 2008-09 without considering prior period adjustments. Its accumulated losses stood at Rs. 75.78 crore as at 31 March 2009. The Corporation earned Rs. 34.64 per kilometre and expended Rs. 35.91 per kilometre in 2008-09. Audit noticed that with a right kind of policy measures and better management of its affairs, it is possible to increase revenue and reduce costs, so as to earn profit and serve its cause better.

Declining share

The percentage share of the Corporation in providing public transport declined marginally from 6 per cent in 2004-05 to 4.4 per cent 2008-09. The decline in share was mainly due to its operational inefficiency (leading to non-availability of adequate funds to replace old buses/add new buses) and lack of support from the State Government.

Vehicle profile and utilisation

Of its fleet strength of 62 buses, 48.39 per cent were overage, i.e, more than eight years old. The percentage of overage buses increased from 46.55 per cent in 2004-05 to 48.39 per cent during 2008-09.

Corporations' fleet utilisation at 63 per cent in 2008-09 was below all India Average (AIA) of 90.1 per cent in hill area region category. Its vehicle productivity at 192 kms per day per bus (2008-09) was below the AIA of 196 kms for hilly regions. On the other hand, its load factor at 54 per cent (2008-09) remained higher than the AIA of 45.73 per cent in the category. The Corporation could not perform well on all operational parameters except load factor, and its schedule of buses was unprofitable due to high cost of operations and nonreimbursement of of free/ cost concessional passes by the Government.

The Corporation did not adhere to the preventive maintenance schedule prescribed by the OEMs.

Economy in operations

Manpower and fuel constituted 76.93 per cent of the total cost. Interest, depreciation and taxes accounted for 4.78 per cent and are not controllable in the short term. Thus, the controllable expenditure is to come from manpower and fuel.

The manpower per bus of the Corporation decreased from 6.59 in 2004-05 to 5.32 in 2008-09. The expenditure on repairs and maintenance was Rs. 0.42 lakh (per bus) in 2008-09. The Corporation did not fix targets for fuel consumption.

Revenue maximization

The Corporation did not claim from the State Government reimbursement free/concessional passes issued to teachers and students. Further, the Corporation has about 0.96 lakh square meters of land. As it mainly utilises ground floor land for its operations, the space above can be developed on public private partnership (PPP) basis to earn steady income which can be used to cross-subsidize operations. Corporation has not framed any policy in this regard.

Need for a regulator

The fare per km stood at Rs. 0.76 (2008-09). Though, the Government approves the fare increase, there is no scientific

basis for its calculations. The Corporation has also not formed norms for providing services on uneconomical routes. Thus, it would be desirable to have an independent regulatory body (like SERC) to fix the fares, specify operations on uneconomical routes and address grievance of commuters.

Inadequate monitoring

The fixation of targets for various operational parameters and an effective management information system (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. The shortfall in operations is required to be deliberated upon in the Board of Directors meetings with suitable remedial action to be taken by the Depots. However, the Corporation lacked in these aspects and could not control the cost and increase the revenue.

Conclusion and recommendations

Though, the Corporation is incurring losses, it is mainly due to its high cost of operation and not due to low fare structure. The Corporation can control the losses by resorting to hiring of buses and tapping non-conventional sources of This review revenue. contains recommendations improve the Corporation's performance. Carrying out preventive maintenance as planned, creating a regulator to regulate fare and services and tapping non-conventional sources of revenue by undertaking PPP projects are some of the recommenddations.

Introduction

- **4.2.1** In Meghalaya, the public road transport is provided by Meghalaya Transport Corporation (Corporation), which is mandated to provide an efficient, adequate, economical and properly co-ordinated road transport. The State also allows the private operators to provide public transport. The State has no reserve routes exclusively for the Corporation or the private operators. The fare structure of the Corporation is controlled by the State Government which approves it.
- 4.2.2 The Corporation was incorporated on 1 October 1976 by the Government of Meghalaya (GoM) under Section 3 of the Road Transport Corporations Act, 1950 as a wholly owned Corporation of the State Government. The Corporation is under the administrative control of the Transport Department. The Management of the Corporation is vested with a Board of Directors comprising of Chairman, Vice-Chairman and eight Directors. The members of the Board of Directors are nominated by the State Government. The day-to-day operations are carried out by the Managing Director, who is the Chief Executive of the Corporation, with the assistance of Assistant General Managers (Operations)/ (Administration), Depot Managers and Automobile Engineer (Central Workshop and Stores). The Corporation has seven Depots and one Central Workshop having a tyre retreading unit. The bus body building operations are carried out through external agencies.
- **4.2.3** The Corporation had a fleet strength of 62 buses as on 31 March 2009. The Corporation does not hire buses for its operations. The Corporation carried an average of one thousand passengers per day during 2008-09. The Corporation's share in the passenger transport operations in the State was 4.4 *per cent* in 2008-09 and the remaining 95.60 *per cent* was accounted for by private operators. The turnover of the Corporation was Rs. 9.49 crore in 2008-09, which was equal to 0.10 *per cent* of the State Gross Domestic Product (Rs. 9611 crore). The Corporation employed 330 employees as at 31 March 2009.
- **4.2.4** A review on the working of the Corporation was included in the Report of the Comptroller and Auditor General of India for the year 1999-2000, Government of Meghalaya. The report has not been discussed by COPU till October 2009.

Scope and Methodology of Audit

4.2.5 The present review conducted during May 2009 to June 2009 covers the performance of the Corporation during the period from 2004-05 to 2008-09. The review mainly deals with operational efficiency, financial management, fare policy, fulfillment of social obligations and monitoring by top management of the Corporation. The audit examination involved scrutiny of records at the Head Office, one Central Workshop and one out of the seven depots.

The Shillong-Guwahati Route Depot (SG Route) was selected out of the seven depots on the basis of its fleet strength of 32 buses (2008-09). The other depot had a fleet strength of 1 to 2 buses.

4.2.6 The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, scrutiny of records at Head Office and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft review to the management for comments.

Audit Objectives

4.2.7 The objectives of the performance audit were to assess:

4.2.8 Operational Performance

- the extent to which the Corporation was able to keep pace with the growing demand for public transport;
- whether the Corporation succeeded in recovering the cost of operations;
- whether adequate maintenance was undertaken to keep the vehicles roadworthy; and
- the extent to which economy was ensured in cost of operations.

4.2.9 Financial Management

- whether the Corporation was able to meet its commitment and recover its dues efficiently; and
- the possibility of realigning the business model of the Corporation to tap nonconventional sources of revenue and adopting innovative methods of accessing such funds.

4.2.10 Fare Policy and Fulfilment of Social Obligations

- the existence and adequacy of fare policy; and
- whether the Corporation operated adequately on uneconomical routes.

4.2.11 Monitoring by Top Management

• whether the monitoring by Corporation's top management was effective.

Audit Criteria

- **4.2.12** The audit criteria adopted for assessing the achievement of the audit objectives were:
- all India averages for performance parameters;
- performance standards and operational norms fixed by the Association of State Road Transport Undertakings (ASRTU);
- physical and financial targets/ norms fixed by the Management;

- manufacturers' specifications, norms for life of a bus, preventive maintenance schedule, fuel efficiency norms, *etc.*;
- instructions of the Government of India (GOI) and State Government and other relevant rules and regulations; and
- procedures laid down by the Corporation.

Financial Position and Working Results

4.2.13 The Corporation finalised its annual accounts up to 2004-05. The financial position of the Corporation for the five years up to 2008-09 is given below, on the basis of provisional figures provided by the Corporation.

(Rupees in crore)

(respects in e					
Particulars	2004-05	$2005-06^{\Phi}$	2006-07	2007-08	2008-09
A. Liabilities					
Paid up Capital	60.03	63.03	66.03	69.03	72.78
Reserve & Surplus (including Capital					
Grants but excluding Depreciation	0.12	0.12	0.12	0.12	0.12
Reserve)					
Current Liabilities & Provisions	25.01	21.91	18.67	17.83	14.99
Total	85.16	85.06	84.82	86.98	87.89
B. Assets					
Gross Block	8.59	10.27	10.84	11.44	12.40
Less: Depreciation	5.64	6.00	6.39	6.76	7.16
Net Fixed Assets	2.95	4.27	4.45	4.68	5.24
Investments	0.56	0.14	NIL	NIL	NIL
Current Assets, Loans and Advances	13.40	9.32	5.97	6.91	6.87
Accumulated losses	68.25	71.33	74.40	75.39	75.78
Total	85.16	85.06	84.82	86.98	87.89

4.2.14 The details of working results like operating revenue and expenditure, total revenue and expenditure, net surplus/ loss and earnings and cost per kilometre of operation are given below.

(Rupees in crore)

SI. No.	Description	2004-05	2005-06 ^Ω	2006-07	2007-08	2008-09
1.	Total Revenue	6.23	7.10	8.48	8.62	9.49
2.	Operating Revenue ^{\phi}	2.50	2.64	3.41	3.60	4.23
	Total Expenditure	10.76	9.82	11.16	9.24	9.84
3.	Operating Expenditure ^Ψ	8.95	8.93	10.55	7.99	8.54
4.	Operating Profit/ Loss	(-)6.45	(-)6.29	(-)7.14	(-)4.39	(-)4.31
	Profit/ Loss for the year	(-)4.53	(-)2.72	(-)2.68	(-)0.62	(-)0.35

 $^{^{\}phi}$ Figures are provisional from 2005-06 to 2008-09.

 $^{^{\}Omega}$ Figures from 2005-06 to 2008-09 are provisional.

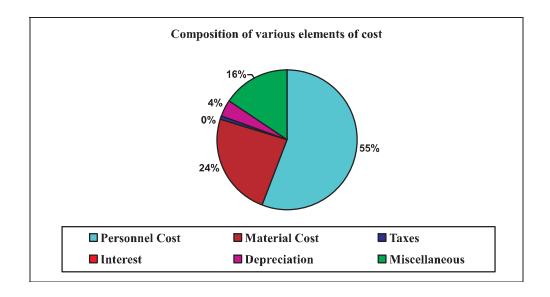
^φ Operating revenue includes traffic earnings, passes and season tickets, re-imbursement against concessional passes, fare realised from private operators under KM Scheme, *etc.*

Ψ Operating expenditure include expenses relating to traffic, depreciation on fleet, repair and maintenance, electricity, welfare and remuneration, licenses and taxes and general administration expenses.

SI. No.	Description	2004-05	2005-06 ^Ω	2006-07	2007-08	2008-09
5.	Prior period adjustment	(-)1.57	(-)0.36	(-)0.39	(-)0.37	(-)0.04
6.	Accumulated Profit/ Loss	(-)68.25	(-)71.33	(-)74.40	(-)75.39	(-)75.78
7.	Fixed Costs					
	(i) Personnel Costs	7.02	6.58	8.09	5.40	5.64
	(ii) Depreciation	0.38	0.37	0.39	0.37	0.40
	Total Fixed Costs	7.40	6.95	8.48	5.77	6.04
8.	Variable Costs					
	(i) Fuel & Lubricants	1.24	1.51	1.50	1.72	1.93
	(ii) Tyres & Tubes	0.11	0.17	0.16	0.20	0.23
	(iii) Other Items/ spares	0.14	0.25	0.34	0.24	0.26
	(iv) Taxes (MV Tax, Passenger Tax,					
	etc.)	0.06	0.05	0.07	0.06	0.08
	Total Variable Costs	1.55	1.98	2.07	2.22	2.50
9.	Effective kms operated (in lakh)	17.22	20.32	27.74	26.66	27.40
10.	Earnings per km (Rs.) (1/11)	36.18	34.94	30.57	32.33	34.64
11.	Fixed Cost per km (Rs.) (9/11)	42.97	34.20	30.57	21.64	22.04
12.	Variable Cost per km (Rs.) (10/11)	8.89	9.69	7.43	8.29	9.09
13.	Cost per km (Rs.) (3/11)	62.49	48.33	40.23	34.66	35.91
14.	Net Earnings per km (Rs.) (12-15)	(-)26.31	(-)13.39	(-) 9.66	(-)2.33	(-) 1.27
15.	Traffic Revenue [§]	2.50	2.64	3.41	3.60	4.23
16.	Traffic Revenue per km (Rs.) (17/11)	14.52	12.99	12.29	13.50	15.44
17.	Operating loss per km (5/11)	(-)37.46	(-)30.95	(-)25.74	(-)16.47	(-)15.73

Elements of Cost

4.2.15 Personnel cost and material cost constitute the major elements of cost. The percentage break-up of cost for 2008-09 is given below in the pie-chart.

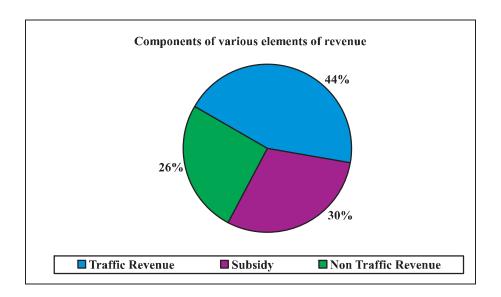


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[§] Traffic revenue represents sale of tickets, advance booking, reservation charges and contract services earnings.

Elements of revenue

4.2.16 Traffic revenue, subsidy/ grant and non-traffic revenue constitute the major elements of revenue. The percentage break-up of revenue for 2008-09 is given below in the pie-chart.



Audit findings

4.2.17 Audit explained the audit objectives to the Corporation during an 'entry conference' held on 26 February 2009. Subsequently, a copy of the "Draft Performance Audit Report on the functioning of Meghalaya Transport Corporation (MTC)" was forwarded to the Principal Secretary to the Government of Meghalaya, Finance Department and to the Managing Director, MTC on 8 September 2009. No 'exit conference' has been held till now since no reply has been received. The audit findings are discussed below.

Operational Performance

4.2.18 The operational performance of the Corporation for the five years ending 2008-09 is given in **Appendix 4.7.** The operational performance of the Corporation was evaluated on various operational parameters as described below. It was also seen whether the Corporation was able to maintain pace with the growing demand of public transport. Audit findings in this regard are discussed in the subsequent paragraphs. These audit findings show that the losses were controllable and there is scope for improvement in performance.

Share of Corporation in public transport

- **4.2.19** The State Government did not formulate any transport policy. All the routes operated by the Corporation are on social consideration for which the State Government is providing subsidy to the Corporation. The Corporation does not have any system for conducting periodical survey to assess the passenger demand.
- **4.2.20** The Corporation has not been able to keep pace with the growing demand for public transport. The fleet of the corporation did not increase in commensurate with the increase in population. One of the reasons is high growth in the taxis plying within the city as well as between the Guwahati-Shillong route. Despite the growth in the population, the Corporation has not adopted any measures to improve the passengers' load. The effective per capita km operated per year is given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Effective km operated (lakh)	17.22	20.32	27.74	26.66	27.40
Estimated Population (lakh)	25.08	25.74	26.43	27.13	27.85
Per Capita km per year	0.69	0.79	1.05	0.98	0.98

- **4.2.21** The above table shows improvement in service by the Corporation up to 2006-07 but slight decline in 2007-08 and 2008-09. Though, the Corporation increased the effective kms operated, its share in the public transport declined from 6 *per cent* in 2004-05 to 4.4 *per cent* in 2008-09 due to non-augmentation of buses with increase in the population.
- **4.2.22** Public transport has definite benefits over personalised transport in terms of costs, congestion on roads and environmental impact. The public transport services have to be adequate to derive those benefits. In the instant case, the Corporation was not able to maintain its share in transport mainly due to operational inefficiencies as described later.

Recovery of cost of operations

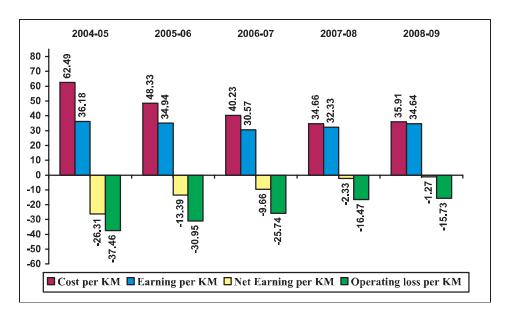
4.2.23 The Corporation was not able to recover its cost of operations. During the last five years ending 2008-09, the net revenue showed a negative trend as given in the graph below •:

^{*}Cost per km represents total expenditure divided by effective km operated.

Revenue per km is arrived at by dividing total revenue with effective km operated.

Net Revenue per km is revenue per km reduced by cost per km.

Operating loss per km would be operating expenditure per km reduced by operating income per km.



4.2.24 Above graph indicates the deteriorating performance of the Corporation over

In hill areas, Himachal RTC incurred cost per km at Rs. 24.09 and earned Rs.18.93 per KM during 2007-08*.

the period. Though the operating loss has decreased over the years from Rs. 37.46 per km (2004-05) to Rs. 15.73 per km (2008-09), the Corporation was not able to achieve the All India Average for cost (Rs. 19.94 per km). The deteriorating performance

has been impacting the ability of the Corporation to provide public transport services adequately as it is not able to replace its fleet on time or increase the fleet strength to meet growing demand.

Efficiency and Economy in operations

Fleet strength and utilisation

Fleet Strength and its Age Profile

4.2.25 The Corporation has its own fleet of buses. It does not hire buses from contractors. The table below explains the position of Corporations' fleet.

4.2.26 The Association of State Road Transport Undertaking (ASRTU) had prescribed (September 1997) the desirable age of a bus as eight years or five lakh kilometres, whichever was earlier. The table below shows the age-profile of the buses held by the Corporation for the period of five years ending 2008-09.

^{*} STU profile and performance 2007-08 compiled by Government of India, Ministry of Shipping, Road Transport and Highways, Transport Research Wing, New Delhi.

SI. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total number of buses at the beginning of the year	64	58	60	53	62
2.	Additions during the year	7	10	2	13	-
3.	Buses scrapped during the year	13	8	9	4	-
4.	Buses held at the end of the year (1+2-3)	58	60	53	62	62
5.	Of (4), number of buses more than eight years	27	29	19	24	30
6.	Percentage of overage buses to total buses at the end of the year	46.55	48.33	35.85	38.71	48.39

4.2.27 The above table shows that the Corporation was not able to achieve the norm of right age buses. During 2004-09, the Corporation added 32 new buses at a cost of Rs. 3.90 crore. The expenditure was funded by the State Government in the form of Capital Contribution. To achieve the norm of right age buses, the Corporation was required to buy thirty new buses additionally which would have cost it Rs. 3 crore approximately. However, the Corporation did not generate adequate resources through its operations to finance the replacement of buses. It incurred a loss of Rs. 10.90 crore during 2004-09; therefore the Corporation could not finance the purchase of buses. Thus, the Corporation's ability to survive and grow depends on its efforts to remove operational inefficiencies, cut costs and tap non-conventional revenue avenues so that it can fund its capital expenditure and be self-reliant.

4.2.28 The overage fleet requires high maintenance and results in extra cost and less availability of vehicles compared to underage fleet, other things being equal. This only goes on to increase operational inefficiency and causes losses which, in turn, affects the ability of the Corporation to replace its fleet on a timely basis. The Corporation does not maintain records for vehicle-wise expenditure incurred, and hence cannot ascertain the profitability of running the overage vehicles / comparing with the right age vehicles.

Fleet Utilisation

4.2.29 Fleet utilisation represents the ratio of buses held by the Corporation to the

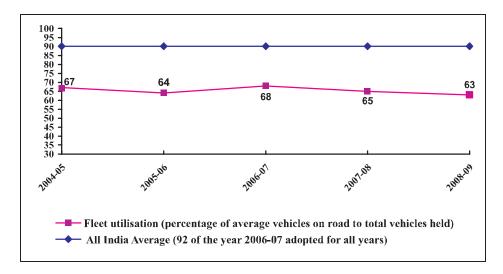
In hill areas, Himachal RTC registered best fleet utilisation of 97.68 per cent during 2007-08.

(Source: STU profile CIRT, Pune 2007-08).

buses on road. No targets were set by the Corporation for fleet utilisation during the period from 2004-05 to 2008-09. The fleet utilisation of the Corporation varied from 67 per cent in 2004-05 to 63 per cent during 2008-09 as

compared to the All India Average of 90.1 per cent (Hill region) as indicated in the graph given below.

^{*}worked out on the basis of procurement rate of buses purchased during 2007-08.



4.2.30 From the above, it can be concluded that the Corporation was not able to achieve an optimum utilisation of its fleet strength, which in turn impacted its operational performance adversely. The Corporation has not taken any measures to improve the performance.

Vehicle productivity

4.2.31 Vehicle productivity refers to the average Kilometres run by each bus per day in a year. The vehicle productivity of the Corporation $vis-\dot{a}-vis$ the overage fleet for the five years ending 2008-09 is shown in the table below.

Sl.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Vehicle productivity (kms run per day per bus)	121	147	211	183	192
2.	Overage fleet (percentage)	46.55	48.33	35.85	38.71	48.39

The above table indicates that there is an improvement in the vehicle productivity from 121 kms (2004-05) to 192 kms (2008-09). The percentage of overage fleet decreased from 46.55 in 2004-05 to 35.85 in 2006-07 but again increased to 48.39 during 2008-09. Therefore, there was no direct correlation between vehicle productivity and overage fleet.

4.2.32 Compared to the All India Average of 196 kms per day for hilly areas, the vehicle productivity of the Corporation has been on the lower side for all the years

Himachal RTC registered best vehicle productivity at 222 kms per day during 2007-08.

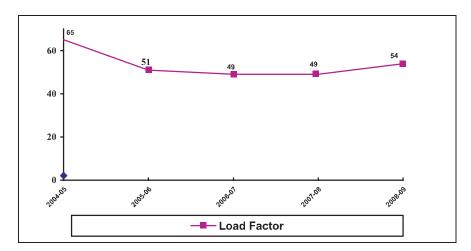
under review except during 2006-07. Due to poor productivity of the Corporation buses, the earnings per km has been low over the years and as such the Corporation has not been able

even to recover its cost of operation. However, no measures have been taken to improve the productivity of buses. The lower productivity was mainly on account of deficient route planning (Para 5.2.36) and cancellation of Scheduled kms (Para 5.2.37).

Capacity Utilisation

Load Factor

4.2.33 Capacity utilisation of a transport undertaking is measured in terms of Load Factor, which represents the percentage of passengers carried to seating capacity. The schedules to be operated are to be decided after proper study of routes and periodical reviews are necessary to improve the load factor. The load factor of the Corporation decreased from *65 per cent* in 2004-05 to *54 per cent* in 2008-09 against the All India Average of 45.73 *per cent* in hill region category. A graph depicting the Load Factor is given below.



There is a decreasing trend in the load factor as the Corporation has not conducted any study of the routes operated. No periodical reviews of the schedules are conducted or surveys of demand for public transport are undertaken. The reasons for the deterioration in the load factor are (i) lack of route planning and re-scheduling of buses (ii) increase of private taxis on the routes operated by the Corporation and (iii) decrease in the fleet strength and non-augmentation and non-replacement of overage vehicles.

4.2.34 The table below provides the details for break-even load factor (BELF) for traffic revenue.

(Amount in Rupees)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Cost per km	62.49	48.33	40.23	34.66	35.91
2.	Traffic Revenue per km at 100 per cent Load Factor	22.34	22.47	25.08	27.55	28.59
3.	Break-even Load factor considering only traffic revenue(1/2)(percentage)	280	2150	160	126	126

4.2.35 The break-even load factor is quite high and is not likely to be achieved given the present load factor and the fact that the Corporation is also required to operate

uneconomical routes. Thus, while the scope to improve upon the load factor remains limited, there is tremendous scope to cut down costs of operations as explained later.

Route Planning

4.2.36 Appropriate route planning to tap demand leads to higher load factor. All the routes operated by the Corporation are non-profitable. The Corporation has not evolved any system of route planning, demand survey, *etc*. The Corporation does not maintain route-wise profitability records even though it operates buses on only 10 routes, and has a low fleet strength. The total route length operated by the Corporation is 2112 kms.

Cancellation of Scheduled Kilometres

- **4.2.37** A review of the operations indicated that the scheduled kilometres were not fully operated. The Corporation does not maintain records indicating cause-wise cancellation of the scheduled kilometres. In the absence of proper records, the Corporation could not exercise effective control over avoidable cancellation of scheduled kms. Therefore, loss on account of cancellations for want of buses and crews (avoidable cancellations) could not be ascertained and quantified by audit.
- **4.2.38** The details of scheduled kilometres, effective kilometres, cancelled kilometres calculated as difference between the scheduled kilometres and effective kilometres are furnished in the Table below.

(In	lakh	kms)
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Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Scheduled kilometres	22.74	25.10	31.79	31.82	31.82
2.	Effective kilometres	17.22	20.32	27.74	26.66	27.40
3.	Kilometres cancelled	5.52	4.78	4.05	5.16	4.10
4.	Percentage of cancellation	24.27	19.04	12.74	16.22	12.88

4.2.39 It can be seen from the above table that the percentage of cancellation of scheduled kilometres decreased from 24.27 to 12.88 during 2004-05 to 2008-09. However, the Corporation does not maintain proper data regarding cause-wise cancellation of buses i.e., cancellations on account of want of crew / buses. The commuters are deprived of the essential services of transport during holidays and nights. The Corporation attributed all the cancellations due to natural calamities and bundhs.

Maintenance of vehicles

Preventive Maintenance

4.2.40 Preventive maintenance is essential to keep the buses in good running condition and to reduce breakdowns/ other mechanical failures. The Corporation had Tata and Leyland make buses, for which the following schedule of maintenance has been prescribed by the Original Equipment Manufacturers (OEMs).

Sl.No.	Particulars	Schedule
1.	Engine Oil change	
1 (a)	Tata make	Every 9,000 kms
1 (b)	Leyland make	Every <i>10,000</i> kms
2.	Brake Inspection	
2 (a)	Tata make	Every <i>18,000</i> kms
2 (b)	Leyland make	Every 24,000 kms

4.2.41 Audit observed that the Corporation does not have a periodical schedule of maintenance nor follows the preventive maintenance schedule prescribed by the Original Equipment Manufacturers (OEMs). Proper records indicating vehicle-wise maintenance, change of Engine Oil, brake inspections carried out, change of Radiator coolant, *etc.*, are not maintained by the Corporation to ensure that preventive maintenance is carried out properly and in time. In the absence of the above records, the Corporation is not able to ascertain whether the maintenance is being carried out within the prescribed time limits laid down by the OEMs.

The Corporation stated that the maintenance is carried out only in case of breakdown of vehicles or when the vehicles are brought to the workshop for other minor repairs.

Repairs & Maintenance

4.2.42 A summarised position of fleet holding, over-aged buses, repairs and maintenance (R&M) expenditure for the last five years up to 2008-09 is given below.

SI.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No.						
1.	Total buses at the end of the year	58	60	53	62	62
2.	Over-age buses (more than 8 years old)	27	29	19	24	30
3.	Percentage of over age buses	46.55	48.33	35.85	38.71	48.39
4.	R&M Expenses (Rs. in lakh)	14	25	34	24	26
5.	R&M Expenses per bus (Rs. in lakh) (4/1)	0.24	0.42	0.64	0.39	0.42

4.2.43 The average expenditure per bus on repairs and maintenance increased from Rs.0.24 lakh in 2004-05 to Rs. 0.64 lakh in 2006-07 and thereafter declined to Rs. 0.42 lakh during 2008-09.

Manpower Cost

- **4.2.44** The cost structure of the organisation shows that manpower and fuel constitute 76.93 *per cent* of total cost in 2008-09. Interest, depreciation and taxes are the costs, which are not controllable in the short-term, account for 4.78 *per cent*. Thus, the major cost saving can come only from manpower and fuel.
- **4.2.45** Manpower is an important element of cost which constituted 57.32 *per cent* of total expenditure of the Corporation in 2008-09. Therefore, it is imperative that this

cost is kept under control and the manpower is utilised optimally to achieve high productivity. The Table below provides the details of manpower, its cost and productivity.

Sl.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No.						
1.	Total Manpower at the end of the year	382	375	364	344	330
2.	Manpower Cost (Rs. in crore)	7.02	6.58	8.09	5.40	5.64
3.	Effective kms (in lakh)	17.22	20.32	27.74	26.66	27.40
4.	Cost per effective km (Rs.)	40.77	32.38	29.16	20.26	20.58
5.	Productivity per day per person (kms)					
		12.35	14.85	20.88	21.23	22.75
6.	Total Buses at the end of the year	58	60	53	62	62
7.	Manpower per bus	6.59	6.25	6.87	5.55	5.32

It would be seen from the above Table that the staff productivity *per* day *per* person in kms increased from 12.35 (2004-05) to 22.75 per km (2008-09) against the AIA of 38

Himachal RTC registered manpower per bus at 4.37 and staff productivity at 50.78 during 2007-08.

per km for Hill Areas. The total manpower of 600 at the beginning of 2004-05 was reduced to 330 up to 2008-09 due to introduction of Voluntary Retirement Scheme.

Fuel Cost

4.2.46 Fuel is a major cost element which constituted 20 *per cent* of total expenditure in 2008-09. Control of fuel costs by a road transport undertaking has a direct bearing on its productivity. The Corporation did not fix any target for fuel efficiency. The Table below gives the targets fixed by the Corporation for fuel consumption, actual consumption, mileage obtained per litre (Kilometre per litre i.e. KMPL), All India Average and estimated extra expenditure.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Gross Kilometres (in lakh)	17.43	20.51	28.01	26.90	27.72
2.	Kilometre obtained per litre (KMPL)	3.58	3.57	4.59	4.51	4.21
3.	All India Average in the category	3.69	3.69	3.69	3.69	3.69
4.	Actual Consumption (in lakh litres)	4.87	5.75	6.10	5.96	6.58
5.	Consumption as per All India Average (in lakh litres) (1/3)	4.72	5.56	7.59	7.29	7.51
6.	Excess Consumption (in lakh litres) (4-5)	0.15	0.19	(-)1.49	(-)1.33	(-)0.93
7.	Average cost per litre (in Rs.)	24.48	23.28	23.44	27.68	28.11
8.	Extra expenditure (Rs. In lakh) (6X7)	3.67	4.42	-	-	-

4.2.47 It can be seen from the above table that the mileage obtained per litre was showing an improving trend during the period under review. The Corporation

consumed 0.34 lakh litres of fuel in excess as compared to the norms for Hilly Areas during 2004-05 and 2005-06 resulting in extra expenditure of Rs. 8.09 lakh. The Corporation has achieved fuel efficiency by consuming less fuel than that of All India Average during the period 2006-07 to 2008-09. However, proper records i.e., Vehiclewise log books and vehicle-wise issue of High Speed Diesel (HSD) oil are not maintained by the Corporation. The Management was not able to furnish vehicle-wise KMPL. In the absence of speedometers / Milo-meters to the buses, the Management does not have control over the usage of HSD Oil to the individual buses. The Corporation did not have a mechanism in place to monitor vehicle-wise consumption of fuel in order to exercise effective management control. Further, the Corporation did not prescribe norms for ideal driving speed to enhance fuel economy and efficiency.

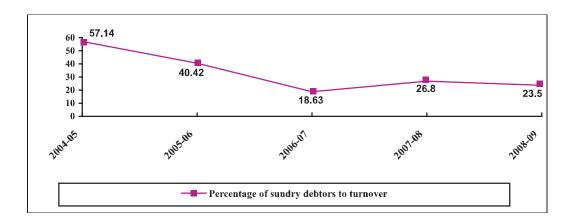
4.2.48 A test check in Audit of two months Petrol, Oil and Lubricants (POL) Statements for each year under review in one depot showed that the Corporation had no mechanism in place to monitor vehicle wise or driver wise data for consumption of fuel so as to exercise effective management control. No targets were fixed by the Corporation. Further, the Corporation had not prescribed ideal driving speed/ norms so as to enhance fuel economy.

Financial Management

4.2.49 Raising of funds for capital expenditure i.e., for replacement/addition of buses happens to be the major challenge in financial management of corporation's affairs. The section deals with the Corporation's efficiency in raising claims and their recovery. This section also analyses whether an opportunity exists to realign the business model to generate more resources without compromising on service delivery.

Claims and Dues

4.2.50 The Corporation did not attempt age wise analysis and party wise details of sundry debtors of Rs.2.23 crore as on 31 March 2009. The total sundry debtors decreased from Rs.3.56 crore in 2004-05 to Rs. 2.23 crore in 2008-09. The sundry debtors reduced substantially during review period from 57.14 *per cent* in 2004-05 to 23.5 *per cent* in 2008-09 as shown in the graph below:



The Corporation gives its buses on hire for which parties were required to pay in advance, the charges at prescribed rates *per* kilometre basis, at the time of booking. It was, however, noticed during Audit that the destination of the journeys performed was not recorded. Speedometers were not working as a result the actual charges due could not be worked out.

4.2.51 Further, the Corporation provides monthly concessional passes to various categories of public like students and teachers. The State Government, however, does not reimburse the Corporation for the concessional passes issued. The Corporation has neither claimed any reimbursement from the State Government nor worked out the cost incurred on concessions provided during the year 2004-05 to 2008-09.

Realignment of business model

- **4.2.52** The Corporation is mandated to provide an efficient, adequate and economical road transport to public. Therefore, the Corporation cannot take an absolutely commercial view in running its operations. It has to cater to uneconomical routes to fulfil its mandate. It also has to keep the fares affordable. In such a situation, it is imperative for the Corporation to tap non-traffic revenue sources to cross-subsidise its operations. However, the share of non-traffic revenue was 22.50 *per cent* of total revenue during 2004-09. This revenue of Rs. 8.98 crore during 2004-09 mainly came from advertisements and restaurant/ shop rentals, sale of scrap material/vehicle, *etc.*, Audit observed that the Corporation has non-traffic revenue sources which it has not tapped substantially.
- **4.2.53** Over a period of time, the Corporation has come to acquire sites at prime locations in cities, district and tehsil headquarters. The Corporation generally uses the ground floor/ land for its operations, leaving an ample scope to construct and utilise spaces above. Audit observed that the Corporation has land (mostly owned/ leased by Government) at important locations measuring 96,061 square meters as shown below.

Particulars	Cities (Municipal areas)	District HQrs.	Tehsil HQrs.	Total
Number of sites	3	5	-	8
Occupied Land (Sq. mtrs.)	48,175	47,886	-	96,061

- **4.2.54** It is, thus, possible for the Corporation to undertake projects on public private partnership (PPP) basis for construction of shopping complexes, malls, hotels, office spaces, *etc.* above (from first or second floor onwards) on the existing sites so as to bring in a steady stream of revenues without any investment by it. Such projects can be executed without curtailing the existing area of operations of the Corporation. Such projects can yield substantial revenue for the Corporation which can only increase year after year.
- **4.2.55** The Board of Directors in December 2003 resolved that the Management should prepare a Master Plan for better and profitable utilisation of the entire landed property. However, nothing has materialised out of it till now. Audit observed that the

Corporation has not studied this aspect to assess the likely benefits from such activities. A proposal to develop the Corporation's premises at Police Bazar, Shillong was taken up with the National Building Construction Corporation (NBCC) for construction of a Multiplex. However, no progress has been made till now. Since substantial non-traffic revenue will help the Corporation to cross-subsidise its operations and fulfil its mandate effectively, the Corporation should study realigning its business model and frame a policy in this regard.

Fare policy and fulfilment of social obligations

Existence and fairness of fare policy

4.2.56 The State Government issues directions by notification in the Official Gazette with regard to fixing of fares and freights under section 67 of the Motor Vehicles Act, 1988. Based on the proposals submitted by the Corporation from time to time, the State Government accords approval for fixing the fares. The fares have been revised six times during the review period of 2004-05 to 2008-09. However no revisions were made in the fare during 2005-06 and 2007-08. The average fare during 2008-09 worked out to Rs. 0.76 per km. The particulars of the revisions are given in the following table.

Fare table for ordinary and deluxe buses

(Amount in Rupees)

(Amount in Rupees)							
Stages	2004-05		2006-	07	2008-09		
	Ordinary	Deluxe	Ordinary Deluxe		Ordinary	Deluxe	
First 5 kms	2.6	3.1	2.85	3.4	3.5	4.15	
First 10 kms	5.2	6.2	5.7	6.8	7	8.3	
25 kms	13	15.5	14.25	17	17.5	20.75	
100 kms	52	62	57	68	70	83	

- **4.2.57** The fare policy of the Corporation has no scientific basis as it does not take into account the normative cost. Thus, there is a risk of commuters paying for inefficiency of the Corporation. However, the Corporation could have curtailed cost and increased revenue with better operational efficiency.
- **4.2.58** It would result into reduction of loss if the operations are properly planned and efficiently managed, than what they actually are. Thus, the case made by the Corporation for increase in fare, includes its inefficiencies and in a way would make the commuters pay more than what they should be actually paying.
- **4.2.59** The above facts lead to conclude that it is necessary to regulate the fares on the basis of a normative cost and it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address the grievances of commuters.

Adequacy of services on uneconomical routes

4.2.60 The Corporation does not have any profit making routes as of March 2009. However, the position would change if the Corporation improves its efficiency. Nonetheless, there would still be some routes which would be uneconomical. Though the Corporation is required to cater to these routes, the Corporation has not formulated norms for providing services on uneconomical routes. In the absence of norms, the adequacy of services on uneconomical routes cannot be ascertained in audit. The desirability to have an independent regulatory body to specify the quantum of services on uneconomical routes, taking into account the specific needs of commuters, is further underlined. There is no mechanism whereby the Corporation ensures adequacy of services on all the routes. The Corporation does not have any data on routes exclusively operated by private operators.

Monitoring by top management

MIS data and monitoring of service parameters

- **4.2.61** For an organisation like a Road Transport Corporation to succeed in operating economically, efficiently and effectively, there has to be written norms of operations, service standards and targets. Further, there has to be a Management Information System (MIS) to report on achievement of targets and norms. The achievements need to be reviewed to address deficiencies and also to set targets for subsequent years. The targets should generally be such that the achievement of which would make an organisation self-reliant. In the light of this, Audit reviewed the system obtaining in the Corporation. The status in this regard is given below.
- **4.2.62** The Corporation does not have a MIS in place at different levels covering all the key parameters. No targets for various operational parameters are being fixed by the Corporate Office and communicated to the Depots/Central workshop for implementation. No regular meetings with the Depot Managers were held for comparing the Depot-wise performance. The Board met only *nine* times during the years 2004-05 to 2008-09. The minutes do not indicate that performance of the Corporation was reviewed by the Board of Directors.
- **4.2.63** The top management of the Corporation is expected to demonstrate managerial capability to set realistic and progressive targets, address areas of weakness and take remedial action wherever the things are not moving on expected lines. However, such ability was not seen either from records or performance of the Corporation during period under review.

Conclusion

Operational performance

• The Corporation's share in public transport decreased from 6 to 4.4 per cent during the review period.

- The Corporation could not recover the cost of operations in any of the five years under review. This was mainly due to operational inefficiencies and ineffective monitoring by top management.
- The Corporation did not carry out the preventive maintenance as scheduled by OEMs affecting the roadworthiness of its buses.

Financial management

- The Corporation did not raise its claims relating to concessional passes.
- The Corporation has potential to tap non-conventional sources of revenue but it did not have a policy in place to undertake large scale tapping of such funds.

Fare policy and fulfilment of social obligations

- The Corporation does not have a fare policy based on scientific norms.
- No policy yardstick has been laid down for operation on uneconomical routes.

Monitoring by top management

• The MIS system of Corporation was not adequate and there was no monitoring by its top management of key operational parameters and service standards.

On the whole, there is immense scope to improve the performance of the Corporation. However, the present set-up of the Corporation does not seem to be equipped to handle this. Effective monitoring of key parameters, coupled with certain policy measures, can see improvement in performance.

Recommendations

The Corporation may consider:

- carrying out preventive maintenance as planned;
- devising a policy for tapping non-conventional sources of revenue on a large scale, which will result in steady inflow of revenue without additional investment;
- revising its fares on a scientific basis;
- devising proper MIS including all key parameters and its implementation; and
- holding regular meeting of the Board of Directors.

The State Government may:

• consider creating a regulator to regulate fares and also services on uneconomical routes.

AUDIT OF TRANSACTIONS

POWER DEPARTMENT

MEGHALAYA STATE ELECTRICITY BOARD

4.3 Extra and idle expenditure on execution of a power project

Failure to ensure execution of the project without any hindrance and procurement of the Turbine and Generation set before completion of the civil works as well as delivery of the same at a site other than the work site resulted in extra expenditure of Rs. 37.48 lakh, besides idle expenditure of Rs. 3.08 crore.

To revive the abandoned (April 1982) Sonapani Mini Hydel Project, the Meghalaya State Electricity Board (MeSEB) prepared (June 1997), a Detailed Project Report (DPR) for a '3 x 500 KW' project, estimated to cost Rs. 9.02 crore, with the stipulation to complete the project within two years. As per the DPR, the land required for the project was already acquired. The Union Ministry of Non-Conventional Energy Sources (MNES), however, accorded (March 2001) approval for the project at a cost Rs.7.39 crore with financial support up to 75 per cent of the total cost, subject to a maximum of Rs. 6.75 crore and also with the suggestion to change the unit capacity to 1 x 1500 KW, which was accepted by the MeSEB. The balance 25 per cent of the project cost was to be borne by the MeSEB. As per estimate, the annual income on sale of 8.991 MU of energy to be generated through this project was expected at Rs. 1.45 crore.

Scrutiny (November 2008) of records of the Executive Engineer (Civil)/Hydro revealed the following irregularities:

- The position of land for the project as reported to the MNES through the DPR was not correct. The civil works (including power house) under the project was taken up for construction (July 2003) by the MeSEB on a plot of land which belonged to an individual. This land was leased out (July 1922) by the land owner to the then Shillong Hydro Electric Company for lighting of the Shillong town at an annual rent of Rs. 100.
- Since the land was taken on lease long back in 1922 with the condition of 'lighting of the Shillong town' and since this condition was not being fulfilled due to closure of original power project (Sonapani Power station) in April 1982, the uncertainty regarding availability of land for the project was very much prevailing at the planning stage (1992). Despite this, the MeSEB, did not obtain 'No Objection Certificate' from the land owner to avoid any future dispute on the land. Taking advantage of such lapse on the part of the MeSEB, the land owner filed (March 2004) a suit in the Court of the Assistant Deputy Commissioner against the MeSEB for possession of the land on the grounds of non-payment of annual rent by the MeSEB since 2000 and discontinuation of generation of power. Since the MeSEB did neither

appear before the Court nor filed written statement despite repeated opportunities given by the Court, the suit was decreed (February 2005) by the Court in favour of the land owner. The MeSEB, however, decided for an out of Court settlement with the land owner and was in the process of negotiation for purchase of 3.97 acres of land required for the project involving an additional expenditure of Rs. 3.26 crore, which was yet to be settled (June 2009).

- Even before commencement of the civil works and also without obtaining a clear site free from all encumbrances, the MeSEB placed (May 2003) a supply order with a Faridabad based firm for supply, transportation (up to the stock-yard of the MeSEB), erection and commissioning of a Hydro Turbine and Generation (TG) set at a cost of Rs. 2.81 crore, stipulating the date of commission of the set by April 2004. Accordingly, the firm delivered (October 2004) the TG set at the stock-yard of the MeSEB. Payments totalling Rs. 3.08 crore (including escalation cost of Rs. 30.34 lakh as per price variation clause) were made to the firm during April 2004 to July 2008.
- After keeping the TG set unutilised in the stock-yard for four years, the MeSEB transported the same at the work site in October 2008 at an additional expenditure of Rs. 37.48 lakh. The set was installed by the Faridabad based firm in April 2009 and the process of commissioning was in progress. Since there was delay in completion of civil works required for installation and commissioning of the TG set, the firm claimed additional amount of Rs. 13.85 lakh for commissioning of the set in excess of the agreed amount of Rs. 17.65 lakh, payment for which had not been made till June 2009.

From the foregoing paragraphs, it is observed that there was lack of initiative at planning stage of the project to ensure execution of the project without any hindrance inasmuch as the project was taken up for execution on a plot of land which was not free from all encumbrances, TG set was procured before completion of the civil works required for its installation and supply order was issued to deliver the TG set at a site other than the work site. Consequently, the MeSEB incurred extra expenditure of Rs. 37.48 lakh, besides rendering the expenditure of Rs. 3.08 crore idle for about one to five years and committed liability of Rs. 13.85 lakh on commissioning of the set. Had the set been commissioned within the stipulated time as envisaged in the DPR, 89.91 MUs of power could have been generated during July 1999 to May 2009. It is recommended that immediate steps should be taken by the MeSEB to resolve the land dispute so as to achieve the objective of generation of power through the project as envisaged in the DPR without any hindrance in future.

The matter was reported to the Management/Government in November 2008/May 2009; their replies had not been received (November 2009).

4.4 Idle expenditure on procurement of Turbine Generator set

Procurement of Turbine Generator set without having a clear site for installation of the same resulted in idle expenditure of Rs. 2.18 crore.

The Meghalaya State Electricity Board (MeSEB) prepared (July 1996) a Detailed Project Report (DPR) for Lakroh Mini Hydel Project (1 x 1500 KW), estimated to cost Rs. 11.76 crore, with the objectives to protect the environment by providing alternative source of energy to the people of remote places. The Union Ministry of Non-Conventional Energy Sources (MNES) approved (March 2001) the project with a financial support up to 75 *per cent* of the project cost, subject to a maximum of Rs. 6.75 crore. The balance 25 *per cent* of the project cost was to be borne by the Meghalaya State Electricity Board (MeSEB). As per the DPR, the project was to be completed within 30 months from the date of commencement.

Scrutiny (November 2008) of records of the Executive Engineer (Civil)/ Hydro indicated that funds of Rs. 2.02 crore, sanctioned (March 2001) by MNES, were received by the MeSEB during March 2001 to December 2004. But the possession of land required for the project was taken by the MeSEB in January 2008 after a delay of four to seven years, due to dispute with the land owner. Though, construction of two bridges was started in July 2008, the major civil works like weir, power channel, fore-bay, penstock, power house building, *etc.* were not started till June 2009. According to the Executive Engineer, tenders for these items had been floated and other related civil works would be taken up by September 2009.

Despite non-availability of the required land, the MeSEB procured one Hydro Turbine Generator (TG) set in May 2003 at a cost of Rs. 2.18 crore, the warranty period of which was up to January 2007. Since no civil works of the project could be started by the MeSEB, the TG set could not be utilised and was kept idle in the stock-yard for over six years.

Thus, action of the Board in procuring the TG set without a clear site free from all encumbrances resulted in idle expenditure of Rs. 2.18 crore, since the TG set is not being utilised. Besides, additional transportation charge of about Rs. 1 crore would also have to be incurred by the Board for transportation of the same from the stock-yard to the work site. Since the warranty period of the set had already expired, the possibility of additional expenditure out of the funds of the MeSEB also could not be ruled out because of damage of the TG set due to wear and tear for prolonged storage in open space. It is recommended that immediate steps should be taken by the MeSEB to complete the civil works for installation and commissioning of the TG set so as to achieve the objectives as envisaged in the DPR without any hindrance in future.

The Executive Engineer stated (June 2009) that the TG set had been kept in the stockyard in the best possible way and all the civil works under the project are expected to be completed by September 2010. The reply is not acceptable because

procurement of material without ensuring its proper utilisation showed the apathy of the MeSEB in utilisation of scare resources effectively.

The matter was reported to the Management/Government in December 2008/June 2009, their replies had not been received (November 2009).

4.5 Undue benefit to the suppliers

Extension of undue financial benefits of Rs. 32.23 lakh to the suppliers due to unjustified increase in price on procurement of disc insulators against the firm price supply orders, besides non-imposition of penalty of Rs. 3.46 lakh for delayed supplies.

The Meghalaya State Electricity Board (MeSEB), without inviting tenders, placed (July 2006 to August 2007) supply orders with seven firms for supply of 11,048 disc insulators of various specifications at a cost of Rs. 69.23 lakh, with the stipulation to deliver the entire quantity of disc insulators during November 2006 to October 2007. The rates offered in the purchase orders were firm and inclusive of taxes. The supply orders *inter alia* provided that in case of delay in delivery of the material by the supplier:

- a penalty at the rate of 0.5 *per cent* per week subject to the maximum of five *per cent* of the purchase order value was to be levied; and
- purchaser would have the option for the purchase of the undelivered material or part of the materials of same or similar description from elsewhere on the account and at the risk of the supplier by cancellation of the contract.

Scrutiny of records (September 2008) of the Additional Chief Engineer (ACE), Material Management, MeSEB indicated that none of the firms supplied the insulators within the stipulated period. In contrast, two of the seven firms requested (July 2007) the ACE to enhance the rates on the ground that cost of raw materials had increased and the rates offered earlier were very low. Even though the prices in the purchase orders were firm and the suppliers failed to deliver the material within the stipulated period, the ACE, instead of levying penalty for delay in delivery, acceded to the request of these firms and allowed enhancement of rates to all the suppliers. Accordingly, the firms supplied the insulators during September 2007 to February 2008. Payments totalling Rs. 101.46 lakh were made to these suppliers by the MeSEB during September 2007 to February 2008 against the originally agreed amount of Rs. 69.23 lakh.

Thus, the action of the ACE not only showed the weakness in its financial control but also resulted in undue financial benefit of Rs. 32.23 lakh to the suppliers, besides non-imposition of penalty of Rs. 3.46 lakh for delay in delivery of material.

The ACE stated (August 2009) that (i) the time-frame for procurement and execution of works were pre-determined and hence open tenders were not called for and supply

orders were placed to avoid lapse of funds (ii) action for price enhancement was ratified and approved by the competent authority, and (iii) the requests for enhancement of rates by few suppliers and consequent enhancements were applicable in general to all the suppliers. The reply is not justified because enhancement of rates was contrary to the terms and conditions of the supply orders. As such, responsibility of the officers concerned of the Board for causing financial loss of Rs. 32.23 lakh may be fixed due to their imprudent action. It is further recommended that the Board should procure material for use based on the terms and conditions of the supply order originally stipulated. The revision in the rates due to any specific reason should form a part of the Supply Order so as to avoid any misuse of authority and financial irregularities.

The matter was reported to the Government in June 2009, their reply had not been received (November 2009).

4.6 Delay in repairs leading to loss of revenue

Inordinate delay in repairing of the defects of the two units of Umiam Stage-I Power plant resulted in loss of generation of 412.93 MU of power.

The Meghalaya State Electricity Board (MeSEB) commissioned (September 1965) Umiam Stage-I Power Plant (4 units) at Sumer with an installed capacity of 4 x 9 MW. The Power Plant was renovated and modernised (June 2001 to January 2003) at a cost of Rs. 57.30 crore. The plant was re-commissioned during October 2002 and January 2003 after the renovation and modernisation works.

Scrutiny (September 2008) of records of the Chief Engineer (Generation) revealed that two units of the Plant (Unit-3 and Unit-4) could not be put to use up to their full capacity since January 2006 due to leakages of water. Against the available capacity of 24,768 hours (January 2006 to May 2007), these units were utilised only for 7,540 hours. The MeSEB, however, did not take any effective step to get the defects of the units repaired immediately for their optimum use. Ultimately, the defects were got repaired (June 2007) departmentally within six days at an expenditure of Rs. 0.50 lakh after a delay of 17 months.

Thus, inordinate delay in repairing the defects not only showed the apathy of the MeSEB in proper utilisation of its assets, but also resulted in loss of generation of $412.93 \text{ MU}^{\circ}$ of power.

The MeSEB stated (June 2009) that there was no delay in repair of two units. It was further stated that the defect liability period of Unit-3 and Unit-4 after R&M work was one year and R&M work of two units was completed on 20 October 2002 and 17 January 2003 respectively and the leakages were noticed during January 2006 only.

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Worked out on the basis of the average recorded generation of 12 months after repair and that recorded prior to the repairs.

The reply is not convincing because MeSEB did not fix any time frame for repairing of the defects despite knowing the fact that the work was of critical and emergent nature. Besides, the defects were got repaired departmentally after an inordinate delay of 17 months at a nominal expenditure of Rs. 0.50 lakh.

The matter was reported to the Government in June 2009, their reply had not been received (November 2009).

TRANSPORT DEPARTMENT

MEGHALAYA TRANSPORT CORPORATION

4.7 Loss due to operation of helicopter service

The Corporation sustained loss of Rs. 47.44 lakh on operation of helicopter service.

The Government of Meghalaya (Transport Department) introduced (March 1988) helicopter service of M/s. Pawan Hans Helicopters Limited (PHHL) in the State for operation between Shillong, Guwahati and Tura and engaged the Meghalaya Transport Corporation, Shillong as an agent for operating the helicopter service including selling of tickets and other ancillary works like cancellation of tickets, handling of passengers, their baggage, *etc.*, on the basis of commission payable at the rate of 9 *per cent* of sale proceeds of tickets. The service was discontinued in December 1989 as it was not found financially viable.

Scrutiny (May 2009) of records of the Corporation revealed that the helicopter service was re-introduced by the State Government in February 1999 by engaging Corporation as an agent for operating the service without any revision in the rate of commission. Though, the Corporation was running into losses and had an accumulated loss of Rs. 40.81 crore as on 31 March 1998, it agreed for undertaking the operation of the helicopter service without safeguarding its financial interest. The expenditure incurred by the Corporation on operation of helicopter service during February 1999 to March 2009 was not available with the Corporation. As worked out by Audit, the Corporation incurred an expenditure of Rs. 63.41 lakh on operation of this service during 2004-09, against the amount of commission of Rs. 15.97 lakh earned on sale of tickets (not received till September 2009 from the Government). Thus, the Corporation sustained a loss of Rs. 47.44 lakh on operation of helicopter service during the five year period ending March 2009. The actual loss would be substantial after taking into account the expenditure incurred by the Corporation prior to 2004-05.

Thus, the operation of the helicopter service by the Corporation without safeguarding its financial interest was an exercise in futility which resulted in loss of Rs. 47.44 lakh sustained by the Corporation.

The Management admitted the fact that the existing rate of commission was not sufficient to take care of the expenses incurred by the Corporation for running the helicopter service and stated (July 2009) that (i) the helicopter service was introduced with a view to provide air connectivity to the people of the State and was not intended for its operation as a commercial venture, (ii) the Corporation was to bear the expenditure on salary, etc., as the Corporation's own staff were engaged for helicopter services and (iii) the Corporation was getting subsidy from the State Government every year for keeping the Corporation afloat. The replies are not convincing because (i) the Corporation is a commercial organisation and the financial position of the Corporation should have been taken into consideration before undertaking the operation of the helicopter service and (ii) the services of the Corporation's staff engaged in the helicopter services could have either been utilised for Corporation's own activities or the VRS introduced in October 2004, could have been implemented for these employees as well thereby reducing the recurring expenditure on their establishment. The contention of the management about subsidy has no relevance with the operation of helicopter service.

In the circumstances, immediate steps should be taken by the Corporation to realise the amount of commission and take prompt action to discontinue the helicopter service or to increase the rate of commission so as to avoid further loss.

The matter was reported to the Government in August 2009, their reply had not been received (November 2009).

GENERAL

4.8 Opportunity to recover money ignored

Three PSUs did not seize the opportunity to recover their money and pursue the matters to their logical end. As a result, recovery of money amounting to Rs. 0.47 crore remained doubtful.

A review of unsettled paras from Inspection Reports (IRs) pertaining to period up to 2003-04 showed that there were four paras in respect of three PSUs involving a recovery of Rs. 0.47 crore.

As per Para No.7.1.10 of Manual of Standing Orders — Technical, Volume II, the PSUs are required to take remedial action within a period of 15 days, after receipt of IRs from Audit. However, no effective action has been taken to take the matters to their logical end in most cases i.e., to recover the money from the concerned parties. As a result, these PSUs have so far lost the opportunity to recover their money which could have augmented their finances.

PSU-wise details of paras and recovery amount are given below. The list of individual paras is given in **Appendix 4.8**.

Sl. No.	Name of PSU	No. of Paras	Amount of Recovery (Rupees in crore)
1.	Meghalaya Tourism Development Corporation Limited		
	(MTDCL)	1	0.04
2.	Meghalaya Electronics Development Corporation Limited		
	(MEDCL)	2	0.12
3.	Meghalaya Transport Corporation (MTC)	1	0.31
	Total	4	0.47

The paras mainly pertain to recovery of long pending dues / advances, non-realisation of value of land, etc.

The above cases point out the failure of respective PSU authorities to safeguard their financial interests. Audit observations and their repeated follow up by the Audit, including bringing the pendency to the notice of the Administrative/ Finance Department and PSU Management periodically have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to recover the money and complete the exercise in a time bound manner.

4.9 Lack of remedial action on audit observations

Lack of necessary action on the part of two PSUs deprived them of the opportunity to improve their functioning.

A review of unsettled paras from Inspection Reports (IRs) pertaining to the periods up to 2003-04 showed that there were two paras in respect of two PSUs, which pointed out deficiencies in the functioning of these PSUs. As per Para 7.1.10 of Manual of Standing Orders — Technical, Volume II, the PSUs are required to take remedial action within a period of 15 days, after receipt of IRs from Audit. However, no effective action has been taken to take the matters to their logical end i.e., to take remedial action to address these deficiencies. As a result, these PSUs have so far lost the opportunity to improve their functioning in this regard.

PSU-wise details of paras are given below. The list of individual paras is given in the **Appendix 4.9.**

SI. No.	PSU Name	No. of Paras	Amount (Rupees in crore)
1.	Meghalaya Tourism Development Corporation Limited (MTDCL)	1	1.51
2.	Meghalaya Electronics Development Corporation Limited (MEDCL)	1	0.08
	Total	2	1.59

The paras mainly pertain to non-payment of taxes to Tax Authorities.

The above cases point out the failure of respective PSU authorities to address the specific deficiencies and ensure accountability of their staff. Audit observations and

their repeated follow-up by Audit, including bringing the pendency to the notice of the Administrative / Finance Department and PSU management periodically have not yielded the desired result in these cases.

The PSUs should initiate immediate steps to take remedial action on these paras and complete the exercise in a time bound manner.

Shillong

The

(ONKAR NATH)

Accountant General (Audit) Meghalaya

Countersigned

New Delhi (VINOD RAI)

The Comptroller and Auditor General of India