CHAPTER V : GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

5.1. Overview of State Public Sector Undertakings

Introduction

5.1.1. 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. The State PSUs registered a turnover of Rs.5.84 crore for 2008-09 as per their latest finalised accounts as of September 2009. This turnover was equal to 0.02 *per* cent of State Gross Domestic Product (GDP). Thus, the State PSUs occupy an insignificant place in the state economy. Major activities of Arunachal Pradesh State PSUs are concentrated in Industrial Finance, Forest etc. The State PSUs earned a profit of Rs.2.80 crore in the aggregate for 2008-09 as *per* their latest finalised accounts. They had employed 151 nos[♣] of employees as of 31 March 2009. The State PSUs do not include prominent Departmental Undertakings (DUs), which carry out commercial operations in four Government departments such as Power, Hydro Power Development, Transport and Supply & Transport. Audit findings of these Government departments are also incorporated in this Chapter.

5.1.2. As on 31 March 2009, there were seven PSUs as *per* the details given below. None of these companies was listed on the stock exchange.

Type of PSUs	Working PSUs	Non-working PSUs[є]	Total
Government Companies	5	2	7
Statutory Corporations	-	--	-
Total	**5**	**2**	**7**

5.1.3. During the year 2008-09, two PSUs were established whereas none were closed down since 1995.

Audit Mandate

5.1.4. 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.

[♣] As per the details provided by seven PSUs.

[є] Non-working PSUs are those which have ceased to carry on their operations- Parasuram Cements Limited and Arunachal Pradesh Horticultural Processing Industries Limited

5.1.5. 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 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.

Investment in State PSUs

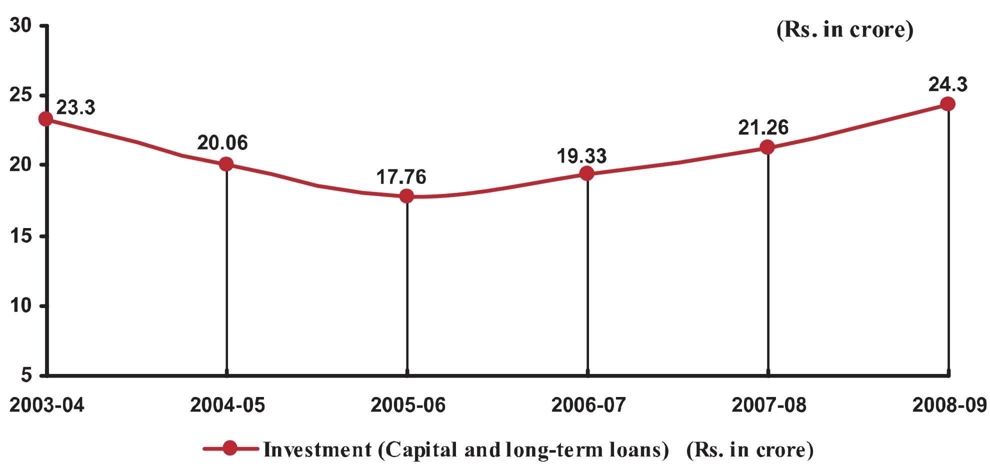
5.1.6. As on 31 March 2009, the investment (capital and long-term loans) in 7 PSUs (including 619-B companies) was Rs.24.30 crore as *per* details given below.

(Rs.in crore)

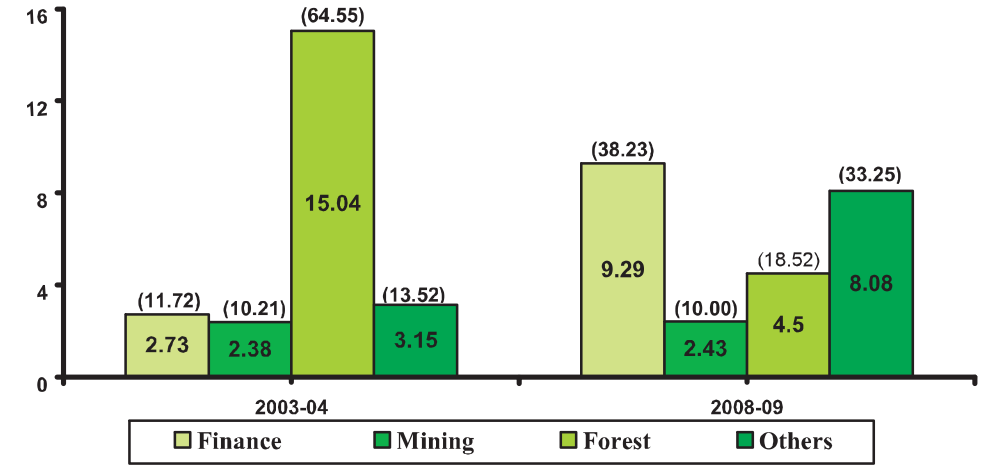
Type of PSUs	Government Companies		
	Capital	Long Term Loans	Grand Total
Working PSUs	14.10	7.14	21.24
Non-working PSUs	0.33	2.73	3.06
Total	14.43	9.87	24.30

A summarised position of government investment in State PSUs is detailed in **Appendix-5.1.**

5.1.7. As on 31 March 2009, of the total investment in State PSUs, 87.41 *per cent* was in working PSUs and the remaining 12.59 *per cent* in non-working PSUs. This total investment consisted of 59.38 *per cent* towards capital and 40.62 *per cent* in long-term loans. The investment has increased by 4.29 *per cent* from Rs.23.30 crore in 2003-04 to Rs.24.30 crore in 2008-09 as shown in the graph below.



5.1.8. 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 was mainly in finance sector during the five years which has seen its percentage share rising from 11.72 per cent to 38.23 per cent.



(Figures in brackets show the percentage of total investment)

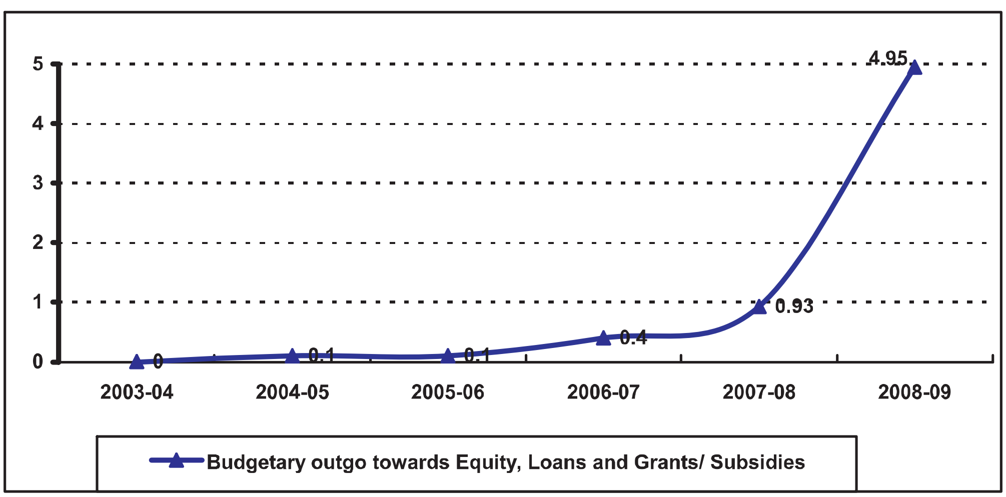
Budgetary outgo, grants/subsidies, guarantees and loans

5.1.9. 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-5.3.** The summarised details are given below for three years ended 2008-09.

(Amount Rs. in crore)

Particulars	2006-07		2007-08		2008-09	
	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
Equity Capital outgo from budget	-	-	-	-	1	4.95
Grants/Subsidy received	1	0.40	2	0.93	-	-
Total Outgo (1+2+3)	1	0.40	2	0.93	-	-
Guarantees issued	1	3.33	1	0.97	2	0.77

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



5.1.11. As on 31 March 2009, guarantees amounting to Rs.0.77 crore were outstanding against Arunachal Pradesh Industrial Development & Financial Corporation Limited (Rs.0.61 crore) and Arunachal Pradesh Mineral Development and Trading Corporation Limited (Rs.0.16 crore) respectively. No guarantee commission was payable to the State Government by the Government Companies. There was no case of conversion of Government loan into equity, moratorium in repayment of loan and waiver of interest.

Reconciliation with Finance Accounts

5.1.12. 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 2008 is stated below.

(Rs. in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	8.01	14.43	6.42
Loans	-	-	-
Guarantees	-	-	-

5.1.13. Audit observed that the differences occurred in respect of all PSUs and the differences were pending reconciliation over the period of more than ten years. The matter has been taken up with the Secretary, Finance Department, Government of Arunachal Pradesh, Administrative Department of respective PSUs and the Managing Directors of PSUs periodically to reconcile figures. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

5.1.14. The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Appendix-5.1, 5.2 and 5.3**. 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.

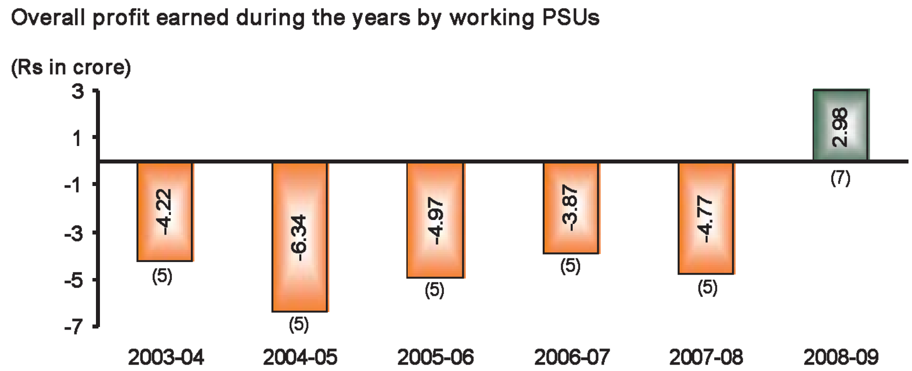
(Rs. in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover[∝]	6.31	5.57	5.91	5.94	5.72	5.57
State GDP[ℜ]	7257	5364	8572	11282	16870	26415
Percentage of Turnover to State GDP	0.09	0.10	0.07	0.05	0.03	0.02

The percentage of turnover to State GDP declined from 0.09 in 2003-04 to 0.03 in 2007-08 due to decrease in turnover by all PSUs.

[∝] Turnover as per the latest finalised accounts as of 30 September.
[ℜ] Total gross revenue of the State including interest and other receipts

5.1.15. Profit (losses) earned (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)

5.1.16. During the year 2008-09, out of five working PSUs, one PSU earned profit of Rs.6.20 crore and two PSUs incurred loss of Rs.3.22 crore. The only contributor to profit was Arunachal Pradesh Industrial Development and Financial Corporation Limited. The heavy losses were incurred by Arunachal Pradesh Mineral Development and Trading Corporation Limited and Arunachal Pradesh Forest Corporation Limited. In respect of two new companies, the companies are yet to finalise the accounts viz Arunachal Police Housing & Welfare Corporation Limited (2006-07 to 2008-09) and Hydro Power Development Corporation of Arunachal Pradesh Limited (2007-08 and 2008-09).

5.1.17. The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the working State PSUs and Government Departments (Power, Transport and Supply) incurred losses to the tune of Rs.4.43 crore and infructuous investment of Rs.1.57 crore which were controllable with better management. Year wise details from Audit Reports are stated below. (Rs. in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net Profit / Loss (-)	(-) 3.87	(-) 4.77	2.98	(-) 5.66
Controllable losses as per CAG's Audit Report	1.22	3.21	-	4.43
Infructuous Investment	1.57	-	-	1.57

5.1.18. The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs/ Government Departments (Power, Transport and Supply and Transport). The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised (or eliminated or the profits can be enhanced substantially). The PSUs/Government Departments 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/ Government Departments.

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

(Rs. in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (Per cent)	--	--	--	--	--	6.09
Debt	14.03	10.69	8.29	9.87	11.76	9.87
Turnover ϒ	6.31	5.57	5.91	5.94	5.72	5.57
Debt/ Turnover Ratio	2.22:1	1.92:1	1.40:1	1.66:1	2.06:1	1.77:1
Interest Payments	0.94	0.95	0.95	0.03	0.03	0.39
Accumulated Profits (losses)	5.15	0.56	0.49	(-) 1.62	(-) 3.19	2.64

5.1.20. As per the latest finalised accounts of *five* working companies, the capital employed worked out to Rs.50.88 crore and total return thereon amounted to Rs.3.33 crore in 2008-09 as compared to capital employed of Rs.36.48 crore and total return on capital employed (-) Rs.3.29 crore in 2003-04. The increase in capital employed and return on capital employed has shown slight improvement during the year 2008-09. The accumulated losses of Rs.1.62 crore during 2006-07 converted to accumulated profit of Rs.2.64 crore.

5.1.21. The State Government has not formulated (September 2009) any dividend policy.

Performance of major PSUs

5.1.22. The investment in working PSUs and their turnover together aggregated to Rs.25.37 crore during 2008-09. Out of five 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 95.78 *per cent* of aggregate investment *plus* turnover.

(Rs. in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover
(1)	(2)	(3)	(4)	(5)
Arunachal Pradesh Industrial Development and Financial Corporation Limited	9.29	2.19	11.48	45.25
Arunachal Pradesh Forest Corporation Limited	4.50	3.32	7.82	30.82
Hydro Power Development Corporation of Arunachal Pradesh	5.00	-	5.00	19.71
Total	18.79	5.51	24.30	95.78

5.1.23. Some of the major audit findings of past five years for above PSUs are stated in the succeeding paragraphs.

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

Arunachal Pradesh Forest Corporation Limited

- Non-execution of agreement and non collection of security deposit resulted in avoidable loss of Rs.13.98 lakh (Para 7.4 of 2005-06)
- Continuance of sale of Green Tea Leaves to a private party in contravention of the provision of the agreement resulted in loss of Rs.20.11 lakh (Para 7.7 of 2006-07)

Arrears in finalisation of accounts

5.1.24. 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. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Number of Working PSUs	3	3	4	5	5
Number of accounts finalised during the year	1	1	1	1	1
Number of accounts in arrears	17	19	22	25	31
Average arrears per PSU (3/1)	5.67	6.33	5.50	5.00	5.80
Number of Working PSUs with arrears in accounts	2	2	3	5	5
Extent of arrears in years	6 to 11	7 to 12	1 to 13	1 to 14	1 to 15

5.1.25. The reasons for delay in finalization of accounts are attributable to (i) lack of required control over the companies by Government, (ii) abnormal delay in compilation/approval of the accounts and delayed submission of the same to the Statutory Auditors by the management and (iii) delay in adoption of accounts in Annual General Meeting.

5.1.26. The State Government had invested Rs.29.64 crore (Equity: Rs.6.44 crore, loans: Rs.0.15 crore, grant: Rs.7.72 crore and others: Rs.15.33 crore in *five* PSUs) during the years for which accounts have not been finalised as detailed in ***Appendix-5.4***. In the absence of accounts and their subsequent audit, it can not be ensured whether the income and expenditure have been properly accounted for and the purpose for which the amount was invested by the State Government has been achieved or not. Thus, the State Government investment in such PSUs remains 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.

5.1.27. 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 by 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 with the Chief Secretary/ Finance Secretary periodically to expedite the backlog of arrears in accounts in a time bound manner.

In view of above state of affairs, it is recommended that:

- The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.
- The Government may set up a cell in concerned administrative departments to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.

5.1.28. Findings relating to *(DPs & Reviews) from past five years' report*

Power Department

Deficiencies in planning

- Expenditure of Rs.1.20 crore incurred for electrification of villages remained infructuous for want of power supply (Para No.6.3 of 2004-05)

Deficiencies in implementation

- Formulation and execution of electrification scheme with wrong projection of availability of power without existence of grid resulted in idle investment of Rs.1.27 crore (Para No. 6.4 of 2004-05)
- Expenditure of Rs.47.23 lakh on village electrification appears to be doubtful (Para No. 7.4 of 2006-07)

Non-achievement of objectives

- Wasteful expenditure of Rs.82.87 lakh incurred on abandoned works of transmission lines without any physical progress and for lack of proper decisions (Para No. 6.5 of 2003-04)
- Failure to provide air freight in the estimate led to blockage of Rs.26.64 lakh with loss of interest of Rs.7.78 lakh (Para No. 6.6 of 2003-04)

Deficiencies in financial management

- Billing of energy consumption charges in violation of the terms and conditions of agreement resulted in short realization of revenue of Rs.69.46 lakh (Para No. 6.2 of 2004-05)
- Injudicious procurement of material resulted in blocking of fund amounting to Rs.1.44 crore (Para No. 7.5 of 2006-07)
- Director of Supply and Transport
- Deficiencies in financial management
- Non adherence to the terms of agreement in transportation of essential commodities resulted in extra expenditure of Rs.12.91 crore (Para No. 7.6 of 2007-08)

Conclusion

5.1.29. The above details indicate that the State PSUs/Government Department (Power Department) 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/Government Department (Power).

Winding up of non-working PSUs

5.1.30. There were two non-working PSUs as on 31 March 2009. Of these, no PSUs have commenced liquidation process. The numbers of non-working companies at the end of each year during past five years are given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of non-working companies	2	2	2	2	2
Total	2	2	2	2	2

5.1.31. The non-working PSUs (Parasuram Cement Limited and Arunachal Pradesh Horticultural Processing Industries Limited) are required to be closed down as their existence is not going to serve any purpose. These PSUs are non functional from the year 1995 onwards.

Accounts Comments and Internal Audit

5.1.32. One working company forwarded its audited accounts to AG during the year 2008-09 to which Non Review Certificate had been issued. 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 and comments of statutory auditors and CAG are given below.

(Amount Rs. in crore)

Particulars	2006-07		2007-08		2008-09	
	No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
Decrease in profit	1	2.24	1	2.18	-	-
Increase in loss	-	-	-	-	-	-
Non-disclosure of material facts	1	-	1	-	-	-
Errors of classification	-	-	-	-	-	-

5.1.33. Some of the important comments in respect of accounts of companies are stated below.

- The Company has not disclosed treatment of taxes of income as per requirement of AS 22 (Arunachal Pradesh Industrial Development & Financial Corporation Limited)

- No provision has been made for interest payable to State Government and Arunachal Pradesh State Cooperative Apex Bank Limited amounting to Rs.2.18 crore.

5.1.34. 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 one company (Arunachal Pradesh Industrial Development & Financial Corporation Limited) for the year 2007-08 are given below.

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as *per* Annexure 2
1.	Non-fixation of minimum/ maximum limits of store and spares	1	VII (4)
2.	Absence of internal audit system commensurate with the nature and size of business of the company	1	XII (1)
3.	Non maintenance of cost record	1	XI (1)

Recoveries at the instance of audit

5.1.35. During the course of propriety audit in 2008-09, recoveries of Rs.11.28 crore were pointed out to the Management of various PSUs, of which, recoveries of Rs. 1.55 crore were admitted by PSUs. No amount was recovered during the year 2008-09.

Reforms in Power Sector

5.1.36. Arunachal Pradesh has not formed any Electricity Regulatory Commission till date (September 2009) under the provisions of Section 83 of the Electricity Act 2003 with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licenses.

5.1.37. The operational performance of the Power (Electricity) Department for the last three years up to 2008-09 is given in **Appendix – 5.5**.

The transmission and distribution (T&D) losses ranged from 33.98 per cent to 40.90 per cent to the total power available for sale against the norm of 15.5 per cent fixed by Central Electricity Authority (CEA). During the three years up to 2008-09, the excess T & D loss beyond the norm was 163.82 MU.

5.1.38. Memorandum of Agreement (MoA) was signed (July 2002) between the Union Ministry of Power and the State Government with a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below.

Sl. No.	Milestone	Achievement as at March 2009
1.	State Government will Corporatise the Electricity Department by 2006-07	Power & Electricity Department (P&E) is not yet Corporatised.
2	State Government will set up State Electricity Reforms Commission (SERC)/Joint Electricity Reforms Commission (JERC) by December 2003 and file tariff petition.	Not yet set up till date.
3	State Government will ensure timely payment of subsidies required in pursuance of orders on the tariff determined by JERC	Not applicable in view of position above against Sl.No.2
4	State Government will achieve 100 *per cent* electrification of villages by 2007	345 out of 402 villages have been electrified.

Discussion of Audit Reports by COPU

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

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
1987-88	2	2	2	1
1988-89	-	3	-	2
1989-90	-	1	-	-
1991-92	-	4	-	3
1994-95	-	5	-	3
1995-96	-	2	-	1
1996-97	-	5	-	3
1997-98	-	4	-	3
1998-99	1	4	1	1
1999-00	1	4	1	-
2000-01	-	6	-	3
2001-02	1	7	-	7
2002-03	-	4	-	4
2003-04	1	4	-	-
2004-05	-	3	-	-
2005-06	-	4	-	1

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2006-07	1	5	-	-
2007-08	-	6	-	-
Total	**7**	**73**	**4**	**32**

5.1.40. The matter relating to clearance of backlog of reviews/ paragraphs was also discussed with Chairperson of COPU in July 2009.

SECTION 'A': PERFORMANCE REVIEWS

TRANSPORT DEPARTMENT

5.2. ARUNACHAL PRADESH STATE TRANSPORT SERVICES

Executive Summary

The Arunachal Pradesh State Transport Services (APSTS) provides public transport in Arunachal Pradesh through its 14 Depots. The APSTS had fleet strength of 230 buses as on 31 March 2009 and carried an average of 3,208 passengers per day during the review period. The performance audit of the APSTS 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 non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the APSTS .

Finances and Performance

The books of accounts of the APSTS are in arrears since 2007-08. Based on provisional figures, it suffered loss of Rs.37.79 crore in 2008-09. The accumulated losses of the APSTS stood at Rs.253.22 crore as at 31 March 2009 (Provisional). The APSTS earned Rs.12.94 per kilometre and expended Rs.60.46 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 limit losses and serve its cause better.

Share in Public Transport

The APSTS could not keep pace with the growing demand for public transport as both the average passengers carried per day to population and number of its buses per one lakh population showed a declining trend since 2005-06 onwards. The percentage of average passengers carried per day to population decreased from 0.37 in 2005-06 to 0.28 in 2008-09. The decline in share was mainly due to its operational inefficiency and lack of effective monitoring by top Management. Vehicle density per one lakh population decreased from 17 in 2005-06 to 13 in 2008-09 indicating deterioration in the level of public transport in the State.

Vehicle profile and utilisation

The APSTS added 32 buses during 2005-09. The overall fleet utilisation of the APSTS increased from 68 in 2004-05 to 89 per cent in 2005-06 and thereafter decreased to 75 per cent in 2008-09, which was less than all India average (AIA) of 90.1 per cent for hill areas. The overall vehicle productivity varied from 97 KMs per day (2005-06) to 127 KMs per day (2008-09) which is less than the AIA of 196 KMs per day for hill areas. Due to poor productivity, the traffic revenue per KM reduced from Rs.13.56 in 2006-07 to Rs.12.75 in 2008-09. In 2008-09, out of 155 routes operated by APSTS, 31 per cent routes were unprofitable and 40 per cent routes were not even earning enough to meet variable cost of operations. The APSTS had not carried out preventive maintenance.

Economy in operations

Manpower and fuel constitute 56 per cent of total cost. Depreciation account for 12 per cent and are not controllable in the short-term. Thus, the major cost saving has to come from manpower and fuel. Manpower cost of the APSTS was Rs.18.74 per effective KM while the manpower productivity per day per person stood at 27.10 KMs against the AIA for hill areas of 38 KMs. The expenditure on repairs and maintenance increased from 0.92 lakh per bus in 2004-05 to Rs.3.03 lakh per bus in 2007-08 and thereafter decreased to Rs.2.60 lakh per bus. The APSTS did not attain AIA for hill area in respect of fuel efficiency. Consumption of fuel in excess of AIA for hill area resulted in excess consumption of 21.56 lakh litres of fuel valued at Rs.6.57 crore during 2004-09.

Revenue Maximisation

The APSTS has 63,979 square metres of land. As it mainly utilises ground floor/ land for their operations, the space above can be developed on public private partnership (PPP) basis to earn steady income, which can be used to cross-subsidise its operations.

Need for a regulator

The State Government fix and revise fares from time to time. Audit noticed that there was no fare policy of the Government. The Government revised the fares in July 2006 from 63 to 88 paise on the basis of increase in diesel price only without considering other variable costs and establishment cost. The fare revision had no scientific basis as it does not take into account the normative cost.

Conclusion and Recommendations

Though the APSTS is incurring losses, it is mainly due to its high cost of operations. The APSTS can control the losses by improving operational efficiency and resorting to tapping non-conventional sources of revenue. This review contains seven recommendations to improve the performance of the APSTS. Creating a regulator to regulate fares and services and tapping non-conventional sources of revenue are some of these recommendations.

Introduction

5.2.1. In Arunachal Pradesh, the public road transport is provided by the State Government department known as Arunachal Pradesh State Transport Services (APSTS), which has been entrusted with the mandate to provide an efficient, adequate, economical and properly coordinated road transport service to the common people.

The APSTS was incorporated in March 1975 as separate State Government Department. It had a fleet strength of 230 buses as on 31 March 2009 and carried an average of 3,208 passengers *per* day during 2004-05 to 2008-09. The APSTS had a turnover of Rs.10.29 crore in 2008-09, which was equal to 0.04 *per cent* of the State Gross Domestic Product. The Department employed 804 employees as at 31 March 2009. The State also allows the private operators to provide public transport. The fare structure is controlled and approved by the State Government.

A review on the working of the APSTS was included in the Report of the Comptroller and Auditor General of India for the year 2004, Government of Arunachal Pradesh. The recommendations of the Public Accounts Committee thereon are still awaited (October 2009).

The Management of the APSTS is headed by a General Manager who is assisted by two Additional General Manager, one Deputy General Manager, one Finance & Accounts Officer and 14 Senior Station Superintendent/ Station Superintendent. The APSTS has a Head Office at Naharlagun, 14 Depots and a Central Workshop at Nirjuli. The bus body building operations are carried out through external agencies. Tyre Retreading operations are carried out at Central Workshop and also through external agencies.

Scope of Audit and Audit Methodology

5.2.2. The present Performance Audit conducted during May 2009 to June 2009 covered 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 the senior management of the organization. The audit examination involved scrutiny of records at the Head Office, the Central Workshop and three out of the 14 depots on the basis of number of buses and composition of fleet (Itanagar, Bomdila and Pasighat depots). The selected Depots had a fleet strength of 84 buses as on 31 March 2009 representing 37 *per cent* of the total fleet.

Audit Objectives

5.2.3. The objectives of the performance audit were to assess:

Operational Performance

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

Financial Management

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

Fare Policy and Fulfillment of Social Obligations

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

Monitoring by Top Management

- whether the monitoring by the APSTS's top management was effective.

Audit Criteria

5.2.4. 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 Government of State and other relevant rules and regulations;
- corporate policy for investment of funds; and
- procedures laid down by the Department.
- interaction with the APSTS personnel.

Financial Position and Working Results

5.2.5. The financial position of the APSTS for the five years upto 2008-09 is given below. Since the proforma accounts of the APSTS for 2007-08 and 2008-09 were in arrears, provisional figures for 2007-08 and 2008-09 were adopted for the performance review.

(Rs. in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
A. Liabilities					
Paid up Capital	158.12	179.81	211.05	235.00	260.48
Current Liabilities & Provisions	5.54	6.59	6.88	7.08	7.26
Total	**163.66**	**186.40**	**217.93**	**242.08**	**267.74**
B. Assets					
Gross Block	47.08	49.56	53.43	57.03	60.93
Less: Depreciation	37.06	41.86	47.09	51.09	55.09
Net Fixed Assets	10.02	7.70	6.34	5.94	5.84
Current Assets, Loans and Advances	6.50	7.37	7.65	6.71	8.68
Accumulated losses	147.14	171.33	203.94	229.43	253.22
Total	**163.66**	**186.40**	**217 .93**	**242.08**	**267.74**

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

(Rs. in crore)

Sl. No.	Description	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Revenue	7.17	8.57	10.93	10.45	10.29
2.	Operating Revenue[φ]	7.03	8.38	10.93	10.45	10.14
3.	Total Expenditure	24.04	29.29	43.67	44.85	48.08
4.	Operating Expenditure[Ψ]	19.50	24.49	38.44	39.31	42.37
5.	Operating Loss	(-)12.47	(-)16.11	(-)27.51	(-)28.86	(-)32.23
6.	Loss for the year	(-)16.87	(-)20.72	(-)32.74	(-)34.40	(-)37.79
7.	Accumulated Loss	(-)147.14	(-)171.33	(-)203.94	(-)229.43	(-)253.22
8.	Fixed Costs					
	(i) Personnel Costs	8.51	8.00	9.80	10.49	14.90
	(ii) Depreciation	4.54	4.80	5.23	5.54	5.71
	(iii) Other Fixed Costs	0.91	1.04	1.49	1.91	1.99
	Total Fixed Costs	13.96	13.84	16.52	17.94	22.60
9.	Variable Costs					
	(i) Fuel & Lubricants	5.61	7.63	12.11	13.30	12.07
	(ii) Tyres & Tubes	1.23	1.25	1.49	1.47	1.51
	(iii) Other Items/ spares	3.24	6.57	13.55	12.14	11.90
	Total Variable Costs	10.08	15.45	27.15	26.91	25.48
10.	Effective KMs operated (in Lakh)	70.70	75.68	80.62	79.55	79.53
11.	Earnings *per* KM (Rs.) (1/10)	10.14	11.32	13.56	13.14	12.94
12.	Fixed Cost *per* KM (Rs.) (8/10)	19.75	18.29	20.49	22.55	28.42
13.	Variable Cost *per* KM (Rs.) (9/10)	14.25	20.41	33.68	33.83	32.04
14.	Cost *per* KM (Rs.) (3/10)	34.00	38.70	54.17	56.38	60.46
15.	Net Earnings *per* KM (Rs.) (11-14)	(-) 23.86	(-) 27.38	(-) 40.61	(-) 43.24	(-) 47.52
16.	Traffic Revenue[§]	7.03	8.38	10.93	10.45	10.14
17.	Traffic revenue *per* KM (Rs.) (16/10)	9.94	11.07	13.56	13.14	12.75

[φ] Operating revenue includes traffic earnings, passes and season tickets, re-imbursement against concessional passes etc.

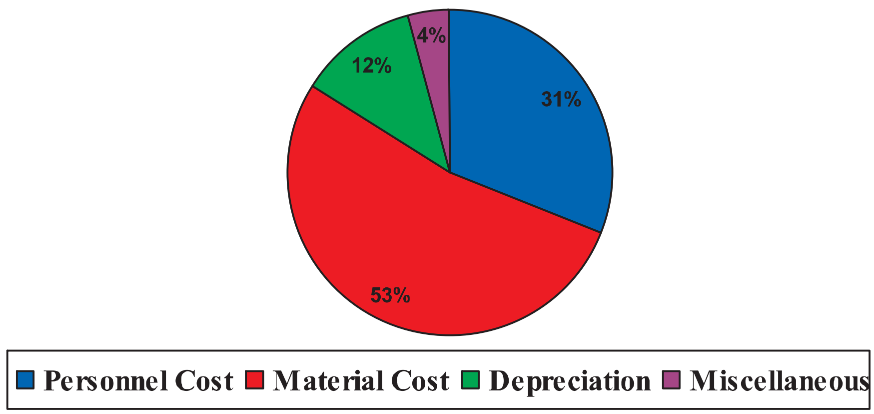
[Ψ] Operating expenditure includes expenses relating to traffic, repair and maintenance, electricity, welfare and remuneration, licences and taxes and general administration expenses.

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

Elements of Cost

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

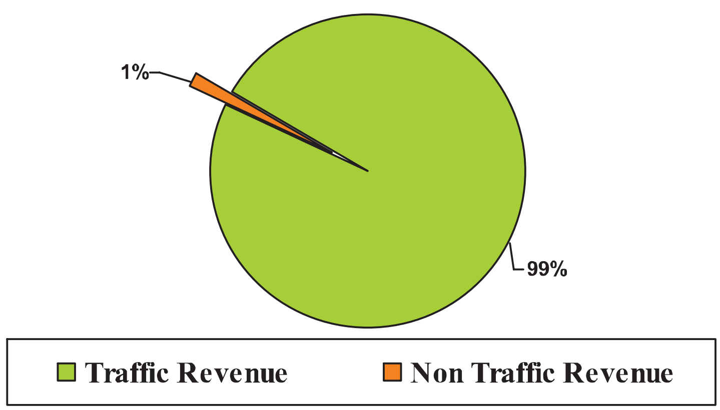
Components of various elements of cost



Elements of revenue

Traffic revenue and non-traffic revenue constituted the major elements of the revenue. The percentage break-up of the revenue for 2008-09 is captured in the following pie-chart.

Components of various elements of revenue



Audit Findings

5.2.6. The audit objectives were explained to the Management during the 'Entry Conference' held on 26 May 2009 which was attended by General Manager and Finance & Accounts Officer of APSTS. The audit findings were reported to the Commissioner, Transport Department in August 2009 and then discussed in the 'Exit Conference' held on 10 August 2009, which was attended by the Commissioner, Transport Department, General Manager, APSTS and other senior officers of the APSTS. The views/responses expressed by them in exit conference have been considered while finalising this review. Audit findings are discussed below.

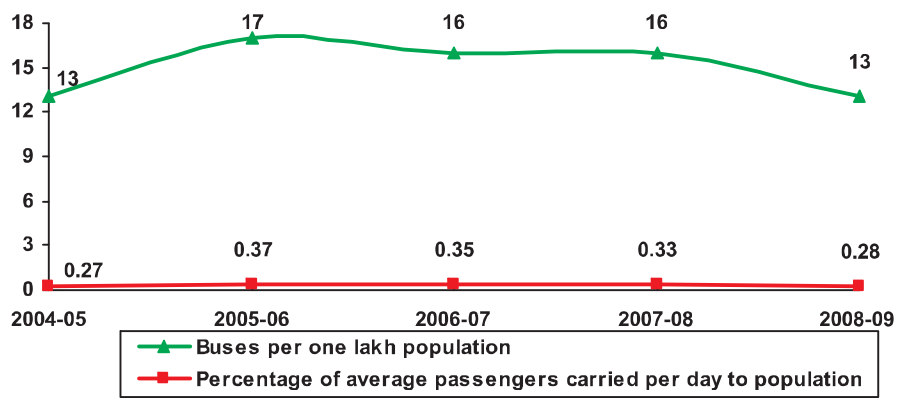
Operational Performance

5.2.7. The operational performance of the APSTS for the five years ending 2008-09 given in the **Appendix–5.6** which was evaluated on various operational parameters as described below. It was also seen whether the APSTS was able to maintain pace with the growing demand for public transport. Audit findings in this regard are discussed in the subsequent paragraphs. These audit findings show the losses were controllable and there is scope for improvement in performance.

Share of APSTS in Public Transport

5.2.8. The transport policy of the State Government seeks to achieve a balanced modal public transport and to discourage personalized transport. The focus is to be on increasing the mass transport options by providing adequate, accessible and affordable bus service.

Line-graphs depicting the percentage of average passengers carried *per* day by the APSTS to the population of the State during five years ending 2008-09 and its buses *per* one lakh population are as follows.



From the above graph it can be seen that the APSTS could not keep pace with the growing demand for public transport as both the average passengers carried *per* day to population and number of its buses *per* one lakh population showed a declining trend since 2005-06 onwards. Further, the effective KM *per* Capita *per* year showed a declining trend from 2006-07 as shown in the table below.

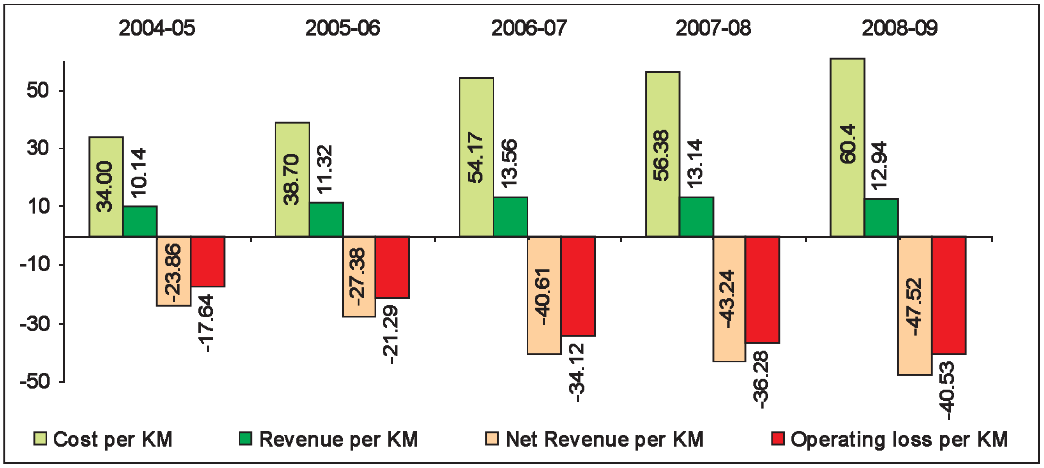
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Effective KM operated (lakh)	70.70	75.68	80.62	79.55	79.53
Estimated Population (lakh)	12.34	12.65	12.97	13.29	13.62
Per Capita KM *per* year	5.73	5.98	6.21	5.99	5.84

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 APSTS was not able to maintain its share in transport mainly due to operational inefficiencies as described later.

The Department responded (August 2009) that due to the entry of the private operators, increase in number of private cars and passengers' preference for luxury coaches, the share of APSTS has gone down.

Recovery of cost of operations

5.2.9. It was noticed that APSTS was never able to recover its cost of operations, the net revenue showed a negative trend during the last five years ending 2008-09 as depicted below:



It can be seen from the above graph that the operating loss has been increasing and the APSTS failed to achieve the all India average for hill areas cost (Rs.24.55 *per* KM) and revenue (Rs.20.34 *per* KM). The deteriorating performance impacted the ability of the APSTS to provide public transport services adequately as it was not able to replace its fleet timely or increase the fleet strength to meet the growing demand.

In hill area, Himachal RTC incurred cost *per* KM at Rs. 24.09 and earned Rs.18.93 *per* KM during 2007-08 (Source : STUs profile and performance 2007-08 by CIRT, Pune)

The Department stated (August 2009) that the cost of operation went up due to implementation of pay commission recommendations, ACP scheme, hike in diesel cost, poor performance by aged buses, etc.

Efficiency and Economy in operations

Fleet strength and utilisation

Fleet Strength and its Age-profile

5.2.10. The APSTS has its own fleet of buses, the position of which is explained in the table below. The Association of State Road Transport Undertaking (ASRTU) has prescribed (September 1997) the desirable age of a bus as eight years or five lakh kilometres, whichever was earlier. The APSTS, however, has fixed the life of bus as seven years. The table below also shows the age-profile of the buses held during the period of five years ending 2008-09.

S.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total No. of buses at the beginning of the year	236	238	240	240	242
2.	Additions during the year	13	5	-	14	-
3.	Buses scrapped during the year	11	3	-	12	12
4.	Buses held at the end of the year (1+2-3)	238	240	240	242	230
5.	Of (4), No. of buses more than 8 years old	80	78	112	130	131
6.	Percentage of overage buses to total buses	34	33	47	54	57

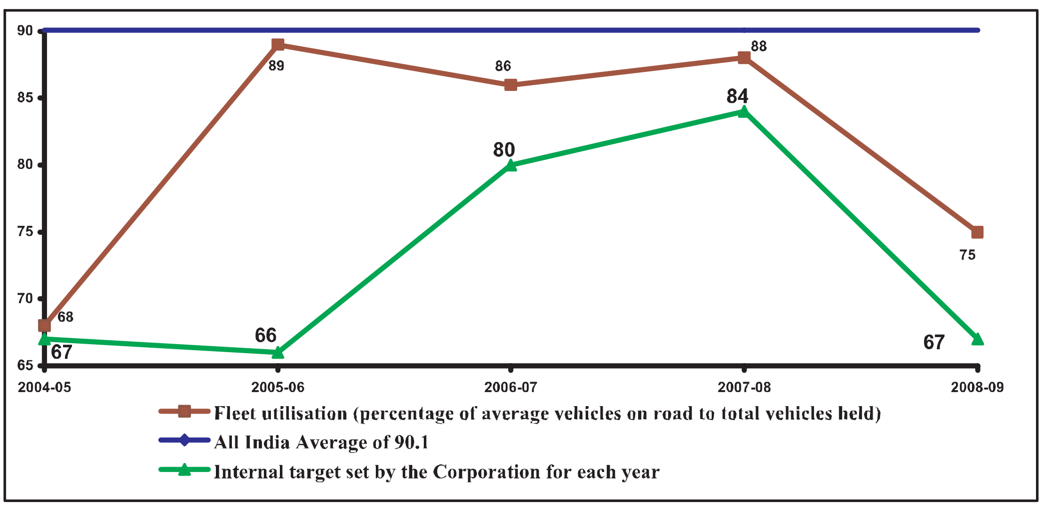
It is evident from the above table that norm regarding age profile of the buses was not met by the APSTS. As on 31 March 2009, the APSTS had 57 *per cent* overaged buses. The overage fleet requires high maintenance and results in extra cost and less availability of vehicles compared to the younger fleet which increases the operational inefficiency and causes loss of revenue.

The Department agreed (August 2009) to the audit findings but also stated that in spite of their efforts, they were not able to acquire new buses due to the budget constraints.

Fleet Utilisation

5.2.11. Fleet utilisation represents the ratio of buses on road to those held. The APSTS had set internal target of fleet utilisation of 67, 66, 80, 84 and 67 *per cent* during the review period. Against this, the actual fleet utilisation increased from 68 *per cent* (2004-05) to 89 *per cent* (2005-06) and subsequently decreased to 75 *per cent* (2008-09) as compared to all India average of 90.10 *per cent* for hill area as indicated in the graph given below.

In hill areas, Himachal RTC registered best fleet utilisation at 97.68 *per cent* during 2007-08. (Source : STUs profile and performance 2007-08 by CIRT, Pune)



The main reasons which contributed to this, as analysed by Audit, were as follow:

- Breakdowns on account of inadequate servicing/ maintenance;
- Want of tyres and mandatory spares;
- Natural calamites such as land slide (71 *per cent* of the operations in mountain); and
- Cancellation due to bandhs/ closures etc.

From the above, it can be concluded that the APSTS was not able to achieve an optimum utilisation of its fleet, which in turn impacted its operational performance adversely. No measures have been taken to improve the performance of utilisation of fleet in respect of first two reasons above.

Vehicle productivity

5.2.12. Vehicle productivity refers to the average Kilometres run by each bus *per* day in a year. The vehicle productivity of the APSTS vis-à-vis the overage fleet for the five years ending 2008-09 is shown in the following table.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Vehicle productivity (KMs run *per* day *per* bus)	122	97	107	103	127
Overage fleet (percentage)	34	33	47	54	57

Himachal RTC registered best vehicle productivity at 222 KMs *per* day during 2007-08. (Source : STUs profile and performance 2007-08 by CIRT, Pune)

Compared to the AIA of 196 KMs *per* day for hill areas, the vehicle productivity of the APSTS was on lower side for all the years under review. It varied from 97 (2005-06) to 127 KMs *per* day (2008-09). Due to poor productivity, the traffic revenue *per* KM reduced from Rs.13.56 in 2006-07 to Rs.12.75 in 2008-09. Short coverage of 3.02 crore KMs during five years with reference to all India averages for hill areas resulted in loss of traffic revenue amounting to Rs.36.84 crore[©] worked out at average traffic revenue *per* bus *per* day. The reasons for poor performance were continuance with old buses without timely replacement, deficient route planning, non-operation of buses to newly evolved routes like Itanagar to Tawang, Bomidila to Tawang etc. Further, Audit observed that no specific measures have been taken by the APSTS to improve productivity.

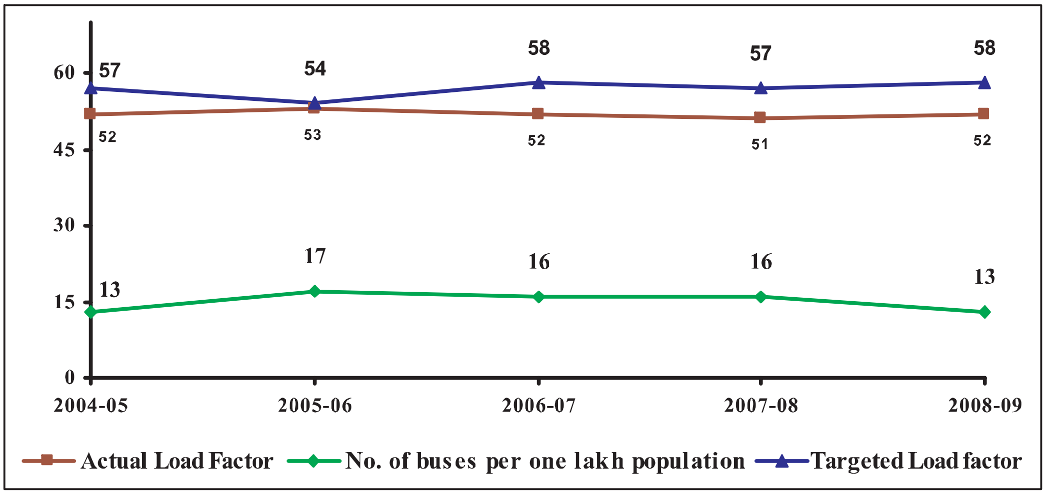
The Department stated (August 2009) that the low productivity of vehicle was due to the over-aged fleet and poor road conditions, etc.

[©] Average number of buses held on road multiplied by short coverage of buses per day with reference to vehicle productivity multiplied by 365.

Capacity Utilisation

Load Factor

5.2.13. 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. A graph depicting the targeted load factor, actual load factor and number of buses *per* one lakh population is given below.



Though the estimated load factor of the APSTS was set at a lower side when compared to load factor of 63 *per cent* as *per* all India averages for hill areas, even those were not achieved.

Break-even Load Factor

5.2.14. The table below provides the details for break-even load factor (BELF) for traffic revenue. Audit worked out this BELF at the given level of vehicle productivity and total cost *per* KM.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Cost *per* KM	34.00	38.70	54.17	56.38	60.46
2.	Traffic Revenue *per* KM	9.94	11.07	13.56	13.14	12.75
3.	Traffic Revenue *per* KM at 100 *per cent* Load Factor	19.12	20.89	26.08	25.76	24.52
4.	Break – even Load Factor considering total revenue (*per cent*) 1/3	177.82	185.26	207.70	218.87	246.57

The break-even load factor is quite high and may not be achievable given the fact that the APSTS 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 operation as explained later.

According to the Department (August 2009) the reasons for non achievement of required load was the entry of the private operators on these routes. The private four wheeler service is fast, comfortable and more reliable on these roads.

Since private operators with Sumo/Bolero vehicles have been quite successful in providing better service, the APSTS may like to conduct financial viability study on the operation of mini buses to improve the existing transport service.

Route Planning

5.2.15. Some routes are profitable while others are not. From the route planning done by the APSTS, the profitable and unprofitable routes have been tabulated as below.

Particulars	Total No. of routes	No. of routes making profit (*A routes)	No. of routes not meeting total cost (#B routes)	No. of routes not meeting variable cost (♦C routes)
2004-05	153 (100)	44 (29)	46 (30)	63 (41)
2005-06	153 (100)	44 (29)	46 (30)	63 (41)
2006-07	153 (100)	44 (29)	46 (30)	63 (41)
2007-08	155 (100)	45 (29)	48 (31)	62 (40)
2008-09	155 (100)	45 (29)	48 (31)	62 (40)

(The percentage under the above heads is in brackets for each year).

Though some of the routes now appearing unprofitable would become profitable once the APSTS improves its efficiency, there would still be some uneconomical routes. Given the scenario of mixed routes and social obligation to serve uneconomical routes, the APSTS should decide an optimum quantum of services on different routes so as to optimise its revenue while serving its social mandate also. However, Audit observed that no such exercise has been carried out by the APSTS.

Operational performance can be improved by periodic review of uneconomic routes with a view to assess their continuance, rationalisation of routes and optimum operation of buses on the higher revenue earning routes. Audit noticed that the reasons for losses incurred on C routes were not analysed by the Management. Further, the APSTS did not conduct route rationalisation during the review period to enhance economy on this account.

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* A routes - Earning per Kilometre was more than total cost

B-routes - Earning per Kilometre was not meeting total cost but recovering variable cost

♦ C- routes- Earning per kilometer was less than variable cost

Maintenance of vehicles

Preventive Maintenance

5.2.16. Preventive maintenance is essential to keep the buses roadworthy and to reduce the breakdowns/other mechanical failures. APSTS buses of Tata make have been advised with the following schedule of maintenance by the Original Equipment Manufacturers (OEMs).

Sl.No.	Particulars	Schedule
1.	**Engine Oil change**	
1 (a)	Tata make	Every 9000 KMs
1 (b)	Leyland make	Every 10000 KMs
2.	**Brake Inspection**	
2 (a)	Tata make	Every 18000 KMs
2 (b)	Leyland make	Every 24000 KMs

The APSTS had not chalked out a schedule for preventive maintenance. Further, the vehicle log books contained no details of KMs run before maintenance works like engine oil change, brake inspection *etc.* were undertaken. Hence, Audit could not analyse the compliance with OEMs' preventive maintenance schedule. Due to incomplete records maintenance, the Management control over maintenance works was ineffective.

The number of breakdown increased from 495 in 2004-05 to 873 in 2008-09 and the rate of breakdown *per* 10,000 effective KM during review period also increased from 1.3 to 2.1 which were above the all India average of 0.26. Audit observed that these breakdowns were mainly due to failure of engine, brakes, transmission suspension systems *etc.* which could have been minimised had proper preventive maintenance been carried out.

Repairs & Maintenance(R&M)

5.2.17. 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.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total buses (No.)	238	240	240	242	230
2.	Over-age buses (more than 8 years old)	80	78	112	130	131
3.	Percentage of over age buses	34	33	47	54	57
4.	R&M Expenses (Rs. in crore)	2.18	3.14	7.28	6.94	5.98
5.	R&M Expenses *per* bus (in Rs.) (4/1) (in lakh)	0.92	1.31	3.03	2.87	2.60

The average expenditure *per* bus on repairs and maintenance has been increased from Rs.0.92 lakh in 2004-05 to Rs.3.03 lakh in 2007-08 and decreased thereafter to Rs.2.60 in 2008-09. The APSTS had not analysed the reasons for increase in expenditure. The decrease in R & M expenditure in 2007-08 and 2008-09 was due to induction of 14 new buses and scrapping of 12 old buses.

A test check of records revealed that the expenditure on repairs at Itanagar, Bomdila and Pasighat depots were very high for the years under review as tabulated below.

Depot	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Itanagar						
1	Average buses on road	45	45	43	37	37
2	Expenditure on R&M (Rupees in lakh)	68.97	27.74	51.33	50.52	42.50
3	R & M expenditure *per* bus (in Rs.) (2/1)	1.53	0.62	1.19	1.37	1.15
Bomdila						
1	Average buses on road	11	13	13	15	15
2	Expenditure on R&M (Rupees in lakh)	12.72	81.49	73.00	44.50	42.58
3	R & M expenditure *per* bus (Rs. in lakh) (2/1)	1.16	6.27	5.61	2.97	2.84
Pasighat						
1	Average buses on road	18	17	17	15	13
2	Expenditure on R&M (Rupees in lakh)	33.55	28.09	40.99	54.99	44.94
3	R & M expenditure *per* bus (in Rs.) (2/1)	1.86	1.65	2.41	3.67	3.46

It can be seen from the table that R & M expenditure *per* bus at Bomdila depot rose upto 6.27 lakh in 2005-06. It was observed in Audit that incurring expenditure of Rs.1.99 crore on repairs for 13 buses during 2005-06 to 2007-08 at Bomdila depot was not justified when procurement of new buses would have cost only Rs.1.33 crore (at an average rate of Rs.10.24 lakh for each bus). The reasons for R & M expenditure in the above depots were not analysed by the Management.

The Department reiterated (August 2009) that the R&M cost was high due to over-aged buses, non availability of spares and skilled persons in time at depot level. However, the analysis in above paragraph reveal that if proper action would have been taken, the number of overage buses would have reduced besides lesser R & M expenditure.

Docking of vehicles for fitness Certificates

5.2.18. To ascertain that the buses are roadworthy the fitness certificate is obtained/renewed from Regional Transport Office (RTO) under Section 62 of the Central Motor Vehicle Rules 1989. A test check of the records at Itanagar, Bomdila and Pasighat depots revealed that the APSTS does not follow a practice of obtaining fitness certificates from the RTO endangering the safety and lives of the commuters.

The Department stated (August 2009) the Act was not applicable to the APSTS and the fitness certificate to their buses was being given by STS's qualified engineer. The reply is not correct as the Motor Vehicle Act is equally applicable to the APSTS.

Manpower Cost

5.2.19. The cost structure of the organisation shows that manpower and fuel constitute 56 *per cent* of total cost. Depreciation – the cost which is not controllable in the short-term account for 12 *per cent*. Thus, the major cost saving can come only from manpower and fuel.

Manpower is an important element of cost which constituted 31 *per cent* of total expenditure of the APSTS in 2008-09. Therefore, it is imperative that this cost is kept under control and the manpower is utilised optimally to achieve the more productivity. The following Table provides the details of manpower, its cost and productivity.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Manpower (Nos.)	802	804	804	804	804
2.	Manpower Cost (Rs. in crore)	8.51	8.00	9.80	10.49	14.90
3.	Effective KMs (in lakh)	70.70	75.68	80.62	79.55	79.53
4.	Cost *per* effective KM (Rs.)	12.04	10.57	12.16	13.19	18.74
5.	Productivity *per* day *per* person (KMs)	24.15	25.79	27.47	27.11	27.10
6.	Average number of buses on road	159	213	206	212	172
7	Manpower *per* bus	5 : 1	3.8 : 1	3.9 : 1	3.8 : 1	4.7 : 1

It would be seen from the above Table that the staff productivity *per* day *per* person in KMs varied from 24.15 (2004-05) to 27.10 *per* KM (2008-09) against the AIA for hill areas of 38 *per* KM.

Himachal RTC registered Manpower *per* bus at 4.37 and Staff Productivity at 50.78 KM per day per person during 2007-08. (Source: STUs profile and performance 2007-08 by CIRT, Pune)

The Department had not fixed any norm of staff strength required *per* bus under different categories. The staff requirement *per* bus was worked out by the Transport Research Wing, Central Institute of Road Transport, Pune to 6.5 (Traffic 5; maintenance 1.15; and administration 0.35) including leave/absenteeism. It was noticed in Audit that the number of employees *per* bus varied between 5 and 3.8. However, there was increase in manpower cost *per* KM from Rs.12.04 (2004-05) to Rs.18.74 *per KM* (2008-09).

The Department stated (August 2009) that as pointed out by the Audit the manpower strength was lower than the relevant norm but the manpower cost was high due to pay revision, implementation of Assured Career Promotion programme, increase in establishment cost, etc. which in turn affected the employees *per* vehicle productivity adversely.

Fuel Cost

5.2.20. Fuel is a major cost element which constituted 25 *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 Table below gives the targets fixed by the APSTS for fuel consumption, actual consumption, mileage obtained *per* litre (Kilometre *per* litre i.e. KMPL), all India average for hill areas and estimated extra expenditure.

The APSTS does not maintain records for quantum of fuel consumption. The KMPL obtained has been worked out in Audit[©] on the basis of average cost of diesel *per* litre and actual fuel expenditure during that year.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Gross Kilometres (in lakh)	71	76	81	80	80
Target of KMPL fixed by APSTS	3.40	3.40	3.40	3.15	3.15
Kilometre obtained *per* litre (KMPL)	3.31	3.17	3.09	2.94	2.87
All India average for Hill Areas	3.69	3.69	3.69	3.69	3.69
Actual Consumption (in lakh litres)	21.45	23.97	26.21	27.21	27.87
Consumption as *per* All India average for Hill Areas (in lakh litres) (1/4)	19.24	20.60	21.95	21.68	21.68
Excess Consumption (in lakh litres) (5-6)	2.21	3.37	4.26	5.53	6.19
Average cost *per* litre (in Rs.)	23.11	27.45	31.38	32.41	32.45
Extra expenditure (Rs. in lakh) (7X8)	51.07	92.51	133.68	179.23	200.87

Nagaland ST-DU and Himachal RTC registered mileage of 3.74 and 3.70 KMPL respectively during 2007-08. (Source : STUs profile and performance 2007-08 by CIRT, Pune)

The Department fixed a norm for consumption of diesel oil (HSD) at 3.4 KMs *per* litre up to 2006-07 and thereafter reduced the same to 3.15 KMs *per* litre due to hill areas. It can be seen from the above Table that the mileage obtained *per* litre has continuously shown a declining trend over the period under review. The APSTS consumed 21.56 lakh litres of fuel in excess as compared to all India average for hill areas during 2004-05 to 2008-09 resulting in extra expenditure of Rs.6.57 crore. Even the consumption was more than the norms fixed by the APSTS considering the local situations.

[©] Average cost per litre divided by fuel cost per KM (based on gross KMs operated and expenditure on fuel)

A test check in Audit of two months Petrol, Oil and Lubricants (POL) statements for each year under review, in three depots (Itanagar, Bomdila and Pasighat), showed that the APSTS had no mechanism in place to monitor vehicle wise or driver wise data for consumption of fuel so as to exercise effective management control. Further, the APSTS had not prescribed for ideal driving speed/ norms so as to enhance fuel economy.

The Department stated (August 2009) that fuel cost was high due to peculiar topographical feature, poor condition of road, old buses, unavailability of expert who can fix/repair the fuel pump and poor/mixed quality of fuel available.

However, the fact remains that the APSTS had fixed its own targets after considering these adverse local conditions. Since the actual mileage obtained was less than actual internal targets, Management should take corrective actions to control fuel expenditure and increase fuel efficiency.

Realignment of business model

5.2.21. The APSTS is mandated to provide an efficient, adequate and economical road transport to public. Therefore it 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 APSTS to tap non-traffic revenue sources to cross-subsidize its operations. However, the share of non-traffic revenues (other than interest on investments) was nominal at one *per cent* of total revenue during 2004-09. This revenue of Rs.48 lakh during 2004-09 mainly came from passenger railway commission. Audit observed that the APSTS has non-traffic revenue sources which it has not tapped substantially.

Over a period of time, the APSTS has come to acquire sites at prime locations in cities (Itanagar and Naharlagun) and district (Bomdila, Tawang, Along, Pasighat and Miao) headquarters. The APSTS generally uses the ground floor/ land for its operations, leaving ample scope to construct and utilise spaces above. Audit observed that the APSTS has land (owned by Government) at important locations admeasuring 63,979 square meters as shown below.

Particulars	Cities (Municipal areas)	District Hqrs	Total
Number of sites	**2**	**4**	**6**
Occupied Land (Sq. mtrs)	**25,016**	**38,963**	**63,979**

It is, thus, possible for the APSTS to undertake projects on public private partnership (PPP) basis for construction of shopping complexes, malls, hotels, office spaces, etc. 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 APSTS since APSTS normally occupies only first or second floor.

The Department agreed to the audit observation on the possibility of exploiting the prime land of STS for other commercial purposes but also stated that the same could not be done due to the funds constraints. However, tapping of such non revenue sources on PPP projects may not involve huge funds since the APSTS can give land and construction/ utilisation can be done by private partner to get regular income.

Fare policy and fulfillment of social obligations

Existence and fairness of fare policy

5.2.22. The State Government fix and revise fares from time to time. Audit noticed that there was no fare policy of the Government. The Government revised the fares only when it was requested by the APSTS and the last revision was done in July 2006.

Fare Table for ordinary buses

Stages	2004-05	2005-06	2006-07 #	2007-08	2008-09
First 5 KMs	3.15	3.15	4.40	4.40	4.40
First 10 KMs	6.30	6.30	8.80	8.80	8.80
25 KMs	15.75	15.75	22.00	22.00	22.00
100 KMs	63.00	63.00	88.00	88.00	88.00

with effect from 14 July 2006

In July 2006, fare was revised from 63 to 88 paise on the basis of increase in diesel price only without considering other variable costs and establishment cost. The fare revision had no scientific basis as it does not take into account the normative cost. The table below shows how the APSTS could have curtailed cost and increased revenue with better operational efficiency.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Cost *per* KM	34.00	38.70	54.17	56.38	60.46
Traffic Revenue *per* KM	9.94	11.07	13.56	13.14	12.75
Loss of revenue due to less vehicle productivity (*per* KM)	6.04	11.25	11.25	11.89	6.94
Excess cost due to low manpower productivity (*per* KM)	6.90	5.00	4.66	5.30	7.54
Excess cost due to excess consumption of fuel (*per* KM)	0.72	1.22	1.65	2.24	2.51
Ideal revenue *per* KM (2+3)	15.98	22.32	24.81	25.03	19.69
Ideal cost *per* KM [1-(4+5)]	26.38	32.48	47.86	48.84	50.41
Net revenue *per* KM (2-1)	(-)24.06	(-)27.63	(-)40.61	(-)43.24	(-)47.71
Net ideal revenue *per* KM (6-7)	(-)10.40	(-)10.16	(-)23.05	(-)23.81	(-)30.72
Effective KMs (in lakh)	70.70	75.68	80.62	79.55	79.53
Avoidable loss (Rs. in crore) [(8-9) X 10]	9.66	13.22	14.16	15.16	13.51

The above Table does not take into account other inefficiencies such as low fleet utilisation, defective route planning etc. Nonetheless, it shows that the net loss could be lower, if the operations are properly planned and efficiently managed, than what they actually are.

The Department agreed (August 2009) to the audit observation that the APSTS did not have documented fare policy but also added that the fare was revised periodically based on the cost escalation. It also accepted that the 2006 revision was mistakenly based on diesel cost only.

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

5.2.23. The APSTS had about 29 *per cent* profit making routes as of March 2009 as shown in Table under paragraph 5.2.15. However, the position would change if the APSTS improves its efficiency. Nonetheless, there would still be some routes which would be uneconomical. Though the APSTS is required to cater to these routes, the APSTS 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.

The Department stated (August 2009) that it is their social mandate to provide service even on uneconomical routes.

Monitoring by top management

5.2.24. For an organisation like APSTS 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 existing in the APSTS. The MIS system of APSTS was not adequate and the monitoring by its top management of key operational parameters and service standards was largely ineffective as detailed below in some cases.

The APSTS had a system of receiving monthly reports from Depots relating to revenue collection, monthly & progressive expenditure and fuel consumption. Other parameters like fuel utilisation, vehicle productivity, load factor etc., were not compiled and monitored by top Management. Though the Department fixes targets for fuel consumption, it was not monitored to take necessary corrective actions. Further, there was no mechanism in place to monitor repairs and maintenance expenditure. In view of these, there was lack of effective management control over the operations of the APSTS.

The top Management of the APSTS 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, no such activity was observed from records or performance of APSTS during the period under review.

The Department stated (August 2009) that due to non-availability of technical manpower, MIS could not be implemented and further added that the Department has already engaged Central Institute of Road Transport, Pune as consultant to study and give their recommendations for improvement of the APSTS.

Conclusions

Operational performance

- The APSTS could not recover the cost of operations in any of the five years under review. This was mainly due to operational inefficiencies, overaged buses and ineffective monitoring by top Management.
- The APSTS was not running its operations efficiently as its performance on important operational parameters like fleet utilisation and vehicle productivity were below the all India average for hill areas.
- The APSTS did not carry out the preventive maintenance as *per* the specifications of the OEM affecting the roadworthiness of its buses adversely.
- The APSTS did not ensure economy in operations as its fuel costs were higher than the all India average.
- The repairs and maintenance expenditure of the APSTS rose from Rs. 0.92 lakh *per* bus in 2004-05 to Rs. 2.60 lakh *per* bus in 2008-09.

Financial management

- The APSTS did not have any policy for tapping non-conventional sources of revenue by undertaking Private Public Partnership (PPP) projects on vacant land though it could have brought in steady stream of revenue.

Fare policy and fulfilment of social obligations

- Though the state Government fixes fare on the basis of input costs, the same is not on scientific basis.
- No policy yardstick has been laid down for operation on uneconomical routes. Therefore, the adequacy of operations to serve its social mandate could not be ascertained in Audit.

Monitoring by top management

- The MIS system of APSTS was not adequate and the monitoring by its top management of key operational parameters and service standards was largely ineffective.

Recommendations

Operational Performance

- Since the transport activity is commercial in nature, the Government may consider corporatisation of the APSTS. This would help in effective monitoring of key parameters and increase its operational efficiency.
- The Government may consider allocating adequate budget to the APSTS so that it can acquire more number of buses. This will not only ensure better availability of services to the commuters but also help in controlling the repairs and maintenance expenditure.
- The APSTS may ensure that the preventive maintenance schedules specified by OEM are adhered to so that the repairs and maintenance expenditure is kept under control.
- Considering the topography of the State and operations by private players, the APSTS may consider taking up pilot study for introduction of mini buses/ Sumos/ Balero services.

Financial performance

- The Government/ APSTS may consider 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.

Fare policy and fulfilment of social obligations

- The Government may consider creating a regulator to regulate the fares and also to ensure that the private operators extend enough service to the uneconomical routes as applicable in the case of aviation sector.

Monitoring by top Management

- Suitable mechanism may be devised to monitor various operational parameters like fuel utilisation, vehicle productivity, load factor etc., so that top Management may exercise effective control over the operations of the APSTS.

SECTION 'B': PARAGRAPHS

DEPARTMENT OF HYDRO POWER DEVELOPMENT

5.3. Unauthorized retention of funds outside the Government accounts

Unauthorized retention of funds outside the Government accounts and depriving Government of interest income amounting to Rs.3.12 crore

According to the GFRs (Rule 8) and CPWD Code (Para 6.3.4), Cheques/DDs received in Government account from any source are to be deposited immediately with the State Exchequer. The Government of Arunachal Pradesh has been entering into Memorandum of Agreements (MoAs) with different private parties and PSUs under Built, Own, Operate and Transfer (BOOT) basis for execution of power projects as per the State Power Policy. According to the terms and conditions of MoA the developers were to remit processing fee and upfront money for signing MoAs.

A test-check of records of Chief Engineer (Hydro), Itanagar in audit revealed that 28 DDs for Rs.578.57 crore were received from twelve private parties and National Hydro Power Corporation Limited (NHPCL) towards processing fee and upfront money against power projects for signing MoAs. Audit noticed that the Secretary (Power), instead of remitting the fund to the Government Exchequer, initially retained the money received in current accounts and thereafter kept the funds in short-term deposits. Subsequently, these amounts along with the interest were transferred to Chief Engineer (Hydro Power) through cheques for remitting the same into Government Exchequer. It was found it audit that the short-term deposit of Rs.578.57 crore could have earned interest of Rs.12.78 crore even at the minimum short-term rate (5.5 *per* cent per annum) whereas the Secretary (Power) deposited only Rs.9.66 crore. Thus, the balance interest amounting to Rs.3.12 crore not remitted to the State exchequer resulted in loss. The details are given below:

- Rs.95.77 crore received from Athena Energy Venture Pvt Limited (Rs.93.00 crore) and Velcon Energy Limited (Rs.2.77 crore, initially deposited in Vijaya Bank. The interest received from Vijaya Bank for 3 months was Rs.21.35 lakh [§] against the interest that could have been earned amounting to Rs.1.32 crore [**] resulting in loss of interest of Rs.1.11 crore.
- Rs.258 crore received from ten private parties were initially deposited in the SBI Bank, Itanagar. Subsequently these amounts along with the interest of Rs.2.10 crore for 70 days were transferred by way of cheque [††] to the CE (Hydro) for depositing the same with the State exchequer. The same were deposited into State exchequer on 6 March 2009. The interest on these deposits received was Rs.2.10 crore against the interest that could have been

[§] Vijaya Bank Cheque No.024874 dt.05.05.2008
[**] Rs.95.77 crore X 5.5 *per* cent x 3 months =1.32 crore
[††] SBI Cheque No.236029 dated 4 March 2009

earned amounting to Rs.3.08 crore, resulting in another loss of interest of Rs.0.98 crore.

- Cheque of Rs.225 crore received from NHPCL for three Power projects at Dibang River Vally, Tawang-I and Tawang-II, was deposited on 28 June 2007 in Vijaya Bank, Itanagar. Subsequently, the amount was transferred on 4 August 2007 to Arunachal Pradesh State Co-operative Bank. The amount along with the interest of Rs.7.35 crore (@5.5 *per* cent) for 217 days[‡‡] was repaid to the State Government. However, the interest of Rs.1.03 crore[§§] on Rs.225 crore (after allowing 3 days for clearance) kept with Vijaya Bank for 34 days was not transferred to the Government exchequer.

In response, the management stated (August 2009) that except the drafts/ cheques for processing fee and upfront money along with the interest received from the Secretary (Power), all other relevant records were available with the Secretary (Power).

Thus, not only the funds were kept outside the Government accounts unauthorisedly in violation of the provisions of the R&PRs and GFRs, but the State Government was also deprived of interest income amounting to Rs.3.12 crore.

DEPARTMENT OF POWER

5.4. Undue benefit extended to the contractor

Undue benefit extended to the contractor by allowing reimbursement of VAT besides Inter-State Sales Tax in violation of Central Sales Tax Act resulted in avoidable payment of Rs.62 lakh.

As per the Section-6 of Chapter-III of Central Sales Tax Act, 1956, the dealer is liable to pay Inter-State Sales Tax (Central Sales Tax) for sales which caused the movement of goods from one State to another State and no tax would be levied under the sales tax law of the appropriate State.

The Executive Engineer, Department of Power, Naharlagun awarded (May 2008) a contract to Reniya Enterprises, Itanagar for supply and erection of Rural Electrification works (Electricity Infrastructure and Households Electrifications) at Papum Pare district under the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) scheme at a total cost of Rs.21.91 crore in two packages (Package-1 for Rs.13.85 crore and Package-2 for Rs.8.06 crore).

As per the Section-3 of Chapter-II of Arunachal Pradesh Goods Tax Act 2005, the dealer is liable to pay VAT on every sale of goods effected by him, if the same does not cause movement of goods outside the State.

‡‡ Interest of Rs. 6.76 deposited on 11 March 2008 and Rs.0.59 lakh deposited on 6 May 2008 for the period from 9 August 07 to 7 March 2008

§§ Rs.225 crore X 5.5 *per* cent X 34 days = 1.03 crore for the period from 1st July 2007 to 3 August 2007

Scrutiny of records (May 2008) of the Electrical Division, Naharlagun, revealed that the contractor supplied (December 2008) materials valuing Rs.5.93 crore which also included VAT of Rs.54.71 lakh, Excise Duty of Rs.81.13 lakh and Central Sales Tax (CST) of Rs.19.69 lakh. The Division allowed the reimbursement of the entire amount through running bills. As the supplies were made from other State (Assam), the Division was required to pay only the applicable Excise Duty at the rate of 16.48 *per cent* and CST at the rate of 4 *per cent on ex- works price.* The Division, however, reimbursed the VAT of Rs.54.71 lakh besides CST of Rs.19.69 lakh to the contractor which resulted in excess payment of Rs.54.71 lakh for VAT. This incorrect allowance of VAT reimbursement further led to payment of excess Excise Duty and CST amounting to Rs.8.31 lakh as the taxes were calculated and added in the order of VAT-Excise Duty-CST.

It was also noticed that these reimbursements were made against simple letters instead of the required documentary evidence in support of payment of taxes paid as stipulated in the contract.

Keeping above in view the Department needs to strengthen their internal control mechanism to ensure that the provisions of application and payments of Central Sales Tax Act,1956 and Arunachal Pradesh Goods Tax Act, 2005 are complied with.

The management accepted the audit observation and stated that the VAT payment already made against 1 and 2 running bills and incorrect allowance of VAT etc, would be adjusted from future bills.

5.5. Loss of revenue

Failure to raise bills for penalty on non-payment of dues for sale of energy to North Eastern Electricity Power Corporation Limited as per tariff notification resulted in loss of revenue of Rs.1.36 crore

The Capital Electrical Division, Itanagar sold energy during 1994-95 to 2005-06 amounting to Rs. 19.29 crore to North Eastern Electricity Power Corporation Limited (NEEPCO) for construction of Ranganadi Hydro Electricity Project (RHEP) from 132 KV sub-station, Nirjuli. Out of Rs. 19.29 crore, an amount of Rs. 17.39 crore was received/adjusted (June 2006) and the balance amount of Rs.1.90 crore was still awaited (May 2009) from NEEPCO. The delay in receipt of the balance amount was due to non receipt of reconciliation of energy figures from Regional Energy Accounting (REA) Branch, Shillong. Subsequently, State Load Dispatch Centre (SLDC) re-worked the energy figures and confirmed (September 2007) the due amount as Rs. 2.26 crore.

As per the tariff notification of Department of Power, Government of Arunachal Pradesh (January 2000/ September 2006) as amended from time to time, the penalty at the rate of 2 *per cent* per month is to be levied for non-payment of dues. Audit scrutiny revealed that the Division failed to impose penalty on outstanding amount of Rs. 2.26 crore, which worked to Rs. 1.36 crore at the rate of 2 *per cent* per month for the period from October 2006 to March 2009. On the other hand the Division itself has been paying surcharge at the rate of 1.5 *per cent* per month on the outstanding dues for the energy drawn from NEEPCO as per Power Purchase Agreement.

When pointed out in audit, the Division stated (July 2008) that the payments due to NEEPCO (Rs.2.64 crore) for energy drawn was more than the receivable amount from NEEPCO (Rs.2.26 crore) which is still to be adjusted. The reply is not acceptable as on one hand the Division has been paying surcharge on the outstanding dues to NEEPCO, on the other hand it has not claimed penalty from NEEPCO for the long outstanding dues as per tariff notification.

Thus, the failure of the Division to raise bills for penalty for non-payment of dues as per tariff notification resulted in loss of revenue of Rs. 1.36 crore to the Government. Keeping above in view the Department needs to strengthen their internal control mechanism to ensure that the tariff regulations are complied with; and also ensure that the outstanding amount is recovered from NEEPCO.

The matter was brought to the notice of the Government in June 2009 but no response/comment has been received yet (August 2009).

DEPARTMENT OF SUPPLY AND TRANSPORT

5.6. Temporary misappropriation

Temporary misappropriation of Government revenue of Rs. 83.34 lakh due to lack of effective control over Central Purchasing Organisation Centers

The Central Purchasing Organisation (CPO) guidelines provide that:

- the Store Keeper of CPO Centre should hand over the sale proceeds along with a forwarding memo to the Circle Officer (CO)/Extra Assistant Commissioner (EAC) in-charge of the CPO Centre after closing the daily sales account;
- sale proceeds should regularly be remitted with challans in quadruplicate to Deputy Commissioners (DCs)/Additional Deputy Commissioners (ADCs) for crediting into Government Treasury;
- the CPO Centre should submit monthly return of the sale proceeds deposited into the Directorate, Supply and Transport (DST), Naharlagun through the DC/ADCs concerned on the first day of the following month;
- for conducting physical verification of stores held by CPO by a Board of Officials once in every month and forwarding of such verification report and Board Proceedings to the DST, Naharlagun through DCs/ADCs concerned for follow-up action; and
- inspection of CPO Centers at least twice in a year by Sub-Inspectors/Inspector of supply and once in a year by CO/EACs concerned.

The Public Accounts Committee (PAC) of the Lok Sabha in their 76th Report (1976) criticised the large scale irregularities, misappropriation and heavy loss due to deterioration of CPO stores in Arunachal Pradesh and recommended that there should be strict supervision and regular inspection of all the CPO centers to keep the staff attentive. In order to implement the recommendation of PAC, a directive was issued (July 1976) by DST, Naharlagun to all concerned in which detailed time schedules were prescribed for carrying out the periodical inspections at all levels.

Further in the meeting (August 2005) held by Chairman of DST with Districts Supplies Officers to review the function of CPO centers, particularly non remittance and misappropriation of the sale proceeds, it was decided that supply of essential ration commodities (ERC) shall be suspended to the CPO centers who do not deposit the sale proceeds regularly or who had outstanding sale proceeds yet to be deposited.

It was observed (January 2008) in audit that as against the sale proceeds of Rs. 136.72 lakh in respect of Vijaynagar CPO center for the period from April 2003 to April 2006 and Gelling and Anelih CPO centers for the period from April 2003 to April 2007, Rs. 53.38 lakh was deposited till December 2007, retaining the balance amount of Rs. 83.34 lakh by the Store Keepers. In spite of the fact that the Store Keepers were not remitting the sale proceeds regularly and not submitting the monthly returns, DST has neither conducted physical verification nor were the CPO centers inspected as recommended by the PAC. Further, supply of ERC was also continued to these CPO centers in contravention to the decision taken in the meeting held in August 2005.

Thus, due to non adherence to the CPO guidelines and PAC directives and lackadaisical attitude on the part of authority in exercising timely check and control and allowing the store keeper to retain the sale proceeds facilitated temporary misappropriation of sale proceeds to the tune of Rs.83.34 lakh.

Keeping above in view the Department needs to strengthen their internal control mechanism to ensure the compliance of the prescribed periodical inspection system; discontinuance of ERC supplies to the defaulters and recovery of the outstanding dues without any further delay.

The matter was brought to the notice of the Government in March 2009 but no response/comment has been received yet (August 2009).

DEPARTMENT OF MINING AND GEOLOGY

Arunachal Pradesh Mineral Development & Trading Corporation Limited

5.7. Arrears in finalization of Accounts

Abnormal delay of 15 years in finalisation of its accounts

Section 210 of the Companies Act, 1956, read with Sections 166 and 216, casts the duty on the Board of Directors of a Company to place the accounts of the Company along with Auditor's Report (including supplementary comments of CAG) in the

Annual General Meeting of the shareholders within six months of the close of its financial year. As per Section 210(5), if any person, being a Director of a Company, fails to take all reasonable steps to comply with the provisions of Section 210, he shall be punishable with imprisonment for a term which may extend to six months or with fine which may extend to ten thousand rupees or with both. Similar provision exists under Section 210(6) in respect of a person who is not a Director but is charged with the duty of ensuring compliance with Section 210.

In spite of above provisions in the Companies Act, Arunachal Pradesh Mineral Development & Trading Corporation Limited has not been finalising its accounts in time and there are arrears of 15 years in finalisation of its accounts as of 30 September 2009. The Company has finalised its accounts upto 1993-94. Audit has been bringing out the arrears in finalisation of accounts to the notice of the Chief Secretary, State Government. However, there has been no effective action to liquidate the arrears as during past three years no accounts were finalised. The Government has already made an investment in the Company of Rs.1.44 crore (Equity),unsecured loan of Rs.0.15 crore and grant of Rs.1.15 crore during the period for which the accounts have not been finalised.

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. Thus, Government's investment in the Company remains outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act. In view of this, it is recommended that the Government and the Company management may:

- consider outsourcing the work of preparation of accounts to clear the arrears and
- make a time-bound programme to clear the arrears and monitor it on a continuous basis.

The matter was brought to the notice of the Government in July 2009, but no response/comment has been received yet (September 2009).

DEPARTMENT OF FOREST

Arunachal Pradesh Forest Corporation Limited

5.8. Opportunity to recover money ignored

PSU did not either seize the opportunity to recover their money or pursue the matter to their logical end. As a result, recovery of money amounting to Rs. 20.97 lakh remain doubtful

A review of unsettled paras from Inspection reports (IRs) pertaining to periods up to 2003-04 showed that there were two paras in respect of Arunachal Pradesh Forest

Corporation Limited (APFC) involving a recovery of Rs. 20.97 lakh. As per the extant instructions, the Heads of the PSUs are required to furnish replies to the Inspection Reports through respective Heads of the Department within a period of six weeks after receipt of Inspection Report. However, no effective action has been taken to take the matters to their logical end i.e. to recover money from the concerned parties. As a result, APFC has so far lost the opportunity to recover the money which could have augmented their finances.

The details of paras and recovery amount are given below:

Sl. No.	Para	Year of IR	Para No (Part-IIA)	Amount (Rs. in lakh)
1	Non- recovery of dues against supply of Timber	1998-99 to 1999-2000	Para-2	12.86
2	Loss due to excess payment of hire charges to the saw mill	1999-2000 to 2001-02	Para-3	8.11
	Total			**20.97**

Above cases point out the failure of APFC authorities to safeguard their financial interests. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and management periodically, have not yielded the desired results in this case.

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

GENERAL

5.9. Lack of remedial action on audit observations

Three Companies and two Departments did not either take remedial action or pursue the matter to the logical end in respect of 38 IR paras, resulting in foregoing the opportunity to improve their functioning

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods up to 2003-04 showed that there were 38 paras in respect of three Companies and two Government Departments, which pointed out deficiencies in the functioning of these Companies and Departments. As per the extant instructions, the Heads of the PSUs are required to furnish replies to the Inspection Reports through respective Heads of the Department within a period of six weeks after receipt of Inspection Report. 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, three Companies and two Departments have so far lost the opportunity to improve their functioning in this regard. Companies and Departments wise details of paras are given below. The list of individual paras is given in **Appendix-5.7.**

Sl No.	Name of the Company/Department	Department	No of paras
1.	Arunachal Pradesh Forest Corporation Limited	Forest	30
2.	Arunachal Pradesh Mineral Development and Trading Corporation Limited	Mining and Geology	2
3.	Parasuram Cement Limited	Industries	2
4.	Directorate of Supply and Transport	Supply and Transport	3
5.	Department of Power	Power	1
	Total		**38**

The paras mainly pertain to non submission of claim, un-due financial benefit, Injudicous decision in creating tea estate, unfruitful expenditure towards maintenance of Reserve Forest, Irregular payment of mobilisation advance, etc

Above cases point out the failure of respective Companies/Departmental 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 Management periodically, have not yielded the desired results in these cases.

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

Itanagar
The

(C ANGRUP BODH)
Accountant General
Arunachal Pradesh

Countersigned

New Delhi
The

(VINOD RAI)
Comptroller and Auditor General of India