CHAPTER-V

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

5.1 Overview of Government Companies and Statutory Corporations

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 welfare of the people. In Manipur there were fourteen PSUs (all companies including six non-working) as on 31 March 2010. None of the companies was listed on the stock exchange(s). The State PSUs occupy an insignificant place in the State economy. The State PSUs registered a turnover of ₹ 9crore[1] for 2009-10 as per their latest finalised accounts as of September 2010. This turnover was equal to 0.10 *per cent* of State Gross Domestic Product (GDP) for 2009-10. The State PSUs incurred a loss of ₹ 0.43 crore in the aggregate for 2009-10 as per their latest finalised accounts.

Audit Mandate

5.1.2 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 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act.

5.1.3 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

5.1.4 As on 31 March 2010, the investment (capital and long-term loans) in fourteen PSUs was ₹ 111.15 crore as per details given below:

[1] Working plus Non-working PSUs

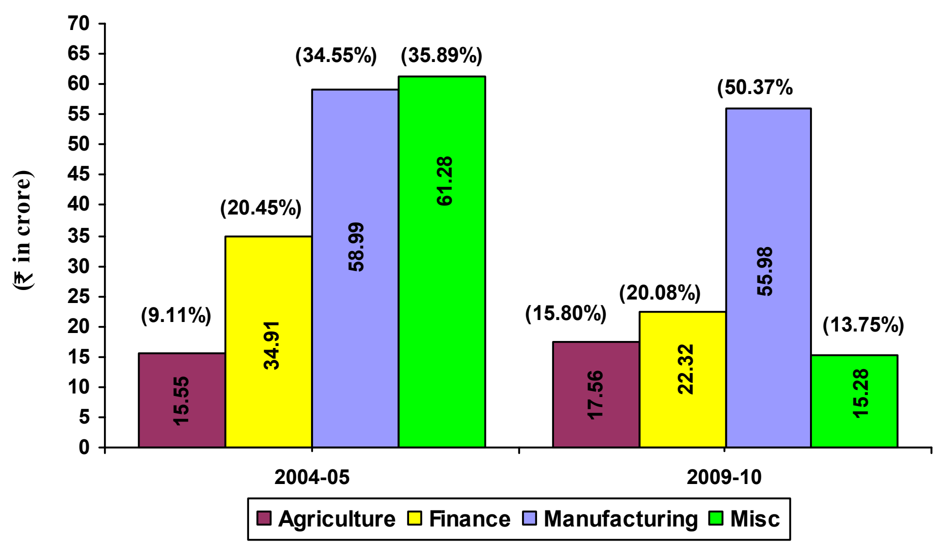
(₹ in crore)

Type of PSUs	Government Companies		
	Capital	Long Term Loans	Total
Working PSUs	29.34	23.66	53.00
Non-working PSUs	51.08	7.07	58.15
Total:	**80.42**	**30.73**	**111.15**

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

As on 31 March 2010, of the total investment in State PSUs, 47.68 *per cent* was in working PSUs and the remaining 52.32 *per cent* in non-working PSUs. This total investment consisted of 72.35 *per cent* towards capital and 27.65 *per cent* in long-term loans.

5.1.5 The investment in various important sectors and percentage thereof at the end of 31 March 2005 and 31 March 2010 are indicated below in the bar chart.



(Figures in brackets show the percentage of total investment)

The decrease in total investment was mainly due to decrease in loans in financing sector and exclusion of one non-working company[2] and one Statutory Corporation[3] which have been liquidated from the Report.

Budgetary outgo, grants/subsidies, guarantees and loans

5.1.6 There was no budgetary outgo towards equity, loans, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs during the year 2009-10. The budgetary outgo towards grants/subsidy was ₹ 32.60 lakh in favour of Manipur Film Development

[2] Manipur State Drugs & Pharmaceuticals Ltd.
[3] Manipur State Road Transport Corporation

Corporation Limited (₹ 28.82 lakh) and Manipur Spinning Mills Corporation Limited (₹ 3.78 lakh).

Reconciliation with Finance Accounts

5.1.7 The figures in respect of equity and loans 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 2010 is stated below.

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	84.16	75.04	9.12
Loan	-	0.97	0.97

5.1.8 Audit observed that the differences occurred in respect of 12 PSUs and some of the differences were pending reconciliation over a period of more than 13 years. The matter has been taken up with the 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.

Performance of PSUs

5.1.9 The financial results of PSUs are detailed in **Appendix-5.2**. 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 PSUs' turnover and State GDP for the period 2004-05 to 2009-10.

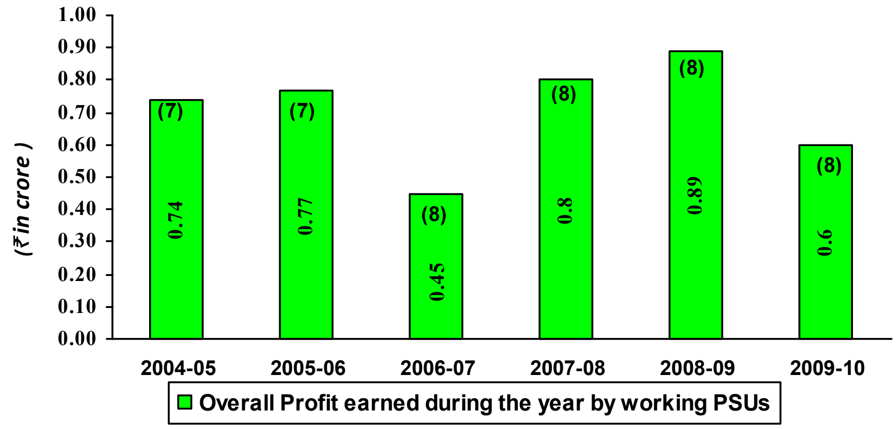
(₹ in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Turnover[4]	6.42	6.42	6.39	6.75	6.77	6.51
State GDP	4024	4693	6501	5704	6344	8687
Percentage of Turnover to State GDP	0.16	0.14	0.09	0.12	0.10	0.07

The turnover of working PSUs increased from ₹ 6.42 crore in 2004-05 to ₹ 6.51 crore in 2009-10. The percentage of turnover to State GDP decreased from 0.16 in 2004-05 to 0.07 in 2009-10 as the increase in turnover was not commensurate with the growth in State GDP.

5.1.10 Profit earned by State working PSUs during 2005-06 to 2009-10 are given below in a bar chart:

[4] Turnover as per the latest finalised accounts as of 30 September



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

During the year 2009-10, out of eight working PSUs, three PSUs earned combined profit of ₹ 1.14 crore and three PSUs incurred combined loss of ₹ 0.55 crore. Two working PSUs have not started commercial activities. The major contributors to profit were Manipur Industrial Development Corporation Ltd. (₹ 1 crore) and Manipur Electronics Development Corporation Ltd. (₹ 0.11 crore). The heavy losses was incurred by Manipur Handloom & Handicrafts Development Corporation Ltd. (₹ 0.52 crore).

5.1.11 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, inefficient running of their operations and lack of proper monitoring. A review of three latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of ₹ 1.23 crore which was controllable with better management. Year wise details from Audit Reports are stated below:

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	Total
Net Loss	1.43	0.22	0.43	2.08
Controllable losses as per CAG's Audit Report	0.56	0.67	-	1.23

5.1.12 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. 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.

5.1.13 Some other key parameters pertaining to State PSUs are given below:

(₹ in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Return on Capital Employed (*per cent*)	Nil	Nil	2.83	2.52	2.66	2.08
Debt	38.94	34.37	26.79	30.91	19.50	30.73
Turnover[5]	6.42	6.42	6.39	6.75	6.77	6.51
Debt/ Turnover Ratio	6.07	5.35	4.19	4.58	2.88	4.72
Accumulated losses	5.00	5.55	7.17	7.17	5.22	5.18

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

As per latest finalised accounts of eight working companies, the capital employed worked out to ₹ 25.99 crore and total return thereon amounted to ₹ 1.50 crore in 2009-10 as compared to capital employed of ₹ 16.74 crore and total return on capital employed of ₹ 1.48 crore in 2004-05.

5.1.14 The State Government has not formulated (September 2010) any dividend policy.

Arrears in finalisation of accounts

5.1.15 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 2010.

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Number of Working PSUs	7	8[6]	8	8	8
2.	Number of accounts finalised during the year	1	1	2	2	2
3.	Number of accounts in arrears	101	117[7]	123	129	135
4.	Average arrears *per* PSU (3/1)	14.42	14.62	15.37	16.12	16.87
5.	Number of Working PSUs with arrears in accounts	7	8	8	8	8
6.	Extent of arrears (in years)	9 to 23	10 to 24	10 to 25	10 to 26	10 to 27

The reasons for delay in finalization of accounts are attributable to

- Lack of required control over the companies by Government,
- Abnormal delay in compilation/approval of the accounts and delayed submission of the same to the Statutory Auditors by the management and
- Delay in adoption of accounts in Annual General Meeting.

[5] Turnover of working PSUs as per the latest finalised accounts as of 30 September.
[6] Manipur Food Industries Corpn Ltd was added. Upto Audit Report 2006-07, ten years accounts of the Corporation was in arrear.
[7] 101+7+10-1=117

5.1.16 In addition to above, there were also arrears in finalisation of accounts by non-working PSUs. Six non-working PSUs had arrears of accounts for 13 to 26 years.

5.1.17 The State Government had invested ₹ 59.15 crore (Equity: ₹ 59.15 crore), in eleven PSUs during the years for which accounts have not been finalised as detailed in **Appendix-5.3**. 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.

5.1.18 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 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 to expedite the backlog of arrears in accounts in a time bound manner.

5.1.19 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

5.1.20 There were six non-working PSUs (6 companies) as on 31 March 2010. None of the PSUs have commenced liquidation process. The number of non-working companies at the end of each year during past five years is given below:

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
No. of non-working companies	8	7	7	6	6
No. of non-working corporations	1	-	-	-	-
Total:	**9**	**7**	**7**	**6**	**6**

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. Although closing instructions have been issued in respect of six non-working PSUs but liquidation process has not yet started.

5.1.21 The process of voluntary winding up under the Companies Act is much faster and needs to be adopted vigorously. The Government may also consider setting up of a cell to expedite closing down its non-working companies.

Accounts Comments and Internal Audit

5.1.22 Three working companies[8] forwarded their audited (three) accounts to Accountant General (Audit) during the year 2009-10. 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.

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

Manipur Food Industries Corporation Ltd.

- The company is not regular in depositing undisputed statutory dues with appropriate authorities.
- The Company has not complied with the provisions of Section 285 of the Companies Act, 1956 as only two BOD meetings have been held instead of at least once in 3 months and at least 4 in every calendar year.
- No provision has been made for gratuity liability and other retirement benefits as per AS-15 on "Employee Benefits".

Manipur Police Housing Corporation Ltd.

- Provision of ₹ 5 lakh was made for Income Tax and debited in the Profit & Loss Account, which was not paid. Thus, profit was understated and the liability was overstated by that amount.
- The Corporation has failed to file its Income Tax returns since inception and no proceedings for assessment or penalty was initiated by the Income Tax Department.

5.1.24 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 two companies[9] for the year 2008-09 and another two companies[10] for the year 2009-10 are given below:

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[8] Manipur Food Industries Corporation Ltd., Manipur Police Housing Corporation Ltd. and Manipur Electronics Development Corporation Ltd.

[9] Sr. No. A-5, B-4 in Appendix-5.2.

[10] Sr. No. A-5, B-6 in Appendix 5.2.

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 Appendix-5.2
1.	Absence of internal audit system commensurate with the nature and size of business of the company	3	A-5, B-4, B-6
2.	Non-maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	2	A-5, B-4

Disinvestment, Privatisation and Restructuring of PSUs

5.1.25 There are no cases of disinvestment/privatization of PSUs in the State.

Reforms in Power Sector

5.1.26 Joint Electricity Regulatory Commission (JERC) for the states of Manipur and Mizoram was formed (January 2005) under Section 83 (5) 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 licences.

The JERC has issued draft (Terms & Conditions for Open Access) Regulations, 2009 in September 2009. Final Regulations is, however, yet to be issued.

5.1.27 Memorandum of Understanding (MoU) was signed in July, 2004 between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. One of the objectives of reforms was to set up Corporation for generation, transmission and distribution of electricity in the State by August 2004 and made fully functional by July 2005. However, State Government although has formed a company (Manipur State Power Development Corporation Ltd.) in March 1997 but it was not made functional even after 13 years.

The progress achieved so far in respect of important milestones is stated below:

Sl. No.	Milestone	Achievement as at September 2010
1.	For generation, transmission and distribution of electricity in the State, Corporation to be set up by August 2004 and made fully functional by July 2005.	The progress of implementing power sector reforms was slow and the Corporation has not become operational as of September 2010.
2.	State Government will set up State Electricity Regulatory Commission (SERC)/Joint Electricity Regulatory Commission (JERC) by November 2004 and file tariff petition immediately thereafter.	The State Government intimated (August 2008) that the Central Government had constituted a Joint Electricity Regulatory Commission (JERC) for the States of Manipur and Mizoram on 18 January 2005. The JERC has issued draft (Terms & Conditions for Open Access) Regulations, 2009 on 11.9.2009. The final Regulations is, however, yet to be issued.
3.	State Government will provide full support to the SERC/JERC to enable it to discharge its statutory responsibilities. The tariff orders issued by SERC/JERC will be implemented fully unless stayed or set aside by a court order.	
4	State Government will ensure timely payment of subsidies required in pursuance of orders on the tariff determined by the SERC/JERC.	
5	State Government would achieve 100 *per cent* electrification of villages by 2007 subject to adequate funds being provided by the GOI under PMGY or any other relevant scheme.	The State Government was to complete 100 *per cent* metering and billing of all consumers by March 2003 but only 1,65,270 consumers (out of 1,83,686) were provided with energy meters.
6	State Government would install meters on all 11 KV feeders by 31.12.2004.	Out of 105 numbers of 11 KV outgoing feeders, 91 feeders were provided with energy meters as of September 2010.

AUDIT OF TRANSACTIONS (COMMERCIAL)

MANIPUR TRIBAL DEVELOPMENT CORPORATION LIMITED

5.2 Arrears in finalization of accounts

The Company has not finalized its accounts for 27 years.

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 each 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, Manipur Tribal Development Corporation Ltd. has not been finalizing its accounts in time and there were arrears of twenty seven years in finalization of its accounts as of 30 June 2010. The Company has finalised its accounts upto 1982-83. Audit has been bringing out the arrears in finalization of accounts to the notice of the State Government through demi-official/official letters to the Chief Secretary, Principal Secretary (Finance) and also the Registrar of Companies. However, there has been no effective action to liquidate the arrears during the past three years as shown below:

Administrative Department	Year upto which accounts finalised as on September 2007	Year upto which accounts finalised as on June 2010	Number of arrear accounts cleared during the last three years	Number of arrears	
				Year	Number
Development of Tribals and Scheduled Castes	1982-83	1982-83	Nil	1983-84 to 2009-10	27

The major reasons for delay in finalization of accounts as perceived by the management is the lack of initiative on the part of the Statutory Auditors. The Company cannot, however, absolve itself from its responsibility under the provisions of the Companies Act *ibid*.

The State Government had invested 161.50 lakh[11] in the Company. Major irregularities detected during performance audit and transaction audit[12] of the Company based on cash book, challans, vouchers, cheque counterfoils, TR-5 counterfoils, estimates, measurement books *etc.* have been pointed out in para 7.16 of Audit Report for the year ended 31 March 2005 and paras 7.14 and 7.15 of Audit Report for the year ended 31 March 2008.

In the absence of accounts and their subsequent audit, it cannot be ensured whether the investment 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 the Company remains outside the scrutiny of the State Legislature. Further, delay in finalization of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act.

The matter was referred to the Government/Company (August 2010). The Government/Company was again requested (September & October 2010) to furnish the status of availability of accounting records like Ledger, Trial Balance/Provisional Accounts *etc*. for the period for which the accounts have not been finalised. Reasons for non-submission of Statutory Audit Report by the Statutory Auditor, turnover/total income of the Company during the last five years ending March 2010 were also called for. The Government/Company has not responded till date (November 2010).

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.**

[11] As per Finance Accounts 2009-10, Government's investment during the period were:

Year of investment	Type of investment	Amount (`₹ in lakh)
1985-90	Capital Contribution	160.00
1996-97	Capital Contribution	1.50
	Total	**161.50**

[12] Upto 31 March 2008

Manipur Spinning Mills Corporation Limited

5.3 Inadequate arrangements for safeguarding movable and immovable assets

The Company suffered a probable loss of ₹ 3.75 crore in the value of fixed assets during the previous ten years.

The Manipur Spinning Mill Corporation Ltd. was incorporated on March 27, 1974 with the main objective of setting up, owning and managing one or more Spinning Mills in Manipur. The Company became non-functional since May 8, 2000 on account of continuous losses arising out of working capital erosion, shortage of power and raw materials. The accounts of the Company have been finalised and audited upto the year 1985-86 and adopted in the Annual General Meeting held on June 24, 2010. The accounts of the Company are in arrears from the year 1986-87 onwards. Latest certified accounts for the year ended 31 March 1986 depicted that the Company had total fixed assets of ₹ 5 crore (immovable assets: ₹ 1.25 crore and movable assets: ₹ 3.75 crore).

In order to have better control over assets, the Company should maintain complete and up-to-date records of each asset besides making essential arrangements, such as, periodic physical verification, arrangements for watch and ward of the assets, and adequate insurance cover against the risk of fire, flood, earthquake *etc*. Besides, in respect of land, the Company needs to construct boundary wall and engage watch and ward on land lying vacant so as to prevent encroachments. In case of illegal encroachments on land, prompt legal measures should be taken by the Company for making the land encroachment free. The deficiencies noticed in maintenance of proper records and taking adequate measures in safeguarding the movable and immovable properties by the Company are summarized as under:

Inadequate maintenance of asset records

In order to have a scientific and effective internal control system in force, the Company needs to maintain 'assets records' for each asset with all important particulars of the assets such as location, original cost, accumulated depreciation, technical and engineering specifications of machinery, identification number *etc*. The Company stated (July 2010) that assets records have been updated up to 1981-82 and that subsequent updating has been entrusted to a firm of Chartered Accountants who have not been able to complete the same due to *"certain reasons*[13]*"*. However, the Statutory Auditor which finalized the accounts for 1985-86 had stated (February 2008) "…the Company has not maintained up to date records to show full particulars

[13] The company did not elaborate.

including quantitative details and situation of its fixed assets. In fact, no Fixed Assets Register has been maintained by the Corporation".

Non-reconciliation of discrepancies in the value of assets

As per the latest certified accounts for the year 1985-86, no physical verification of assets has ever been made by the Company and discrepancies, if any, between the book records and physical records have therefore never been dealt in accounts. No attempt has ever been made to reconcile the records as per stores and financial books regarding different heads of stock. The value of the assets has thus remained un-reconciled.

Physical verification of assets

The system of physical verification of assets at regular time intervals is an essential tool of internal control as it helps in ensuring the availability of assets in the possession of the Company at stated location. An effective system of periodic physical verification of assets minimizes the risks of loss/theft of movable assets and encroachments in case of immovable properties and at the same time, enables the Management to take timely remedial action against the detected cases of theft/encroachments of assets. However, the Company has not laid down policy for physical verification of the movable and immovable assets.

The Company stated (July 2010) that though physical verification of the assets was conducted while the Mill was working in full swing, the exact period of physical verification of assets could not be ascertained since the documents were lying damaged in the factory office. This however contradicts the latest certified accounts for the year 1985-86 which states that no physical verification of assets has ever been made by the Company.

Thus, the assets of the Company remained exposed to the risks of theft/ encroachment due to inaction on the part of the Management.

Encroachments

Proper arrangement for security and watch and ward of the immovable properties (*viz*., land and buildings) is very essential as it ensures the encroachment free availability of the land and buildings for Company's own use as well as sale as and when needed. Audit, however, noticed that the Company did not make arrangement for watch and ward of land measuring 30 acres valued at ₹ 0.01 crore and buildings valued at ₹ 1.53 crore ever since closure of the Mill. The 39th Assam Rifles (a para-military force) has been occupying the factory premises since the day of its closure *i.e.*, May 8, 2000.

Disuse of assets

The Company needs to make adequate arrangements for proper maintenance and upkeep of the assets (*e.g.* plant and machinery) not in use or not in use to their full capacity. As the Company is non-functional since May 2000, periodical review of the position of these assets taking into account the reports of the physical verification is essential so as to avoid chances of the assets becoming obsolete due to their disuse. The assets not in use for long also need to be considered for sale.

It was, however, observed that there were no proper arrangements for maintenance and upkeep of the assets ever since the closure of the Mill. Further there was no system in the Company for conducting need based review of the assets so as to decide on possible utility of these assets in future or for their timely disposal. As a result, the chances of movable assets worth ₹ 3.75 crore held by the Company becoming obsolete cannot be ruled out.

Insurance cover

Insurance for properties is a cover that guards the assets of the Company against probable losses due to natural calamities and other reasons such as, fire, floods, riots, theft *etc*. Regular and adequate coverage of insurance minimizes the risks against these losses at a nominal cost of insurance premium.

The Company stated (July 2010) that fire insurance, machinery break-down insurance *etc*. were taken while the Company was working in full swing and was discontinued since closure of the Mill. Copies of insurance policies are not traceable from the factory godown.

Thus, the Company suffered a probable loss of ₹ 3.75 crore in the value of its movable assets during previous 10 (2000-01 to 2009-10) years on account of inadequate arrangements for their safeguard. The Company's land/building has been encroached/occupied by para-military force. There is also a risk of assets becoming obsolete due to disuse/lack of maintenance. In view of these, it is recommended that the Company may:

- **Maintain complete and up-date records giving all vital information of all movable and immovable assets;**
- **Periodically reconcile the discrepancies in the figures of the assets;**
- **Conduct physical verification of assets at regular time intervals;**
- **Make adequate security arrangements for immovable properties so as to prevent possibilities of encroachments;**
- **Make adequate arrangements for upkeep/maintenance of disused assets and periodically review the position for their future utility; and**

- **Obtain regular and adequate insurance cover for all the assets against risks.**

The matter was referred to the Government/Company (August 2010).

The Government/Company admitted (September 2010) that the assets which have been lying unused since May 2002 are likely to be obsolete as all workmen were retrenched without making any provision for maintenance and upkeep of the plant and machinery after decision for winding up of the Company was taken. Further, the Company stated that it did not have fund for proper maintenance and upkeep of assets or for taking insurance cover ever since the closure of the mill.

The Company further stated that it has its own policy/instruction for physical verification of movable and immovable assets; physical verification of stores and spares, reconciliation of records as per stores and financial books regarding different heads of stocks made on monthly and yearly basis; assets register has been maintained since inception which records location of machinery along with technical and engineering specifications, identification numbers of all movable and immovable assets.

The Company also stated (September 2010) that as directed by the State Government (March 2002), the Board of Directors (BOD) by resolution (August 2002) resolved to windup the Company. The Company ceased operation (May 2002) and retrenched all employees[14] under a scheme approved by the State Government. In continuation of the various actions initiated for facilitating the winding up process, the BOD decided (July 2010) to avail of the Easy Exit Scheme, 2010 introduced by Ministry of Corporate Affairs, Government of India under Section 560 of the Companies Act, 1956 which was approved (August 2010) by the State Government.

The reply is not acceptable to audit as the relevant records could not be made available to the Statutory Auditor (February 2008). Further the mere presence of the 39th Assam Rifles on the factory premises since May 2000 does not guarantee that Company's land is free from encroachment.

[14] Four employees including the Managing Director were re-engaged on contract basis to initiate the winding up processed under Companies Act 1956.

POWER DEPARTMNT

5.4 Power generation in Manipur

Though there was a growth in demand of 222 Million Units (MUs) from 31 March 2005 to 31 March 2010, the installed power generation capacity had reduced by 5.072 Mega Watts (MW). The department neither took up any capacity addition programme nor identified any generating stations for life extension and using its power houses as standby and operated only when the Grid supply failed.

5.4.1 Introduction

Power is an essential requirement for all facets of life. The availability of reliable and quality power at competitive rates is very crucial to sustain growth of all sectors of the economy. The Electricity Act, 2003 and National Electricity Policy (NEP) (February 2005) were meant to provide the framework and guidelines for accelerated development of the power sector.

The Power Department has been responsible for generation, transmission and distribution of power in the State since 1970. Today the department is operating eight[15] power generating stations. The onus of developing the power sector therefore lies with the department. Records available at the Head Office and that of the biggest power generating stations with installed capacity of 36 MW (Mega Watts) for the period from 2005-06 to 2009-10 were test checked. Audit findings are discussed below:

5.4.2 Power scenario in the State: Installed capacity vis-à-vis peak demand

At the beginning of 2005-06, electricity requirement in the State was assessed at 544 Million Units (MUs) of which only 1.0897 MUs were available. The comparative figures as on 31 March 2010 were 766 MUs and 2.0105 MUs respectively.

Against peak demand of 117 MW as on 31 March 2005, total installed capacity was 47.252 Mega Watt (MW) and effective available capacity was 39.858 MW. While peak demand grew by 222 MUs and was 170 MW as on 31 March 2010, the installed capacity reduced by 5.072 MW to 42.18 MW and effective capacity stood at 39.434 MW. The department was able to generate only 8.7 to 12.8 *per cent* of the peak demand. Between 106 to 115 MW of

[15] i) Imphal Diesel Power House, ii) Governor Power house, iii) Assembly Power House, iv) Khumanlampak Power House, v) Chief Minister Power House, vi) JN Hospital Power House, vii) Heavy Fuel Power Plant at Leimakhong and viii) Leimakhong -1 Micro Hydel Project.

power was supplied by importing power. Power deficit (supply – demand) had grown from 542.91 MUs to 763.99 MU during the period. The deficit has been increasing every year and reached 35.3 *per cent* of peak demand in 2009-10. Details are as shown below in the table below:

Sl. No.	Particulars		2005-06	2006-07	2007-08	2008-09	2009-10	Total
1	Total demand (MUs)		544	589	641	702	766	3242
2	Net power generated[16] (MUs)		1.0897	3.1313	1.7046	0.6460	2.0105	8.5821
	As % of Total demand		0.20%	0.53%	0.27%	0.09%	0.26%	
3	Power Deficit (MUs) (2-1)		-542.9103	-585.8687	-639.2954	-701.354	-763.9895	-3233.4179
4	Peak demand (MW)		117	134	145	157	170	723
5	Installed capacity (MW)		*47.252*	*46.556*	*46.212*	*45.468*	*42.180*	*227.668*
	As % of peak demand		*40.39%*	*34.74%*	*31.87%*	*28.96%*	*24.81%*	
6	Power Generated (MW)		15.01	15.01	14.63	14.63	14.83	*74.11*
	As % of peak demand		12.8%	11.2%	10.1%	9.3%	8.7%	
7	Peak demand met (MW)	From Own sources	8	8	8	1	11	*36*
		From Import (Free + Purchase)	107	102	107	105	99	*520*
		Total	**115**	**110**	**115**	**106**	**110**	***556***
8	% of peak deficit		1.7%	17.9%	20.7%	32.5%	35.3%	

(Source: Departmental records)

5.4.3 Shortfall in supply of energy

National Electricity Policy (NEP) aims to provide over 1,000 units of per capita electricity by 2012 and projected that generation growth rate of 9.5 and 7.5 *per cent per annum* during 10th Plan (2002-2007) and 11th Plan (2008-2012) through creation of adequate reserve capacity.The department fixed a total generation target of 17.9031 MUs of power during the five years out of which the achievement was only 8.5821 MUs, a shortfall of 52.06 *per cent*. Against a total demand of 3242 MUs of energy during the period, the energy deficit works out to 3233.42 MUs.

To meet the power deficit, the department arranged 2881.4384 MUs (own generation - 8.5821 MUs, purchased - 2574.2497 MUs and free energy from Loktak Hydro Electric Project - 298.6066 MUs) which is still short of total demand. Inspite of the deficit, the department sold 474.468 MUs. After factoring in TD losses of 1422.5384 MUs, the actual energy available for consumers of the State was only 984.432 MUs. Though the gross power available was able to meet total demand in 2005-06 and 2007-08, there was power deficit throughout the period due to sale outside the State. This action indicates that the department is insensitive to the needs of the people of the State.

Against average per capita demand of 265 units during the period, the actual average per capita availability was only 81units. The average per capita power supplied during the period was only 8.1 *per cent* of NEP's target for 2012. The details are shown in the table below:

[16] Power generated less auxiliary consumption

(energy in MUs)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1	#Generation Target	4.6106	2.4548	3.3378	3.8500	3.6499	17.9031
2	# Generated	1.0897	3.1313	1.7046	0.6460	2.0105	8.5821
3	Shortfall in generation	3.5209	-0.6765	1.6332	3.204	1.6394	9.321
4	Percentage of shortfall	76.37%	-27.56%	48.93%	83.22%	44.92%	52.06%
5	Population[17]	23,45,401	23,92,309	24,40,155	24,88,958	25,38,737	
6	#Total demand	544	589	641	702	766	3242
7	Per capita demand - Units (6)÷(5)	232	246	263	282	302	265@
8	#Free energy[18]	68.9620	55.3286	70.7700	58.7610	44.7850	298.6066
9	#Energy purchased	520.9860	441.2147	572.0300	550.4250	489.5940	2574.2497
10	#Total energy available (2)+(8)+(9)	591.0377	499.6746	644.5046	609.832	536.3895	2881.4384
11	# Energy sold outside State	122.145	40.026	137.561	104.396	70.34	474.468
12	#TD loss	281.1667	272.2426	309.5396	308.23	251.3595	1422.5384
13	Energy actually available for State – (10)-(11)-(12)	187.726	187.406	197.404	197.206	214.69	984.432
14	**Per capita power actually available** – Units (13)÷(5)	80	78	81	79	85	81@
15	Per capita availability as % of per capita demand (14)÷(7)X100	35%	32%	31%	28%	28%	30%@
16	Per capita availability as % of NEP target for 2012 (14)÷1000X100	8.0%	7.8%	8.1%	7.9%	8.5%	8.1%@

Source: Departmental records　　@Average

The department stated (August 2010) that due to very high cost of generation, its own generating stations were operated as standby and power supply in the State was wholly dependent on the sectorial allocation of power from the Central Generating Stations[19] located in the North Eastern Region. Hence there was shortfall in generation. The department's reply indicates that fixing of yearly targets for power generation is meaningless and is done only for the sake of fixing targets.

We observed that against total budgetary provision of ₹ 693.41 crore during the whole period for purchase of power, only ₹ 656.71 crore was spent. Had the balance of ₹ 36.70 crore been spent, the department could have reduced the energy deficit encountered during 2005-10 for the amount lapsed was sufficient to purchase 124 MUs to 622 MUs[20] of energy. During 2009-10 alone, ₹ 120.19 crore was available for purchase of power; but the department

[17] The department considered the increase in population of the State @ 2 *per cent* per annum. 2001 census population is 21,66,788.
[18] From Loktak Hydro Electricity Project
[19] Operated by National Hydro Power Corporation, North East Electric Power Corporation *etc*.
[20] Quantity of energy that could have been purchased at the highest prevailing rate of ₹ 2.94 per unit and the lowest prevailing rate of 59 paise per unit respectively.

spent only ₹ 66.61 crore. Further, against State's annual quota of 123.527 MW from Central Sector Power Plants operating in the North Eastern Region, actual drawal ranged from 50.37 MW to 65.30 MW[21] during 2005-10. While explaining the short drawal of power, the department stated (July 2010) that if more than 100 MW is injected through the existing 132 KV (Kilovolt) line, the conductors could get burnt and the insulators might get punctured resulting in a system collapse. Had the department been sensitive to/concerned with the needs of the people of the State, efforts would have been made to augment and upgrade the infrastructure in a time bound manner.

5.4.4 Failure in Capacity addition

To address the pressing issue of growing demand and eroding installed generation capacity and also do justice to NEP's target for 2012, not only additional capacity needs to be created but also plans need to be in place for optimal utilisation of existing facilities and undertaking life extension programme. However, during the period, the department neither took up any capacity addition programme nor identify any generating stations for life extension. On this being pointed out by audit, the department merely stated (August 2010) that its power houses were used as standby and operated only when the Grid supply failed. The reply reflects the department's lack of concern with the problem of shortage of power. The department does not seem to have clear vision or strategy to address the power deficit in the State.

The department has failed to utilize even existing capacity to their potential. The 36 MW capacity heavy fuel based power station at Leimakhong setup through Manipur State Power Development Corporation Ltd. has been practically lying idle, being used only as a backup. Administrative Staff College of India (ASCI) was engaged as consultants (January 2002) to advise on "Restructuring of the Power Sector of the State". No further action has been taken on ASCI's recommendation (August 2005) for separation of generation, transmission and distribution as distinct strategic business units, except for the State Cabinet decision (January 2009) to set up "Manipur State Power Corporation Ltd."

Audit noticed that there were two hydel projects which could change the power scenario of the State and make it power-surplus but are yet to commence construction even though considerable time has gone by since the projects were sanctioned.

5.4.4.1 Tipaimukh Hydro Electric Project (1500 MW): cleared in July 2003 by Central Electricity Authority (CEA) was expected to supply 3806 MUs of energy annually. Construction has not even commenced (November 2010). The department attributed (October 2010) the delay in execution of the project

[21] The actual drawal was only 40.78 to 52.86 *per cent* of allotment

for want of clearance for diversion of forest land to the project and completion of formalities[22] required to operationalise the Joint Venture Company (JVC) comprising of NHPC[23], SJVNL[24] and Government of Manipur to whom the project was handed over (July 2009) by Ministry of Power after terminating NEEPCO[25], the original allottee. Memorandum of Understanding amongst the parties was signed only during April 2010. Due to inordinate delay, the initial project cost of ₹ 5163.86 crore has already gone up to ₹ 8138.79 crore at September 2008 price-level. The project cost had not been updated thereafter. Even if the JVC is operationalised without further delay, there is likely to be huge cost over run by the time construction is completed.

5.4.4.2 Loktak Downstream Hydro Electric Project (66 MW): cleared by CEA in November 2006 for cost of ₹ 867.77 crore, it was expected to supply 330 MUs of energy annually. The project was taken up as a joint venture project between NHPC and the State Government. The Joint Venture Committee was framed only in October 2009. The department stated (October 2010) that delay was due to time taken for completion of formalities for formation of the JVC like signing of Memorandum of Understanding (September 2007), singing of promoter's Agreement/Shareholder's Agreement (September 2008), adoption of Memorandum of Association and Article of Association of the JVC (July 2009) and application for registration to Registrar of Companies, Shillong (September 2009).

5.4.5 Working result of generation stations

The operational performance of the power generating units of the department during the five years ending 2009-10 was very lackluster. The gap between demand and net power generated has widened in each subsequent years during the period.

During the five years, the department generated 8.5821 MUs of energy at a cost of ₹ 21.66 crore while sale fetched only ₹ 1.37 crore. The department thus suffered a loss of ₹ 20.29 crore. The loss was mainly because of the higher quantum of fixed charges (consisting of manpower and depreciation) which add up to 73 *per cent* of the total cost of generation. The average cost of generation and realization per unit worked out to ₹ 25.60 and ₹ 1.64 respectively. On an average, the department was losing ₹ 23.96 per unit of energy generated during the period. Loss per unit touched a peak of ₹ 39.98 in 2005-06. The details of working results are given in the table below.

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[22] Formalities which include signing of share holders' agreement, signing of Memorandum of Association & Article of Association and registration with Registrar of Companies, Shillong.
[23] National Hydro Power Corporation
[24] Sutlej Jal Vidyut Nigam Limited
[25] North Eastern Electricity Power Corporation

Sl.No	Description	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1.	Income: Revenue from generation (₹ in crore)	0.15	0.42	0.27	0.13	0.40	1.37
2.	Total Generation (In MUs)	1.1199	3.1911	1.7303	0.6478	2.0347	8.7238
	Less: Auxiliary consumption (In MUs)	0.0302	0.0598	0.0257	0.0018	0.0242	0.1417
	Net available for transmission and distribution (MUs)	**1.0897**	**3.1313**	**1.7046**	**0.6460**	**2.0105**	**8.5821**
3.	Expenditure (₹ in crore)						
(a)	Fixed cost - Employees & Depreciation	3.93	3.92	3.89	0.22	3.85	15.81
(b)	Variable cost - Fuel consumption (Furnace oil & HSD[26] oil), Chemicals, Lubricants, Operation and maintenance	0.69	1.95	1.31	0.63	1.27	5.85
(c)	Total cost (₹ in crore) 3(a) + (b)	4.62	5.87	5.20	0.85	5.12	21.66
4.	Realisation per unit (₹) (1/2)	1.34	1.32	1.56	2.00	1.97	1.64@
5.	Fixed cost per unit (₹) (3a/2)	35.12	12.27	22.44	3.40	18.91	
6.	Variable cost per unit (₹) (3b/2)	6.20	6.10	7.60	9.74	6.22	
7.	Total cost per unit (₹) (5+6)	41.32	18.37	30.04	13.14	25.13	25.60@
8.	Contribution per unit (₹) (4-6)	(-) 4.86	(-) 4.78	(-) 6.04	(-) 7.74	(-)4.25	
9.	**Loss per unit (₹) (-) (4-7)**	**(-)39.98**	**(-) 17.05**	**(-) 28.48**	**(-) 11.14**	**(-) 23.16**	**(-)23.96@**

(Source: Departmental records) @ Average

Lower tariff was also a factor which contributed to department's loss. The tariff fixed (August 2002) ranged between ₹ 2.60 to ₹ 3.50 per unit with the average working out to ₹ 3.15 per unit. The department was supposed to submit application for revision of tariff to the Joint Electricity Regulatory Commission (JERC) for Mizoram and Manipur, 120 days before the commencement of each year. No such application was submitted during the last five years.

The department stated (July 2010) that a tariff petition prepared by a consultant[27] was submitted (30 April 2010) to the Government, and it would be filed before the JERC after approval by the Government. Further progress in this regard has not been intimated (November 2010).

5.4.6 Low Plant Load Factor (PLF)

Plant load factor (PLF) refers to the ratio between the actual generation and the maximum possible generation at installed capacity. PLF achieved by heavy fuel and diesel plants of the State during 2005-10 was less than 6 *per cent*. In case of hydro plants it remained in the range of 3 to 12.7 *per cent* during 2005-09 but increased to 29.7 *per cent* in 2009-10. The department stated (October 2010) that sharp increase in PLF for hydro plants in 2009-10 was due to availability of abundant water in the forebay after clearance of the obstructions in the power channel which was blocked for a long time. Low PLF in respect of heavy fuel and diesel plants, as stated by the department, was due to operation of the Plants only when the Grid supply fails.

[26] HSD : High Speed Diesel

[27] M/S Feedback Venture Pvt. Ltd, Gurgaon, Haryana

5.4.7 Operational Performance of the Heavy Fuel Power Plant

The Heavy Fuel Plant at Leimakhong (Plant) with an installed capacity of 36 MW was taken up/approved (October 1997) with the expectation of filling up the power gap in the State. The Plant completed at a total cost of ₹ 125.38 crore, was commissioned in May 2002. The performance of the plant was dismal as discussed below:

5.4.7.1 Low Plant Load Factor

The design PLF was 75 *per cent* and was expected to generate 216 MUs of energy. The actual generation of power during the five years ranged from NIL in 2008-09 to only 2.685 MUs in 2006-07 achieving a PLF of 3.8 *per cent*. Over the five year period, the total energy generated (5.3845 MUs) was a paltry 0.50 percentage of the total energy designed to generate (1080 MUs) as shown in the table below. The Plant was practically idle during the entire period.

Year	**Energy generation (MUs)**		**Plant load factor (p.c.)**	
	As per design	**Actual**	**As per design**	**Actual**
2005-06	216	0.9642	75	1.4
2006-07	216	2.6850	75	3.8
2007-08	216	1.0679	75	1.5
2008-09	216	0	75	0.0
2009-10	216	0.6674	75	1.0
Total:	**1080**	**5.3845**		**0.50**

(Source: Departmental records)

The department stated (October 2010) that the price of furnace oil, the fuel used in the plant, had increased almost five-fold during the last seven years, M/s Indian Oil Company quoting ₹ 35.95 per litre on June 26, 2010. Due to high cost of generation the plant was kept as a captive plant to be operated only during emergency.

As power projects other than hydro projects depend on certain fuel, the possible escalation in their prices during the expected life span of the plant and its consequent effect on the generation cost should have been considered before opting for such projects. An asset created at a cost of ₹ 125.38 crore giving a return of just 0.50 *per cent* against what it was designed for, tantamount to sheer waste of public money. With planning and foresight, the department could have avoided such a sorry situation.

5.4.8 Conclusion

The National Electricity Policy was framed with the objective of providing 1000 units of per capita electricity to the people by 2012 by increasing the electrical capacities across the country. There was little or no effort made by the State Government towards achieving this goal. There was no capacity addition during the period. On the contrary, installed capacity had eroded. Even the existing capacity was not put to optimum use, as they remained idle as standby as the State continued to face acute power shortage. The State's share of power from the Central Generating Stations was not fully drawn. Instead, State's share was sold to other States further depriving the consumers of the State. During the period from 2005-10, only part of the annual fund placed at the disposal of the department was utilized.

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