

संख्या

No.

ES-11/1-22/2014-15/B9



दिनांक

Date 19-06-2015

To,

The Chairman cum Managing Director,
Meghalaya Energy Corporation Limited (MeECL),
Lum-jingshai,
Short Round Road,
Shillong-793 001.

Sub:- Comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the accounts of Meghalaya Energy Corporation Limited for the year ended 31 March 2012.

Sir,

I am to forward herewith the Comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the accounts of Meghalaya Energy Corporation Limited for the year ended 31 March 2012 for necessary action at your end.

1. The date of adoption of the above comments in the Annual General Meeting of the Company may be intimated to this office.
2. Five copies of the printed Annual Reports (when ready) may be sent to this office and its date of placing in the State Legislature, as required under Section 619A(2) of the Companies Act, 1956, may also be communicated.
3. Receipt of the letter along with enclosures may kindly be acknowledged.

Yours faithfully,

Deputy Accountant General
Economic Sector-II

IMPT.

Encl: As stated above.

DyCAO (comp):

Advance copy/Pl. verify the POS Disallowed which was given in 2014-15

Put up for info. of D/F

21/06/2015

A.B. Bandyopadhyay
Joint Secy. to Govt.
22/6/15

Nalini
22/6/15

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA
UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE
ACCOUNTS OF MEGHALAYA ENERGY CORPORATION LTD FOR THE
YEAR ENDED 31 MARCH 2012.

The preparation of financial statements of Meghalaya Energy Corporation Ltd., for the year ended 31 March 2012 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the Company. The Statutory Auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 are responsible for expressing opinion on these financial statements under Section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 18 September 2014.

I, on behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 619(3)(b) of the Companies Act, 1956 of the financial statements of Meghalaya Energy Corporation Ltd. for the year ended 31 March 2012. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and selective examination of some of the accounting records. Based on my supplementary audit, I would like to highlight the following significant matters under Section 619(4) of Companies Act, 1956 which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related Audit Report.

A. Balance Sheet

1. Equity and Liabilities

Non-current Liabilities:

Long-term borrowings (Note No. 5): ₹ 1,240.35 crore

The above includes ₹ 35.83 crore and ₹ 0.05 crore being the capital liabilities and the interest accrued respectively on the loans availed from Rural Electrification Corporation Limited (REC) for implementation of projects under the RGGVY Scheme. As per Clause 1.0 and sub-clause 1.5 of the Tripartite Agreement (August 2005) between REC, Government of Meghalaya (GoM) and the Meghalaya Energy Corporation Limited (MeECL) (erstwhile Meghalaya State Electricity Board), the liability to repay the loan amount along with the interest and other charges for the loan availed from REC rests with the GoM. As such, the loan and interest component of RGGVY Scheme should have been shown under Receivables from Government.

Consequently, the Netted Loans have been overstated by ₹ 35.88 crore (₹ 35.81 crore + ₹ 0.05 crore) and Receivables from Government understated by ₹ 35.88 crore.

In this regard, reference is invited to the Comment No. A.I of the Comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the Accounts of for the year ended 31 March 2011 wherein though similar comment was made, the company has, however, not complied with the assurance given for carrying out necessary adjustments.

2. **Current Liabilities:**

Trade payables (Note No. 9):

Other Current Liabilities (Account Code 46.9): ₹ 100.90 crore

During 2010-11, the Company received an amount of ₹ 1.00 crore from Reliance General Insurance Company Limited towards insurance claim in respect of loss due to fire accident to Unit III of Stage-I Power House. However, the Corporation had included the same in the Current Liabilities instead of adjustment against the related asset/expenditure.

Non adjustment of the above has resulted in overstatement of Current Liabilities and Provisions and Loss for the year by ₹ 1.00 crore each.

In this regard, reference is invited to the Comment No. A.III.1 of the Comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the Accounts of for the year ended 31 March 2011 wherein similar comment was made. The company has, however, not complied with the assurance given for carrying out necessary adjustments.

3. **Assets**

(a). **Fixed Assets: ₹ 2,368.01 crore**

The above includes ₹ 1.87 crore being the value of Land and Building handed over to the State PWD for construction of 4-laning from Jombad to Lad Umroi, Umiam. However, the value of compensation received ₹ 0.89 crore was incorrectly treated as Gain on Sale of Fixed Asset (₹ 0.30 crore) and Capital Reserve (₹ 0.59 crore) without adjusting the same with the book value of the assets. This has resulted in overstatement of the above head by ₹ 1.87 crore, Capital Reserve by ₹ 0.59 crore with corresponding understatement of loss by ₹ 1.28 crore respectively.

(b). **Tangible assets (Note No. 12): ₹ 280.10 crore**

The above includes assets created under the RGGVY Scheme up to March 2011 by the Corporation. As per Clause G of the Tripartite Agreement entered (August 2005) into between,

REC, GoM and the Mel/C.L., GoM shall be the owner of the assets created on implementation of the individual projects under RGGVY Scheme in the state of Meghalaya.

Thus, depicting and charging of depreciation on assets, created under RGGVY scheme by Mel/C.L., the ownership of which lies with the GoM was not correct.

In this regard, reference is invited to the Comment No. A II of the Comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the Accounts for the year ended 31 March 2011 wherein though similar comment was made, the company has, however, not complied with the assurance given for carrying out necessary adjustments.

(c). **Non-current assets**

Non-current investments (Note No. 13): ₹ 212.10 crore

The above does not include an amount of ₹ 17.70 crore being the investment made towards equity capital in North East Transmission Company Limited. This has resulted in understatement of Non-current investments - Other investment - Of other entities by ₹ 17.70 crore.

B. Profit and Loss Account

1. Other Income:

Others (Account Code 62.221-62.223): ₹ 12.91 crore

As required under Accounting Standard 13, Gross Income from Investments should be disclosed and the amount of tax deducted at source should be shown under Advance Taxes Paid. The Corporation has neither complied with the provisions of AS-13 nor did the assurance given in respect of Comment No. B (i) of the Comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the Accounts of for the year ended 31 March 2011.

2. Expenses: ₹ 739.15 crore

(a). The company has not followed the provisions of Accounting Standard 10 relating to accounting of expenditure incurred post commissioning of projects. Consequently the above head of accounts is understated by ₹ 9.25 crore being the wrong capitalisation of proportionate interest payable/paid (₹ 8.61 crore), employee cost (₹ 0.56 crore) and administrative and general expenses (₹ 0.08 crore) in respect of Unit-I of Myntdu Leshka Hydro Electric Project (MLHEP) which was commissioned in September 2011 and started commercial generation of power from December 2011. This has, therefore, resulted in understatement of Loss for the year by the same amount.

- (b). Interest expenses on borrowing (Account Head 78.1, 2 & 5): ₹ 120.91 crore

The above does not include ₹ 0.91 crore being the penal interest payable on State Government Loans outstanding as on 31 March 2012 due to incorrect application of interest rate for delay in repayment of loan/payment interest as prescribed under the Government orders sanctioning the loans. This has, therefore, resulted in understatement of Interest expenses on borrowing by ₹ 0.91 crore with corresponding understatement of loss for the year by the same amount.

- (c). Purchase of Power (Note No. 24): ₹ 431.20 crore

The above is understated by ₹ 41.78 crore being the Surcharge payable to NEEPCO for the outstanding dues for Power Purchase up to 2011-12 with corresponding understatement of Loss for the year by the same amount.

- (d). Depreciation and amortisation expenses (Note No. 12): ₹ 27.10 crore

The company has not provided depreciation amounting to ₹ 15.10 crore on the assets procured/constructed under the Transmission and Transformation Projects which were completed and commissioned till 31 March 2012. This has resulted in understatement of expenses by ₹ 7.27 crore for the year and prior period expenses by ₹ 7.83 crore with corresponding understatement of loss for the year by the same amount.

- (e). Finance Cost (Note No. 26): ₹ 40.29 crore

- (i). This includes ₹ 3.02 crore being the interest paid during the year in respect of loan availed for RGGVY Scheme. Since as per Clause 1.0 and sub-clause 1.5 of the Tripartite Agreement, the liability to repay the loan along with the interest and other charges for the loan availed from REC rests with the GoM, it should have been shown as receivable from Government. This has, therefore, resulted in understatement of receivable from Government and overstatement of interest and finance charges as well as the loss for the year by ₹ 3.02 crore.

In this regard, reference is invited to the Comment No. B (ii) of the Comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the Accounts of for the year ended 31 March 2011 wherein though similar comment was made, the company has, however, not complied with the assurance given for carrying out necessary adjustments.

- (ii). Other charges (Account Head 78.881-889): ₹ 4.82 crore

The above does not include ₹ 1.35 crore being the short provision of Guarantee Fee payable on the State Government Guaranteed Loans at the rate of 0.5 per cent on the entire

outstanding (Principal + Interest) as on 01 April 2011. This has, therefore, resulted in understatement of loss for the year by ₹ 1.35 crore.

3. Statutory Auditors' Report

A reference is invited to Sl No. 9 of the Statutory Auditors' Report under 'Payments and remittances to Statutory Authorities' wherein it was indicated that the Company has disputes of statutory dues relating to Income Tax which is pending with the Income Tax Appellate Tribunal. This is factually incorrect as the appeal has already been dismissed (February 2014) by the Tribunal and the Company has already paid ₹ 9.14 crore to the Income Tax Department (₹ 6.10 crore out of the total outstanding demand of ₹ 7.34 crore for assessment year 2004-05 and ₹ 3.04 crore out of the total outstanding demand of ₹ 4.21 crore for assessment year 2009-10).

4. General

1. As per clause 15 of the Meghalaya Electricity Supply (Amendment) Code 2009 read with Section 47 of the Electricity Act, 2003, the Company, being a distribution licensee as defined in the Electricity Act, 2003 is to collect from its consumers, three months' electricity charges as security deposit, and to refund the same at the time of disconnection, alongwith simple interest at a rate equivalent to bank rates prevailing at the time of refund. It is, however, observed that the Company did not collect security deposit from its consumers except for open access charges, and the balance of Security deposit from consumers under the head Non-Current liabilities was ₹ 0.40 crore. The Company, however, should have collected at least ₹ 95.45 crore as security deposit, as per the Supply Code.
2. Details of Land owned as fixed assets, Land owned as stock in trade, common points (for land held as fixed assets or stock in trade) and specific points (Land development on behalf of Government) were not included in the report under section 619(3)(a).
3. The Statutory Auditor has not furnished the Compliance Certificate to the report under section 619(3)(a).

*For and on behalf of the Comptroller
and Auditor General of India.*

[Signature]
(Rajesh Singh)

Accountant General (Audit)

Place: Shillong
Date: 19th June 2015